

## EDITORIAL

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### **“Management Control” Special Issue: *Research perspectives in Performance Management***

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This Special Issue is a selection of papers presented to the third Management Control Journal Workshop on “*Research perspectives in Performance Management*”, held in Pisa on 23-24 July 2014 and it provides valuable insights into Italian research on performance management. The final picture is broad and it offers different views on the objectives, theories and methodologies. A total of five papers out of thirteen are included in this Special Issue.

Starting with a review, Gaia Bassani and Cristina Cattaneo in “*Performance management systems and strategy: state of art in Italian journals*” disclose the perspectives and the contents of Italian academic journals on Performance Management Systems (PMSs). Their review is based on papers selected from the ESSPER database from 1980 to 2013 and it focuses on 34 papers that have been frequently published since 2000. Their analysis takes into consideration the distinction used in the international literature between PMSs which provide support for strategic decisions and PMSs which are implemented to develop and execute a defined strategy. The papers reviewed are predominantly normative, they are mostly conceptual and the debates appear more fragmented than in the international context. Furthermore, some suggestions to Italian researchers are provided, such as leveraging the holistic research approach towards Italy’s *Economia Aziendale* to answer the questions about PMSs that are frequently asked in the international arena.

The paper “*Web reputation and performance measurement systems in the hotel industry: an exploratory study in Italy*” by Selena Aureli and

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Enrico Supino addresses the role of social media in the design and use of PMSs. The paper focuses on the role of online reputation in the hotel industry and it aims to understand current hotel managerial practices in monitoring travelers' opinions on travel websites, social media and online travel agencies. The research is based on an online survey administered to more than 500 hotels and it describes which online reputation items (e.g. staff friendliness, adequacy of the rooms, sport services) hotel managers are more interested in, the frequency of controls and how the information collected from the Internet is used to support performance evaluation and managerial decision making.

The findings show how User Generated Content (UGC) information is increasingly important for PMSs in a service environment, not only to assess customer satisfaction *ex post*, but also as a component of the PMS which can orient managerial decisions. In this context, the perception of managers, and User Generated Content linked with the financial performance of hotels are discussed in this paper.

In “*A field study of Value - Based Management Sophistication: the role of shareholders*” Andrea Dello Sbarba, Riccardo Giannetti and Alessandro Marelli provide a longitudinal case study which explores the lifecycle of a Value-Based Management (VBM) system. Based on the diffusion theory of managerial innovation, their findings illustrate how shareholders and Top Management Team (TMT) background (social characteristics) and strategies and organizational structure (rational characteristics) influence VBM sophistication and disposal. These factors have a "combined effect" on the VBM lifecycle: strategy and organizational structure are the main determinants of VBM sophistication (potential information needs); and ownership structure and TMT background represent the precondition for VBM system implementation. Technology and perceived environmental uncertainty further influence VBM disposal.

“*Capitalizing and controlling development projects as joint translations. The mediating role of information technology*” by Antonio Leotta focuses on the role Information Technology (IT) has in attracting different actors and agents. Drawing on the literature inspired by the Actor Network Theory, the author provides a case study on the control system of development projects in a multinational company operating in the semiconductor industry. The evidence shows how the design and implementation of an information system for the accounts of development projects (to capitalize costs according to IAS 38) may disclose unintended

opportunities for the control system of development projects and processes. Capitalizing and controlling development projects become jointly translated through IT, which is a mediator between different agents in a network of allies. The research highlights how control systems of development projects are conjunctions between behaviour, accounting and personnel controls which mediate between organizational actors in development projects. It also suggests that PMSs innovation should not be studied in isolation but integrated with the network of actors it mobilizes.

Finally, the paper “*Accrual accounting and performance measurement: empirical evidence from two Italian municipalities*” by Eleonora Cardillo and Carmela Rizza provides a research study on PMS in Italian public organizations, namely municipalities. The innovation process in municipality accounting systems has begun with the recent introduction of accrual accounting. The paper aims to explore the way in which the use of accrual accounting may support performance measurement tools of local governments by adopting the Resource-Based View Approach. A comparative qualitative analysis of two Italian municipalities is conducted to identify the relationship. Their case analysis highlights the fact that the accrual accounting system does not necessarily support a complete performance measurement process and this fact is affected by the competences and resources in accounting information use. Results also show that the introduction of managerial systems requires a profound change in organizational culture by most of the employees.

Again, the papers in this Special Issue provide an insight into Italian research on PMS. If we wanted to identify a cross-critical factor, we could say that research studies confirm and enhance the centrality of the roles of employees in designing, developing, interpreting, and using PMSs. Indeed, employees are the real “actors” of PMSs.

Nevertheless, the literature on performance management systems perceives employees as passively adapting, and hence, their status as actors is neglected (Anthony and Govindarajan, 2007; Kaplan and Norton, 1996). By following the models, strategy objectives and targets are formulated by top-management in response to market forces and subsequently deployed top-down to the lower levels. When an employee’s performance is compared with the norm, and the employee is paid accordingly, he/she will find ways to adjust his/her behaviour to attain the required results. Thus, these *mechanical* performance measurement models

assume an employee follows a stimulus-response pattern of action, i.e. an employee reacts mechanically to management initiatives and rewards. It is also assumed that performance is measured objectively.

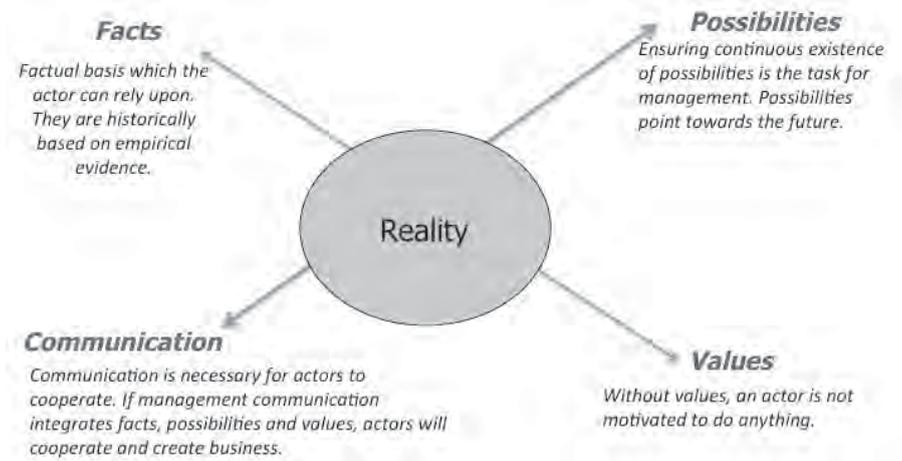
In her opening speech at the Workshop, Hanne Nørreklit has introduced *pragmatic constructivism* as an alternative paradigm for performance management.

Pragmatic constructivism emphasises the role of the actor in the construction of an organized “reality”. “Reality” is considered the relationship between the actor – whether a person or an organization – and the world in which it operates. These relations are not given by nature, they are *constructed*; and the construction may be successfully functioning or it may be hampered by fictional and illusionary elements, due to missing or faulty actor-world relations. Businesses do not function by themselves due to mechanical or natural laws. The operating causalities must be constructed in an effective, non-fictional way.

Pragmatic constructivism is based on the thesis that four dimensions of “reality” must be integrated in the actor-world relation if the construct is to be successful as a basis for effective actions. These four dimensions are facts, possibilities, values and communication. A factual observational basis is necessary for action. However, if there are no possibilities, there is no future and hence, there can be no action. In order not to be speculative, the possibilities must be grounded in the facts at hand. Furthermore, possibilities only function as a basis for the actors’ actions if there is a reason for them to choose and prefer one possibility over the other; i.e they should express the subjective values that motivate the actors. Thus, if the actor's values are within the range of his/her factual possibilities, then the actor will act. Finally, the integration of facts, possibilities and value must be communicated in order to enable action in a social setting.

The conceptual frame used by the actors in their reflection and control of the reality-world construction is the *topos*, i.e. topos is the body of concepts, perspectives, arguments and concerns through which the actors construct their relationship to the world. *If* the four dimensions of facts, possibilities, value and communication are integrated, then the actors will succeed, as people will be motivated to act and the factual conditions for success will be fulfilled. If, on the other hand, integration is incomplete or it dissolves, then the ability to act effectively weakens. How integration works cannot be proven a priori, but it depends on the material, human and

social conditions and must therefore be learned. This learning is established through the pragmatics of truth: if activities do lead to intended results, then the interpretations used are considered true – there is no gap between understanding and reality. If the activities do not fulfill the expectations, then the actors must improve their understanding of reality, i.e. of the operating integration between the four dimensions of facts, possibilities, value and communication. Modern integrated structures are constantly changing, which means that the topoi have to be ready to develop and change at all times.



### *The concept of “reality” in Pragmatic Constructivism*

The pragmatic constructivist approach has implications for the production of a trustworthy performance measurement. Pragmatic constructivism recognizes that the performance measurement system of accounting is to be used in a company to understand, structure and evaluate the economic aspects of decisions and to develop, coordinate and evaluate acts in an economically and reasonable manner. A company’s use of the performance measurements of accounting adds an economic dimension to its decisions and actions, and assures that these are not just based on criteria such as ideals, ambitions, power, etc. Nevertheless, the basis of accounting information lies not so much in an objectively observed physical world but in an institutional and subjective reality that cannot be directly perceived. Performance measurements are especially related to the observation of the factual dimension. We can have narratives and indicators about what would

be possible and valuable, but they relate to the future we cannot have. However, the understanding and use of performance measures involves a topos which integrates the dimension of facts with the dimensions of possibilities and human intentions and reflections. The more or less complex topos links facts to actions and hence involves a time horizon.

The pragmatic constructivist view calls for an actor-based approach to the design and use of PMS. Specifically, when designing a performance measurement system, the point of departure of the actors' approach is both the phenomenological grounding of the performance measurement in the local practices as represented by the employees and the overall goals of the company as represented by top management (Nørreklit et al., 2007). The goal system of the activities must be constructed on the basis of the topoi of top management and employees. In addition, the goal system should be constructed so that the interdependent activities mutually support each other. Coherence is an important feature of the performance measurement system which is concerned with facilitating that a group of employees acting on the system "contribute to the performance of other interdependent groups" (Haas and Kleingeld, 1999: 240-241) of employees and, hence, contribute to the overall performance of the company.

The design process is initiated from the top. However, interaction among the various (groups of) employees involved takes place as a *dialogue*. A dialogue is a dynamic and reflective process of conversation between two or more persons, during which both parties pose questions and receive answers. Their understanding and concepts of reality – topoi – are reflected in the dialogue. Information flows on several levels and concepts are developed. The dialogue is important in connection with the formulation of the performance measures linked to the point of view of the various (groups of) employees. It makes it possible to ensure that the actors in individual activities have the resources, competences and motivation to reach the ends by the given means. If problems or new possibilities are uncovered during the process, this may contribute to strategic development. Overall, the interactive and reflective process contributes to bridging differences of perception and understanding so that goal congruence increases.

Not only the design of performance measurements, but also the use of the measurements has to be phenomenological grounded. Pragmatic constructivism (Nørreklit, Nørreklit and Mitchell, 2007) implies that

performance measurements cannot be used without an understanding of the context in which they exist. An appropriate use of performance measurements means that one has to obtain knowledge about the specific situation, not only as presented by the measurement system, but also from a phenomenological perspective (Nørreklit, Nørreklit and Mitchell, 2007). In order to create a comprehensive insight into a performance situation, one has to uncover the reality of the business situation. Interaction by dialogue plays an important role in increasing the managers’ and the employees’ awareness and understanding of the situation. It is a condition for an adequate understanding of the relationship between the business reality and the measurement system. The danger of performance measurements lies in not studying the real situation to which one is exposed carefully, and so assuming that given measurements are a true and adequate representation of the situation. Close acquaintance with the real business world is necessary for a valid interpretation of the performance measurement (Nørreklit, Nørreklit and Mitchell, 2007).

Thus, pragmatic costructivism aims at emphasizing the importance of the person as the actor in the organization, in contrast with any explicit or implicit mechanical approach to management and control. As measurement affects people’s behaviour, it is fundamental that the change it provides is not detrimental to the organization and to the final customer. This circumstance can be particularly negative in services like healthcare. Such major failures in contemporary PMSs are indeed documented, in terms of gaming and cheating behaviours driven by factors like the pressure to perform, the type and intensity of imposed performance targets and the organizational climate and culture in which people work (Gray, Micheli and Pavlov, 2015: 137-144).

Finally, the perspective of Pragmatic Costructivism appears intrinsically related to the humanistic tradition of Italy and, more specifically, to its “Economia Aziendale”. We must consider the central role Italian culture assigns to the human dimension (“people and their quality”) and the distinguished and multiple features of the human factor which require flexibility when applying theoretical schemes to organizations (Onida, 1971: 136 ff.). In this context, fruitful research can be developed in Italy in the field of performance measurement through the lenses of Pragmatic Constructivism, and the papers collected in this Special Issue confirm this potential.

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