JYX JYVÄSKYLÄN YLIOPISTO UNIVERSITY OF JYVÄSKYLÄ

This is a self-archived version of an original article. This version may differ from the original in pagination and typographic details.

Author(s): Mättö, Toni; Anttonen, Jenna; Järvenpää, Marko; Rautiainen, Antti

Title: Legitimacy and relevance of a performance measurement system in a Finnish public-sector case

Year: 2020

Version: Accepted version (Final draft)

Copyright: © Emerald Publishing Limited 2019

Rights: In Copyright

Rights url: http://rightsstatements.org/page/InC/1.0/?language=en

Please cite the original version:

Mättö, T., Anttonen, J., Järvenpää, M., & Rautiainen, A. (2020). Legitimacy and relevance of a performance measurement system in a Finnish public-sector case. Qualitative Research in Accounting and Management, 17(2), 177-199. https://doi.org/10.1108/QRAM-04-2018-0027

Legitimacy and relevance of a performance measurement system in a Finnish public-sector case

Final draft 5.11.2019

Mättö, Toni; Anttonen, Jenna; Järvenpää, Marko; Rautiainen, Antti

Abstract

Purpose

We investigate the difficulties involved in translating stakeholder expectations into action and maintaining legitimacy through the use of a performance measurement system (PMS) created in a Finnish regional development company (RDC). This longitudinal case study illustrates the fluctuating and socially constructed nature of legitimacy in the public sector.

Design/methodology/approach

This qualitative case study longitudinally analyzes the various developments occurring during and after the development of a PMS system for the case organization. Empirical data include interviews, workshops, observation, and other materials relating to the case organization.

Findings

The initial interest in operational improvement changed to legitimation-seeking behavior by the case organization when the measures created were modified to accord with the changed preferences of the key stakeholders. However, the pursuit of legitimacy for the RDC was made difficult by the outcome oriented, changing, and contradictory nature of stakeholders' demands. Our findings reveal a continuous mismatch between organizational activities and the board's expectations, leading to the eventual closure of the organization.

Practical implications

The findings help to analyze the legitimacy and relevance of PMSs in public-sector projects. The study highlights the practical importance of analyzing the different legitimacy priorities of various stakeholder groups, such as politicians and entrepreneurs.

Originality/value

The study analyzes fluctuating nature of legitimacy longitudinally in the public-sector context from the stakeholder perspective. This study analyses a situation where the stakeholders' evaluations of the legitimacy of the organization, and the PMS developed, change over time, complicating the accounting for stakeholders.

Keywords: performance measurement, stakeholders, case study, public sector, legitimacy, relevance.

Introduction

This public-sector case study investigates the difficulties involved in maintaining legitimacy and translating stakeholder expectations into action through a performance measurement system (PMS) created in a Finnish regional development company (RDC). This longitudinal study analyzes the period of the development of the PMS in the case organization and the subsequent events. The study focuses on the legitimacy of both the PMS and the case organization in the context of the contradictory and changing expectations of different stakeholders.

Producing relevant performance measurement information for stakeholders in such a context becomes complicated. According to Andon et al. (2015, p. 987), accounting for stakeholders is, however, inherently a "paradoxical practice" because production of accounting information is a heterogeneous, partial, and incomplete exercise.

More specifically, Speklé and Verbeeten (2014) note that in the case of a public-sector organization with complex and ambiguous goals, performance metrics can only provide a partial representation of the organization's ultimate objectives (see also Nørreklit, 2003; Speckbacher, 2003). One such example is an organization that tries to develop its community and provide public benefits, making appropriate performance evaluation difficult (Luke et al., 2013).

According to Andon et al. (2015) there is currently very little understanding of the accounting information exchanged between different stakeholders. They call for research that explains the nature of accounting information in this process. They suggest that research illustrating "how accounting information is assembled and reassembled" (p. 998) might help in shifting the focus from concentrating on the outcomes into activities shaping the accounting information provided to the stakeholders. This might be particularly helpful in a public sector context with ambiguous goals.

Yang (2016) contends that the interface between political steering and the administrative action remains an underexplored area. That study suggests that performance measurement could provide a solution as a research object since it might provide an integration of the potentially value-oriented political management and the measurable standards for value creation in public organizations.

Nevertheless, public-sector organizations must legitimize themselves through conforming to the expectations of various stakeholders (see e.g., Brignall and Modell; 2000; Meyer and Rowan, 1977; Moll and Hoque, 2011). An organization is said to be legitimate to the extent that its means and ends appear to conform with social norms, values, and expectations (Dowling and Pfeffer, 1975). Legitimacy itself is then "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and

definitions" (Suchman, 1995,p. 574). A public organization and its social context are inevitably linked as the significant stakeholders evaluate whether the activities of the organization are desirable or appropriate. However, these expectations of the stakeholders are subject to change. Ashforth and Gibbs (1990) note that the basis of legitimacy is often contradictory, evolving, and difficult to operationalize. Accordingly, defining legitimate goals for a public-sector organization is often forced to follow an iterative process where compromises are sought through negotiation between different stakeholders (Yang, 2016; also, Chenhall et al. 2013). However, defining legitimate goals, measuring them, and then reporting on the extent to which they were met in such circumstances may make accounting for stakeholders a difficult endeavor, particularly in the public sector (c.f. Andon et al., 2015).

This study builds on the idea that legitimacy is socially constructed and may thus include several different priorities among various stakeholder groups, which can potentially change over time (Ashforth and Gibbs, 1990; Dowling and Pfeffer, 1975; Suchman, 1995; Yang, 2016). Accordingly, not all performance goals or their measures are equally legitimate or relevant for all stakeholder groups (Rautiainen et al., 2017; Sundin et al., 2010; Suchman, 1995). This kind of continuous redefinition of legitimacy among the stakeholders involved has not attracted much accounting research interest, particularly in the domain of public-sector performance measurement. According to Rautiainen et al. (2017), the perceptions and dynamics among stakeholder groups merit more detailed analysis and research should address the developments in the longer term.

This study addresses the research gap concerning legitimacy and accounting for stakeholders in a public-sector context. This study aims to analyze the various ways in which a public organization seeks to attain legitimacy over time from its stakeholders through the use of a PMS. The study also illustrates the importance of studying a fluctuating phenomenon such as legitimation longitudinally. In this study, we analyze the different phases in the case organization's quest for legitimacy. This study answers the research question: How and why does the legitimacy attributed to a public-sector organization and its PMS evolve over time when the PMS is modified to meet changing and partly conflicting stakeholder expectations?

The current research contributes to the discussion on accounting information and its use in practice to communicate with the stakeholders of the organization (Andon et al., 2015), specifically focusing on public-sector performance measurement (Speklé and Verbeeten, 2014; Brignall and Modell, 2000; Sundin et al. 2010; Länsiluoto et al. 2013). The study also illustrates the fluctuating nature of legitimacy (Yang, 2016) with a longitudinal case study, thus contributing to the discussion of organizational legitimacy that is constantly shaped (Ashforth and Gibbs, 1990) by changing stakeholder preferences. The study shows that an overzealous focus on measurable outcomes coupled with frequent changes to stakeholder expectations are likely to lead to "decisions without actions" (Brunsson, 1990, p. 55), that is, legitimation-seeking behavior.

The authors suggest that PMSs can play a key role in translating stakeholder expectations into actions in public organizations and can also provide information on how well the organization meets such expectations. This information can be used to enhance stakeholder communication and eventually to support legitimacy management. However, owing to constant changes in their stakeholder environment, public-sector organizations must address changing expectations over time, a situation that also creates challenges around the design and productive use of a PMS. To react to these stakeholder dynamics, organizations need to constantly evaluate their PMS with respect to how the measures created relate to stakeholder expectations and adjust them if necessary. This leads to a PMS being in a constant state of flux and to the need for settlement on two levels: which stakeholder expectations to focus on and how to integrate those expectations into the PMS. This leads to the basis of legitimacy being unstable and complicates informative and relevant accounting for stakeholders.

The article next presents the theoretical discussion on legitimacy and accounting for stakeholders in the domain (Lukka and Vinnari, 2014) of public-sector performance measurement. Subsequently, we outline the constructive research approach (methodology) utilized in the first phase of this study, describe our follow-up material, and then illustrate our analysis method. Longitudinal empirical case material follows those sections, illustrating the RDC case organization, the measures developed in the case and the subsequent developments leading to the termination of the organization. Finally, we present our discussion and conclusions.

Legitimacy and accounting for stakeholders

Stakeholders participate in the operations of organizations because they want to obtain something which benefits their own objectives (Donaldson and Preston, 1995). Their interests can be either competing or common. One key challenge for managers can be how to specify and make tradeoffs between conflicting and inconsistent demands (Donaldson and Preston, 1995; Li and Tang, 2009; Sundin et al., 2010; Länsiluoto et al., 2013). In particular, public-sector organizations face heterogeneous demands, making it difficult for them to acquire legitimacy in the eyes of their various stakeholders.

Our case is no exception; the key stakeholders (board members) of our case organization include representatives from the private sector and from the owning municipalities (both mayors and politicians) and they have relatively heterogeneous demands, emphasizing measurement areas differently. Further, RDCs operate at the public–private interface. While private-sector companies demand practical relevance from RDCs, such as firm growth or internationalization, representatives of the municipality wish RDCs to achieve more ambiguous issues, such as value for money, cost-effectiveness, and attaining regional growth targets.

The goal ambiguity present in public sector organizations (Speckbacher, 2003; Länsiluoto et al., 2013; O'Dwyer and Unerman, 2008) creates challenges in attaining legitimacy and leads us to consider the nature of the legitimacy of a PMS in such circumstances. In other words, how can a PMS enhance the legitimacy of the organization and what kinds of measures are available to do so? Järvinen (2006) notes that organizations often adopt different models with a combination of efficiency-seeking and legitimacy-seeking rationales. However, Meyer and Rowan (1977) note that organizational efficiency-seeking and operational performance measurements might conflict with wider institutional expectations.

Further, opaque effects of organizational activities targeting organizational goals can cause the adoption of technically imperfect and informal performance measures even if they do not directly link the performance with the expected targets (Länsiluoto et al., 2013; Northcott and Llewellyn, 2003; O'Dwyer and Unerman, 2008). Further, although aspects like cost-effectiveness or value for money are often deemed important for a public organization, these may prove to be difficult to incorporate into a PMS in a compatible way. Thus, unclear causality relations between activities and outcomes in the public sector (Nørreklit, 2003; Speckbacher, 2003), make demonstrating value for the stakeholders difficult for a public organization.

It is well established that power and pressures exerted by different stakeholders affect the design and use of performance measurement in organizations (Brignall and Modell, 2000; Sundin et al. 2010, Länsiluoto et al., 2013). Länsiluoto et al. (2013) state that while stakeholders influence the design and use of a PMS, the key stakeholders' views on controlling the resources are emphasized when using metrics. Brignall and Modell (2000) argue relatedly that while organizations have a need to legitimate themselves to different constituencies, the power of different stakeholders varies.

Johansson and Siverbo (2009) suggest that in the public sector, the politicians responsible for oversight of the public organization form a particularly powerful group. The study suggests that new management accounting techniques, such as a PMS, may be rejected if they challenge the distribution of political power among the politicians involved with the organization. This implies that techniques, or actions, that affect political power, or the status of politicians, either increase or reduce the legitimacy of the focal organization in the eyes of the politicians.

Legitimacy is conferred upon or attributed to the organization by its constituents and justifies the organization's role in the social system. It also helps attract resources and the continued support of those constituents. Thus, Ashforth and Gibbs (1990) argue that legitimacy itself can be thought of as a resource for the organization. They note that large and complex organizations are answerable to diverse constituents with potentially changing social values and expectations, making legitimacy a multifaceted concept.

Yang (2016) theorizes on the fluctuating nature of legitimacy and illustrates how the process involves the participation of different stakeholders in a type of debate where the legitimacy of different activities is established (see also Chenhall et al., 2013). However, as "public values have to be re-identified according to new contingencies that a community faces" (Yang, 2016 p. 880), this process repeats iteratively in the sense that knowledge generated from the implementation of different techniques or activities informs future participation and legitimation. This process is central to this study. Through a longitudinal case study centered on the PMS of the RDC, we illustrate the responses of the focal organization to the changing demands of the stakeholders and the effect of this process on organizational legitimacy.

Public organizations in particular often deal with many inconsistent norms. Yang (2016) argues that although institutions with embedded values and norms are important drivers of decision-making, they do not explicate how the differences in these norms can be addressed and how the values can be made actionable. Andon et al. (2015, p. 987) argue that increased requirements for continuous development of accounting information and greater disclosure of information, imposed by the stakeholders in power to the subject of those requirements (e.g., an organization) are problematic for the subject (i.e., the organization).

Related to this, Brunsson (1990) notes that decision-making is not necessarily connected to any action. This point is also raised by Mättö and Sippola (2016) who present a case on performance measurement in the public sector. They argue that whether the performance measures are used in practice, depends to an extent on the ability of the measures to provide meaningful information to assist decision-making, that is, whether the measures have decision-making relevance. Brunsson (1990) further argues that while actions can provide legitimacy for the organization, decisions can also serve as instruments for organizational legitimacy as long as they reflect the norms present in the organization's environment. O'Dwyer and Unerman (2008) present a case organization in a situation where it cannot directly influence its goals. The organization in question thus settles for attempting to convey an impression of effectiveness to external stakeholders by utilizing performance measures that only reflect the organization's operational-level activities. The distinction between decisions and actions in relation to a PMS could be likened to the division of measures into those created for legitimacy purposes versus those utilized to assist decision-making (Brunsson, 1990; Mättö and Sippola, 2016).

The usefulness of the accounting information for the focal organization does not always flow from its ability to represent practice, but may be dependent on how well it represents the diverse interests of a number of different stakeholders. In this way, imperfections in the accounting information might not even be problematic. The shifting nature of accounting practice provides a way for the organization to utilize it in

situationally useful ways, for example to acquire legitimacy. However, the ways in which stakeholders make use of the accounting information provided and the reactions of the producers of information to increased information demands are still rather unclear (Andon et al., 2015).

A PMS is subject to socially shared meanings and interpretation but is also associated with the organization's structure, customers (in this case local entrepreneurs), context, and management. Yang (2016) notes that the possible equilibrium reached between stakeholders may be unstable (or even merely temporary) owing to the changing environment and shifting interests of the stakeholders involved. Further, several situation-specific causes mean not all decisions or actions (Brunsson, 1990) confer legitimacy to the same extent. We analyze the different responses of the focal organization (c.f. Brunsson, 1990; Mättö and Sippola, 2016) to the changing expectations of the stakeholders involved during and after the development of a PMS. Thus, this study contributes to the discussion on the fluctuating nature of legitimacy over time (Yang, 2016) and clarifies in part the nature of accounting in such a context (Andon et al., 2015). As far as we know, a longitudinal view on the evolution of a PMS and the associated perceptions of legitimacy have not been analyzed concurrently in public-sector accounting research.

Methodology

This longitudinal public-sector case study analyzes the legitimacy of a PMS that was created by utilizing the constructive research approach (CRA) (Kasanen et al., 1993). Research employing the CRA seeks to generate solutions (called constructions) that help to resolve specific and practical issues (Kasanen et al., 1993) in the organization. The CRA is a type of interventionist research, which is an umbrella term for different types of research where "researcher wants to achieve solutions that work in the field and come back with evidence of theoretical significance" (Jönssön and Lukka, 2005). In interventionist research, the researcher and the practitioner work together to investigate and solve practical problems, resulting in theoretical contributions (Westin and Roberts, 2010).

Applying CRA methodology (Kasanen et al., 1993; Labro and Tuomela, 2003) was necessary in this study to generate the focal construction, the PMS for the RDC. The creation of the PMS for the RDC constituted the first phase of this study. While the initial aim of the PMS project was to stimulate operational improvements for the RDC and to evaluate the CRA process methodologically, the focus of the research shifted after the PMS development process was complete. While conducting the first follow-up interview in the RDC, it became clear that the management of the RDC was using the PMS as a type of legitimation device. Consequently, the research was directed to ensure there was a

strong focus on the viewpoints of the diverse stakeholders of the RDC, its legitimacy, and the PMS that was developed. This constitutes the second phase of this study. In this sense, this research utilizes an abductive method to refine the research approach. Abductive reasoning enables the research to derive theoretically informed explanations while also being sensitive to variations occurring during the research (Modell, 2009). The abductive approach also offers the prospect of meaningful analysis for a longitudinal case study such as this. This study utilizes CRA methodology and qualitative data collection methods to contribute to research on the legitimacy and accounting for stakeholders in the domain of public-sector performance measurement (domain theory, see Lukka and Vinnari, 2014).

However, in our view, the research domain (see Lukka and Vinnari, 2014) in this study also encompasses organizational theory in the broad sense that includes legitimation of organizations (e.g., Suchman, 1995; Ashforth and Gibbs, 1990; Brunsson, 1990). Organizational decisions, besides possibly mobilizing organizational action (Mättö and Sippola, 2016), often relate to decision-making roles of "distributing responsibility and providing legitimation" and the "degree of rationality in decision processes tends to vary according to the roles adopted" (Brunsson, 1990, 47, see also Andon et al., 2015). The current study focuses on stakeholder expectations while acknowledging the various decision-making reasons with links to legitimacy.

To be able to analyze the developments occurring during the research project from the legitimacy perspective, we conducted a round of interviews among the board members of the RDC after the PMS project. During the interviews, the respondents were asked questions about the relevance of the PMS, their views on the developments affecting the RDC, about the nature of the relationship between different groups on the board (entrepreneurs, politicians, and mayors), and the developments leading to the eventual closure of the RDC organization. The aim was to identify the different expectations of the board members, measures that the RDC took to respond to those expectations, and the circumstances concerning the realignment of the RDC's strategy and objectives, as well as the eventual closure of the organization.

The case illustration of this study offers a longitudinal approach, in that it utilizes a variety of data sources over a relatively long period (2013–2018). The detailed description of the case material and events is intended to convey the "idea of being there" (Golden-Biddle and Locke, 1993, 599), so as to establish an understanding of the chronology and substance of the case events through the years. This approach ensures that the study conveys a rich and convincing narrative relating to the case that includes the dimensions of convincingness (authenticity, plausibility, and criticality) (Golden-Biddle and Locke, 1993). A rich narrative of this kind also makes it possible to apply generalizations derived from the case research (Lukka and Kasanen, 1995).

The empirical data comprise transcripts of various meetings with the management, from two workshops with participative observation, and from six interviews. Both the

workshop discussions and the interviews were fully transcribed and analyzed by the researchers separately. We also analyze other materials concerning the case RDC such as a consultancy report on the RDC, board meeting transcripts and newspaper articles reporting developments after the PMS project had ended. For complete list of empirical material, see appendix. The material depicts the RDC's eventual closure, the developments leading to that event, its strategic goals at different times, results of customer satisfaction surveys, customer service statistics, and consulting evaluation reports.

The six interviews conducted were semi-structured. Two interviews were conducted during the PMS project, and four follow-up interviews were conducted after the project had ended. Interviewees included two middle managers of the RDC, a director of the RDC, and three members of the RDC's board (a private-sector representative, a politician, and a mayor from one of the owning municipalities). Interviewing the different constituencies involved in the events allows for their perspectives to be introduced and provides a form of triangulation (Miles and Huberman, 1994). The two interviews conducted during the project with middle managers of the RDC served to provide more detailed information on the managers' thoughts on the measurements, the overall efficiency, and the project itself. The director of the RDC was interviewed one year after the project had ended to acquire information on recent developments in the RDC and on whether the measures developed had been implemented. Three interviews with the board members took place in 2018.

The RDC case

Background and stakeholders

The case organization was a Finnish RDC, owned by the municipalities of the region, whose share of ownership was proportional to their population. RDCs are non-profit organizations that develop regional industrial policy. Typical RDC activities are organization-specific and based on the needs of the region they serve but might include advancing growth and internationalization by supporting local entrepreneurs, helping local start-up firms, and attracting businesses to the region. During this research project, the case RDC employed around 50 people (RDC annual report 2013), but the work of the RDC was project based, so the number of employees varied considerably each year. The case RDC had several stakeholders. The main stakeholder groups can be divided into the organization's board, the owner municipalities, current and potential customers (i.e., entrepreneurs and companies), organization's management and employees, and other development service providers that work in the same field.

The RDC's board was formed from its top management, representatives of local entrepreneurs, local politicians, and mayors from the owning municipalities. The RDC board reviews matters of regional economic life, the operations of the RDC, and steers its

activities. Board members' interests are varied: while politicians on the RDC's board seek cost-effective regional development in terms of employment and growth, mayors seek cost-effectiveness so as to balance the municipal budgets. Further, entrepreneurs seek value from the RDC in the form of support for local businesses and a comprehensive variety of services. Dealing with these different stakeholder expectations presents the RDC with challenges in establishing its legitimacy.

Before the performance measurement project started in 2013, the RDC had undergone organizational changes involving a restructuring and adjustments to its activities, including employee cooperation negotiations. In addition, changes in public funding for the organization brought some new requirements including segmenting the customers, increasing communication with regional companies, and developing information systems.

This period of change prompted the RDC to monitor its operations, results, and to develop a PMS to monitor its performance. Although the RDC had been involved in developing a performance measurement manual for RDCs in 2009, it lacked a structured overall measurement system in 2013, and accordingly accepted a research proposal from the researcher to help design one.

Project start and the first workshop

The project started with a researcher meeting the RDC's management to establish the goals for the project. The main goal of the management team was to determine their organization's cost-effectiveness broken down into several different areas of measurement. During the active time of the project, one of the researchers organized two workshops and conducted two interviews in the case RDC. Further, four follow-up interviews were conducted in the years 2016 and 2018.

The researcher involved in the project played an active role in the workshops, which involved preparing, organizing, and facilitating them. During the summary sessions, a researcher made observations. The workshops were also recorded and later transcribed to capture all details of the brainstorming sessions.

The first workshop, held in late 2013 and facilitated by one of the researchers, was attended by 10 representatives of the RDC's management, including senior management. The first workshop lasted three hours. Work was divided into two 45-minute long discussion sessions and two summaries of the sessions' results. The workshop participants were first divided into two teams. In the first session, the teams discussed the nature of cost-effectiveness, the associated measurement perspectives, and the possible challenges of implementing a PMS.

Challenges related to the construction and adoption of the PMS sparked a lively debate. One of the managers remarked:

> Cost-effectiveness is a challenge for us. Of course, we all know that from the customer perspective, that even though the growth and development sector helps the entrepreneur as much as it can, its actual effectiveness is ambiguous. Is it the growth of revenue or possible development projects, investments, internationalization? It is not easy to measure, because one would spend a lot of time and cigarettes on measuring tens or hundreds of companies. ... what if someone notes that for two years, we've spent public and private money on growth and development support and we've accomplished something, but it turns out it was only a temporary help. And after that we're thinking if this is really what we're supposed to do. – Manager 1, First Workshop, 2013

Another participant in the workshop commented:

> Well, I remember when I participated in the board meeting some time ago and I presented accurate operational spreadsheets, I felt they mostly became confused because of the excess of information...So I would say that we shouldn't go into too much detail. - Workshop participant (Manager)

From the potential challenges involved in the creation of PMS, the discussion moved to the internal needs of the RDC in relation to the PMS. The competence and performance capacity was seen as the basis of an expert organization. Competent and enthusiastic employees would ensure that the processes would deliver the assigned goals. According to the RDC's management, professional and productive employees also contribute to the success of customer service processes. The customer service teams within the RDC focused on business, international, growth, and development services.

> On what was just said, I agree, that the competence of people is central. That is, how well we can spot the right issues in this organization. It is each person's own competence. Speaking for myself, one central challenge in this regional development is to recognize essential customers and issues. To recognize those on whom to spend time and drop those customers who cannot fulfill their potential. Sometimes we probably have been too polite, just continuing cooperation, even though it would not have been beneficial to us or the region. So, in a way, it's a shame to admit this, we need some tough, impersonal measurement instruments. – Manager 1, First Workshop, 2013

The third perspective thus became customers and networks. The workshop discussions established that customer and collaboration partner satisfaction signal service processes are successful. The RDC was involved in many projects in collaboration with other operators such as the decision-makers and officials of the region, other development organizations, and various interest groups. A large network of collaboration partners was seen as important for the region and the RDC's customers because they offer help in creating more effective processes and hence, more efficient results. One of the managers considered customer segmentation to be important to ensure services target different customer profiles.

> Currently, we have not clearly defined the customer segments. But let's say this, that we should be able to do the segmentation and be able to follow it if it fills our requirements for time constraints

> and our set objectives. That is, do we really spend as much time on our primary customers as we think we do. In other words, [a goal is] to measure this kind of general efficiency and customer segment specific efficiency. – Manager 2, First Workshop, 2013

However, the workshop participants identified cost-effectiveness as the most important perspective. This was understood as the concept of value for money (e.g., Lapsley, 1996; 2009). However, the long-term measurement of value for money can be difficult, particularly in the public sector, and therefore proxy measures of success are often used (Northcott and Llewellyn, 2003). The pressure to produce more results with fewer resources and related increased expectations was discussed extensively, and consequently, cost-effectiveness was further divided into financial (economy) and effectiveness-related components, also found in the new public management literature (see Lapsley, 1996, 2009). Owing to the RDC being a non-profit organization, the importance of budgets and funding stands out. In addition to having stable finances, meeting effectiveness targets (e.g., growth) was also considered important.

After these discussions, the teams presented their conclusions, summarizing the possible measurement instruments for the RDC in accordance with the perspectives discussed in the workshop. The end-result of the first workshop was the preliminary design of the PMS.

Interviews between the workshops

Before the second workshop, a researcher conducted semi-structured theme interviews with two of the middle-management participants. The interviews explored the challenges and objectives of measurement, reporting the measurement results, and building the PMS. They generated further information to complement that derived from the first workshop. One of the managers interviewed was worried about the conflicts between the operational-level work and the expectations of the owners. The politicians on the board in particular seemed to be detached from the operational level of the RDC:

> In a way, we have two kinds of customers. We have the firms we are trying to help, and then we have the owners [on the board]. We would need to please them both and sometimes I'm doing something with the customer and then I think that ok, what might the owners think about this...If we think about the board. Some of them [politicians] have been chosen on the basis of their affiliation with a certain political party, they don't necessarily know about our operations... Then we are wondering here how to deliver on their stated strategies. - Manager 1, 2014

Another manager noted that the influence of the owners extended to the measures as well. The board were particularly intent on establishing financial measures at the time:

> Well, the [owner] cities told us that here are the measures that we would need. They were quite financial in nature, perhaps a few operational measures as well...So of course these measures will be part of the final PMS. And then we can add our own measures, like the customer segmentation

> measures…But the problem is that the city might have a budget of, like 20 million euros in one function like school system, and our operations might touch different functions here and there. So how do they [the owners] understand us then? - Manager 2, 2014

When asked about the reporting of the measurement results, one manager commented that the board had asked for the reporting in a specific format, that used by the city in other functions. This had the effect of slowing down the reporting as the necessary templates had to be made:

> The requirements of the city have been a bit problematic here. We haven't been able to devise the measurement systems exactly the way we want. They [owners in the board] wanted us to develop these excel and access templates for reporting and it has slowed us down quite a bit. - Manager 2, 2014

These interviews painted a picture of a challenging environment in which to build a PMS. Owner influence on the measures was apparent, and the reporting standards were steered toward the cities' own templates. Further, the actual cost-effectiveness of the RDC was in danger of being buried under different budgets of larger city functions.

The second workshop – The final version of PMS and the implementation decision

Before the second workshop, the researcher carefully analyzed the information gathered from interviews and the first workshop prior to constructing a first version of the PMS. The proposed new PMS contained 27 measurement instruments under four perspectives: the competence and performance capacity, customer service processes, customers and networks, and cost-effectiveness. This PMS version served as a starting point for the second workshop.

The participants received the first version of the PMS reflecting the aforementioned perspectives before the second workshop, held in early 2014. The second workshop was attended by the same participants as the first and lasted for two hours. At the start of the workshop, the objectives of the project were reiterated, and the researcher presented the constructed PMS.

Participants reviewed the first PMS version, discussed improvements, and considered the use and the implementation of the PMS. During the workshop, participants reviewed and prioritized the measurement instruments, resulting in 24 instruments. The perspectives on the PMS remained unchanged. The workshop group decided to present the second version of the PMS to their service units and the RDC's board as soon as it was finalized by the researcher.

However, several challenges were identified: cost-effectiveness was still seen as challenging to measure and the causal relations leading to cost-effectiveness were

unclear. For instance, issues like the success of local companies and the employment situation in the region were subject to multiple influences. Consequently, it was hard to measure the RDC's influence in issues like this. Other challenges noted included a delay and the ambiguous nature of feedback received from the PMS, the lack of current information systems to support the new PMS, the complexity of the public-sector organizational field, the implementation costs of the PMS, and differing stakeholder opinions.

> At first, they wanted a lot of measures. Now that they have seen some of them, they are telling us that we should emphasize the general overview of the director (laughs). This is how it goes. - Manager 2, second workshop

> I think our measurement system even now contains a measure of whether 900 new firms are established annually. I don't think this is good measure. I think a more proper measure would be to measure how many of these firms have used our services. - Manager 1, second workshop

Nevertheless, the premise for implementation seemed to have met the critical success factors defined by Labro and Tuomela (2003); there was positive collaboration in the RDC and enthusiasm for the development work among staff members. Discussions in relation to the PMS were also positive, and there was a clear appreciation that the PMS would prompt new ideas and encourage new perspectives. Further, one of the managers anticipated that the owners would be happy with the new PMS:

> Well, the city presented some of their metrics and we included our own. And I think they'll be happy with this measurement system. At least for now. - Manager 2, 2014

In the final phases of the researcher's involvement, in late 2014 the board decided that the PMS would be implemented. The positive feedback and willingness to use the PMS indicated the managers perceived the PMS to be relevant at the time. It can be argued that the PMS was deemed by the RDC's management to assist in legitimation-seeking while also having decision-making relevance (Mättö and Sippola, 2016) through the focus on cost-effectiveness and customer-perspective issues. The developments illustrated thus far reflect the owners' influence on the construction of the metrics, the perceived difficulties in integrating the partly conflicting demands into the PMS and the financial nature of the expectations. Even at this stage, legitimation-seeking stands out in our case context to describe the anticipated benefits from the PMS.

Follow-up phase

In October 2016, a new semi-structured theme interview was conducted with the RDC's director (who was also part of the original workshop group) to query how the PMS was implemented and to establish the eventual benefits of the PMS, to evaluate the success of the project, and to review the current and future situation of the RDC. Further, an

additional three interviews were conducted in 2018 to gather information on the expectations of the board members at the time, the circumstances concerning the realignment of the RDC's strategy, changes in the board structure and on the eventual closure of the RDC.

The new interviews provided up-to-date information on the recent developments in the RDC. After the researcher's part in the project ended in 2014, the case organization had undergone new organizational changes. In early 2015, the group of municipalities owning the RDC had formed a work group whose objective was to clarify the owners' expectations of the RDC. As a result, the RDC had to sign fixed-term service agreements with the owners. These agreements stipulated the services the RDC should provide, while maintaining a set quality standard. Service quality was measured against customer satisfaction. In the follow-up interview conducted in 2016, it became clear that the preference of the owners had changed. The director recalled at the time:

> The only measurable thing is the services we provide. That means that customers need to be satisfied with these services. On a scale of one to four, we need to maintain a 3.2 rated value in our services. - Director, 2016

Consequently, the service units of the organization were reorganized and some of the services were transferred to the owners' own units. The changes prompted another round of employee cooperation negotiations in the RDC, resulting in reductions in the size of the workforce. Furthermore, based on the agreements reached, the strategy of the RDC was reformulated during 2015. As a result, the role of the RDC as a regional developer was redefined and new operational objectives were set. Moreover, the strategy reformulation included a move to restructure the composition of the board:

> While conducting these strategic reformulations, we also reduced the number of board members in the RDCs board. [in addition], the new board comprised only the private-sector representatives and the representatives of the owners [mayors of the municipalities]. Basically, this meant that political representatives were removed from the board. I was very much driving this reformation, so that more substance knowledge could be brought to the board. Of course, owners were needed on the board, but to emphasize the private-sector representatives. — Private-sector representative on the RDC board, 2018

The changes to the composition of the board were supported by the mayors of the owning municipalities:

> The board of the RDC is huge. It has 10 board members while large multinational companies might have 7 or 8 members. Also, we need more dynamics to the board, that is [members] from the private sector - Mayor in a newspaper article 3/2015

> I think at some point, seats on the board became even more politicized. Political groups handed positions in the RDC board to different politicians. And I may be a bit mean here, but when you pay high board fees, you start to be interesting for politicians. ... and now, I'm sure politicians are angry now that they have lost their seats on the board. — Mayor on the RDC board, 2018

However, the interviewed political representative criticized the handling of the changes to the board composition:

> The mayors clearly had a vision of how this was going to go, we never had any discussion on this. This [changes in the board structure] was brought in on a very fast schedule to the municipal council ... and I wondered how it happen like this. But then, you have to remember that the RDC was an incorporated company under a municipality, and it proceeded according to those laws. But I felt bad about it. — Political representative in the RDC board, 2018

Following these developments, the RDC management team prioritized its organizational development efforts and the full PMS implementation was postponed, and most of the measures were not adopted. However, some measures under the customer and networks perspective were implemented, including those addressing customer satisfaction, number of customers, number of customer meetings, and organized events. Furthermore, the RDC adopted customer segmentation in accordance with the original PMS. These developments highlight the legitimation-seeking motive, in that the implemented measures were aligned with the new focus on customer satisfaction.

> I think the board of the RDC focused on the relationship between the RDC and its customers, and also on customer satisfaction. We dealt with those a lot. — Political representative on the RDC board, 2018

> [concerning the important measures], customer satisfaction was the most relevant measure, how much [the RDC] contacts the customers, how the customers feel about it, concerning the [the RDC's] operations it was the most central thing. Then, on the more general level, we observed how the regional companies were doing and how the regional economy was doing. — Private-sector representative on the RDC board, 2018

> Yes, we had those metrics, whether new jobs were created. Or how much we have sold company slots or how many new companies have been started. ... but the problem-solving [in the RDC] was more about how to justify yourself to the board rather than genuinely trying to find solutions. — Mayor in the board, 2018

However, the director of the RDC praised the original project for directing attention to performance measurement, although the resulting system was far simpler than that originally proposed.

> I think the project left a certain kind of thinking paradigm: [a] sort of goal awareness, goal orientation and measurability. In addition, the attention to measuring and versatility to observe these things remained. Those, I think, were good starting points. Compared to five years ago, we have progressed in measuring things. We can tell our owners at least something of what we are doing qualitatively and quantitatively. – Director, 2016

The director also commented that the opportunity to present explicit results to the owners, to support the decision-making process, and to find cost savings were still relevant. The ability of the organization to see whether the "right things were done" was also relevant, although this proved to be a very difficult area to address. The owners' expectations were linked to regional development, such as growth of companies or creation of new jobs. The director saw this as an indirect result of the RDC's efforts; while

the operational measures reflected the activities of the organization, they had no direct way to measure their influence on regional development.

> Well, after we've created these growth plans and companies have begun their development operations... Of course, I hope that it is something that is seen as relevant for our own operations. And I very much hope that it is important in the owners' minds, too. We need to remember, that we are neither entrepreneurs nor consultants. We do not sell anything. All the responsibility lies within the companies. We can't make them create new jobs. We can't create exports. So, in that way for us it is going to be a very significant thing. If at the other end of the development pipeline nothing happens, then one is of course justified to question everything else in this as well. - Director, 2016

A representative of a private-sector organization acknowledged the difficulties involved in demonstrating the RDC's performance levels. Another complicating factor was the influence of the general economy on regional development.

> You need to show the municipalities' decision-makers whether the RDC's operations really influence [the regional economy] ... However, I do wonder if a company that is doing regional development can really be praised in any situation, because the overall state of economy affects the situation so much ... The economic situation in Finland in 2014–2017 was challenging, for the companies too. - Private-sector representative on the RDC board, 2018

After the PMS project period, regional counseling services were transferred away from the RDC which put further pressure on the management and caused concern over the future of the organization:

> When they [owners] took the regional counseling services from us, they also started to build their own business development units. They said they wouldn't conduct any parallel activities with us, but often it just happens that when you build something like this in your own operations, you start to do things previously done elsewhere. So yes, I do worry that municipalities might start to do things in their own units in the future. - Director 2016

This event further heightened the necessity of the management to legitimize the RDC's operations to the board. Accordingly, the RDC director ordered measures to be devised that would be acceptable to different groups on the board, while also maintaining a kind of indirect relationship with the effects the organization was expected to achieve. The resulting measures were tied to customer-related themes, such as customer satisfaction or the number of meetings with customers.

> If the customers are satisfied, at least we have not done things very wrong with them. It's challenging to go deeper with this. And if we can prove that these companies have done well, better than others at least, we can say that we have found the right customer group with whom to work. In addition, if [the customers] are satisfied with our work, what other measurement instruments can [the owners] expect? - Director 2016

Finally, the comment of the director below illustrates the ongoing difficulties in the situation of the RDC. The political pressure, difficulties in showing the outcome of operational efforts and the changing preferences of the board had undermined the actual effectiveness of the designed PMS. This had left the RDC with only the option of trying to

give an impression of effectiveness and to demonstrate this through the PMS measures adopted.

> It is a bit controversial, so to speak. At one point, for example, the owners wanted [to focus on] the number of international projects, the number of firms under development, so in a way they demanded effectiveness. Then when I demonstrated these measures to them, they said that these are your own operational things, they are not interesting. So I was, like, what? ... It is not easy with a board like this, entrepreneurs, mayors, they look at different things...And then there is this political pressure, we have tried to find the surrogates we need. For example, this labor employment measure can be used to counter the demands by the politicians for an increased number of jobs - Director, 2016

Ending the operations of the RDC

On a final note, in late 2016, the municipalities that owned the RDC decided to terminate the organizational arrangement (Record of city hall meeting 12/2016). This effectively ended the operations of the RDC (after a transitional period covering 2017) and resulted in the tasks being reorganized and handled by the municipalities separately, starting in 2018. Thus, despite the RDC's efforts, the legitimacy conferred by the municipalities was apparently lost.

A consultancy report on the situation of the RDC (7/2014), commissioned by the owning municipalities was cited as one reason for ending the operations of the RDC:

> The RDC was criticized for many years ... then came this consultancy report. These findings in the report, they were not very complimentary of the RDC. And the largest municipality began to think whether it actually got what it wanted for its money — Political representative on the RDC board, 2018

The report was produced by a large municipal consultancy firm in Finland. Through customer surveys and interviews conducted with the municipal politicians, the report highlighted several problems in the RDC's operations such as issues with the cooperation between the RDC and its customers, inefficient allocation of resources, and a mismatch between service demand and service provision. The mayor of one of the owning municipalities felt that the criticism of the RDC was justified:

> I think the whole organizational structure was impossible. You can't mix a market economy with political and bureaucratic decision-making... Also, I went to familiarize myself with the RDC's management group. I was shocked to discover that most managers there couldn't really explain exactly what they were doing. It can't be that the organization doesn't have operating guidelines. And if I am completely honest, the RDC didn't accomplish much in our municipality. — Mayor on the RDC's board, 2018

However, one of the board representatives seemed to challenge the notion of poor customer satisfaction expressed in the consultancy report, as he remarked:

> Customer satisfaction in the RDC was very good in my opinion, the number of customer meetings were very high. I think the RDC carried the burden of past mistakes, I mean if some companies had bad customer service in the past, it showed as a general attitude toward the RDC, even though they might not have used its services for a few years. — Private-sector representative on the RDC board, 2018

At the time of the shutdown of the RDC, the mayor from one of the owning municipalities commented:

> The RDC was formed in the 1990s. Things have changed a lot since then. To my mind, the most concrete reason for terminating the RDC is that it offers only a narrow section of the regional development services, namely corporate counseling, growth services, and internationalization assistance. For that, keeping a separate development company as a solution seems to me a burdensome arrangement. Our share of the RDC's budget is approximately three million euros, I think we can do a lot more with that sum compared to this narrow share of the regional services the RDC has offered so far. — Mayor in a newspaper article 12/2016

A political representative seemed to echo the sentiments of the mayor, although noting that given time, the new strategy and metrics could have improved the RDC's functioning:

> The operational environment has changed a lot since the RDC was founded. You don't need such a structured organization any more... also, new social and healthcare changes, if they happen, the duties of the municipalities change. A lot of money is going to be taken away while regional development is still the responsibility of the municipality. This organizational structure was just too burdensome...Still, when the new strategy was formulated in 2015, there was no time to operationalize it really since in 2016 they already decided to shut the RDC down. They never even gave the new strategy or the metrics that were associated with it an opportunity to show their worth. — Political representative on the RDC board, 2018

Further, one board member of the RDC reflected on the reasons behind the RDC's closure and also raised the possible loss of legitimacy conferred by the politicians as a motive behind the shutdown:

> I think each municipality wanted to focus individually on the regional development...they basically counted the costs they had to incur from the RDC's operations and began to think what they could do with that money if they could spend it in their own municipality as they saw fit... At the same time, politicians in the municipalities no longer had the inclination to continue the operations of the RDC as there were no more board chairs available for the newly elected politicians. — Private-sector representative on the RDC board, 2018

The PMS project reported in this study ended with the RDC's management deciding to implement the PMS in 2014. However, the legitimacy of the RDC organization was the subject of an ongoing debate among the key stakeholders on the RDC's board and the RDC continued to adjust the PMS to reflect the board's wishes in an attempt to maintain its legitimacy. Table 1 depicts the evolution of the PMS as the RDC tried to accommodate to the changing preferences and power relations among the organization's board members.

The focus of the RDC's PMS is presented in bold text in Table 1. The events depicted in this paper culminated with the eventual closure of the RDC in the 2017.

	Mayors	Entrepreneurs	Politicians
Expectations	Cost consciousness Agile organizational structure	Customer satisfaction Practical assistance	Regional development (Growth, employment)
RDC's initial PMS and focus	Operational perspective Cost-effectiveness, financial measures, number of growth plans	Customer perspective Customer satisfaction measures Customer segmentation	Political perspective Labor employment measures
Final PMS and its focus	Customer perspective Customer satisfaction Customer segmentation Number of customers and meetings	Customer perspective Customer satisfaction Customer segmentation Number of customers and meetings	None; politicians removed from board

Table 1: Stakeholder expectations and the measures to address them

Table 1 summarizes the analysis of the relevance of a PMS in our public-sector case, focusing on the ways the case organization sought to obtain legitimacy over time.

Discussion

In this article, we illustrated how the case public-sector organization responded to changing and contradictory expectations of its stakeholders in its pursuit for legitimacy over time. This article also depicts and analyzes the various developments during and after the creation of the PMS in terms of stakeholder communication. The study highlights the fluctuating nature of legitimacy in a context of multiple stakeholders and ambiguity around organizational objectives.

The original PMS developed during the research project aimed to balance several aspects (competence and performance capacity, customer service processes, customers and networks, and cost-effectiveness) that were considered important at the time of its design (cf. Sundin et al., 2010). The aim was for the measures to offer comprehensive decision-making aid (c.f. Mättö and Sippola, 2016) while also legitimating the RDC to outside stakeholders. Further, at the time, the RDC's board had stated the need to create financial measures to reflect operating performance. Thus, at first the created PMS aimed to balance efficiency-seeking with the attainment of legitimacy (Järvinen, 2006), mostly through operational measures. The original PMS contained both concrete value-related measures such as those relating to cost-effectiveness and measures of a more abstract nature such as customer satisfaction.

However, after the original PMS had been implemented, the key stakeholders intervened in the operations of the RDC. Representatives of the RDC's board redefined the organization's strategy based on their changed expectations and forced the RDC to sign service level agreements emphasizing customer orientation, resulting in revisions to the PMS. These developments illustrate strong stakeholder intervention influencing the adoption and use of a PMS (see Länsiluoto et al., 2013). This event also highlights the requirements for the continuous development of accounting information and greater disclosure of information (Andon et al., 2015), which may have detrimental effects on a PMS's ability to provide information supporting operational improvement. This is probably because the PMS remains in a state of flux and the organization never has the time to capitalize on the measures within it other than to seek to derive legitimacy from them.

The case empirics demonstrate how the RDC management consequently abandoned the original balanced PMS and focused on the customer perspective, which was thought to be aligned with the new expectations. This development illustrates the fluctuating nature of legitimacy of PMS: the management of the RDC realized that the board remained dissatisfied with the operations of the RDC and they modified the PMS toward customer-oriented measures. The customer-perspective measures and the measure of the growth of firms in the area were expected to be at least indirectly connected with outcomes while corresponding with the expectations of the stakeholders. With this shift of PMS focus the RDC hoped to reacquire its legitimacy.

The director's comments illustrate that the growth of the customer firms in the area, in terms of labor employment, was used as a key measure in responding to the political demands for regional development, that is, to acquire legitimacy for the organization conferred by the politicians. The employment situation is, however, largely related to the general economic situation, so the measures used were imperfect proxy measures at best (see Northcott and Llewellyn, 2003). These events illustrate the different activities that the organization might employ in order to acquire legitimacy. Measures may be devised without the intention (or possibility) of using those measures for decision-making (c.f. Mättö and Sippola, 2016), and without a real connection between the organization's operational activities and the outcomes expected by its external stakeholders, thus also exhibiting a type of decision without connected action (Brunsson, 1990). If the stakeholders involved engaged in a type of dialogue with the organization as theorized by Yang (2016) and called for by Andon et al. (2015), possibly stakeholders could influence and utilize accounting information provided to them in more useful ways. This would require a stakeholder focus on the activities of the organization rather than outcomes, and also obviating the need for constant redefinition of the expectations.

It may well be that the original PMS might have helped the RDC to better demonstrate its customer satisfaction and to reduce the costs incurred from its activities, thus

demonstrating considerable practical and decision-making relevance, leading to value for money (Kasanen et al., 1993; Mättö and Sippola, 2016; Rautiainen et al., 2017). However, developments in the case forced the RDC to modify the measures, resulting in a primarily customer-oriented PMS. Our case demonstrates the fluctuating nature of legitimacy (Yang, 2016) but also highlights the need to study the socially constructed nature of PMSs and the legitimacy attributed to them over longer periods. Different stakeholders may appreciate the PMS construction differently at different times, and if the construction (or organization) loses the legitimacy and support of key stakeholders, it may be terminated before the benefits have time to emerge. Case events indicate that the PMS failed to provide relevant information to assist in decision-making and to deliver legitimacy for the RDC (see Suchman, 1995; Ashforth and Gibbs, 1990; Rautiainen et al., 2017). Legitimation-seeking was complicated by the stakeholders, who were expecting either outcomes beyond the organization's influence (e.g., realization of growth and employment among the firms in the region) or changed their preferences over time, ultimately concentrating heavily on the customer perspective in the final stages.

In light of our empirics, we agree with Andon et al., (2015) in that stakeholder focus on outcomes potentially undermines the organization's ability to provide useful, decision-relevant information. This is at least partly because of the often value-ridden emphasis on outcomes beyond the scope of the organization's influence (c.f. Yang, 2016; Speklé and Verbeeten, 2014).

Further, the changing preferences of the stakeholders revealed in our longitudinal dataset also complicated the operational efficiency-seeking and attainment of practical decision-making relevance for the measures (Järvinen, 2006; Mättö and Sippola 2016, Brunsson, 1990). The measures created were never given the time to become established or provide the feedback necessary for organizational improvement. Instead, the PMS remained in a state of flux while the organization was forced to continuously adjust the measures in an attempt to maintain its legitimacy. It is thus suggested that an emphasis on organizational outcomes coupled with continuous redefinition of expectations leaves the public organization without productive communication with the stakeholders, leading in our case to measures lacking decision-relevance (Mättö and Sippola, 2016). This, in turn, leaves only the option of striving for legitimacy, or making decisions without actions (Brunsson, 1990).

Finally, one factor complicating the communication with the stakeholders in our case relates to changes in the composition of the board. During the strategy reformulation period, a restructuring of the RDC's board was also implemented. In a move supported by the mayors and the entrepreneurs, politicians were removed from the RDC's board. Further, when the RDC board was no longer a means to utilize political power, the political parties had less motivation to safeguard the existence of the organization. As the quotes from the mayors illustrate, terminating the RDC might have been easier once the political board positions were abolished. This is because the political interest in the RDC as an organization was reduced after well-paid board positions were no longer available.

The strategic reorientation and changes to the RDC's board implemented in 2015 can be seen as contradictory: they were seen by the mayors and private-sector representatives as highly legitimate because of the cost savings and increased amount of substance knowledge on the board. Nevertheless, they led to a loss of legitimacy for the RDC as conferred by the local politicians. The decision to discontinue the RDC's operations was initiated by the largest city's municipal council, that is, local politicians. Therefore, it is evident at least in our case, that the importance of the political aspect to the RDC's legitimacy was considerable.

Nevertheless, the private-sector representative on the board seemed to be the most sympathetic toward the RDC in the final stages. This attitude might have been influenced by the heavy emphasis in the final PMS on customer satisfaction measures, a view advocated by the private-sector representatives on the board. However, the customer-based measures were emphasized during the strategy reorientation period in 2015, and the decision to shut down the operations of the RDC was made in late 2016, so even these potentially practical, or decision-relevant measures were not given time to become established or provide the necessary feedback for operational adjustments.

Although the problems concerning the relationship between the RDC and its owners extend beyond a single measurement system, this case is an example of a situation where a working compromise between the RDC and its different stakeholders was not achieved, thus ending the arrangement (Chenhall et al., 2013; cf. Sundin, 2010; Länsiluoto et al., 2013). The RDC had no way to prove causality (see Kaplan and Norton, 1996; Nørreklit, 2003; Speckbacher, 2003) between the RDC's operations and regional development because several factors external to the RDC influence the local firms. In addition, the highly critical consultancy report was a starting point for the reorganization of the RDC in 2015 and its subsequent termination. As our empirics demonstrate, external opinions, performance audits and consultancy reports can be very relevant for organizational legitimacy as they signify the value (or lack of it) that the organization creates. It seems that in the board members' view, service agreements stipulated by the municipalities in 2015 were a last effort to rectify problems in the RDC's operations.

We suggest that when creating a construction such as a PMS, the ideal way to assess such constructions would be through longitudinal studies, acknowledging their possible evolution over time. This study presents an example of a situation where the fluctuating nature of legitimacy can be illustrated through the shifts in emphasis that the key stakeholders demonstrate. During its lifespan, the PMS is exposed to different influences including those of stakeholder expectations amidst continuously changing environments, strategies, organizational arrangements, and new emerging solutions. We acknowledge, however, that in a typical research project with a limited time span, a further progress of PMS can be followed only for a very limited period. Further, predicting the evolution and theoretical significance of a construction like a PMS is likely to be difficult (Länsiluoto et al., 2013).

Conclusions

This longitudinal public-sector case study analyzed the legitimacy implications of a PMS construction created in the first phase of this study for a Finnish regional development company (RDC). In our case section, we illustrated the subjective and fluctuating nature of legitimacy over a relatively long time period (2013–2018). We illustrate a situation where it is difficult to establish direct causality between an organization's operations and the goals set for the organization by key stakeholders because external factors influence the desired outcomes (Nørreklit, 2003; O'Dwyer and Unerman, 2008; Speckbacher, 2003). Accordingly, operational measurement and improvement will not necessarily lead to the desired long-term outcomes, making it challenging to demonstrate value for outside stakeholders, or to acquire legitimacy. In this situation, pursuing operational-level measurements can be used to manage the impressions of effectiveness for the key stakeholders with the aim of securing legitimacy and continued funding for the organization (see O'Dwyer and Unerman, 2008). This finding is reinforced by the director's initial focus on operational measurements based on assumptions of stakeholder expectations.

The findings of this research suggest that the managers of a public-sector organization are likely to emphasize different measures for different stakeholders at various points in time. For example, the RDC's director noted the use of employment growth in customer firms as a legitimation device focused on the expectations of politicians, while customer-oriented measures were utilized to promote legitimacy in the eyes of the entrepreneurs in the RDC's board. However, diminished legitimacy resulting from the removal of politicians from the RDC board was one possible reason for the RDC's operations being discontinued. As such, the RDC lost its legitimacy conferred by the local politicians. These developments highlight the social and political aspects of legitimacy in the public sector. Accordingly, we argue that, for analytical purposes, incorporating an explicit political perspective and more generally a stakeholder view into the analysis of legitimacy is helpful in public-sector case studies. More generally, different stakeholder groups emphasize different aspects of legitimacy. For example, the entrepreneurs on the RDC's board had a more business-oriented perspective that emphasized customer-related measures. This study builds on the classic work of Meyer and Rowan (1977) in analyzing the tension between organization's technical measurement objectives and the changing expectations of the key external stakeholders longitudinally.

This study illustrates the different objectives of the stakeholders involved during and after a PMS development project. Our case illustrates a situation where an initial PMS is accepted internally as legitimate by the organization's management but deemed unsuitable by the organization's key stakeholders. In our case, after selecting the measures for implementation, the management of the RDC deemed the PMS relevant for legitimation-seeking through the selective presentation of measures designed for

stakeholders (c.f. Brunsson, 1990), and even saw its potential to be operationally useful by providing decision-relevant information. However, key stakeholders seemed to be discontent with the activities of the organization and saw the metrics as largely inconsequential in light of other important problems, also highlighted by a consultancy report concerning the RDC. These problems were centered on the structure of the RDC, its high cost structure, customer satisfaction concerns, and the changed preferences of the owning municipalities. We argue that in the absence of uniformly accepted accounting measures, such consultancy reports may have a considerable effect on organizational legitimacy. In our case, the report contributed to a loss of legitimacy. Although the organization in our case designed a comprehensive PMS, subsequent developments forced the RDC's management to modify the initial PMS in order to meet the assumed expectations of the key stakeholders (cf. Länsiluoto et al. 2013).

The legitimacy attributed to the PMS can thus be evaluated differently by different stakeholders. An important aspect in this study is the fluctuating nature of legitimacy in relation to the PMS's lifecycle. While stakeholder expectations have been studied at a static point of time (Länsiluoto et al., 2013), this study took a longitudinal view. That view reveals that during its lifespan, the PMS was subject to changes resulting from being exposed to different influences including those of stakeholder expectations amidst continuously changing environments, strategies, organizational arrangements, and new emerging solutions. These developments have the propensity to shape the PMS through a complex process of communicating expectations between different stakeholders.

It seems that a key motivating factor for the modification of the PMS in our case was to ensure legitimacy in eyes of the various stakeholders. We argue that the contradictory and changing demands of the stakeholders in a context where desired outcomes are difficult to demonstrate with a PMS, impel a public-sector organization to strive for compliance of expectations together with a kind of impression management (Andon et al., 2015; cf. O'Dwyer and Unerman, 2008; Brunsson, 1990) in order to ensure the legitimacy and survival of the organization. This situation also illustrates the subjective, socially constructed, and fluctuating nature of legitimacy. Further, we suggest that an emphasis on organizational outcomes coupled with continuous redefinition of expectations leaves the organization lacking a productive communication with the stakeholders, leaving only the option of legitimation-seeking, or making decisions without actions (see Mättö and Sippola, 2016, Brunsson, 1990).

We used longitudinal case research methodology to explain the fluctuating nature of legitimacy in the domain (Lukka and Vinnari, 2014) of public-sector performance measurement. Our findings support the multifaceted view of legitimacy presented in literature (Ashforth and Gibbs, 1990; Rautiainen et al., 2017). This study contributes to our knowledge of the different influences on the use and form of a PMS construction during its lifespan, thereby illustrating fluctuating nature of legitimacy (Labro and Tuomela 2003; Yang, 2016; Rautiainen et al., 2017). A construction such as a PMS may

follow several potential evolution paths over time. A socially oriented construction focusing on behavioral processes of an organization's activities may be more likely to include legitimation-seeking activity. However, the fluctuating nature of legitimacy would merit more empirical attention in future studies.

References

Andon, P., Baxter, J., & Chua, W. F. (2015). Accounting for stakeholders and making accounting useful. Journal of Management Studies, 52(7), 986-1002.

Ashforth, B. E., & Gibbs, B. W. (1990). The double-edge of organizational legitimation. Organization Science, 1(2), 177-194.

Brignall, S., & Modell, S. (2000). An institutional perspective on performance measurement and management in the 'new public sector'. Management Accounting Research, 11 (3), 281-306.

Brunsson, N. (1990). Deciding for responsibility and legitimation: Alternative interpretations of organizational decision-making. Accounting, Organizations and Society, 15(1-2), 47-59.

Chenhall, R. H., Hall, M., & Smith, D. (2013). Performance measurement, modes of evaluation and the development of compromising accounts. Accounting, Organizations and Society, 38 (4), 268-287.

Donaldson, T. and Preston, L.E. (1995). The stakeholder theory of the corporation: Concepts, evidence and implications. The Academy of Management Review 20 (1), 65-91.

Dowling, J., & Pfeffer, J. (1975). Organizational legitimacy: Social values and organizational behavior. Pacific Sociological Review, 18 (1), 122-136.

Golden-Biddle, K. & Locke, K. (1993). Appealing work: An investigation of how ethnographic texts convince. Organization Science, 4(4), 595-616.

Johansson, T., & Siverbo, S. (2009). Explaining the utilization of relative performance evaluation in local government: a multi-theoretical study using data from Sweden. Financial Accountability & Management, 25(2), 197-224.

Järvinen, J. (2006). Institutional pressures for adopting new cost accounting systems in Finnish hospitals: two longitudinal case studies. Financial Accountability & Management, 22(1).

Jönsson, S. and K. Lukka (2005), 'Doing Interventionist Research in Management Accounting: GRI-Rapport 2005:6', Handelshögskolan vid Göteborgs universitet.

Kasanen, E., Lukka, K. and Siitonen, A. (1993). The constructive approach in management accounting research. Journal of Management Accounting Research 5, 243–264.

Labro, E. and Tuomela, T-S. (2003). On bringing more action into management accounting research: process considerations based on two constructive case studies. European Accounting Review, 12 (3), 409–442.

Lapsley, I. (1996). Reflections on performance measurement in the public sector. In Lapsley, I. & Mitchell, F. (eds.). 1996. Accounting and Performance Measurement: Issues in the Private and Public Sectors, 109–128. Paul Chapman Publishing. London.

Lapsley, I. (2009). New public management: The cruellest invention of the human spirit? Abacus, 45 (1), 1-21.

Li, P. and Tang, G. (2009). Performance measurement design within its organisational context—Evidence from China. Management Accounting Research 20 (3), 193-207.

Luke, B., Barraket, J., & Eversole, R. (2013). Measurement as legitimacy versus legitimacy of measures: Performance evaluation of social enterprise. Qualitative Research in Accounting & Management, 10 (3/4), 234-258.

Lukka, K. and Kasanen, E. (1995). The problem of generalizability: anecdotes and evidence in accounting research. Accounting, Auditing & Accountability journal. 8 (5), 71-90

Lukka, K., & Vinnari, E. (2014). Domain theory and method theory in management accounting research. Accounting, Auditing & Accountability Journal, 27(8), 1308-1338.

Länsiluoto, A., Järvenpää, M. and Krumwiede, K. (2013). Conflicting interests but filtered key targets: Stakeholder and resource-dependency analyses at the University of Applied Sciences (UAS), Management Accounting Research 24 (3), 225-245.

Meyer, J. W., & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. American Journal of Sociology, 83 (2), 340-363.

Miles, M. B., Huberman, A. M., Huberman, M. A., & Huberman, M. (1994). Qualitative data analysis: An expanded sourcebook. sage.

Modell, S. (2009). In defence of triangulation: A critical realist approach to mixed methods research in management accounting. Management Accounting Research, 20 (3), 208-221.

Moll, J., & Hoque, Z. (2011). Budgeting for legitimacy: The case of an Australian university. Accounting, Organizations and Society, 36(2), 86-101.

Mättö, T. and Sippola, K. (2016). Cost Management in the Public Sector: Legitimation Behaviour and Relevant Decision Making. Financial Accountability & Management, 32 (2), 179-201.

Nørreklit, H. (2003). The Balanced Scorecard: what is the score? A rhetorical analysis of the Balanced Scorecard. Accounting, Organizations & Society 28, 591-619.

Northcott, D. and Llewellyn, S. (2003). The 'ladder of success' in healthcare: the UK national reference costing index. Management Accounting Research, 14 (1), 51-66.

O'Dwyer, B., & Unerman, J. (2008). The paradox of greater NGO accountability: A case study of Amnesty Ireland. Accounting, Organizations and Society, 33(7-8), 801-824.

Rautiainen, A., Sippola, K. and Mättö, T. (2017). Perspectives on relevance: The relevance test in the constructive research approach. Management Accounting Research. 34 (March), 19–29.

Speckbacher, G. (2003). The Economics of Performance Management in Nonprofit Organizations. Nonprofit Management & Leadership, 13(3), 267-281.

Speklé, R. F., & Verbeeten, F. H. (2014). The use of performance measurement systems in the public sector: Effects on performance. Management Accounting Research, 25 (2), 131-146.

Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. Academy of management review, 20(3), 571-610.

Sundin, H., Granlund, M. and Brown, D.A. (2010). Balancing Multiple Competing Objectives with a Balanced Scorecard. European Accounting Review 19 (2), 203-246.

Westin, O., & Roberts, H. (2010). Interventionist research–the puberty years: an introduction to the special issue. Qualitative Research in Accounting & Management, 7 (1), 5-12.

Yang, K. (2016). Creating public value and institutional innovations across boundaries: An integrative process of participation, legitimation, and implementation. Public Administration Review, 76 (6), 873-885.

APPENDIX

Empirical material

Interviews

3.1.2014 RDC team manager (Manager 1)
3.1.2014 RDC team manager (Manager 2)
19.10.2016 Director of the RDC
1.9.2018 Political representative in the RDC board
3.9.2018 Private sector representative in the RDC board
11.9.2018 Mayor in the RDC board

Workshops

First workshop 28.10.2013
Second workshop 13.1.2014

Cited documents

Consultancy report commissioned by the owning municipalities (7/2014)
RDC's Annual Report 2013
Record of city hall meeting, 12/2016
Newspaper article 3/2015
Newspaper article 12/2016