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RATIONAL, POLITICAL AND CULTURAL EXPLANATIONS TO THE UTILIZATION OF RELATIVE PERFORMANCE EVALUATION IN SWEDISH LOCAL GOVERNMENT

Tobias Johansson and Sven Siverbo
Rational, political and cultural explanations of the utilization of relative performance evaluation I
Swedish local government

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Rational, political and cultural explanations of the utilization of relative performance evaluation in Swedish local government.

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Abstract

One of the more lasting imprints that New Public Management (NPM) has made in the public sector is an increased popularity of performance measurement. Sweden is one of the countries where performance measurement is gaining popularity in the public sector. This is especially true when it comes to the local government level and the use of relative performance evaluations (RPE). Due to the fact that the utilization of RPE is a decentralized and totally optional decision and mode of governance a somewhat differentiated and heterogeneous practice has evolved. The aim of this paper is to examine what has caused this differentiated practice. We jointly test economic, political and institutional/cultural explanations to explain the relative utilization of RPE. Our findings indicate that all three perspectives has contribution to the overall understanding of RPE utilization but that political and institutional explanations primarily has explanatory power for the adoption of RPE whilst economic and cultural explanations primarily matters for the stated use of the method. A discrepancy between stated adoption and use for a certain group of organisations is seen as an indication of decoupling. The empirical material constitutes of archival data and a questionnaire sent out to all municipalities in late 2005.

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**Introduction**

Performance measurement is nothing new in the public sector but there has been an increasing interest in performance measurement techniques since the arrival of New Public Management (NPM) (Bowerman et al., 2002; Williams, 2003; Johnsen, 2005). Although several researchers maintain that performance measurement can be an ineffective technique for improving performance (e.g. Power, 1997; Nørreklit, 2000 and 2003; de Bruijn and van Helden, 2005), the popularity of the measurement techniques appears, if anything, to have increased (Johnsen, 2005; van Helden and Tillema, 2005; Siverbo and Johansson, 2006).

Sweden is one of the countries where performance measurement is gaining popularity in the public sector. Since the mid-1990s, the Swedish government has been using a model under which ministries and authorities are controlled through performance evaluation using multiple ratios (Holmblad Brunsson, 2002). Swedish local governments use their own self-developed models, but state initiatives have been taken to make it easier for local governments to mutually compare their performance (see SOU 2001:75; SOU 2005:110).

Many of the performance evaluations performed in Swedish municipalities involve comparison with other municipalities’ performance, and are thus relative performance evaluations (RPE) (see Northcott and Llewellyn, 2003). In RPE, ratios are used to reduce uncertainty regarding the quality, productivity and efficiency of the organization by comparing it with other organizations. RPE is not the same thing as benchmarking, since in benchmarking, the performance evaluation is followed by a process evaluation – i.e. comparison of production processes in order to identify reasons for the discrepancies in performance – which is by no means general practice in organizations (Cox et al., 1997; Bowerman et al., 2002; Tyler, 2005; Siverbo and Johansson, 2006).

Despite increased state interest in performance indicators, RPE is, as yet, essentially an optional activity in Swedish local government. Many factors suggest that it will remain this way because of Sweden’s long tradition of municipal self-governance. Swedish local governments are governed by directly elected politicians who make decisions regarding taxes, fees and performance management models. The Swedish system of giving ample freedom of action to local governments contrasts with other countries with more centralized systems where RPE plays a clearly defined role in state evaluation and control. The fact that RPE is mandatory in the public sector has even been described as a special difference between the
public and private sector and has been suggested as an important explanation to why adoption of RPE has been decoupled from actual use (Bowerman et al., 2002).

Due to the fact that the utilization of RPE is a decentralized and totally optional decision and mode governance a somewhat differentiated and heterogeneous practice has evolved in Sweden. Some municipalities adopt an extensive RPE model by using various sources of information and collaborate with other municipalities. Others adopt a more limited RPE model mainly collecting information from national databases as broad indicators of performance. There are also observations that the municipalities do not achieve the intended purpose with the RPE which implies that some organizations only adopt the concept but do not make use of it (Siverbo and Johansson, 2006).

The aim of this paper is to examine what has caused the differentiated practice regarding utilization of RPE in Swedish local government. The question we are addressing is how the utilization of RPE can be explained. Hypotheses from different theoretical perspectives are deduced and we test economic, political, and institutional/cultural explanations to create a diverse theoretical understanding of the utilization of RPE. Consequently we also asses the relative explanatory power of hypothesis deduced from the different perspectives and relates this to the debate on the utilization of management models. The empirical material consists of archival data and a questionnaire sent out to all municipalities (total-sample) in late 2005.

The paper is outlined as follows. In the next section we review theories and works on RPE and performance measurement and present a conceptual framework consisting of nine hypotheses that will be tested. In the following section the empirical material and used measures are presented. This is followed by the testing of the hypothesis and a discussion of the results. The paper ends with a concluding section.

**Conceptual framework and hypotheses**

The introduction of new management accounting techniques such as Activity Based Costing, Balanced Scorecard and Economic Value Added has led to a large interest in management accounting change. For many researchers the interest is a result of their experiences from case study research were they have noticed that the new techniques have not been used as intended and sometimes not at all. This has caused a special interest in why management accounting
practices have not changed and several different theoretical explanations have emerged. Some researchers have focused on single perspective, such as new institutional sociology (see for example Modell, 2001, 2003) and original (old) institutional theory (see for example Scapens, 1994 and Burns and Scapens, 2000), while others have tried to clarify their empirical findings with multi theoretical approaches (for example Malmi, 1997; Granlund, 2001; van Helden and Tillema, 2005; Modell, 2007). One argument in favour of applying a multi theoretical approach is that it reduces the risk of ‘missing important aspects of organizational reality’ (Malmi, 1997, p. 474). At the same time it is important that the researcher is aware of the ‘mixed salad problem’ that it might give rise to, i.e. the risk inherent in mixing theories with different basic assumptions (Vaivio, 2007).

In the following of this section we present three theoretical perspectives that have shown explanatory power in understanding utilization of management accounting models and management accounting change. The inspiration for the structure is for the most part from Malmi (1997) and includes economic (rational), political (power) and cultural (institutional) explanations. Guided by these perspectives we formulate eight hypotheses of why the utilization of RPE differs between organizations. However, it is important to recognize that the boundaries between the perspectives are somewhat ambiguous and the limit and scope for what should be included in each perspective is not predefined.

**Economic (rational) explanations**

An economic approach to the utilization of RPE could be viewed from the perspective of (rational) economic theory. According to an economic perspective the utilization of RPE should a story about creating the necessary conditions for efficiency by for example reducing information asymmetries and transaction costs, allocating recourses more optimally, identifying unproductive services and areas of improvement, and spurring competition among agents. In sum, the explanation to the use of RPE is a need to improve information and subsequently performance (van Helden and Tillema, 2005).

Following the economic line of reasoning it is those organizations that experience efficiency problems that should be most inclined to utilize RPE. Economic theory presupposes that organizations with unfavourable performance gaps seek ways to perform better. The motive is not fear of running out of business, as in the private sector, but to be accused of waste, which might result in politicians not being re-elected and the dismissal of
civil servants. Another risk with performance problems, at least in Britain, is the threat of direct supervision and control from higher authorities (van Helden and Tillema, 2005).

In accordance with an economic perspective, it is here assumed that fiscal stress, slack and the amount of outsourced services affects the utilization of RPE in Swedish local government. Fiscal stress means that an organization has problems in balancing incomes and costs. Fiscal stressed municipalities are presupposed to utilize RPE to a greater extent than other municipalities since they have a need to identify saving and rationalization potentials. We therefore expect the utilization of RPE to be higher in municipalities that are fiscally stressed (H1).

We also expect that the existence of slack in the organizations affects the utilization of RPE. Fiscal stress may serve as motivator for change, but to make use of RPE requires resources and time which can be hard to mobilize among municipalities with low (non existing) slack. Both survey based and case study research has noted that lack of administrative resources can explain implementation problems (see Modell, 2007) and an earlier study of RPE in Swedish local government supports this finding (Johansson and Siverbo, 2006). From a politician or a centrally placed manager view the existence of slack could also serve as a motivation for the utilization of RPE in order to get to grips with agency-problems (slack-maximizing behaviour) in the bureau. Consequently there are two reasons to predict that the utilization of RPE is affected (positively) by the existence/amount of slack in the municipality (H2).

A problem that has been raised in the literature on public sector contracting out is the so called quality-shading hypothesis, i.e. a concern that contractors, when successfully accepted (ex-ante), will try to lower the quality (ex-post) to earn profits (Domberger and Jensen, 1997). This problem has given rise to research that deals with the problem of inter organizational control and how different management accounting techniques contribute in controlling the collaboration towards common objectives (Mouritsen et al., 2001; Cooper and Slagmulder, 2004; Kraus and Lind, 2007). Municipalities that are highly inclined to outsource public operations are expected to be more willing to utilize information and control techniques that help them evaluate their contractors, i.e. to develop indicators and control mechanisms that prevent quality shading. For these municipalities ratio comparisons can give necessary information. Hence, we propose that the utilization of RPE increases with the amount of contracted out services in the municipality (H3).
Political (power) explanations

There is a politics and power dimension in all organizations, not just in public organizations governed by electives. In the management accounting change literature there are several articles and works that emphasizes the importance of mapping out the internal power situation in order to understand the results of change processes (see for example Malmi, 1997; Burns, 2000; Collier, 2001; Granlund, 2001; Modell, 2007). An explanation to lack of utilization of new management accounting techniques can thus be that they challenge the distribution of power in organizations. Here we will concentrate on the politics and power directly connected to the parliamentary situation in each municipality. We argue that the ideological colour in the local council and political competition affects the utilization of RPE.

Earlier research indicates that this dimension can be of importance. In studies of the Norwegian local government it has been noted that left-wing regimes uses performance measurement to a greater extent than right-wing regimes (Johnsen, 1999; Askim et al., 2007). The same pattern is plausible to assume regarding the utilization of RPE in Swedish municipalities. RPE can be seen as a technique that gives information of what cost and quality are reasonable to expect in the activities and this can be regarded as the same kind of information as the market price carries. This means that RPE can be regarded as a form of substitute for market competition (Mayston, 1985; Johnsen, 2001 and 2005; Bowerman et al. 2001; Bowerman et al. 2002; Llewellyn and Northcott, 2005; van Helden and Tillema, 2005). This ‘softer’ method of controlling costs and quality seems to be more in accordance with left-wing regimes since they are more inclined to keep operations in-house. Instead of governing transactions via the market left-wing regimes can be expected to integrate market like mechanisms. Right-wing regimes can be expected to utilize more radical NPM-approaches such as contracting out, competitive tendering and privatization (Johansson, 2006). Hence, we expect more utilization of RPE in municipalities where the left-wing parties are in majority (H4).

Politics in democratic organizations is driven not only by ideology but also by power, conflict and interests. Depending on the outcome of an election the power relations between – and potentially within – parties are affected. If the municipality is characterised by a high degree of political competition and conflict it is less likely that politicians in the ruling parties are appealed to the thought of utilizing RPE since the ratios – if they indicate poor performance – could be used against them in the political power game and potentially hamper

2 As noted above, the Swedish municipalities are governed by directly elected officials.
them from strengthening their position and being re-elected. Obviously there is also a possibility that the ruling politicians might benefit from RPE. If the ratios indicate that the organization is well-managed this can be communicated to the voters and used as a weapon against the opposition. We argue, however, that a competitive political climate is accompanied with less openness and information sharing since the ruling party has more to benefit from preserving the information asymmetries rather than taking the risk involved in creating a transparent system of information such as RPE. Hence, we propose that a high level of political competition is associated with lower levels of RPE utilization ($H_5$).

**Institutional and cultural explanations**

There are two theoretical perspectives in the management accounting literature that have received increased attention lately when it comes to explaining utilization of innovative management accounting techniques: new institutional sociology (NIS) and original (old) institutional theory (OIE). Several researchers have argued convincingly that these perspectives should be integrated in order to provide a more complete understanding of accounting change (Dillard *et al.*, 2004; Scapens, 2006; Modell, 2007).

In the NIS-inspired research there is a considerable awareness of inconsistencies between how organizations present themselves and the real functioning of the organization. The management accounting models can be decoupled from the actual behaviour in the organizations. The explanation is that organizations are in need of external support in order to continue with its operations and that this support is easier to establish and preserve if the organization can show an inviting façade (Meyer and Rowan, 1977). This is expected to occur more often in public sector organizations since their success criteria are especially difficult to evaluate, making it hard for them to prove their efficiency, but it is not at all an exclusive public sector phenomenon (see Dillard *et al.*, 2004). Another observation from the NIS research is the obvious environmental influence on so called organizational fields, making the organizations adherent to the field inclined to choose similar organizational forms (Powell and DiMaggio, 1991).

From a NIS perspective the inclination to imitate similar organizations and to utilize NPM-inspired performance management models – the today’s fashion – can be a distinguishing feature for some municipalities in the sector. The environmental pressure in combination with a specific fashion-following culture makes an organization welcome NPM
reforms such as RPE. Thus, from a NIS and organization culture viewpoint, it is reasonable to assume that municipalities that have adopted many of the other NPM-inspired performance management models (MBO, PPS, BSC, and privatization etc) also have adopted RPE to a greater extent. Municipalities that have adopted numerous of the other NPM-inspired management models are in this respect seen as fashion-followers. Guided by NIS we propose that these fashion-followers adopt RPE, and other management models, to handle the multitude of conflicting pressures and demands that the organization faces. Since there is no unambiguous knowledge of how appropriate the models are and that they sometimes are in conflict with each other (Røvik, 2000) it is hard to exclude the possibility of the standard (but criticized) NIS explanation that the models are adopted for legitimating reasons rather for their efficiency enhancing potential. This statement is hard to test and isolate empirically, but when controlling for fiscal stress, slack, political colour, political competition and other culture aspects it is not improbable to assume that this factor constitutes a form of institutional residual. Hence, we expect that the utilization of RPE increases with the amount of NPM-utilization generally (H6).

As will be explained below we will divide utilization in adoption and use. Given that and following the reasoning of decoupling we also expect that fashion-following will have a greater impact on the adoption of RPE than on the use of it (H7). A discrepancy will indicate a fashion-following behaviour in the NIS sense and a lack of discrepancy will point to more of a ‘real’ efficiency seeking behaviour (e.g. connected to innovativeness (Naranjo-Gil et al, 2007) that is assumed in economic explanations.

In the OIE-inspired research there is a more straightforward connection to the organization culture concept (Siti-Nabiha, 2005; Scapens, 2006) but the main concepts are not beliefs, norms and values etc. but organizational rules, routines and institutions. In this perspective (introduced in the management accounting research by Scapens, 1994, and Burns and Scapens, 2000) the point of departure is that organizations hold capabilities in the form of routines that can be highly resistant to change due to their institutionalized ‘taken-for-granted’ character. New ‘rules’, in form of new costing instructions or performance measurement techniques, may therefore not affect the behaviour of the organization members.

One form of capability that potentially can explain the utilization of RPE is the ability to find, refine and make use of management accounting innovations. This capability may come in the shape of administrative capacity and competence. A larger amount of skilled and experienced civil servants can be expected to give rise to a larger proclivity to deal with new management accounting techniques. This capability may be built up successively in
organizations and to some extent be regarded as a specific organizational routine but might also come as a result of other developments, for instance when an organization grows larger. There seems to be a fairly degree of consensus about the fact that organizations’ capacity and competence varies with the size of the company (Ask and Ax, 1997). It is easier for a large organization to employ specialists or at least well educated people and it is probably also easier to retain skilled employees in large organizations since they have possibilities to get more advanced work assignments. Larger organizations also have a more well-developed network of communication channels and the necessary infrastructure for adopting management accounting innovations (Bjørnenak, 1997). We hypothesise that larger municipalities, due to greater administrative competences and capabilities, are more inclined to utilize RPE (H8).

Finally, the OIE perspective directs attention to organizational ‘dynamic capabilities’ or ‘search routines’ (Nelson and Winter, 1982) that create alternatives to the existing routines. As a consequence of different historical backgrounds these search routines can develop differently in otherwise similar organizations. Thus, the inclination and capacity to change can differ between organizations. Inspired by these insights we argue that the relative utilization of RPE can be explained by differences in organizations cultural inclination to change organizational forms. Therefore, we expect the utilization of RPE to be higher in municipalities with well-developed change routines (H9).

The conceptual framework is summarized in figure 1 and 2.

**Figure 1: Main conceptual framework**
Data and method

In this section we present the overall design and method and the data that constitutes the dependent and independent variables.

The questionnaire and dependent variables

For the purpose of identifying the utilization of RPE in Swedish local government, a questionnaire was distributed to all Swedish municipalities (N=290) in the autumn of 2005. The questionnaire was sent to the organizations’ finance directors or equivalent staff members, who have an operative role in control model issues and an overview of operations. Before the questionnaire was distributed, it was tested on a group of civil servants and consultants. The questionnaire contained eight questions regarding RPE (the term used in the questionnaire was ratio comparison (nyckeltalsjämförelser) which is the common term used by the municipalities). The response rate for the questionnaire (in total)\(^3\) was 76.5 percent, meaning that 222 of the 290 financial directors submitted responses, using one follow-up. The responses were anonymous. To account for potential unrepresentativeness a comparison with the total population regarding a common typology\(^4\) of the municipalities in Sweden building on demographic and socioeconomic factors is presented in the appendix (table 6). Our sample of respondents (N=222) do not differ systematically in relation to the total population.

\(^3\) The questionnaire contained other questions related to the fiscal situation and financial accounting as well.

\(^4\) The typology is constructed by The Swedish Association of Local Authorities and Regions and widely used to sort municipalities for different purposes.
indicating that potential non-response biases dependent upon organisational and structural factors poses no problem for the study. This is true for the response population in total. Item non-response (Van der Stede et al, 2005) is discussed below. In addition to the questionnaire the data set used in the analyses also contains archival data, collected and managed by Statistics Sweden\(^5\), used for most of the independent variables.

In order to capture the relative utilization of RPE in Swedish local government we used two questions from the questionnaire. These two questions are both measures of the utilization of RPE and have been used in the management accounting literature to assess the adoption/use of management accounting models. The first question captures the stated adoption in a programmatic fashion (e.g. Malmi, 1999; Kennedy and Affleck-Graves, 2001; Ittner et al, 2003), i.e. adopted or not adopted RPE as an elaborated and systematic management model or technique, while the second question captures the stated magnitude or intensity of the use of RPE (likert-scale) (e.g. Chenhall and Langfield-Smith, 1998; Naranjo-Gil et al, 2007). Not only are they two different measures of the popularity of RPE but they also captures two potentially different dimension of the utilization of RPE although they in the literature are often seen as synonyms indicating the same thing, i.e. what we term utilization. Instead of focusing on either binary adoption or continuous use expressed as an ordinal scale (e.g. Chenhall and Langfield-Smith, 1998; Kennedy and Affleck-Graves, 2001, Ittner et al, 2003; Naranjo-Gil et al, 2007) we will use both measures and relate them to the utilization of RPE. The utilization term is used to capture both of these concepts and measures used in prior studies. The study thus contains both the advantages and disadvantages with the two respective ways of measuring utilization.

The question investigating to what extent the Swedish municipalities have adopted the method of RPE is abstracted from a question battery in the questionnaire that listed a number of management and management accounting/control models. RPE was one option that the respondents could mark by checking one of the boxes “adopted” or “not adopted”. 71 percent of the respondents stated that their municipality had adopted the method of RPE. Due to missing values the N-value for this dependent binary variable constitutes of 219 responses (Min 0, Max 1, Mean 0.71, Std. deviation 0.45).

The question capturing the relative intensity or magnitude of the use of RPE was stated as: ‘to what extent does one make use of ratio comparisons in your municipality?’ The respondents could chose answers according to a five point likert-scale (to a very little extent –

\(^5\) http://www.scb.se
to a very great extent), with the added option ‘not at all’. Since we in this paper are interested in the relative use of RPE, it is variation in this dependent variable that is of interest. To do this, regression analysis is an appropriate method. A likert-based scale, however, is in principle not appropriate to use in regressions (especially regarding dependent variables). For that and other reason we have, in line with Ittner et al (2003), recoded the variable measuring the use of RPE to a dichotomous variable coded one (1) if the reported use is categorised as high, i.e. to a rather great extent and to a great extent (scale-point four and five according to the likert-scale), and coded zero (0) if not. By this we have sorted the municipalities by high users of RPE (1) and the rest (0). We will also report models building on the original likert-scale to test the robustness of focusing solely on the high users and not on use as such (table 5 in the appendix).  

However, it is not only the scale issue as such that warrant the construct of a dichotomous variable and the use of logistic regression. Since the adoption variable is by nature binary, and it is of interest to identify similarities and differences between the two measures it is suitable to report models where effects intuitively and easily can be compared. Furthermore it could be interesting to focus on the high users in order to a priori maximize the potential difference between the two measures adoption and use. In the table 1 below the original likert-scale variable is presented. Due to missing values the valid material concerning this dependent variable, use of RPE, consists of 216 municipalities. 32.5 per cent of the municipalities have been classified as high users of RPE in accordance with the above described classification (the two later groups in the table). Only four municipalities, or approximately 2 per cent, state that they do not use RPE, or ratio comparison, in any form at all. It is evident that the two measures capture the utilization of RPE in somewhat different ways.

### Table 1: The dependent variable Use

<table>
<thead>
<tr>
<th>The use of RPE, or ratio comparison, amongst the Swedish municipalities (likert-scale)</th>
<th>Frequency %</th>
<th>Frequency N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all</td>
<td>1.9</td>
<td>4</td>
</tr>
<tr>
<td>To a very little extent</td>
<td>4.2</td>
<td>9</td>
</tr>
<tr>
<td>To a little extent</td>
<td>20.8</td>
<td>45</td>
</tr>
<tr>
<td>Neither little nor great</td>
<td>40.7</td>
<td>88</td>
</tr>
<tr>
<td>To a great extent</td>
<td>30.6</td>
<td>66</td>
</tr>
<tr>
<td>To a very great extent</td>
<td>1.9</td>
<td>4</td>
</tr>
<tr>
<td><strong>Sum</strong></td>
<td><strong>100</strong></td>
<td><strong>216</strong></td>
</tr>
</tbody>
</table>

6 The construct of a binary variable can in its turn be seen as a robustness-test of the original likert-scale.
When analysing variation in a dichotomous variable the traditional OLS-method for regression is not advisable (Bohrnstedt and Knoke, 1994). We will instead, as indicated above, use a logistic regression technique (SPSS) to evaluate the binary dependent variables.

Even though we will report significance levels (due to the alleged wrongly but well developed practice in the social sciences McCloskey, 1985; McCloskey and Ziliak, 1996) these levels are not utterly interesting if one only focuses on the Swedish local government population since the data set constitutes a total-sample. The small N-value of the total population (N=290) increases the risk of ignoring potentially interesting correlations and evident differences with a misuse of significance tests. However, in order to make wider generalizations more reliable we will use a two-tailed ten percent significance level as an indicator of significance (inference).

**Independent variables and measures**

*Fiscal stress*: Fiscal stress (FiscStress) is measured as the mean of the financial result from the two previous fiscal years (2003-2004). The financial result is stated as the result per inhabitant in Swedish kronor (Source: Statistics Sweden). Since it is a big difference between the observed min and max in this variable we will divide it by 100 to decimal- and presentation-wise get easier interpretable coefficients.

*Slack*: Slack is captured using two measures including both the cost and income side. The first measure is an index measuring the difference between the expected cost and the real cost (a relation in %)(CostSlack). A de facto cost that exceeds the expected cost (computed by statistics Sweden via regression of a numerous variables) indicates existents of slack. The income side is measured as the tax rate in percent (IncSlack). Due to the fact that the Swedish municipalities have the freedom to decide upon taxes (income) a higher tax-rate can be an indicator of slack. A time-lag is presumed, therefore the cost-index and the tax-rate from 2004 will be used (Source: Statistics Sweden).

*Outsourcing (Outsource)*: This index variable is the ratio (%) of total costs for purchased services (contracted services of significant extent) to total costs of municipal services. Data from 2004 is used (Source: Statistics Sweden).

*Left-wing regimes*: A municipality is seen as run by a left-wing regime if the social democratic party and the Left Party hold the majority of the seats in the local council
Political competition: In this case we will use the inverted Herfindahl index of the mandates in the local council, called the effective number of parties\(^7\) (\(\text{PolComp}\))(Laakso and Taagepera, 1979), to measure the heterogeneity of party politics. The more number of effective parties (not actual ones) there are in the local council the more parties are needed to form a ruling majority regime, alternatively it can lead to the formation of minority regimes. This should lead to a more competitive political climate since power is scattered amongst more parties of similar influence (Source: Computed with mandate-data from Statistics Sweden).

Fashion-following: The NPM-adoption generally is measured via an index composing of 14 popular management (NPM) practices. These are: Local devolution, amputate all boards and centralize the responsibility to the municipal executive board, board mergers, management by objectives, profit centres, investment centres, corporatisation, privatisation, quality management, balanced scorecard, fee-for-services, purchaser provider split, process management and voucher systems. Every municipality has been coded as has adopted it (1) or not adopted it (0). Hence, the index varies from 0 – low/non NPM adoption – to 14 – high adoption of NPM. Cronbach’s alpha of 0.709 (Source: The questionnaire).

Change routines: To measure the presence of certain routines in an organization is not a straightforward operation. In the questionnaire we asked the respondents to state in what degree a couple of statements concurs with the actual practice in their municipality. The questions (factors) concerning change were: 1) opportunities to experiment and trial-and-error testing, 2) the acceptance of protest and disagreement, 3) openness to novelty and 4) curiosity. The respondents could chose answers on a five point likert-scale. We have computed an index (\(\text{Change}\)) of these questions giving the scale-points values from 1-5 (very low degree (1) to very high degree (5)) for each factor. Hence, the index can vary from 4 to 20. A Cronbach’s Alpha of 0.710 indicates high (a sufficient) reliability. The index should be interpreted as: the higher the index is the more presence of well-developed change routines (Source: The questionnaire).

Capacity/size: Size is measured as the number of employees in the organisation. The number is adjusted to account for the number of full-time employees making comparison more accurate. Data from 2004 is used (Source: Statistics Sweden). The variable is expressed

\(^7\) Effective numbers of parties: \(\left[1/\sum a_i^{-1}\right]\)
as the natural logarithm ($\text{Sizeln}$) since there are a handful of relatively much larger organisations in the population. The logarithmized measure of size is for that and other reasons also a common way of measuring it in the management accounting literature (Libby and Watherhouse, 1996).

Below is some descriptive statistics and a correlation matrix of the independent variables presented. Collinearity statistics (VIF) is presented in table 5 in the appendix. No VIF-value higher than 1.706 where reported in the models indicating that some of the rather high correlations between the independent variables does not create severe collinearity problems.

Table 2: Descriptive statistics for independent variables.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>S.D.</th>
<th>Expected (empirical) effect on dep. variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>FiscStres s</td>
<td>2</td>
<td>-</td>
<td>25.05</td>
<td>0.83</td>
<td>7.82</td>
<td>-</td>
</tr>
<tr>
<td>CostSlack k (%)</td>
<td>22</td>
<td>18.63</td>
<td>-</td>
<td>0.926</td>
<td>7.02</td>
<td>+</td>
</tr>
<tr>
<td>Inc Slack e (%)</td>
<td>22</td>
<td>15</td>
<td>44.83</td>
<td>31.98</td>
<td>6.81</td>
<td>+</td>
</tr>
<tr>
<td>Outsourcing e (%)</td>
<td>22</td>
<td>7</td>
<td>85</td>
<td>0.364</td>
<td>0.48</td>
<td>+</td>
</tr>
<tr>
<td>PolMaj</td>
<td>2</td>
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<td>1</td>
<td>0.70</td>
<td>0.48</td>
<td>+</td>
</tr>
<tr>
<td>Pol Competence</td>
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<td>5.9</td>
<td>4.106</td>
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<td>-</td>
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<td>10.57</td>
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<td>0.88</td>
<td>+</td>
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</table>

Table 3: Correlation (bivariate) matrix of independent variables.
Results and discussion

If we set the variables adoption and use as dependent variables and the other variables as independent variables the following effects from the logistic regressions appear.

Table 4: Logistic regression models.

<table>
<thead>
<tr>
<th></th>
<th>Adoption (=1) Model 1</th>
<th>High user (=1) Model 2 Without adoption</th>
<th>High user (=1) Model 3 With adoption</th>
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<td>Exp(B)</td>
<td>B</td>
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<td>-.698*</td>
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<td>Adoption</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nagelkerke R²</td>
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<td>.178</td>
<td>.246</td>
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<td>210</td>
<td>210</td>
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</table>

*** ≤1% sig.level ** ≤5% sig.level * ≤10% sig.level. Two-tailed. Logistic (spss) regression models.
Model 1, i.e. the adoption of RPE, shows that it is mainly FiscStress, Sizeln, PolMaj, PolComp and Fashion that are the explanatory drivers in the regression. Only examining the directions of the effects some of them deviate from the expected. Left-wing regimes and change routines have the opposite effect than expected. Left-wing regimes were supposed to show a higher probability but show instead a negative probability to fall in the binary point adopter of RPE. Also the presence of change routines affects the probability of adoption negatively. The other variables with substantial effects go in the predicted direction. A higher degree of fashion-following and a higher tax rate (IncSlack) increases the probability to observe an adopter of RPE whilst a higher degree of political competition decreases the probability of observing an adopter. The models’ explanatory power as such is somewhat hard to relate to in a logistic regression (Peng and So, 2002) but the Nagelkerke $R^2$, which is a pseudo measure of the explained variance, states that some 32 per cent of the variance is explained.

If we turn to the use of RPE (model 2) somewhat different effects appear. In this model it is IncSlack, Sizeln, PolMaj and Change that show significant effects. Political competition and fiscal stress loses almost all of its effect in this model. The magnitude of the effects and the directions also differs to some extent. The relative effects of Fashion-following, left-wing regimes and political competition fall whilst the effects of change routines and tax rate (IncSlack) increases. The models’ explanatory power falls to 18 per cent. Whilst a very small effect outsourcing changes direction and now states that lower degree of outsourcing is connected with a higher probability of observing a high user of RPE. The most striking differences between model 1 and 2 are the relative shifts in the importance of some of the variables, that the presence of change routines show an evident effect that goes in the predicted direction and that fiscal stress and political competition do not seem to be of importance (i.e. significant) when analysing the use of RPE.

In model 3 we have controlled for adoption to test in what way the two measures really differ. Not surprisingly many of the effects diminish when controlling for adoption and the adoption variable has a large effect on the probability to observe a high user of RPE. It is however interesting to note that change routines show a somewhat greater effect when controlling for adoption and that income slack (tax rate) goes unchanged in strength from model 2 to 3. Change routines and a high tax rate increase the probability to observe a high user of RPE even when controlling for adoption. We have controlled for item non-response (Van der Stede et al, 2005) by checking whether missing-value respondents differs
significantly in individual and organisational characteristics (age and sex of respondent, fiscal situation, size of the organisation) to the others finding no such biases.

**Adoption of RPE**

Adoption of RPE is mainly about size, political colour and fashion-following, but also about political competition and fiscal stress. When it comes to ideology we experience that left wing regimes are not as we predicted more inclined to adopt RPE, rather they are more reluctant to do so. The assumption that left-wing regimes adopts RPE as a method for improving in-house operations as an alternative to competition for markets is not given any support in the study. It might instead be the traditional case of NPM-aversion due to the fact that many of the modern models supposed to reinvent government and governance are seen as models carrying a liberal and market propaganda luggage (Hood, 1995) and are therefore rejected by governments with a socialistic majority. Ideology matters indeed, but not in the way proposed above.

Fashion-following is a factor that has an evident effect on the probability to observe an adopter of RPE. Municipalities that have adopted numerous of other NPM-inspired management and control models also show a greater probability to be adopters of RPE. The argument underlying this factor is that this has more to do with legitimization than economical or technical rationales. As noted above this instrument could carry other implications, such as innovativeness, as well, but when controlling for the other variables it is not improbable to assume that this result indicates that fashion-following has a positive effect on the adoption of RPE. The real test of this implication comes, however, when looking at use.

An increased number of effective parties decrease the probability of observing an adopter of RPE. This shows that municipalities that have a more competitive political structure to a lesser extent have adopted the method of RPE. This indicates that the fear of performance indicators and measures to be used in the political debate affects the adoption of RPE in Swedish local government.

The worse the historical financial result the more inclined to have adopted the method of RPE is a municipality. The hypothesis that these organisations have the highest incentives to adopt RPE in order to improve their operations and also has done so supports this notion.
Size has an substantial and significant effect on the adoption indicating that larger organisations with larger administrative competences and capabilities at large has adopted the method of RPE giving support to the notion presented in the conceptual framework.

Neither slack on the cost- or income side seems to affect the probability to observe an adopter of RPE falsifying the hypothesized effect from slack on utilization regarding adoption.

To sum up, it has been shown that fiscal stress, size, political competition, political colour and fashion-following significantly affects the inclination to adopt RPE, but that the effect of ideology is the opposite from that expected. Reflecting back on the three perspectives this indicates that RPE-adoption is explained by economic, political and institutional (NIS)/cultural factors, but that neither slack nor outsourcing or the presence of well-developed change routines matters for utilization when it comes to adoption.

The use of RPE and differences between adoption and use

Being a high user of RPE is mainly influenced by slack on the income side, fashion-following, change routines and to some extent also by being a left-wing regime. Like in the case of adoption the latter aspect is not in line with the proposed influence and if ideology influences adoption negatively it is natural to find that it reduces the probability of observing a high user of RPE. The negative effect, however, is substantially smaller on the use variable which indicates some form of pragmatism when it comes to the use of RPE. The adoption of the RPE-concept seems to be heavier connected with ideology than the stated use of it. This is not totally surprising since the use of RPE should be more associated with the workings of the administrative domain whilst the adoption of a specific management model should be more associated with decisions made by the political domain. This argument also holds for the fact that political competition is influential on the adoption of RPE but loses its influence when it comes to use. Political factors seem to play a greater role in the adoption of RPE than in the use of it. Controlling for adoption this conclusion is robust when using the original likert-scale as dependent variable (see appendix).

Slack on the income side (tax rate) show an evident increase in influence when it comes to the use of RPE compared to the adoption. A probable argument in line with the hypothesis (H2) is that it takes resources to make use of RPE so when it comes to the use, or a high use to be correct, it is natural to find this factor influential. The more intense and active the use of
RPE is the more resources are needed. This way of reasoning becomes even more plausible when the logistic regression is compared with the regressions focusing not only at the high users but on the usage as such (table 5 in the appendix). In this case it is therefore convenient to see the use variable as a strength measure or a degree of the utilization of RPE. The influence of income slack also lends weight to the notion that slack serves as a motivator to utilize RPE in order to get to grips with the allocation of recourses and low productivity among activities. Centrally placed managers, potentially encouraged or forced by politicians, in high tax municipalities use RPE as a tool to handle information asymmetries and other agency problems in order to reduce slack and possibly lower the taxes. In regression model 3 (table 4) where we control for adoption it is shown that municipalities with high taxes, or greater income slack in our terms, are prone to utilize RPE more intensively beyond potentially superficial adoption. On the other hand slack on the cost side does not seem to affect the use or adoption of RPE. A possible explanation to this fact is that slack on the cost side is associated with higher ambitions (than expected) that has little to with the utilization of RPE whilst slack on the income side is associated with redundancy that facilitates the use of management models.

Fashion-following loses almost all of its influence when it comes to the use of RPE. It is, thus, reasonable to regard the difference in influence as an indication of decoupling which means that \( H_7 \) is given some support. The fashion-following municipalities are more inclined to adopt the concept of RPE than being high users of it. In regression model 2 and three in table 5 this pattern is given further support. Controlling for adoption takes the edge of the direct effect of fashion-following on (likert-)use indicating that fashion-following has no other effect on the intensity of the usage of RPE than what being an adopter of RPE in general has. All in all this gives support to the notion that the adoption of RPE, amongst the fashion-followers, to some extent seems to be used as a legitimizing façade rather than as a practice in use. The decoupling hypothesis (\( H_7 \)) thus gets corroborated.

Another striking difference between the adoption and use measures is that the presence of well-developed change routines positively influences the probability to observe a high user whilst it does not influences the adoption. If something it rather influences adoption negatively. The presence of elaborated change routines thus seems to be of importance for being a high user of RPE generally but not for the adoption of the concept of RPE. Again it is reasonable to assume that the use variable in this case indicates to what extent one make use of or has adopted RPE and therefore capabilities that are characterised by openness to experiment and a will to explore and learn ought to be beneficiary for the usage of RPE.
Looking through the models using the likert-scale (table 5) this is not only the case of high usage but of usage as such. In these models change routines are the most influential variable, even more influential than adoption. This shows that it is important to have well-developed change routines and a culture that is open to change if one wants the adoption of RPE to be transformed into use. It is somewhat strange to find that having elaborated change routines do not affect the probability of being an adopter of RPE, but again this could be explained by differences of domains. The search process in the administrative domain may have pointed out a need or desire to adopt RPE, but the political domain may have been reluctant to utilize it. This may indicate that our index only captures the existence of well-developed change routines in the administrative domain which may not be present in the group of politicians. Even though we in this study focus on direct effects, due to the joint testing and direct effect approach, it is not improbable, considering the correlation in table 2, to assume that having elaborated change routines has an indirect effect through fashion which has an evident effect on the adoption of RPE. In addition; excluding fashion-following from model 1 in table 3 does not make change have a significant direct effect on adoption.

When it comes to size and focusing on the high users in the logistic regressions it is shown that whilst a somewhat smaller effect on use than on adoption larger organisations are more inclined to be a high user of RPE. The competence and capability argument related to size seems to be of importance also for being a high user of RPE. Relating this pattern to the original likert-scale regressions does not make it sound to talk about just use but only high use. Use in general is not affected by size but only when it comes to municipalities that are classified as high user of RPE. This pattern makes us relate size in the adoption case to more developed communications channels and a greater general infrastructure and to relate use or high use to administrative competence and capabilities. The latter should be of particular importance for high users of management models making the difference between the logistic and OLS-regressions explainable. In total size has the predicted effect on the utilization of RPE.

To sum up, it has been shown that income slack and change routines significantly affects the use of RPE through out the different models and that political colour and fashion-following are of importance in some of the models. When controlling for adoption we see that the effects of political colour and fashion-following becomes insignificant. Being a frequent adopter of other management models, for example, has no other positive effect on the usage of RPE than an adopter of RPE in general. Size seems to be of importance for being a high user of RPE but when it comes to use as such the result is inconclusive. On a theoretical level
this firstly indicates that the use of RPE seems to be explained by economic (slack) and cultural (change routines and competence) factors. Secondly it gives support to the decoupling thesis in NIS.

**Concluding remarks**

The aim of this paper is to examine what has caused the differentiated practice in the utilization of relative performance evaluation (RPE) in the Swedish local government sector. In this endeavour we developed nine hypothesis guided by economic, political and institutional/cultural theory. New institutional sociology (NIS) made us aware of the decoupling phenomena and therefore we divided the utilization concept in two parts: adoption and use. We believe our investigation contributes mainly to the literature of why RPE is utilized or not in local government organizations but also more generally to the general understanding of why management accounting techniques are or are not adopted and used in organizations.

The general utilization of RPE is explained by fiscal stress, ideology, political competition, fashion-following, slack on the income side, size and well-developed change routines. This means that all theoretical perspectives seem to be necessary in order to get a full explanation of the differences in utilization. Obviously the idea of combining several theoretical standpoints has its merits. However, if the utilization concept is divided into adoption and use we get a more detailed and differentiated picture. The political and institutional realms are of most importance for the adoption of RPE and of lesser importance for explaining use. Use is connected to slack on the income side, well-developed administrative capabilities and change routines which can be connected to the economic, and cultural sphere. Obviously adoption and use are to some extent explained by different factors and this would have been concealed without the deeper analysis of the utilization concept conducted in this study. The discrepancy between adoption and use in combination with the observation that fashion-followers often do not make much use of the technique is a clear indications of decoupling and supports NIS, thus the institutional realm is indirectly also of importance for understanding use.

These observations give rise to the question of how the discrepancy between adoption and use can be explained. The question could of course at this stage be left over to the research community but we intend to at least speculate on some possible answers. Of course it
is tempting to use the standard NIS explanation that multiple and conflicting stakeholder
demands leaves organizations with no alternative to decouple models from practices (Meyer
and Rowan, 1977/1991) and loosen up the consistency between talk, decisions and actions
(Brunsson, 1989). However, we see indications of more practical reasons for the discrepancy
that is more connected to lack of capabilities (change routines and administrative capacity)
and resources for the implementation (slack). The adoption is a political move not supported
by the administration. Apart from how the discrepancy could be explained the result makes an
important contribution to the use of benchmarking in the public sector. It is shown that
decoupling, regarding benchmarking activities, seems not only to exists in state regulated
local government systems such as the one in England (Bowerman et al, 2002), but also in a
context characterized by local self governance where RPE has developed as an totally
optional and free management accounting method.

When controlling for adoption on use it is shown that there are non adopters that seem
to use RPE and that adoption in no way solely explains use, which is an interesting and
perhaps a somewhat problematic contribution to the research on the utilization of
management accounting models and techniques. It is also shown that the two measures
explained variance is dependent upon somewhat different factors. It seems, in a more
substantial and conceptual way, that it matters which of the measures adoption or use is
adopted in the research. Since the terms adoption and use are often used as synonyms
(indicating the same thing) in both conceptual and measurement parts of research (e.g.
Kennedy and Afflec-Graves, 2001; Ittner et al, 2003;) and are related to a common debate on
what we has termed utilization of management accounting models, this could point towards
the existence of corroboration confusion and corroboration bias in existing research
depending on which measure and theory/hypotheses is chosen.

Of course, our conclusions must be interpreted with care since there are some notable
limitations with the conducted research. Regarding the causality amongst variables this paper
cannot give precise answers. It is shown that there are evident correlations among some of the
independent variables and the dependent variables. The casual chain could, however, be the
reversed or simultaneous. It could for example be argued that municipalities that use RPE to a
great extent may have identified a number of services or activities where they are inferior
quality wise. In order to strengthen the quality the easiest way ought to be to increase the
income side, i.e. raise taxes. Fashion-following could be a consequence of using RPE rather
than an independent variable affecting the use of RPE. Using RPE could serve as a template
for initiating managerial reforms and management accounting changes. How plausible these
reversed logics are cannot be answered in this paper but they point out an underlying potential endogeneity problem which is common, and almost unavoidable, in cross-sectional studies and most of the empirical quantitative management accounting research (Chenhall and Moers, 2007). What are produced in this article are correlations surrounded by a plausible logic (theory).

Another problem on this strand of reasoning is the potential time-lag problem that could explain a difference between adoption and use. This only becomes a problem if one see use as implementation, but we stress that it is unwise to do so. Not only because of our time-lag problem but because we think, as most of the research community, that these two concept are indication of something similar more in the sense of stated and general utilization, i.e. adoption, that necessarily does not say much about the actual (observed) use and implementation. It is, however, obvious that it matters which measure is used and we see it fit to regard the stated use and especially high use as an indication of the ‘real’ rate of adoption rather than as an indication of the degree of actual use or implementation. The decoupling found in this study should for example be interpreted as a discrepancy between superficial and substantial (real rate of) utilization rather than between adoption and degree of actual implementation. One should bear in mind that the material builds on statements from respondents, not on observed practice. When talking of plausible logic it could also be added that we are aware that the boundaries between and what should included in the three presented theoretical perspectives are not obvious. The joint testing ambitions related to relative corroboration of competing stories should be downplayed since such a method requires a more rigor design and further analyses, but the multi theoretical approach as we have used it should rather be seen as way of keeping an open mind on what could be of importance for the utilization of RPE in our case.

Finally it could be added that the explanatory power as such in our models suggest that the utilization of RPE, i.e. adoption and use, to a large extent is explained by other aspects than what has been included in our conceptual framework and perhaps also to a large part is a random process hard to map with a limited cross-sectional quantitative approach. The explanatory power, however, is what one can expect when using survey/archival material and a limited conceptual framework. The primary objective of this study is not to maximize the explained variance but to asses the relevance of a couple of deduced hypotheses in a form of direct effects approach.
### Appendix

**Table 5: Likert-scale regressions of the Use of RPE**

<table>
<thead>
<tr>
<th>Use of RPE (0-4)</th>
<th>Use of RPE (0-4)</th>
<th>Use of RPE (0-5)</th>
</tr>
</thead>
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<tr>
<td>Model 1 Without not at all</td>
<td>Model 2 Without not at all</td>
<td>Model 3 With not at all</td>
</tr>
<tr>
<td>Without adoption</td>
<td>With adoption</td>
<td>With adoption</td>
</tr>
<tr>
<td><strong>B</strong></td>
<td><strong>B</strong></td>
<td><strong>B</strong></td>
</tr>
<tr>
<td><strong>Std B</strong></td>
<td><strong>Std B</strong></td>
<td><strong>Std B</strong></td>
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<td>.061</td>
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**Table 6: Typology of municipalities of the total and response population**

<table>
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<tr>
<th>Type of municipality</th>
<th>Share (%) in total population</th>
<th>Share (%) in response population</th>
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<td>Suburban municipalities</td>
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<td>Major cities</td>
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<td>10.8</td>
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<td>Commuting-type municipalities</td>
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</tr>
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<td>Sparsely populated municipalities</td>
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<td>14.4</td>
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<td>Industrialized municipalities</td>
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<tr>
<td>Other &gt; 25 000 inhabitants</td>
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<td>12.6</td>
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<tr>
<td>Other 12 500 – 25 000 inhabitants</td>
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<td>11.7</td>
</tr>
<tr>
<td>Other &lt; 12 500 inhabitants</td>
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<td>10.4</td>
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<td>Total</td>
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<td>100</td>
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<tr>
<td>N</td>
<td>290</td>
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References


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