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# Adopting performance appraisal and reward systems

## A qualitative analysis of public sector organisational change

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### Abstract

**Purpose** – The purpose of this paper is to provide a qualitative analysis of change in order to understand which factors inhibit or, conversely, facilitate the enactment process of managers' performance appraisal and reward systems.

**Design/methodology/approach** – The problem is investigated empirically through a multiple case study approach. The change processes that result from the adoption of performance appraisal and reward systems in six Italian central government institutions are illustrated in detail.

**Findings** – The cases reveal differentiated patterns of organizational change and lead to a problematic overview. The desired technical and cultural organisational transformations are limited by an interplay of organisational and wider environment forces.

**Research limitations/implications** – The findings are based on data from the Italian central government, and as such are not directly extendable elsewhere, although they may result to be of interest to other public sector organisations.

**Originality/value** – The paper offers a comprehensive view of organisational change processes, ranging from the initial decision to adopt a managerial instrument to the final use of this instrument. A theoretical framework combining two, apparently diverging approaches, neoinstitutionalism and organisational change management, is used to better understand the plural factors that influence the change processes.

**Keywords** Organizational change, Public sector organizations, Italy, Central government, Performance appraisal, Change management

**Paper type** Research paper

### Introduction

Since the early 1990s, economic, institutional, political and ideological pressures have made public sector change unavoidable. One specific form of organizational change, which continues to have a great impact on attempts of public sector transformation attempts, is the adoption of new managerial instruments, which are often borrowed from the private sector. In particular, great emphasis has been put on managers' performance appraisal and reward systems, which are seen as mechanisms to align managers' actions with output delivery (Newberry and Pallot, 2004; Poole *et al.*, 2006; Lapsley, 2008). In line with the principles of the new public management (NPM), a loose term for a set of worldwide administrative reform initiatives (Hood, 1991, 1995), performance appraisal and reward systems could foster technical (use of output controls and explicit standards performance) as well as cultural (managerial accountability and responsibility for action) changes in the public sector. However, several works have revealed how public sector organizational changes and, specifically, an effective adoption of performance



appraisal and reward systems are hard to achieve (O'Donnell, 1998; Newberry and Pallot, 2004; Adcroft and Willis, 2005; Van Helden, 2005; Flury and Schedler, 2006). Transformation efforts not only often fail, but also raise a puzzling paradox. It has been questioned why several, successive attempts to change public sector by means of "new" managerial instruments have been made, in spite of the repeated negative outcomes of such schemes (Hood and Peters, 2004).

The article aims at providing a qualitative analysis of change in order to understand which factors inhibit or, conversely, facilitate the enactment process of managers' performance appraisal and reward systems. The problem is investigated empirically through a case study approach, which is based on a multi-perspective framework underpinned by organisational change management and neoinstitutional theory. The chosen setting is the Italian central government. This setting, although it has undergone a major reform aimed at transforming the whole planning and control process, has not hitherto been studied in depth. It therefore results to be an interesting, rather unexplored, ground to investigate the outcomes of organisational change efforts.

The rest of the paper is organised as follows: the next section has the aim of clarifying the contents of the organisational change process under consideration; third section sets out the theoretical framework; fourth section describes the research context and approach; following a presentation of the cases, the results are discussed in the sixth section. Then, the article ends with managerial implications and suggestions for policy makers.

### **Performance appraisal and reward systems and public managers**

Performance appraisal and reward systems are based on the assumption that employees' performance and motivation can be improved by establishing a clear link between efforts and reward through formalised and specified individual targets (Kessler and Purcell, 1992; Campbell *et al.*, 1998; Fay and Thompson, 2001; Beer and Cannon, 2004; Latham *et al.*, 2005). Rewards can be linked to two main performance dimensions (Henderson, 1989): the extent to which planned objectives are achieved (results); how results are obtained in terms of output quality, competencies and professional development (organizational behaviour). Management literature warns against several limitations to an actual use of performance appraisal and reward systems (Campbell *et al.*, 1998; Beer and Cannon, 2004; Latham *et al.*, 2005): strong asymmetry information problems arise between the evaluated and evaluators when planning periodic objectives; situational factors, outside the control of individuals, constrain performance. Furthermore, such systems give rise to critical organisational issues (e.g. fairness and equity perception in appraisals), reaching interpersonal relationships, eventually leading to increased friction at the work place.

If we examine the public sector, it can be seen that the NPM has stressed greater flexibility in managers' rewards from the beginning (Hood, 1991). However, the particular and complex setting of public sector may hinder the adoption and actual use of performance appraisal and reward systems (O'Donnell, 1998; Della Rocca, 2000; Newberry and Pallot, 2004; Lapsely, 2008). The role of public managers, the pivotal actors in the change process, is challenged both as agents of change and recipients of the systems. Managers are first required to have the technical knowledge and competence necessary to implement and use the new systems. Such knowledge and capacity skills are questionable in public sector bureaucrats (Schonefeld, 2004) and the

lack of consolidated measurement systems, standardized outputs and measurable targets makes the situation worse (Propper and Wilson, 2003; Yang and Hsieh, 2007). Second, the emphasis on private sector rewarding policies entails a shift towards a different framework of organizational culture, which is prone to flexibility, results and individual initiative (Schedler, 2003; Bradley and Parker, 2006).

To conclude, the content (performance appraisal and reward systems) and the actors (public managers) of the change process under consideration suggest that it is necessary to carefully consider possible hindrances to the enactment of the new instrument. The next section proposes a theoretical framework that can help our understanding of these hindrances.

### **Theoretical framework**

Organisational change in private and public sector organizations has been studied from a variety of perspectives (Sashkin and Burke, 1987; Woodman, 1989; Pasmore and Fagans, 1992; Armenakis and Bedein, 1999; Fernandez and Rainey, 2006). The theoretical framework is based on two of them, which offer different viewpoints on how organizations behave. On the one hand, the framework draws on neoinstitutionalism, which traditionally tends to downplay human agency as a source of change; the survival of organizations requires them to conform to social norms of acceptable behaviour. On the other hand, the framework considers organisational change management, which, conversely, depicts the purposeful action of managers as one of the main drivers of change. Despite the apparent diversity, neoinstitutionalism progress has recently been opening up to organizational dynamics and human agency (Fernandez-Alles and Valle-Cabrera, 2006; Modell *et al.*, 2007; Lounsbury, 2008). It is herein argued that organisational change management and neoinstitutionalism may result in two complementary rather than unrelated approaches. This multi-perspective setting is, thus, considered useful to provide both a reliable conceptual lens to inform the empirical investigation and a challenging starting point to contribute theory development.

Organizational change may refer to four dimensions (Armenakis and Bedein, 1999): content, contextual, process and outcome issues. The paper focuses on the process dimension with a twofold aim. First, it offers a comprehensive view of how change occurs; second, it provides insights into what may hinder or facilitate the enactment of change. Organizational change management literature offers several models and frameworks to analyse a change process, among which many are loosely based on the three phases suggested by Lewin (1947): unfreezing, moving and freezing. Judson's (1991) five phases, Kotter's (1995) eight steps, Galpin's (1996) nine wheel wedges and Fernandez and Rainey's (2006) eight factors all encompass the idea that an organizational change effort implies a change programme that drives an organization to transform its structure and operations by passing from one state to another. With regard to the public sector reforms, a similar underlying concept can be traced in Pollitt's (2002) four phases of NPM adoption: discourse, decision, practices and impact. It is argued that a public organization obtains knowledge and, subsequently, decides to adopt and use a new practice, supposedly passing from a traditional to a managerial style of government.

These contributions all have a common denominator: change is not a smooth process. Several, different forces exert pressure on the phases required to achieve change.

Organizational change management and neoinstitutionalism offer two different viewpoints to analyze such forces. The first traditionally focuses on intraorganizational factors, often highlighting several hints on how achieve optimal results by overcoming resistances, organizational inertia, lack of interest and participation (Buchanan *et al.*, 2005). The second instead traditionally focuses on external determinants that constrain organization choices and actions (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). Some elements of the two approaches have recently been considered to be in common and this has made a dialogue between the two approaches possible. On the one hand, the “emergent approach” to change management (Coram and Burnes, 2001) recognizes the importance of politics, power plays and environmental turbulence; on the other hand, neoinstitutionalism acknowledges the relevance of key actors and powerful organizational groups, making “intelligent” and interested choices, albeit constrained by institutional logics (Lounsbury, 2008). Based on such a premise, four main forces that affect a process of change are pointed out. Three of them, communication, power and learning, crosscut diverse approaches to the management of change (Beer and Noria, 2000; Coram and Burnes, 2001), but also start to impinge on change analysis informed by neoinstitutionalism groundwork. The last element, external pressure, represents a traditional building block of institutional analysis.

Communication can be defined as “the process by which information is exchanged and understood by two or more people, usually with the intent to motivate or influence behavior” (Daft, 1997, p. 560). It is argued that ultimately, the success and the sustainability of change efforts depend on how effectively the strategy for and the substance of change is communicated to those who are the targets of change (Fraham and Brown, 2007). Communication represents a powerful lever to gain commitment and build consensus for the planned change: continuous communication of the change content by key stakeholders helps to ensure that the momentum and enthusiasm for change does not decrease (Graetz, 2000).

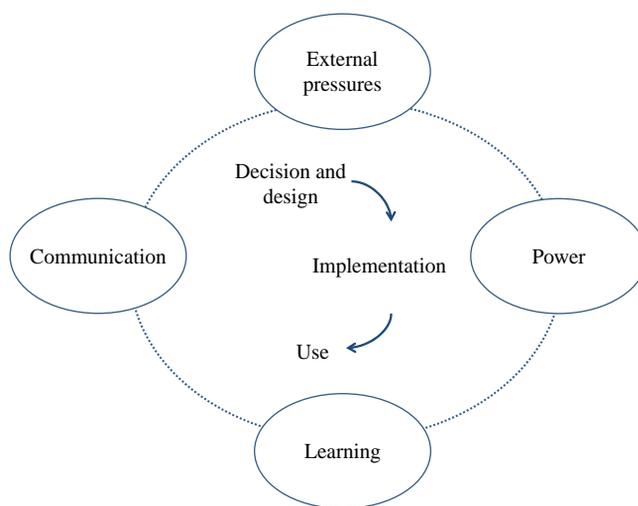
The second element, power, usually refers to the political dimension of organizational change both in private and public organizations (Leach *et al.*, 1994; Buchanan *et al.*, 2005). Pettigrew (1988) describes change as being embedded in “power plays”: several stakeholders and power groups attempt to resist or manipulate change plans, by recruiting support and building coalitions. Power is often associated to resistance (Piderit, 2000; Young, 2000; Karyn and Trader, 2002), “a reactive process where agents embedded in power relations actively oppose initiatives by other agents” (Jermier and Knights, 1994, p. 9). Therefore, it is relevant to understand whether the guiding coalition is able to maintain momentum, to foster and support the proposed change, mobilizing its power over resources and processes (Kotter, 1995).

The third factor considered is learning. It is claimed that learning is closely connected to change: “change demands new learning” (Reissner, 2005, p. 483). Organisations that are able to learn (and unlearn) can better respond to internal and external changes, and eventually improve performances (Rodhes, 1997; Antonacopoulou, 1999; Lähteenmäki *et al.*, 2001; Reissner, 2005). Learning consists of the individual, group or organizational ability to further knowledge, renew aims and adopt innovative behavior, developing new ways of doing things, norms and paradigms by means of encoding historical experiences in routines (Levitt and March, 1988; Lähteenmäki *et al.*, 2001; Minelli *et al.*, 2008). Learning implies having the required very basic technical knowledge, but also the ability to

integrate such knowledge with individual or group skills, through a sense-making process that drives change in behaviour and perceptions (Reissner, 2005).

The choice of the fourth force, external pressures, is based on the premise that organisations, both in the private and public sectors, are seldom bounded or autonomous (Abernethy and Chua, 1996). They are instead embedded in a wider social system, where external agents, statutory requirements and norms exert considerable pressure. On the one hand, an early institutional perspective defines organisational success as the extent to which organisations manage to embody societal “ideals” regarding norms of rational behaviour (Meyer and Rowan, 1977). This entails the transference of contextual values, ceremonies and symbols into the structures, strategies and practices of an organization, thereby leading to conformity. DiMaggio and Powell (1983) posit three types of mechanism: formal or informal exogenous pressure (coercive isomorphism); imitation (mimetic isomorphism); norms and standards of professional groups (normative isomorphism). On the other hand, institutional theory progress suggests that organizations can deploy strategic behaviour in direct response to dynamic and turbulent environments, actively resisting or manipulating wider environment pressure (Oliver, 1991; Greenwood and Hinings, 1996; Hardy, 1996; Park and Krishnan, 2003; Fernandez Alles and Valle-Cabrera, 2006). Oliver (1991) highlights four main typologies of organizational strategic responses to environmental pressure. Greenwood and Hinings (1996) call for greater attention to intra-organisational dynamics and their interplay with environmental forces. Modell *et al.* (2007) and Lounsbury (2008) acknowledge the existence and relevance of individual rational behaviour and its impact on change processes. In short, neoinstitutionalism no longer considers organisational change as a mindless adaptation to external requirements and pressures (Fernandez-Alles and Valle-Cabrera, 2006).

This theory constitutes the basis of the framework shown in Figure 1. A synthetic view of the change process, which is broken down into three main phases, is placed at the core of the framework; then, the phases of the change process are enclosed by four forces that possibly have an impact on the process itself.



**Figure 1.**  
Theoretical framework

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The three phases draw on different levels of NPM adoption (Pollitt, 2002): the decision and design phase, when the decision to adopt the new instrument is made and the implementation project is designed; the implementation phase, when the project is applied to the organisational context; and the use phase, when the system is put into practice. This modelling is not intended as a rigid sequential representation of the enactment of the new system, but should contribute to structuring the empirical investigation in a comparable and accessible way with three objectives:

- (1) Delving into the motivations, triggers and timing of system adoption, the resources dedicated to the design project and the characteristics of final designed methodologies (decision and design phase).
- (2) Highlighting not only the implementation procedure, supporting tool, mechanism and structure, but also the implementation difficulties and any subsequent modifications (implementation phase).
- (3) Shedding light on the outcome of the change process, the use of the performance appraisal and reward system (use phase), which could be actual or formal, with the system being unable to identify differences between managers' performances.

The forces depicted in the framework refer to both neoinstitutionalism and management of change theory. When investigating the role of external pressures, communication, power and learning possible sources of difficulties or, on the contrary, elements that ease the enactment of the new instrument could emerge. The choice of these four elements draw attention to both wider environment elements (e.g. institutional logics such as NPM, statutory requirements, external actors) and intra-organisational dynamics (e.g. conflicting interplay among organisational groups; scant use and availability of supporting tools and mechanism).

### Research context and approach

During the 1990s, numerous laws promoted the managerialization of Italian public sector management (Lippi, 2000; Minelli *et al.*, 2008; Ongaro and Valotti, 2008). Legislative decrees 241/1990 and 29/1993 started to introduce, into the public sector, efficiency focused terminology such as "comparative analysis of costs and results" and made the use of managerial instruments (including performance appraisal and reward systems) available, through which public managers could dispose of their resources in a more efficient and effective manner. Nearly, a decade ago, legislative decree 286/1999 (followed by two notes by the Presidency of the Council, the administrative structure supporting the Prime Minister's work) reinforced the need of managerial instruments in the public sector. Legislative decree 286/1999 distinguished between four types of control: evaluation and strategic control, management accounting systems, managers' performance appraisal and reward systems and administrative and financial internal audit. The first instrument, which aids setting policy priorities and performance targets, is devolved upon each minister; the remaining instruments are available to managers to make it possible to obtain an efficient use of resources (management accounting systems), professionalism enhancement (performance-based appraisal and reward) and conformity to rules (administrative and financial internal audit). Such instruments represent a novelty for the vast majority of central government administrations. With particular reference to the area of appraising and rewarding managers' performances,

no formalized instrument had previously been in use: managers' rewards and career paths were traditionally linked to seniority.

Legislative decree 286/1999 also foresees specific tools and structures to support the planning and control process and the implementation of strategic and management control instruments. First, each minister annually issues a directive, defined as a normative document, which sets yearly objectives, in terms of political priorities, administrative action and management innovation. Second, Internal Control Units are established. These can be considered an interface structure between politics and administration: on the one hand, they depend directly and exclusively on the Minister that appoints their directors; on the other, they should provide technical expertise by means of professional experts in evaluation and control techniques. The law does not primly prescribe how to choose the components of the Internal Control Units. They can be employed either internally or externally, and be public or private sector managers, politicians' advisors, university professors, consultants or professionals.

In order to gain understanding of the broader context of the research, the empirical investigation has been carried out with a multiple case study approach (Yin, 1994). Considering their distinctive features, the following administrations were considered: the Ministry of Economics and Finance, the Ministry of Justice, the Ministry of the Interior, the Ministry of Transport, the Ministry of Welfare and the Presidency of the Council of Ministers. The choice of these cases allows a representative picture of Italian central government to be obtained. As described in Table I, these administrations differ in size (employees), core activities (control and regulation or planning and coordination) and organisational stability. This latter refers to the government's 2006 renewal, which affected some ministerial structures to a great extent, but also the composition and competencies of key actors, such as the Internal Control Units.

The main source of data was 24 semi-structured interviews, which lasted an hour and half on average. When possible, the interviews were taped and subsequently transcribed. The interviewees had different roles with respect to the change process (initiators, implementers, recipients) and organizational context (ministers' advisors, top managers, staff and line managers). As described in Table II, the interviews allowed perceptions to be gathered from those that proposed the adoption, designed the system, coordinated and supported the implementation process (Internal Control Units and political advisors) and those that both implemented and underwent the system implementations (line managers).

Furthermore, documentation (primarily administrative directives and appraisal system handbooks), policy plans and managers' briefing notes, which are generally not

	Organisational stability	Type of activity	No. employees
Ministry of Justice	Stable	Control and regulation	51,761
Ministry of Economics and Finance	Changing	Planning and coordination	19,174
Ministry of the Interior	Stable	Control and regulation	21,211
Ministry of Transport	Changing	Planning and coordination	9,697
Ministry of Welfare	Changing	Planning and coordination	7,491
Presidency of the Council of Ministers	Stable	Planning and coordination	2,168

**Table I.**  
Case study setting

	Initiators and supporting-coordinating actors	Implementers and recipients
Ministry of Justice	President of the Internal Control Unit Four Internal Control Unit collaborators (two separate interviews)	Member of the internal committee (informal chat)
Ministry of Finance and Economics	President of the Internal Control Unit Three Internal Control Unit collaborators (two separate interviews)	Top manager (Human Resources Department)
Ministry of the Interior	President of the Internal Control Unit (two interviews)	Appraisal office manager (two interviews)
Ministry of Transport	President of the Internal Control Unit (Ministry of Transport) (two interviews)	Manager (Human Resources Unit)
Ministry of Welfare	President of Internal Control Unit (Ministry of Infrastructure) President of the Internal Control Unit Collaborator of the President of the Internal Control Units	Appraisal office manager (Human Resources Unit)
Presidency of the Council of Ministers	Manager of Internal Control Unit Manager in staff to Presidency's Administration (two interviews)	Head of Regional Affairs Department (two interviews) Manager (Information Technology and Human Resources Department) Manager (Human Resources Unit and Department of Regional Affairs) (two interviews)

**Table II.**  
Key informants

available to the public domain, helped inform the case studies. This approach was advocated to derive multiple reference points as an important strategy to achieve case study validity and reliability. The whole set of data covers the last decade (1997-2007), although the period under consideration varies according to the time each administration adopted the system. Data collection was undertaken over a six-month period (February-July 2007), while supplementary information was obtained through phone calls made between July 2007 and January 2008. Prior to the data collection, a four-month preliminary study (October-January) was made on the particular features of the Italian central government administration, on the type of activities they performed and the rate of penetration of private-like management techniques.

### Patterns of organizational change

The results of the empirical investigation are presented in this section. The three phases of the change processes – decision and design, implementation and use – are illustrated, pointing out similarities and differences among the cases. The following sub-sections provide an overall picture and point out relevant, exemplar cases for each phase. Tables III-V offer further details on each case positioning in the change process phases.

**Table III.**  
Decision and design

Case	Timing	Dedicated resources	Methodologies
Ministry of Justice	Early adoption, stimulated by legislative decree 29/1993 Presence of earlier formalized attempts to appraise managers	Specifically set up committee Presence of specific competencies on appraisal and control techniques (consultant) Line managers' participation Internal Control Unit	360° appraisal, an advanced private sector methodology
Ministry of Economics and Finance	Early adoption, carrying on with existing management control tools, stimulated by legislative decree 29/1993 Presence of earlier formalized attempts to appraise managers	Presence of specific competencies on appraisal and control techniques (consultant) Systematic literature/best practices review Line managers' participation Internal Control Unit	Two sections (results and Org. behaviour); numerical evaluation
Ministry of the Interior	Early adoption, stimulated by legislative decree 29/1993 Presence of a descriptive procedure to appraise managers The appraisal systems are considered a first step towards the use of planning and control instruments	Reliance on individuals' experience and knowledge	Two sections (results and Org. behaviour); descriptive evaluation
Ministry of Transport	Late adoption, stimulated by legislative decree 286/1999 and following compulsory notes Presence of earlier formalized attempts to appraise managers	Internal Control Unit Participation and influence of Trade Unions	Same methodology and handbook as the Ministry Economics and Finance
Ministry of Welfare	Adoption stimulated by legislative decree 286/1999 and following administrative directives Presence of earlier formalized attempts to appraise managers	Reliance on individuals' experience and knowledge Internal Control Unit Line managers' participation Reliance on individuals' experience and knowledge	Two sections (results and Org. behaviour); numerical evaluation
Presidency of the Council of Ministers	Adoption stimulated by legislative decree 286/1999 Absence of earlier formalized attempts to appraise manager	Internal Control Unit Presence of specific competencies on appraisal and control techniques (member internal control unit) Systematic literature/best practices review Line managers' participation	Two sections (results and Org. behaviour); numerical evaluation

Case	Structures, tools and mechanisms	Technical and cultural difficulties	Modifications and solutions
Ministry of Justice	Specifically dedicated committee (specific competencies) Discursive handbook, dedicated intranet site and computerized procedure Meetings and training on the appraisal process	Poor measures for external and internal client appraisal Difficult use of the computerized procedure	Reduction in the weights of the external and internal client appraisals Narrowing down the appraisal bands Frequent notes and communications Additional training meetings Design of indicators on organisational behaviours (implemented) Linking appraisal and planning process deadlines
Ministry of Economics and Finance	Internal Control Unit Discursive handbook, glossary Meetings and training on the appraisal process	Scant integration with the planning and control process Problematic self-assessments (upwards biased)	Design of indicators on organisational behaviour (not yet implemented) Frequent reviews of the methodology (four), almost returning to the initial descriptive methodology
Ministry of the Interior	Internal Control Unit (stable, no specific competencies) Internal note explaining the procedure	Problematic relationship between Internal Control Unit and appraisal managers Long and redundant appraisal procedure	
Ministry of Transport	Internal Control Unit (changing, no specific competencies) Internal note explaining the procedure	Organisational uncertainty and lack of specific responsibilities for the appraisal procedure	The system becomes "in abeyance"
Ministry of Welfare	Internal Control Unit (stable, no specific competencies) Discursive handbook and two PowerPoint presentations Meetings and training on the appraisal process	Complexity of appraisal procedure Lack of supporting systems (e.g. management accounting) The changing role of public managers: from procedure focus to output orientation	Simplifying the appraisal procedure Pilot projects to build a management accounting system Additional training meetings Design of indicators on organisational behaviour (not yet implemented)
Presidency of the Council of Ministers	Internal Control Unit (changing, specific competencies) Discursive handbook; g/lossary; dedicated intranet site and computerized procedure Meetings and training on the appraisal process	How to treat the changing position of managers, missing deadlines, not achieving targets Difficult use of the computerized procedure Manifested opposition to the appraisal of organisational behaviour	One main revision of the methodology Additional documentation Additional training meetings

Case	Differentiation in appraisals	Differentiation in rewards	Organisational impact
Ministry of Justice	Variation among appraisals (last year available: 30 per cent of top performers)	None (to be implemented?)	Progressive trend towards a more "severe" appraisal
Ministry of Economics and Finance	Variation among appraisals (last year available: 44 per cent of top performers)	Present, but 90 per cent of managers are assigned to the first and the second band, thus leading to 20 and 10 per cent higher than due compensation	Greater integration with planning and control process But, also, a trend towards less demanding objectives in the formal planning and control process
Ministry of the Interior	Rare cases of non-optimal appraisal, only in the first year of implementation	None	Progressive trend towards a less "severe" appraisal Reinforcement of procedural control Lack of strategic focus None
Ministry of Transport	None	None	
Ministry of Welfare	Small variation among appraisals (two years of implementation only)	None	Progressive trend towards a more "severe" appraisal
Presidency of the Council of Ministers	Rare cases of non-optimal appraisal, only in the first year of implementation	None	Progressive trend towards a less "severe" appraisal Trend towards less demanding objectives in the formal planning and control process

**Table V.**  
Use

### *Adoption*

The time of system adoption varies a great deal from case to case. Early adopters started the implementation project before 1998 (the Ministry of Justice, the Ministry of the Interior and the Ministry of Economics and Finance); late adopters, such as the Ministry of Welfare and the Ministry of Transport only tried to introduce the system after 2004. The first, reacting to earlier requirements such as legislative decree 29/1993, reveal distinct approaches and motivations. For instance, in the Ministry of Economics and Finance, the appraisal and reward system has continued with the existing management systems, considering that "the appraisal culture, based on measurable outcomes, has always been present in administrations that deal with financial issues" (Manager). A completely different approach has been adopted by the Ministry of the Interior. Here, the system is used as a learning device. The Internal Control Unit starts to work on appraising and rewarding managers as a first step towards the use of strategic planning and management accounting systems. Although lacking specific competencies, the Internal Control Unit acts on the basis that:

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Performance-based rewards might represent an appropriate trigger for an internal cultural change to facilitate the introduction of other management systems (Manager, Internal Control Unit).

Late adopters instead respond to much more specific statutory requirements, such as legislative decree 286/1999. Although, as stated in official documents, they adopt the instrument to improve output orientation, increase accountability and enhance managers' professionalism, it has emerged through interviews, how the most relevant driver is external forces, namely the laws' reiterated requirements (legislative decree 286/1999, compulsory notes of the Presidency of the Council).

In all cases, under the minister's impulse, the design of the system is devolved upon a team that is coordinated by the Internal Control Units. Trade Union representatives and line managers are usually the other actors involved. Line managers participate actively in some administrations (the Ministry of Economics and Finance, the Ministry of Justice, the Ministry of Welfare and the Presidency of the Council), while in the remaining cases, they are only involved once the methodologies have been defined. If we look at the professional profiles of the design team components, it can be seen that specific competencies on appraisal and control techniques are present in three out of the six cases (the Presidency of the Council, the Ministry of Economics and Finance and the Ministry of Justice). Since public administrations are traditionally unfamiliar with appraisal and reward instruments, such competencies fall upon professionals external to the public sector, who are temporarily hired as consultants or as members of the Internal Control Units. As a learning process on the technical features of the appraisal, a systematic review of international and national appraisal experiences is carried out in the Presidency of the Council and the Ministry of Economics and Finance, while the remaining cases rely on personal experiences and knowledge.

In compliance with law requirements all the designed models have one section that refers to the results that have been achieved and one section which focuses on organizational behaviour. Two elements of interest can be pointed out with respect to the methodologies. First, the methodology adopted by the Ministry of Transport is basically the same as the one previously adopted by the Ministry of Economics and Finance. According to the interviewees, external agents, Trade Unions, have led to this conformity: "Trade Unions proposed the use of the same system they had suggested to other administrations. We accepted in order to facilitate the design process" (manager). Second, the Ministry of Justice distinguishes itself because of its particular methodology. Under the impulse of the external component of the appraisal committee, a 360° appraisal is adopted. This represents an advanced methodology, which is not yet extensively diffused in the private sector, which has the aim of considering the perceptions of a wide range of actors, including internal and external clients.

Table III provides a synthetic view of the decision and design phase for the six cases.

### *Implementation*

Moving to the implementation phase, at a first glance all the cases seem to follow a similar pattern: an internal note describes the procedure; thereafter, a specific organizational unit is in charge of conformity of the appraisal to the designed procedure. However, some divergence can be observed if we consider the structures in charge of the appraisal, the tools and mechanisms that support the communication and learning of the new system and how the first implementation difficulties have been addressed.

With regard to the structures in charge of the appraisal procedure, it is possible to consider some exemplar cases. The appraisal offices of the Ministry of the Interior suggested, but did not implement some modifications to the managers self-assessments, and this was in sharp contrast with the Ministry of Justice, where the appraisal committee has the power to correct self assessments on the basis of the management accounting reports. Furthermore, external events have a different impact on the structures that implemented performance appraisal and reward systems in two ministries greatly affected by the 2006 governmental renewal, the Ministry of Welfare and the Ministry of Transport. The Ministry of Welfare continues to work on the change process:

[...] although the number of people dedicated to management control systems has decreased since the governmental renewal, the Internal Control Unit and Appraisal Offices continue to be in charge and foster systems implementation (Manager).

Change is instead detrimental for the Ministry of Transport. Here, after the governmental renewal, the administrative offices are no longer in charge of system implementation:

I am sorry I cannot be of any help; I can tell you about the design of the system, but, since last year (2006), no one deals with the appraisal system anymore. We (the managers) do not know exactly what we are supposed to do; we are waiting for the organizational decree to sort out the duties of each office [...]. My office at present does not even have a name! (Manager)

With respect to the quality of supporting tools and mechanisms, two diametrically opposite cases can be pointed out: the Presidency of the Council and the Ministry of the Interior. In the first case, managers attempting to evaluate themselves or their subordinates have the use of different supporting tools to learn about the system and how to use it: a dedicated intranet site with suggestions on how to deal with possible difficulties; a concise, discursive handbook on the appraisal and reward procedure; a glossary explaining the meaning of the most commonly used terms. In the second case, only very basic information is available from an internal note that communicates the appraisal procedure. Nine years after the first introduction of the appraisal system, "in 2009, if funds are available" (Manager, Appraisal Office), a manual on the general topic of appraisal in the public sector will be distributed.

The implementation phase has not been smooth in any of the administrations. The first attempts highlighted technical problems on the use of the designed systems. Accordingly, adjustments to the proposed models were made: the Ministry of Welfare has simplified the technical procedure that drives the definition of rewards; the Ministry of Finance has tried to establish a greater integration with the strategic control system. Such corrections to the methodologies have not been always successful: for instance, on the Ministry of Justice's web site, it is still possible to read several recommendations, communicating the correct way to use the computerized procedure. The Presidency of the Council offers new training courses to deal with unsolved technical problems and to enhance system users' learning. A couple of cases even reveal two opposite approaches to the management of implementation difficulties. A continuous interaction with the system recipients allows a "smoothing" of the designed system in the Ministry of Justice, which, as previously pointed out, suffers from being an advanced methodology that has been rather uncritically transposed from the private sector. Accordingly, the relevance of external/internal clients' appraisal is reduced and key measures of productivity and

efficiency become more suited to the context of use. On the contrary, four different models have been implemented in the Ministry of the Interior since the late 1990s. The several reviews of the system would seem to show that a problematic situation exists (inability to solve technical problems), which hinders the system recipients' learning. This is confirmed by the type of corrections that have been made to the system. The initial qualitative model has been replaced by a numerical quantitative system, which has recently begun to be changed to a descriptive model, "very similar to the earlier system based upon a self description of the performed activities" (Manager, Appraisal Office).

Apart from the technical difficulties, the introduction of the system has made the tensions and difficulties in managing the change process evident. Making the appraisal results accepted by recipients has proved difficult. Friction and "power plays" among managers have emerged: "I'm not going to discuss anything with that person anymore; it is impossible to talk to her in a civil manner" (top manager); but also a lack of interest and commitment by the implementers is evident: "they (top managers in charge of the managers' appraisal) do not care about appraising and rewarding; we carry out the procedure, although it is not formally our duty" (Manager, Appraisal Office). A common element is the manifested opposition, by individual managers and Trade Unions, to organizational behaviour appraisal, which is perceived by both actors as too discretionary. Considering the work performed in the central administrations and the lack of solid performance measurement systems, organisational behaviour evaluation in fact becomes extremely important to foster managerial as well as organizational development. Evaluating and eventually sharing positive organizational behaviour can support learning and the institutionalization of innovative organizational practices. This is not recognized by system implementers. In some cases (the Ministry of the Interior, the Presidency of the Council), in spite of the great implementation efforts (e.g. tools and mechanism available), change initiators are not able or willing to communicate, explain and support an effective learning of the instrument, and this has led to organisational change failure, or at least to a partial implementation of the system.

Table IV provides a synthetic view of the implementation phase for each single case.

### *Use*

Lastly, the use phase, the outcome of the change process, is outlined. Apart from the case of Ministry of Transport, where the system has not even been implemented, system use can be distinguished between formal and actual. It can be considered actual where the appraisal outputs are differentiated among the managers. This happens in a few cases: the Ministry of Justice and the Ministry of Economics and Finance and, partially, in the Ministry of Welfare. In the remaining administrations, the system exclusively returns excellent evaluations. Differentiation in the appraisal results in fact only represents a partial use of the system, which, in order to be fully implemented, should also be able to differentiate rewards. This latter aspect is quite problematic since neither the Ministry of Justice, nor the Ministry of Economics and Finance are able to reward and sanction their managers on the basis of performances. The Trade Unions' power has hindered linking appraisal and compensation in the Ministry of Justice, while the Ministry of Finance and Economics has rewarded excellent performances with higher than expected compensations, but it has not sanctioned lower performances.

Apart from the difficulties in the technical use of the system, its organizational impact is also interesting. Adoption of the system is followed by two main problems regarding the quality of the planning and control process. In some cases formal compliance with the appraisal and reward systems reinforces controls oriented towards procedures. For instance, in the Ministry of the Interior, in order to assign a specific objective to each manager, strategic goals are fragmented into several small “pieces” (operative objectives) with two negative consequences. First, achieving each single operative objective does not guarantee achieving the overall strategic objective; second, as in bureaucratic procedural control, the responsibility of the results is also fragmented, thus leading to a lowering of the accountability on the outcomes.

Another element concerns the quality of the planning process. In several cases, the Internal Control Units acknowledge the poor quality of formally planned yearly objectives. However, they have not done much about it:

We can and we do send back the proposed planned objectives, and ask for an improvement; but, then, if the objectives still remain the same, we prefer to accept them. We prefer to keep the planning and control process ongoing, instead of blocking it, even though it is clearly lacking (Manager, Internal Unit of Control).

Moreover, some Internal Control Units tend to minimize the problem:

We know that the objectives that are set out in the yearly plan represent much less than managers can and, sometimes, actually do perform during the year; however, I think it is quite normal to expect cautionary behaviour by managers (Manager, Internal Control Unit).

Managers themselves recognize the problem, claiming that contextual uncertainty and discretionary appraisal hinder an attitude that is more prone to risk taking and individual initiatives:

I have to admit that my office’s yearly objective is not so demanding; to be fair, we have already accomplished it. However, it should be considered that we have changed three Heads of Department in four years: we do not know who is going to do the evaluation this year and how he/she is going to do it (Manager).

Table V provides a synthetic view of the system’s use for the six cases.

### Discussion

The case studies have revealed differentiated patterns of organisational change in performance appraisal and reward systems enactment. On the basis of the empirical investigation, it is possible to discriminate between administrations that have reacted more passively to statutory requirements (late adopters, lack of specific competencies, scant involvement of key actors and adoption of predefined methodologies) and administrations that have put greater effort into the adoption of the system. Three main approaches can be derived for the implementation phase:

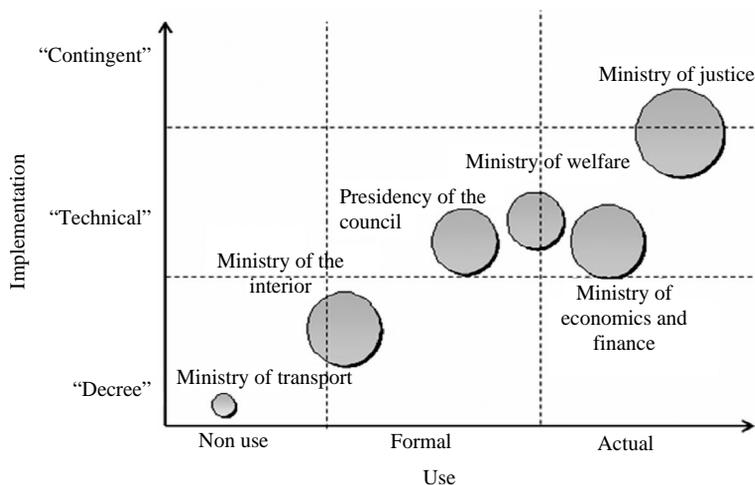
- (1) a very basic implementation scheme, which can be labelled as “implementation by decree”, where great emphasis is placed on the internal note that defines the methodology, while little (or ineffective) attention is dedicated to technical and social-contingent difficulties;
- (2) “technical implementation” where the internal decree is followed, to various degrees, by supporting tools, mechanisms and dedicated resources; and

- (3) “contingent implementation” where not only the technical facet of implementation, but also contextual contingencies are considered to improve methodology effectiveness.

Furthermore, in some cases, the systems do not return differentiated appraisals among the managers (formal use), while in other cases such a differentiation is valid (actual use). Bearing in mind that these categorizations do not consist in a clear-cut distinction, Figure 2 shows a qualitative representation of different organisational change processes (the larger the dot, the more proactive the structures in the decision and design phase). This representation suggests a positive relationship between motivations, quality of implementation tools and an effective use of the technique (although limited to the appraisal component of the system).

External pressures, communication, power and learning, the four framework dimensions, allow further details to be obtained on the how and why a case is positioned in a certain way. External pressures play a great, although ambiguous, role. Paradoxically, compliance with statutory requirements has led to “allomorphism”, diversified responses to institutional and contingent contexts (Lippi, 2000), rather than conformity. Organisations react differently, concerning timing, dedicated resources and motivations, to similar compulsory requirements. This finding has been confirmed considering contextual contingencies and technical-organizational processes. The consequences of forced organizational rearrangements following the government’s 2006 renewal are unclear. They represent a great drawback for the change process in the Ministry of Transport, but not in the Ministry of Welfare. This latter has continued to implement the system during the period of transition between two governments, drawing on internal competencies. Furthermore, pressure exerted by external agents, such as professionals and Trade Unions, can be detected at the organizational level. Such agents hinder the change process in some cases (e.g. the Ministry of Transport), while they do not have any significant impact on the others.

The importance of the communication facet of the change process can be observed in different situations. Communication can be considered as a primary cause of failure



**Figure 2.**  
Patterns of organisational  
change

for the most problematic case, the Ministry of Transport: the designed system is “in abeyance” because of a general uncertainty and a poor communication about the responsibilities of each office. Communication has also been problematic in the less critical cases (e.g. implementation of a computerized procedure in the Ministry of Justice). Generally speaking, official and informal documents reveal how several recommendations for a proper use of the system apparently have not been acknowledged. Communication is not only scant, but above all ineffective: it is possible to trace an exchange of information in most cases, but not a true understanding of such information by the people involved or any effect on their behaviour. The problems regarding communication actually anticipate the issues related to power and learning.

Power and learning result to be closely linked throughout the whole change process. Beginning with the decision and design phase, it emerges how some administrations use, with mixed results, performance appraisal and rewards as a mechanism to provoke a shift in organizational culture (e.g. the Ministry of Interior, the Ministry of Justice). Such behaviour clearly tends to neglect the learning dimension of the change process. System implementation without a solid technical and cultural basis (Ministry of the Interior) or designing an advanced methodology in the absence of prior experimentations (Ministry of Justice) cannot easily be considered the first step for a robust learning process.

It is clear how implementing the designed system not only entails technical difficulties (e.g. procedural complexity; scant integration with the remaining management control systems), but also raises organizational resistance, above all in the Trade Unions who question the methodologies and the evaluated managers who challenge their appraisal results. Considering such dynamics, the importance of two facets of learning emerges: the basic knowledge necessary to use the system, the understanding and subsequent communication of the scope of the system. Only where these two elements are present (learning how to use the system; learning what the system is useful for), are resistances addressed in a positive way, even by means of system revision to lower technical difficulties. When either one of the two (e.g. basic knowledge for the Ministry of the Interior; understanding the scope for the Presidency of the Council) is scant, the problems of the implementation phase jeopardize the use of the system.

Power is crucial to make the evaluation system work, at least as far as the appraisal component is concerned. For instance, the Ministry of Justice’s appraisal committee is able, and actually does, triangulate the managers’ appraisals with results from management reports; in the Ministry of the Interior, the appraisal offices instead propose to the top managers to correct the appraisal results, but “do not feel responsible for changing the self assessment results” (Manager, Appraisal Office). This different attitude, questioning and not suggesting, has a major impact on the results of the system: nearly 100 per cent of excellent appraisals for the Ministry of the Interior, about 25 per cent top performers for the Ministry of Justice.

Apart from the technical use of the system, learning represents a key element for the (desired) cultural change to occur. In the absence of a framework of organizational culture prone to flexibility, results and individual initiative, new instruments such as performance appraisal and reward systems are not only adopted in a formal manner, but also undermine the quality of planning and control processes (e.g. fragmentation of strategic goals).

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## Conclusion

This paper seeks to shed some light on an organisational context, the Italian central government, which has undergone important administrative reforms in the last decades. Through a qualitative analysis of change, the patterns towards organisational change of six institutions are explored, and the phases and the forces that characterise the adoption of a new managerial instrument are highlighted. The empirical investigation allows a comprehensive view of the process of change and reveals differentiated patterns of organisational change. Organisations react differently to external requirements (NPM ideology, statutory requirements) and different design and implementation strategies (resources, tools and mechanism) are put to work. Nevertheless, a problematic overview emerges: technical changes (differentiated appraisals) occur in a few cases (Figure 2), while the new instruments do not permeate organisational processes or decisions. The most evident proof of this is the absence of any link between performance appraisal and rewards.

The findings are based on data from six case studies on the Italian central government. This approach entails two main limitations. First, the external validity is constrained by the particular area of the public sector that has been considered. Second, the analysis is retrospective and implies the critical task of gathering reliable data on past events. The authors acknowledge that the findings are not directly extendable elsewhere, although the choice of a multiple case study approach, the number and different remits of the interviewees and a broaden documentation analysis are elements that contribute to partially offset the work's limitations.

Bearing in mind these limitations, the paper offers a contribution to theory and practice. A multi-perspective framework that combines two apparently diverging approaches, organisational change management and neoinstitutionalism, seems valuable. As set forward by recent neoinstitutionalism developments, it emerges how organizations do not always passively undergo wider environment pressures, but may actively respond to them in different ways (seizing the opportunity to provoke a cultural shift or enhance existing management systems). Furthermore, organisational change management approaches help identify, among intra-organisational dynamics, what the determinants of the problematic enactment of new instruments, involving technical and cultural organisational changes, are. The result is a theory that helps interpret reality, but which also suggests possible practical actions.

This theoretical finding links with the contribution to practice. The paper starts with a puzzling paradox: why have there been several, successive attempts to introduce "new" managerial systems, in spite of the repeated negative outcomes of such schemes? The empirical investigation provides some insights into how to deal with this issue. In short, an effective understanding of the purpose and the usefulness of the new instrument by key organizational actors seems to be the most important element in the change process. In the absence of such an understanding, new instrument implementation fails without even recognizing the failure, thus possibly stimulating further uncritical adoptions. Accordingly, two suggestions could be made. First, a cautionary remark for policy makers: care should be taken when exclusively relying on statutory requirements as guidance for public sector organisational change. Universal management instruments such as a performance appraisal and reward system might come into actual use once their implementation process has been carefully managed, resistance and critical issues adequately tackled, and methodologies properly

reviewed in view of the organizational and cultural contexts. Second, a proper implementation management is not enough. The system can be, at least partially, used in, and have an impact on, those organizations whose managers are able to understand and communicate the relevance of the technique (communication and learning), but also to put into practice its results (power), drawing on existing reliable performance measures to overcome inevitable arising resistance (e.g. Trade Unions) and contextual events (e.g. organizational renewal). This actually shifts the focus of transformation efforts from “objects” (systems, organisational design) to people.

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