New Public Management between reality and illusion: Analysing the validity of performance-based budgeting

Drawing from the theoretical insights of pragmatic constructivism, this paper aims to explain the difficulties faced by organizational actors in the translation of performance-based budgeting (PBB) into practice. The dichotomy of reality and illusion at the centre of pragmatic constructivism sheds light on the limitations and shortcomings that characterize the implementation of a business-like practice introduced as a component of the reform movement known as New Public Management (NPM). The paper investigates the case of an Italian Ministry through the analysis of interviews, policy documents, and governmental reports. The analysis shows that a failed integration of communication, values and aims between actors and an illusionary analysis of factual possibilities constrain the construction of causalities, hence jeopardizing the successful implementation of the performance-based budgeting reform. Rather than engaging in a co-authoring process, the actors are left with illusionary constructs that, while providing the appearance of a compliant organization, fail to produce the desired changes.

1. Introduction

The present research adopts a pragmatic constructivist approach to understand and explain the validity of a managerial reform, performance-based budgeting (PBB), in the public sector. In particular, the study focuses on the challenges faced by organizational actors in the process of implementing the reform, meeting initial expectations and offering visible and tangible results.

PBB is one of the labels whereby mechanisms and procedures designed to use performance information during the budgeting process have become widespread (OECD, 2007; Robinson, 2007). Despite not being new, PBB has gained renewed attention as a component of the broad reform movement known under the umbrella term of New Public Management (NPM) (Hood, 1991; Hyndman et al., 2014). Indeed, the focus on measuring and managing performance that drives PBB is at the heart of the NPM movement. The main rationale beyond this reform movement lies in the assumption that private sector management frameworks and practices can be used (Stiglitz, 1989) to improve the efficiency and effectiveness of the public sector. Therefore, since the 1980s, the public sector has undertaken waves of reforms, inspired by private sector management practice, to improve its performance.

The feasibility and usefulness of this approach has been the object of great scrutiny and debate. Indeed, NPM has been criticized because of its poor implementation and difficulties in meeting the initial expectations (Lapsley, 2008; Lynn, 1998). Scholars have critically underlined how a managerial approach in the public sector can lead to controversial results, such as the diffusion of an entrepreneurial ethos (Morales, Gendron, & Guénin-Paracini, 2014) that transforms the public servant in a new homo economicus (Hoskin, 2015), the risk of privatizing moral concerns (Dobel, 1978), penalizing the public sphere (Lehman, 2010), and the common understanding of public interest (Johnston, 2015). In contrast, other prior studies have noted that although the inevitable paradoxes linked to a new reform movement, such as NPM, do exist, it is still worth the effort (Dan & Pollitt, 2014; Hood & Peters, 2004) and, indeed, it still plays an influencing role in the current public sector agenda (de Vries & Nemec, 2013). Accordingly, the practices introduced as a part of NPM have been the object of a lively debate about their challenges and potentialities, which is reflected in the body of knowledge on PBB.

However, studies on the topic have emphasized the structural reasons for failure at the expense of the micro conditions that can transform a managerial practice, such as PBB, into a successful practice. To overcome the limitations of this overly structure-based approach (Ashraf & Uddin, 2016), the research objectives are to understand and explain the implementation of a managerial practice as PBB in the public context by relying on the methodological and theoretical insights of the pragmatic constructivist approach (Nørreklit, 2011). With its focus on both social structures and agency, pragmatic constructivism offers methodological guidance for the collection of data as well as theoretical constructs that are useful for the interpretation of findings. In accordance with the pragmatic constructivism methodology, we try to gain insights into the structural dimensions of the reform exploring at the same time the actors' response to the changes to be implemented. We could thus argue that the reasons why this reform did not materialize in an Italian ministry lie in the structural features of the public sector organization, in the reform's key components and expectations and in the actors' experience of reality (facts, values, possibilities and communication) when constructing the pragmatic truth.

In terms of the theoretical analysis of the findings, we rely on the main concepts of pragmatic constructivism, such as co-authorship, proactive and pragmatic truth, to code and analyse the data. In so doing, the research contributes to the understanding of PBB validity from a new perspective, focusing on organizational actors and on the conditions of integration between the four dimensions of how actors experience reality (facts, values, possibilities and communication) in the process of constructing the pragmatic truth. By using this approach, this research aims also to enrich the epistemology of pragmatic constructivism. In particular, our paper extends pragmatic constructivism by offering a theoretical model suitable for explaining the types of issues faced by actors in the process of translating the aspirations of a reform such as PBB into a functioning reality. Hence, the research contributes to the current understanding of NPM and PBB challenges by investigating the interactions between diverse factors linked to both reforms and actors. We believe that explaining the failures in meeting initial expectations may offer normative guidance for the transformation of the reform into a successful practice. Thus, pragmatic constructivism offers not only valuable methodological and theoretical insights but also provides normative guidance for a successful implementation of practices.

The paper proceeds as follows. The next paragraph reviews the main issues on NPM and PBB by analysing relevant literature on the topic. The subsequent section explains the theoretical framework adopted to analyse the practice of PBB and the fourth section illustrates the research method. The fifth and sixth sections, respectively, describe and discuss its adoption and implementation at the central level of government in Italy through the lens of pragmatic constructivism. Finally, the last two sections summarize the key findings and draw the conclusions of the research, underling its implications and contributions.

2. NPM and PBB: issues and challenges from a micro-perspective

The practice of PBB provides a significant example of a reform whose adoption and implementation in the public sector have gained new life with the advent of NPM, but whose lengthy history has been characterized by high expectations and frequent disappointments, often failing in meeting the expected outcomes (Bogt, 2008; Jackson, 2011).
In general, despite the difficulties in measuring the impact of NPM reforms, the empirical evidence has often revealed less than satisfactory results regarding managerial practices in the public sector. Indeed, the translation of private tools and practices in the public sector has often failed in producing the expected initial outcomes, while resulting in unintentional, and sometimes regressive, outcomes (Ashraf & Uddin, 2016; Dunleavy, Margetts, Bastow, & Tinkler, 2006; Hood & Peters, 2004; Tambulasi, 2009).
NPM reforms have frequently been considered illusionary since their results have not met the expectations of policy makers and/or stakeholders. On the one hand, some critiques have contested the unsuitability of NPM principles for the public sector as a reason for its reforms' negative results. On the other hand, critiques have centred on the challenges that have occurred in the process of reform implementation. These relate to the limitations and structural features of the public sector context, which have resulted in a poor implementation of reforms. Hence, empirical studies have noted the tensions between the different values derived from the introduction of NPM reforms (Kartalis, Tsamenyi, & Jayasinghe, 2016), where an excessive focus on results and business-related

values may undermine the commitment to key public values (Broadbent, Jacobs, & Laughlin, 2001; Lorenz, 2012; Piotrowski & Rosenbloom, 2002), and generate counter-productive effects (Tambulasi, 2009). However, tensions can emerge between NPM tools, normative expectations, and public sector organizations' structural features. Hence, the failure in meeting the initial expectations can be due to the lack of fit between the original design of a reform and the specific context in which it has been used. This failure is evident, for instance, in the limited use of abundant performance information produced in the spirit of NPM (Sterck, 2007) or in the unexpected impact of reforms resulting from their increase in administrative controls rather than an improvement in governance (Christensen & Laegreid, 2001). A wide range of possible reasons for the partial and poor implementation of NPM reforms have been identified, including state incapacity (Sarker, 2006), little political support and lack of debate on reforms (Russell, Bennett, & Mills, 1999), lack of functional selection and designing of the reforms (Bogt, Helden, & Kolk, 2015), and limited technical competences and professional authority (Lorenz, 2012). Table 1 at the end of this section reports and summarizes some of the main contributions to the critical debate on NPM. From this, the failures of the reforms are evident in their self-defeating results or, to a lesser extent, in the gap between the reforms' expectations and results. These types of studies have neglected the integration and interaction of different perspectives (reform features; public sector features; organizational actors' role) in analysing and explaining the (un)successful implementation of an NPM reform.

Among the NPM initiatives, over the years, the practice of PBB has been adopted worldwide under multiple labels, at different tiers of government and with diverse extents of development. The common element of its different potential forms lies in the adoption of a results-approach to both management and budgeting (Curristine, 2005; Kristensen, Groszyk, & Bühler, 2002) with a strong emphasis on output controls, accountability for results, and rationalism emphasized by NPM (Gruening, 2001; Hood, 1991).

Indeed, the formulation of the PBB reform has been accompanied by a set of rational expectations concerning its desired outcomes. Specifically, PBB is expected to produce and use performance information to guide the budgeting process and influence the allocation of resources, directly or indirectly, to manage the efficiency and effectiveness of governments and their agencies, improve budgetary decision-making and allocation of resources, achieve cost savings, and reinforce transparency and accountability (Curristine, 2005). However, the empirical evidence has proven that it is challenging to achieve these diverse objectives simultaneously (Arellano-Gault & Gil-Garcia, 2004) and that the rational expectations about production and use of comprehensive performance information in the budgeting process do not often become the reality (Raudla, 2012; Sterck, 2007). "Each advantage or benefit of PBB seems to introduce at least one new risk or threat to data integrity" (Smith, 1999, p. 4). These threats can be common to all public budgeting reforms or can be unique to PBB, which highlights the reason why PBB failures can relate to specific features and expectations of this reform as well as relate to other more general problems with public sector reform.

The current body of knowledge on PBB is characterized by a wide set of studies investigating the challenges raised by this organizational practice and the factors required to overcome obstacles and produce successful results. Only a few studies have measured its impacts in terms, for instance, of cost savings and public expenditure management, as a recent review of the literature on the topic shows (Mauro, Cinquini, & Grossi, 2017). Scholars have designed frameworks of factors determining

the practice success or failure (Andrews, 2004; Grizzle & Pettijohn, 2002) where the factors influencing the practice have been derived from general principles set against the (indirect) analysis of experiences (e.g., Kong, 2005; McGill, 2001; McNab & Melese, 2003; Smith, 1999; VanLandingham, Wellman, & Andrews, 2005). Further, a significant body of knowledge on PBB has contributed by shedding light on the obstacles to its implementation by conducting surveys and collecting opinions about the general state-of-the-art processes (Jordan & Hackbart, 2005; Melkers & Willoughby, 2001; Wang, 1999).

In this regard, the main difficulties in implementing PBB concern the agreement on objectives and priorities and then the identification of proper performance measures to capture relevant and interesting issues (Curristine, 2005; Joyce, 1993; Moynihan, 2008; Wang 1999), showing that the difficulties with PBB are significantly derived from the difficulties in measuring performance because of the logic of the performance measurement and the reactivity to the measurement (Rebora, Ruffini, & Turri, 2017). Additional technical difficulties include the necessity of realizing significant investments in information and accounting systems to guarantee sound information (McNab & Melese, 2003), the need to make the reform sustainable over time (Curristine, 2005; Kong, 2005), and coordinating PBB with other tools, such as accrual accounting (Martì, 2013). In addition to these difficulties, the public sector's features, such as the existence of uncontrollable spending and the political influence on budgeting (Pitsvada & LoStracco, 2002), challenge the success of the managerial reform.

An additional challenging set of factors influencing the success of PBB includes the human dimension of the practice, which underlines the importance of building a performance culture, with the involvement and support of multiple actors through a good system of coordination and communication (Curristine, 2005; Kong, 2005; Lu, 2011; Wang, 1999). Indeed, such human factors contribute to explaining the intensity of the budgetary use of performance information (Grossi, Reichard, & Ruggiero, 2016). Conversely, analyses have been conducted on the impact of PBB (or lack of) on behaviour of actors (Andrews & Hills, 2003) and the factors influencing the managers' perceptions of PBB success (Helmuth, 2010).

From this perspective, few studies have assumed the point of view of the actors to investigate which specific challenges they experience in implementing PBB. To compare PBB in multiple countries, Sterck and Scheers (2006) conducted a multiple case study, in which they interviewed experts and investigated, among many other factors, their perceived challenges. Flowers, Kundin, and Brower (1999) investigated the conditions enabling or challenging PBB implementation in two specific cases, focusing on how state agency administrators influence and are influenced by institutional and environmental conditions in implementing the practice. Raudla (2012) focused on the use of performance information by legislators, identifying the challenges to such use. This study aims to contribute to this debate by assuming a micro-perspective to analyse the challenges faced by organizational actors in implementing PBB. This study is focused on providing a comprehensive explanation of the integration of different factors linked to the actors' needs and possibilities, the reform's expectations, and the contrasting values analysed through the lens of pragmatic constructivism.

Table 1. Research on NPM: some key issues

3. A pragmatic constructivism approach to NPM reforms and PBB

This study draws on the theoretical insights of pragmatic constructivism, which recognizes the prominent role of organizational actors in the development of successful practices and provides an analytical lens to explain how actors construct reality in organizational and dynamic contexts (Nørreklit, 2017). The underlying assumption is that specific organizational settings allow the individuals to become actors, i.e., authors of their own actions and holders of responsibility, by strengthening the actors' ability to transform action possibilities into reality (Jakobsen, Johanson, & Nørreklit, 2011). From this standpoint, the research is designed to improve the understanding of PBB, as a specific example of NPM reforms, by adopting an actor-based approach that investigates how organizational actors construct the practice of PBB and what types of challenges they face in this process (Nørreklit, 2011).

Pragmatic constructivism takes a realistic standpoint by developing a pragmatic epistemology that claims a trustworthy understanding of reality. Its conceptualization of the reality-illusion dichotomy (Nørreklit, 2011) serves as a crucial concept that sheds lights on the way in which actors construct successful practices or fail in this attempt. The distinction between reality and illusion is indeed pragmatic, meaning that a construct is real, rather than illusionary, only if it produces the expected outcomes.

In this regard, pragmatic constructivism formulates the following two notions of truth: *proactive truth* and *pragmatic truth*. Proactive truth refers to the correspondence ("a true representation signifies a feature of the world", Nørreklit, 2017, p. 78) and coherence ("a true representation coheres with other accepted representations") of a claim. The concept of proactive truth adheres to the principles of a philosophical tradition originating with Plato that conceives the concept of truth in terms of *representation* (Seal & Mattimoe, 2016), i.e., truth entails an idea of authenticity. In contrast, illusion has to do with deceptiveness, falsification and invalidity. A claim "is pragmatically true if the expectations it generates in relation to future observations become fulfilled" (Nørreklit, 2017, p. 79). Proactive truth refers to a construction process where the following two variables play a crucial role: the variable of time and the role played by the actors in the construction process. The evaluation of whether a claim is pragmatically true can be linguistically translated into the following question: did it work? (Nørreklit, 2017). A negative answer to this question is a signal of an illusionary construct. Indeed, when actions are based on illusion they are unlikely to succeed, while reality usually results in a functioning actor-world relationship (Nørreklit, 2011). A dialectic exists between proactive truth and pragmatic truth (Seal & Mattimoe, 2016), a dialectic that produces an a-posteriori learning process termed the "pragmatics of truth" (Nørreklit, Nørreklit, & Mitchell, 2007, p. 197; Seal & Mattimoe, 2016). This process consists of the formulation of claims that need to be tested against reality (proactive truth) so that their practical validity can be assessed (pragmatic truth). The time dimension is a constitutive element of this process, as it is over time that the organizational actors can compare proactive truth claims with actual outcomes to test the validity of their expectations and plans (Seal & Mattimoe, 2016) (see Fig. 1).

Thus, pragmatic constructivism recognizes the role of social construction in the production of truth, but it anchors this construction to the realist hypothesis of truth as a representational practice.

Figure 1. Reality vs. Illusion in pragmatic constructivism

The notion of pro-active truth has been vital in legitimizing the accounting profession and the validity of the practice (Nørreklit, Nørreklit, & Mitchell, 2010). In opposition to emerging post-modern approaches (Macintosh, 2009), pragmatic constructivism claims that it is precisely the correspondence between the accounting facts and reality that ultimately ensures the validity of our social constructs (Nørreklit et al., 2010), which distinguishes, for instance, between fraudulent and legitimate practices. Similarly, it has been claimed that NPM lacks concern with proactive truth, as it has an indifference regarding the current states (Lorenz, 2012).

The failures of NPM reforms reported in the previous section can, therefore, be understood in terms of an inability to truly *represent* the contextual factors that could have determined the failure and success of the reform. This lack of fit between the original design and the conditions for success of the reforms (i.e., lack of proactive-truth) has been revealed, for instance, by the limited use of abundant performance information produced in NPM development (Sterck, 2007). Furthermore, the debate around NPM- inspired reforms has been around the pragmatic-truth dimension as well. The reforms have been analysed in terms of a gap between expectations and desired outcomes. NPM reforms have been considered illusionary since their results have not met expectations, as shown by the empirical evidence on the less than satisfactory results of new private sector managerial practices in the public sector (Ashraf & Uddin, 2016; Dunleavy et al., 2006; Hood & Peters, 2004; Tambulasi, 2009). Additionally, Christensen and Laegreid (2001) argued that the reforms resulted in an increase in administrative controls rather than in an improvement in governance. Hence, the validity of the reforms has been questioned due to the gap between reforms' expectations and outcomes and the mismatch between the reforms' claims and contextual factors.

The integration and interaction of two perspectives on the NPM area have been neglected. The first perspective focuses on the pragmatic truth of the reform (i.e., the mismatch between expectations and actual results). The second is the lack of correspondence between the design of the reform and the context that would have shaped, constrained or enabled the achievement of the reform (proactive truth). This paper contributes to the debate by focusing on the dialectics between these dimensions, that is the *learning truth cycle*, which sees the actors as protagonists.

From a pragmatic constructivism perspective, this paper defines PBB as an organizational practice whose success depends on the possibility of organizational individuals to become actors, i.e., to build a set of construct causalities on their work world by integrating four dimensions, namely facts, values, possibilities and communication. To construct causalities and develop successful practices, the actors continuously modify and adjust their personal relations with the world and with other actors. In this respect, pragmatic constructivism uses the term *topos* to indicate "concepts used and common interpretations of the relevant concerns and arguments" (Nørreklit, Nørreklit, & Israelsen, 2006). A topos entails visions of the world and leads to the elaboration of alternative possibilities of action. Thus, a topos embeds values, defines alternative possibilities –factual and nonfactual- and requires the communication between actors to be shared and enacted. The actors use their own topoi to elaborate strategies of action and construct causalities. For this process to be successful, "the conduct of the authoring process should balance contributions from participating actors" (Nørreklit, 2017, p. 28) leading to an orchestrated authorship where the organizational individuals are not only actors but

also co-authors of the narratives and causalities produced. In this respect, illusions originate not only from a non-functional relation between the individual actor and the world (Nørreklit, 2011, p. 19) but also as a result of a failed integration between organizational topoi that incapacitates the actors' ability to engender the desired changes and generates dysfunctional consequences instead.

As clarified above, the possibility of a distinction between reality and illusion is pragmatic insofar as it lies at the interplay between a proactive truth (will it work?) and a pragmatic truth (did it work?) (Nørreklit, 2017; Trenca, 2016). Hence, the aim of this research is to analyse the implementation of PBB in light of this distinction, with a focus on the integration of the four dimensions of reality in the development of a functioning topos and on the role played by co-authorship in it (see Fig. 1). Thus, this "learning theory of truth" (Nørreklit, 2017, p. 7) developed by pragmatic constructivism provides an epistemological base to assess the validity of PBB in an area of the Italian public sector.

4. Research method

The empirical evidence to support the research has been collected at the central level of government in Italy. This location provides new evidence due to Italy's relatively recent attempts to introduce PBB (as compared to the Anglo-Saxon world). Therefore, the country is facing many of the challenges due to the reform and represents a suitable ground for achieving the research aim. A qualitative approach was adopted to achieve an in-depth understanding of the practice through a single case study (Yin, 1994). The reliability of the research findings is achieved through the triangulation of different sources of data.

First, the practice was studied through the analysis of legislative texts, reports and guidelines that set rules and principles of PBB, thus defining its overarching framework and supporting the general understanding of the Italian case. Second, we conducted a document analysis to understand the budgetary and performance system adopted at governmental level, including budget documents, "Performance Plans" and "Performance Reports". Third, the PBB practice was interpreted through semi-structured and face-to-face interviews with experts at the central level of government. The key points of the interview guide are reported in Annex 1. The unit of analysis is represented by a government ministry and the experts were selected from different units to collect opinions from the main groups involved in PBB. These units are the independent performance unit (OIV) (Interviewee A), which has been established by the reform to support and monitor PBB implementation, the central budget unit in the Ministry of Economy and Finance, which is responsible for supporting and monitoring the budget of the ministry (Interviewees B, C, F), and the division "Economic and financial management and planning" within the ministry (Interviewees D & E) (see Fig. 2). The interviewees were purposefully selected because of their direct involvement in the PBB process. In particular, the expert of OIV (Interviewee A) was in a managerial position, involving monitoring and supporting the production of performance information. This expert as well as the overall OIV are expected to act in an independent and impartial manner. Two of the experts of the central budget unit, B and C, were in managerial positions, and the official F was in a more operative position, i.e., in charge of monitoring, supporting and analysing the governmental ministry's activities as users of the information during the budgeting process. The two experts of the division, D and E, were involved in the production of performance information, such as indicators and measures, as follows: D with managerial

responsibilities as the director of the division and E with operative responsibilities. The interviews lasted, on average, 75 minutes and were digitally recorded and transcribed.

Figure 2. Interviews at the central level of government

Indeed, in carrying out the research, we performed an in-depth analysis of the documents and interviews to identify the recurrent themes. We then categorized these recurrent themes in light of the pragmatic constructivist framework, which resulted in the following list of codes: factual possibilities, lack of co-actorship, values and communication, time and learning truth cycle (proactive and pragmatic truth), construct causalities, and illusion (see Table 2). The most significant quotes were then selected and are discussed in the following sections.

Table 2. Examples of codification

The following sections describe the initial stage of designing a PBB in the Italian context, followed by a discourse-based analysis of the implementation process aimed at highlighting the main constraints limiting the actors' possibilities to contribute to a successful development of PBB practice.

5. Performance-based budgeting in Italy: "will it work?"

The widespread adoption of NPM across public administrations worldwide has influenced the adoption of NPM-inspired reforms in Italy, where signs of managerial reforms have appeared since the 1980s and have become more important over the following years as a means of filling the gap with the European best practices and for gaining internal legitimization (Ranalli & Giosi, 2011; Rebora et al., 2017). Indeed, during the 1990s, NPM principles, such as result-orientation, value for money, performance control and performance-related payment, played a key role in influencing the reforms taking place in Italy (Capano, 2003). However, the development of NPM reforms in Italy, as in other Latin countries, has been under-investigated (Kuhlmann, 2010; Ongaro, 2008), which is especially true for budgeting practices, for which most research has been conducted in Anglo-Saxon countries rather than in continental European countries (Anessi-Pessina, Barbera, Sicilia, & Steccolini, 2016). To contribute to the understanding of these reforms, it is necessary to explore how the principles and practices introduced by NPM can be differently operationalized in light of the distinctive approaches to public management determined by the historical traditions of the state and administration (Kickert, 2005). Specifically, in Italy, the NPM changes introduced have been incorporated in the existing legalistic model, often creating a gap between reform adoption and implementation (Capano, 2003; Ongaro & Valotti, 2008; Panozzo, 2000) and between what is done (i.e., the pragmatic truth of the reform) and what was expected to be achieved (as shown, for instance, by the spread of performance indicators but the limited use of performance information (Ongaro, 2009)).

The introduction of the broad performance management system in Italy has been recently defined as a "serious game" (Rebora et al., 2017), indicating the numerous difficulties that central administrations have to cope with to implement such systems. Indeed, despite the modernization efforts and the attempts to adapt to international trends, a comprehensive shift towards a managerial

NPM- based model of administration has not occurred (Kuhlmann, 2010) and may not occur in light of the co-existence of different paradigms, such as the traditional public administration model and NPM (Liguori, Steccolini, & Rota, 2018).

One of the most challenging practices introduced in this context is the practice of PBB. Its conception goes back to the early 2000s in Italy, when both budget processes and performance management systems were the objects of significant legislative interventions.

The set of interventions made to introduce managerial practices were aimed at promoting *values* such as transparency and accountability in public finance decisions (Ongaro & Valotti, 2008). Specifically, the public budget became the object of an evolutionary process of change aimed at reinforcing the linkage between resources available for allocation and the needs to be satisfied (Ranalli & Giosi, 2011). The purpose was to extend the range of *factual possibilities* available to the administrators through a more efficient use of the resources and to guide them in *constructing causalities* by providing clear objectives and targets, supplemented by paying increasing attention to the results achieved by the funded government departments responsible for carrying out different tasks. In this regard, during the 2000s, the connection between budgetary decisions and the performance of public administrations was strengthened by a regulation introducing a new classification of the national budget expenditures into missions and programs (Law on accounting and finance no. 196/2009). Missions and programs were determined by the objectives they should achieve. The objectives were defined in terms of results, consistent with the logic of PBB (Servizio del Bilancio del Senato, 2007). What should be done with the resources is expected to prevail over who manages the resources (Pedone, 2008), although a centre of administrative responsibility was identified as a main *actor* in charge of each program to contribute to transparency and accountability. Ad-hoc documents are prepared by each minister to state strategic objectives in line with political priorities, select the indicators and targets used to monitor their achievement, and set the amount of resources allocated and their budgeted costs. At the end of the financial year, the financial cycle ends with the reporting of the corresponding results, which means that the pragmatic truth of the changes implemented is evaluated. At least from a technical point of view, this model can be considered pragmatic insofar as it tends to assess the validity of a practice in terms of the actual results of the initial plan compared to the initial expectations.

In 2009, a comprehensive reform (Law no. 15/2009 and legislative decree no. 150/2009) was also introduced, which had the purpose of dealing with the so-called "performance management cycle". This cycle was based on planning and evaluating as a continuum (Bianchi & Rivenbark, 2012), relying on ad-hoc documents and organizational units. Indeed, in the "Performance Plan", ministries were expected to set the objectives to be achieved and link them with the resources at their disposal. At the end of the year, the performance cycle ends with the "Performance Report", which reports the results achieved, compared and contrasted with what is decided ex-ante. This cycle is controlled and monitored by the OIV, a performance strategic unit, independent from the ministry, which checks and controls with respect to legislative requirements and guidelines. Thus, this "performance management cycle" was designed to reflect the dialectics of the learning truth cycle described by pragmatic constructivism, i.e., the performance evaluation was being formulated in terms of an assessment of the pragmatic truth of practices.

The budget process and performance cycle are expected to be aligned, resulting in the realization of PBB through the coordination of the two cycles.

6. PBB between illusions and reality: "did it work?"

The PBB reform at the ministerial level was aimed at improving the efficiency and effectiveness in the allocation of public resources. The assumption guiding this type of reform was that an evaluation of the performance data would allow both the identification of opportunities for cost saving and an assessment of the needs of organizational units in terms of financial and human resources. This latter assessment was crucial for the realization of the organizational mission and the improvement of the overall organizational performance. In this respect, the performance data were expected to work as enlightening devices able to orient the allocation and use of resources in an efficient, effective and responsible way. The primary aim of performance data is to guide decision-making to reduce a potential strategy execution gap, i.e., a deviation between what should have been done and the actual results (Mitchell, Nielsen, Nørreklit, & Nørreklit, 2013). The extent to which this gap can be reduced depends on the ability of the actors to produce assumptions and expectations that are grounded in reality rather than in illusionary understandings of cause-effect relations (Nørreklit, 2000). The performance targets should be a function of the actual possibilities and capabilities of the organization (i.e., factually based) and should be set in line with the contextual factors that they aim to modify.

At the beginning of the implementation process, the actors have to generate valid pro-active statements about the status quo and the future desired outputs (Nørreklit, Mitchell, & Nielsen, 2017). The generation of statements involves a problematization process in which the actors validate their understanding of factual possibilities in dialogue with other actors (i.e., through co-authorship; Nørreklit et al., 2017). Furthermore, in a virtuous cycle between budgeting and performance, a continuous adjustment of the formulated assumptions should be performed to depict the ability of the organizational units to fulfil specific tasks. When analysing the interview data, a first challenge noted by the actors concerns the first phase of identification of meaningful performance measures, i.e., what *should* be done. An interviewee explained as follows:

> An objective must be set, and verification of the attainment of this objective must be performed, so we measure it. For instance, with respect to the system of controls, we check how many controls we have performed in comparison with those that have been performed in the previous year...More than a performance indicator, *it's a performance meter*.... There is no indicator (...) What *does it mean* that we perform more or fewer controls? Perhaps there is more or less need to perform these controls. *If we arrest more people, does it mean that there are more dishonest people around or that we have improved our ability to arrest criminals?* (Interview with D - emphasis added).

This inability to translate desired outcomes into meaningful performance indicators endangers the production of a pro-active truth. Indeed, it was not clear to the actors whether the indicator selected (i.e., number of people arrested) reflected a real fact (more crime?) or was a *representation* of their improved performance. Thus, the question *will it work?* remained unpresented because it

presupposes an understanding of what it means for a practice to be efficient and effective and an agreement over the criteria for assessing these dimensions.

The representative quote above reveals that the actors adopt a correspondence theory of truth by focusing on the correspondence between existing facts and their performance rather than on the learning process involved in setting targets that aim to change existing realities and so produce successful results in the future. This approach considers the validity of a performance measure in terms of its ability to represent an existing reality (Nørreklit, 2017), i.e., in terms of proactive truth, rather than considering performance targets as drivers of changes. This static approach, grounded in mechanical realism (Mitchell et al., 2013), conceptualizes illusion as a lack of correspondence between the initial assumptions and the external reality, so failing is inevitable whenever the external context is a changing one (Cinquini, Campanale, Pianezzi, & Tenucci, 2017; Mitchell et al., 2013). This approach is exemplified in the following interviewee comment.

> In practice, we *come up against the reality* that ... maybe that's also why you cannot perform the evaluation…set the indicators…the performance evaluation…it is impossible for this reason...how do you do it? Everything constantly changes! (Interview with E).

In this respect, a merit of pragmatic constructivism is its ability to address the limitation of this notion of reality in terms of representation by proposing a pragmatic understanding of truth (Mitchell et al., 2013). The pragmatic question is *did it work?* (Nørreklit, 2017) and, in this context, the actors seem to be unable to answer it, not only because of a lack of understanding of what should be done but also because the importance of this question has not been perceived by the actors as a constitutive part of the reform.

> The issue clearly is not just worrying whether expenses have been incurred, whether they were legitimate or not, but evaluating the effects is also crucial [...] it is also crucial to see *what you have done about it? We have been deficient in this* (Interview with B).

Similarly, the interviewee argued that:

> The administrations have partial information; this is the problem. I can tell you how many resources we have made available for a certain mission, a certain program, a certain budget chapter and also how many of these resources have been spent, but if you ask me how they have been spent, what has been produced, I will not know it (Interview with B).

This quote is of particular importance because it reveals an attempt of the actors to contribute to the definition of valid criteria to assess the pragmatic truth of their practice. According to the actors, the illusionary character of the performance system implemented can be overcome only with a focus on the outcomes of the activities performed, i.e., in terms of effectiveness. Ironically, one of the main final objectives of the reform (i.e., to link resources to outcomes) is perceived by the actors as the missing point in its implementation. But, why has this been the case? The above quotes show the confusion of the actors with respect to the aim of the reform and of the implementation of performance measurement systems in general. This confusion is exemplified in another interviewee comment as follows:

The legislator has assigned to CIVIT (*a national authority*) the responsibility of building a linguistic and cultural 'koinè' in order to give an enriched meaning to the term performance. (…) The analysis of the legislative texts does not specify what performance means (Interview with A).

It is unclear to the interviewees whether the reform conceptualizes performance in terms of productivity of organizational units, or in relation to the capacity of public interventions to produce the desired outcomes. The actors do not understand the finality of PBB and the values it promotes. The benefits that a successful implementation of the reform can produce both in terms of public impact of the political agenda and efficiency of the bureaucratic apparatus are neither evident nor hoped for by the administrators. Indeed, rather than actively work for an implementation and amelioration of the performance measurement system, the actors produce illusions to cheat the system. Examples are offered by the following quotes:

Is it possible that all the resources allocated to a ministry are associated with only 30 objectives? It is impossible … (Interview with A).

There are data that are produced and reported, but they are not interesting for the users. Honestly, I think that nobody is interested in the fact that a certain number of reports have been produced after taking part at some meetings (Interview with A).

These statements reveal that the identification of objectives and the definition of performance indicators/measures are often driven by intentions of compliance, rather than by the willingness to generate construct causalities and provide support to decision-making for budgeting and resource allocation. Thus, the difficulties in implementing a successful learning process are inherently connected to a lack of integration of communication and values between the promoters of the reform and the administration in charge of implementing it.

The interviewee also denounced a lack of co-authorship, which is a perception of standing outside the decision-making process (Baldvinsdottir & Heidarson, 2017). The lack of co-authorship results in an understanding of PBB as something imposed from above rather than the result of an orchestrated authorship. As a result, the requirements of the reform in terms of performance reporting are perceived by many administrators as a "useless bureaucratic obligation" (interview with A).

The actors explained that they adopt a deductive approach when constructing causalities, meaning that they start by considering the mission assigned to the organizational units and then translate it into a set of measurable objectives (Interview with C). This deductive model leads from general prescriptive formulas to performance indicators (see Fig. 3).

Figure 3. A deductive approach

This model follows a cybernetic approach, which takes for granted that the management has correctly formulated the strategy and that the organization's objectives are coherent with it (Nørreklit et al., 2017). In contrast, a pragmatic constructivist approach requires the strategy to be "concerned with developing an overarching integrated topos that is able to create coherence by bridging the

specialized topoi of the co-operating units" (Mitchell et al., 2013, p. 17). Thus, the design should have resulted from a collective endeavour and bottom-up approach, which, by bringing together the heterogeneous resources and views of the organizational units, could have reduced the gap between expectations and practice.

However, in the public sector, political priorities function as strategic guidelines that define the normative aspirations of the organization. In this context, any attempt to construct an overarching integrated topos is jeopardized because of a double mismatch. A first mismatch concerns the finalities of the performance system (i.e., the organizational strategy) compared with the personal aspirations of politicians to be re-elected in the next political elections.

> The problem is that the temporal horizon in which our political class operates is so short that it does not incentivize any kind of effort by politicians because, if everything goes well, these things will give visibility after three years (Interview with B).

Thus, the performance data become a political rather than a managerial device (Cinquini et al., 2017). A second mismatch occurs between the political timing and the administration timing, as demonstrated by the following quote:

> If, at the end of the year, the lawmaker decides to cut budget resources further through the Stability Law, the plan that I have made in September of the previous year for the following year is completely changed (Interview with D).

The peculiarity of the public sector in terms of complexity of decision-making makes the process of constructing causalities for successful practices more difficult, and the need for an integration between multiple organizational topoi becomes more compelling. Indeed, in the public sector, a top-down and mechanical approach to strategy results from the nature of decision-making being limited by the role of legislation and the need to meet public accountability requirements, which was emphasized by the following quote of an interviewee, arguing that the lack of co-authorship is a structural characteristic of decision-making in the public sector:

> Unlike the budgets of a company that decides with a different degree of rapidity how to use the resources, the state budget is the *result of a parliamentary authorization*, meaning that the resources are allocated within the budget chapters *in accordance with a set of norms approved by Parliament.* This means that until there is a more structural reform, not of the budget, but of the governing instruments of our country, the ministries cannot divert resources that are destined for a certain purpose and use them for another purpose without having permission from Parliament itself or at least without this change being accepted by the control boards. This means that the instrument for implementing these changes is the decree of the Minister of Economy and Finance and that the decree must be registered by the Court of Auditors (Interview with B).

At the same time, this limited discretionary power lying in the hands of the administration can often be subjected to external pressures and influences that hamper implementation efforts. This aspect

has been noted by an interviewee, underlining a potential risk stemming from actors' involvement in the following quote:

> In Italy, there is the principle that if I involve you since the beginning, you will try to do your best to make the process of change difficult, activating interest groups, lobbies, and so on, who will protest against a resource cut, eliminating any possibilities to intervene (Interview with B).

This quote shows the failure which existed in communicating values and creating the needed motivation and support to translate PBB into practice. Similarly, the cycle between budgeting and performance is not perceived in terms of a virtuous mechanism aimed at stimulating the willingness of the administration to do better and achieve the "best" with the resources available. Neither is it perceived as an incentive mechanism, aimed at producing a healthy competition between the different organizational units. In the eyes of the actors, PBB is a punitive control device aimed at limiting the administrations possibilities for action.

> I can personally say that, perhaps, the government needs to grow in terms of planning. In the sense that, from the point of view of public facilities, this requirement is seen as an administrative burden because it is required by law. There are no motivations in terms of rewards or sanctions in the event of failure to achieve the results, and consequently, there is no incentive to properly define the objective and its whole chain (Interview with B).

Pragmatic constructivism argues that "constructing reality is that the actor is able to distinguish between what is factually possible and what is not" (Jakobsen, 2017, p. 141). The construction of causalities aimed at the implementation of successful practices requires an integration between values, facts, possibilities and communication. An important limitation depicted by the interviewees was the lack of consideration of the range of factual possibilities that the public administration has at its disposal. The administration is expected to make a great effort in terms of planning and definition of measurable objectives, but this effort is detached from existing factual possibilities insofar as it does not take into consideration the economic and human resources available (interview with E). The illusion, this time, results from a lack of *correspondence* between the design of the reform and the necessary conditions for its successful implementation. This gap between what the actors are expected to do and what the actors are able to do limits the utility of the performance data for decision making and produces a sense of frustration in the administrators. The latter feel that they are passive recipients of a reality that they are not able to control, rather than *actors,* i.e., having influence on the source of their own intentions and activities (Nørreklit, L., 2017), as demonstrated in the following quote from an interviewee:

> For example, we can use the intervention time from the call to intervention as a parameter to evaluate performance. That is an objective fact; let's say that because the situation is always an emergency, it is always the same. This year, we were more slow in intervening; why? Because the means of transport were broken. ... It does not depend on us (Interview with E).

The deployment of a learning process moving from a proactive truth (*will it work?*) to a pragmatic truth (*did it work?*) is also invalidated by a lack of coherence between a) the multiple topoi internal to the organization (each Ministry with its own characteristics and needs) and b) between the overall organizational topos and the external environment. The potential of the performance data, in terms of resource allocation, cannot be attained unless this coherence is maintained and incrementally improved in the long term. What the interview analyses show is that, on the contrary, the implementation of the reform is the result of an illusionary understanding of factual possibilities and, consequently, it has produced a misalignment among the administrators and between the organizational actors and the promoters of the reform with respect to the values and finalities underpinning PBB. An interviewee explained in the following quote:

> All is interpreted in the logic of the evaluation, and people, unfortunately, do not like the evaluation. The evaluation is not intended to bring a positive message of developing healthy competitiveness between the various units that make up the administration (Interview with A).

In this setting, the questions *will it work* (proactive truth) and *did it work* (pragmatic truth) cannot lead to a virtuous learning process insofar as the word 'it' is the result of "illusionary language games" (Kure, Nørreklit, & Raffnsøe-Møller, 2017). This is a void notion to which all the different actors (politicians, legislators, and administrators) apply different and even conflictual meanings (e.g., does it refer to the impact of public policies? Does it refer to the competencies acquired by the administrators? Does it refer to the overall efficiency and effectiveness of internal and operational processes?). For a practice to be successful, the "actors need to agree on a specific set of *exemplary references* that establish a shared horizon of understanding and thereby add meaning to the concept" (Kure et al., 2017, p. 218).

7. Key findings

This paper aimed to provide valuable insights into the challenges faced in implementing PBB in the context of an Italian ministry. The analysis of the case unveiled the illusionary character of the reform both in terms of design (i.e., proactive truth) and implementation (i.e., pragmatic truth). The main limitations of the reform related to a lack of communication about the aims and objectives of PBB, a lack of factual possibilities for policy implementation (e. g., lack of resources, independency of bodies, etc.), and a lack of co-authorship in the implementation process.

To begin with, there were difficulties in communicating the goals and objectives of the new practice. The concept of "performance" itself changed among the actors, and it was at times missing or unclear. Thus, "illusionary language games" occurred (Kure et al., 2017) and people were inclined to understand "performance" by their own definition and use.

Second, there was a misalignment of the topos of the various organizational actors, i.e., politicians and public managers pursued their own values (Cinquini et al., 2017). The separability designed by the law between the role of "politics" (setting the goals) and "public administration" (implementing

decisions and actions to reach the goals) did not fit with the public sector reality and, therefore, represented a fictitious (nonfactual) possibility.

Furthermore, the problem of defining and measuring the outcomes of "public policies" and the need for a cultural and organizational change in the public sector were underestimated. The performance measurement was implemented in a top-down mechanical way due to public accountability requirements that assign an overarching role to the law in defining the use of resources. This model did not consider the need for a "grounded" approach in the reality and work world of the performing units (Nørreklit et al., 2007). Thus, it resulted in a lack of reflexivity and co-authorship of the system, both in the design and the implementation phases. The virtuous circle between proactive truth, real truth and pragmatic learning could not work in these circumstances (Nørreklit et al., 2007; Nørreklit, L., 2017).

The *truth gap* between pro-active information (expectations) and pragmatic information (actual outcomes) was impossible to evaluate, given the lack of proper information. The pragmatic truth could not be determined, given the uncertainty in the dimensions of facts, factual possibilities, values (goals) and communication (as illustrated above). The system failed to provide the "knowledge about the structure of integration forming construct causality in the set of activities" (Nørreklit et al., 2017, p. 100). Thus, the reflective learning perspective, where the pro-active perspective meets the pragmatic perspective based on PBB, was not activated.

In summary, the lack of integration between the reality dimensions of the actors and between the topos of administrators and the topos virtually embedded in the NPM reform via PBB, coupled with a lack of reflexivity and co-authorship in the formulation of the reform activities, produced illusions in two respects. First, both the overall understanding of what is expected and what should be done had an illusionary character since they were not grounded in valid assumptions about factual possibilities (i.e., what the actors are able to do). Hence, the difficulties did not lie exclusively in the selection of the measures to evaluate performance, but in the overall conceptual apparatus. A second dimension of illusion concerned the attempt by the administrators to game the system by building a deceptive apparatus behind a theatre of compliance and due-process. In this way, the link between performance data and budgetary decisions became misleading and far from being virtuous, therefore threatening the initial expectations of the reform.

In consequence, PBB ended up being an "illusion" that hinders the agency of individuals rather than a practice for creating and fostering successful organizational development.

8. Conclusions

Although many of the problems discussed in light of the broad set of NPM reforms would have existed even in the absence of such reforms, NPM exacerbated the situation by acting as the "handmaiden" of the changes (Barberis, 1998). Previous studies have paved the way to an understanding of NPM reforms' failures as a result of a combination of different factors. Contributing to this literature, this study argued that the state-of-the-art process needs to be explained by taking into account both macro and micro conditions. Therefore, in accordance with the pragmatic constructivist approach, our

analysis focused on the NPM reform's distinctive traits, the public sector's key features and the role of organizational actors. The empirical analysis carried out through the lens of pragmatic constructivism exposed the limits of NPM by pointing out the inconsistencies of PBB, which challenge and impede the validity of this private-inspired reform in the public sector.

This research contributes to the literature on PBB by expanding the understanding of the conditions under which the validity of PBB can be realized through the uses of the dichotomy between reality and illusion. In particular, the challenges perceived by the actors implementing PBB have been identified and analysed using the pragmatic constructivism framework. The research, thus, also contributes to the broader debate on the effectiveness of NPM by providing empirical evidence on the limitations that make private-inspired reforms dysfunctional for the public sector. Finally, the research enriches the literature on pragmatic constructivism and extends the theory itself by offering an interpretative model (see Fig. 1) that combines the epistemological fundamentals of pragmatic constructivism (i.e., the learning truth cycle; Nørreklit, 2017) with the pragmatic constructivist theorization of actor-reality construction (i.e., the integration of the four dimensions of reality; Nørreklit et al., 2006). This model was crucial not only in the collection and interpretation of data but also in gaining a normative understanding of the conditions for successful practices in the specific context of PBB implementation. Nevertheless, these conditions and their practical implications in the context of the public sector require further research and the normative guidance about how public actors can make a managerial practice successful calls for larger comparative empirical studies.

We acknowledge that our research may have some limitations. The investigation of PBB in a single organization may limit the representativeness of the scenario at the central level of government. With specific reference to the actors interviewed, due to their direct involvement in the budgeting and performance cycles, their responses may sometimes be biased in the attempt to represent a better scenario. However, in light of the information collected, we may state that the interviewees have been quite open in addressing criticalities and challenges. However, further data collection would be needed to replicate and expand the analysis by carrying out additional interviews with different actors, analysing and comparing multiple organizations and assessing, longitudinally, the validity of the reform. Nevertheless, the current research has been built on an in-depth and rich analysis of PBB implementation in one ministry by relying on a triangulation of data sources purposefully identified and selected. The single case study has been used as the research method whereby pragmatic constructivism has been adopted to explain and interpret the managerial practice of PBB.

Further research can contribute to this debate by adopting the pragmatic constructivism to shed light on who can play a distinctive role over time to create the successful conditions for building valid practices. Furthermore, future research can deepen the analysis regarding the identification of the impacts of a valid managerial practice in the public sector.

Annex – Semi- structured interview guide

Key points discussed with the interviewees:

- Opinions on the state-of-the-art processes

- Reasons for the recent reform
- Mechanisms of the reform (budget process and performance cycle)
- Types of information (objectives, indicators, measures, …) produced and used
- Definition and interpretation of performance according to the interviewee/administration
- Difficulties linked to the reform
- Strengths and weaknesses of the reform

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