Accounting, accountability and virtue ethics in public organizations: from market bureaucracies to moral communities

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Abstract

The public sector in the Netherlands (and in many other Western countries) has shown a development towards nexus-of-contract organizations or *market bureaucracies* with inherent forms of instrumental accountability. This has helped creating *Homo Economicus 2.0* with associated incentivized rational and opportunistic behavior gaining space from ethical behavior that comes from the inside of human beings. As individuals (also) associate themselves with organizations out of reasons other than the search for self-interests, there is a need for alternative conceptualizations of organizations that do promote ethical behaviour that comes from the inside. Such virtuous behaviour requires an alternative framing of accountability. *Relational* accountability originates from the interconnected intentions of individuals at local positions. It encourages and channels intrinsic motivation, committed behavior and self-realization and it pushes purely economic and opportunistic interests to the periphery. In organizations where individuals associate out of shared ambitions or out of compromise, the frame of instrumental accountability has to be pulled to the background and that of relational accountability to the foreground. This may prevent a performance management paradox from occurring.

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Introduction

‘Accounting’ refers to counting and measurement, to calculation and valuation. Although it has an element of narration in it\(^1\), at core it consists of distinctive practices that quantify not only in mere financial terms but also in non-financial terms. As a consequence of the latter, accounting has the potential to deeply penetrate in the organization and to provide vital knowledge for the governance and control of the organization, also of spaces in the organization that remained invisible under a purely financial mode of accounting (Vaivio, 2006). In this sense, accounting has also deeply penetrated in public organizations. It is implicated in the more encompassing construct of ‘accountability’ (Roberts & Scapens, 1985; Ahrens, 1996; Roberts, 1991, 1996, 2001, 2009; Ezzamel et al., 2007).

Accountability is viewed as an individual’s capacity and willingness to render an account, explanation or reason in relation to conduct (Munro, 1996), or in process terms as the giving and demanding of reasons for conduct (Roberts & Scapens, 1985). To be accountable for one’s activities one needs both “to explicate the reasons for them and to supply the normative grounds whereby they may be ‘justified” (Giddens, 1984, p. 30). Applicable norms can be, and sometimes are, grounded in discourse and narrative (Ezzamel et al., 2007).

Compared to the concept of ‘responsibility’ the concept of accountability benefits from the association with the objective and scientific connotations of accounting methodologies (Hopwood, 1984). In this sense, accountability is a rather ‘objectified’ form of responsibility (Bemelmans-Videc et. al, 2007). In contrast, Bovens (1998) identifies accountability as an aspect of responsibility. He distinguishes the passive aspect of accountability from an active aspect of responsibility called virtue. In this view, accountability looks back and concerns the question “Why did you do it?”, whilst the virtue is directly concerned with the future and with the question “what is to be done?”(1998, p. 27). As McKernan comments, however, the active and passive aspects

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\(^1\) Boland and Schultze (1996) and McKernan (2012a) call into memory that the word ‘accounting’ has both roots in the French “a conter, meaning to tell a story” (Boland and Schultze, p. 63) and in the Latin “accomputare, meaning to compute” (Boland and Schultze, p. 63)
are hard to disentangle; “conceptions of active responsibility and the behavioural options open will be shaped and potentially limited by existing regimes of passive responsibility, existing accountabilities” (McKernan, 2012b, p. 260). Yet another perspective is that accountability unsettles and subsumes real responsibility (Hoskin, 1996); the subject is confronted with the prospect of a constant re-specification of what he or she is answerable for. Responsibility as it arises from social relations and stewardship is displaced, and subsumed through quantitatively dominated processes of quantification. These different viewpoints show that the concept of accountability remains difficult to pinpoint (see also Sinclair, 1995). Nevertheless, there have been attempts to clarify styles of accountability (Ahrens, 1996) and to illuminate ways in which practices of accountability are employed in shaping commitments, actions, and conceptions of the Self (Roberts, 1991; Willmott, 1996).

Essentially, a shift in attention from accounting to accountability entails a shift in focus from accounting as a technology towards a focus on accounting as social and institutional practice (Miller, 1994; Roberts, 1996). It brings a mechanism for social and economic management (Burchell et al. 1980) into focus that creates ‘governable persons’ (Miller & O’Leary, 1987) or calculable selves, and that pervades ‘the audit society’ (Power, 1997; Jones and Dugdale, 2001). An important tool for such management is responsibility accounting (Anthony, 1965; 1988). Responsibility accounting systems are cybernetic and instrumental of nature: ‘ex ante’ individual targets are set in terms of money or other quantitative dimensions, and ‘ex post’ individual performance is measured against these targets. A deeper penetration of accounting in the organization is made possible by the adoption of modern performance management or ‘management by the numbers’ as for instance originated and diffused by Kaplan and Norton (Kaplan & Norton, 1992; 1993; 1996; 2001; 2004). Along with this, a frame of instrumental accountability as it is implicated in traditional systems of responsibility accounting expands towards the core of the organization. The performance of individuals is measured and incentivized on the basis of financial as well as non-financial quantitative measures; each individual is held responsible for the scores on these measures. The implementation of management by the
numbers thus strengthens the systematic construction of calculable selves, in both private and public organizations.

Apparently, instrumental accountability did not succeed in preventing many so-called financial scandals in the business community. Enron, Ahold, WorldCom, Parmalat all exemplify unethical behavior. These scandals have extended to public sector organizations, for instance schools, housing corporations and hospitals. For example, in the Netherlands fraud (or at least opportunistic behaviour) has been detected at institutes for higher education (raising funds at the expense of the quality of students work), housing corporations (generating income by speculating with derivatives, also on a personal base). This illuminates the question as to how accountability relates to morality and ethics. Do the scandals point to fundamental or ‘naturalized’ characteristics of human beings? Are human beings opportunists (or worse) by nature? And if yes do they have to be ‘tamed’ by designing and implementing even better systems of instrumental accountability? Or, conversely, is it, at least partly, the instrumental accountability system that provokes opportunistic or even corrupt behavior by individuals? Answering these questions requires insights into the relationship between accountability and moral and ethical conduct.

This paper argues that as a consequence of a conceptualization (enhanced by the introduction of ‘management by the numbers’) of public organizations as contractual network of individuals, modern public organizations to a large extent are ruled by Homo Economicus version 2.0 (Callon, 2007). Many modern public organizations have become market bureaucracies or ‘nexus-of-contracts-organizations, in which the frame of instrumental accountability is dominant. To Homo Economicus 2.0 moral behavior is nothing more than contractual behavior. The paper presents two alternative conceptualizations of organizations: organizations as utilitarian organizations and organizations as moral communities. Moreover, an alternative to the frame of instrumental accountability is sketched: that of relational accountability. A relational frame of accountability reveals trust rather than mistrust and is connected to a conceptualization of an organization as a moral community of individuals. It is argued
that such a conceptualization gives space to virtuous behavior, to moral and ethical behavior that stems from the inside of human beings. It does not match Homo Economicus 2.0, but it fits with the ‘Committed Man’.

Essentially, the paper advocates a shift from instrumentality to relationality, from instrumental accountability towards relational response-ability, from calculative behaviour to dialogue. The paper adds to earlier contributions that challenge technical and instrumental dimensions of accountability. Many contributions take a critical stance (e.g. Andrew, 2007; Broadbent et al., 1996; Dillard and Ruchala, 2005; Joannides, 2012; Macintosh et al., 2009; McKernan, 2012; Messmer, 2009; Munro and Mouritsen, 1996; Roberts, 2009; Shearer, 2002). For instance, Shearer (2002) demonstrates the dominance of neo-classical economic discourse on accountability issues and the resulting emphasis on the Self in the process of giving accounts, and the relational poverty that it brings about. Drawing on Levinasian philosophy she calls for a more contextualized accountability and for a deeper appreciation of who we are as ethical (as well as economic) beings. Because of three limits Messmer (2009) fears that accountability may not always be desirable. Firstly, the accountable Self is opaque and is not always capable of reflecting on the reasons for its actions and on relating them to a purpose. Secondly, the demanding of reasons for actions might sound like an interrogation, thus exposing the accountable person to violence exerted by others. As these others are also opaque, the accountable subject can never provide a fair representation to the others, even if the subject truly feels that it is a fair representation of the perception she has of herself. On the other hand, the accountable subject may believe that she completely understands the others’ desires and may be compelled to distort her account to make it intelligible to others. Thirdly, there is a problem when the accountability relationship, instead of being direct, becomes mediated. This may lead to tensions within the accountable subject when the role and status of the mediator as well as the processing of her accounts to higher principals remain unclear. These three limits lead Roberts (2009) to argue that instrumental accountability (‘accountability as transparency’) either promotes defenses that protect the ego or, reversely, provoke narcissism (Roberts, 2009). This ego-centeredness prevents actors or organizations to go beyond the limits of current
understandings and practices. Therefore he calls for an ‘intelligent accountability’, a ‘face-to-face’ accountability that is much more contextualized and reflexive and less stage-managed. McKernan (2012) shares concerns expressed by Shearer (2002) and Roberts (2009) but seeks for more radical remedies. Drawing on Derrida’s work he claims that by demanding rational explanations and justifications, and by the necessity of providing answers that make good sense to others (intelligible answers), there always is a threat that the subject’s singular and inexplicable moral duties are undermined. Following Kamuf’s (2007) call that we need to pause and take some time to rethink and counter current translations of accountability, he advocates bringing ‘testimony’ (that opens a relationship with the other in which we ask of the other to trust, not to demand proof), and the ‘gift’ of an account (a response to the singularity of the wholly other, a response without calculating the return) into the exercise of accountability. This goes beyond the plea for intelligent accountability as advocated by Roberts (2009) as it takes the uncertain future into account. It allows for both an interpretation of the known and receptiveness to the unknown. It pulls the notion of accountability into an ex ante direction.

This paper rethinks accountability in public sector organizations by building on Roberts (2009) and McKernan (2012). It explores a potential movement into the direction of a more relational frame of accountability, a frame that enables both intrinsically ethical behavior and openness to the future, to the unexpected. It argues how such a movement is related to a re-conceptualization of the public organization; from a market bureaucracy towards a moral community. Such a re-conceptualization would acknowledge that individuals associate with an organization whilst not having their self-interests in the foreground. Instead, individuals may associate with organizations out of the desire to pursue a common goal, or out of shared values and ambitions, whilst having their interests in the background. Given these drivers, there is a lot of potential for frames of relational accountability and for virtuous behavior. Accounting (or ‘management by the numbers’) might be an important mediator in this movement.

The remainder of the paper is organized as follows. The next section contains positions instrumental accountability in the conceptualization of a public organization as a market bureaucracy (or a nexus-of-contracts). Section 3 argues that the market bureaucracy is related to an internal morality of contracting (Van Oosterhout et al., 2006) and to
deontological ethics. Section 4 offers alternative conceptualizations of organizations and section 5 relates these conceptualizations to ethics. Section 6 offers insights into the impact of alternative conceptualizations of organizations on the framing of accountability. A duality of instrumental and relational frames is suggested. In section 7 the dangers of a mismatch between the frame of instrumental accountability and the associative principle (Pettit, 1993) of individuals is outlined. Section 8 contains conclusions.

1. Instrumental accountability in a nexus-of-contracts

On the basis of numbers (financials as well as non-financials) managers have to give reasons for (the results of) their conduct or the lack thereof. Both traditional responsibility accounting systems and modern ‘management by the numbers’ are strongly influenced by systems theory and cybernetics (see Anthony, 1965; 1988), as well as by organizational economics. One branch of organizational economics is of particular importance: contracting theory.

Principal-agency

The central problem in the contracting theory is the agency problem (Jensen & Meckling, 1976; Ross, 1973; Stiglitz, 1974). The relationship between a principal and an agent is viewed from the perspective of divergent interests. Both principal and agent are self-interested individuals. The principal takes an interest that the efforts of the agent result in the desired output (or better than that), and the agent takes an interest in minimizing his or her efforts to create the desired results. Self-interested behavior might take the form of opportunistic behavior which entails the seeking for self-interest with forms of trickery and deceit. An individual who behaves opportunistically might exploit information asymmetry, that is he or she might take advantage of the differences in accessibility to relevant information by the parties involved. He or she might hide or distort relevant information, or might hide certain actions or non-actions. The accounting literature offers ample illustrations and explanations of opportunistic behavior and related appropriation concerns (e.g. Dekker, 2004; Kaplan, 1984; Vosselman, 2002).
In order to safeguard against opportunistic behavior, the principal can negotiate certain contractual measures with the agent. One possible measure is monitoring the agent’s behavior. Through monitoring, co-called transparency is enhanced and, thus, information asymmetry is lessened. Another possible measure is bonding. Through this measure the agent agrees with certain constraints on his freedom of action. This measure might be taken in combination with monitoring. And, last but not least, there is a possibility to agree on a certain incentive structure. Incentives aim to align the interests of the principal and the agent(s) by enhancing behavior that is in the interest of both the principal and the agent. The agent’s compensation can be linked up with the output of his or her efforts (pay-for-performance), so that both principal and agent get an interest in realizing the desired output. However, an incentive-based compensation comes at a price: the agent, who is assumed to be risk averse, will negotiate a risk premium because he knows that he cannot completely control the realization of the desired output. Apart from positive incentives, also negative incentives can be agreed upon. For instance, parties might agree that in case the agent does not succeed in realizing the desired output he or she will be dismissed.

Contracting theory conceptualizes accountability as embedded in a regulatory institution in a network. Such a network can be characterized as a nexus-of-contracts (Jensen and Meckling, 1976). A nexus-of-contracts is viewed as a vehicle for pursuing private interests. As an organizational network the nexus-of-contracts organization is contrasted against another vehicle, a market. Compared to the vehicle of the market it may save transaction costs. As a consequence, individuals can reach their goals more efficiently. In order to reach such efficiency and to prevent opportunistic behavior from occurring a regulatory institution is needed. The institution codifies a number of critical ‘rules of the game’ (Jensen, 1983, p. 326) by allocating decision rights and specifying performance evaluation- and reward systems. The main purpose of these institutions is to safeguard against potential opportunistic behavior. That is, the institutions facilitate cooperative interactions between organizational participants by preventing an opportunism-prone minority to pursue its self-interest ‘with guile’ at the expense of the collective (cf. Williamson, 1975; 1979). As Heugens et al. (2008) argue, the goal or ‘telos’ of a nexus-
of-contract organization is located within the individual human actors. The individuals calculate that, given the imperfections of a market mechanism, the nexus-of contracts organization is a second best (market-like) coordination mechanism. The nexus-of-contracts is a market bureaucracy that does not have an inherent common pursuit. The main reason why individuals decide to join the ‘organization’ is that their private interests are accommodated. In other words, the associative principle (Pettit, 1993) is one of accommodation. It is only for the reason of accommodating private interests that individual performances are being checked, assessed and rewarded. Instrumental accountability and incentives are pivotal in the market bureaucracy. (Legitimate) mistrust is the basic assumption.

The self-fulfillment of economic theory

The basic theoretical insights from ‘contracting theory’ no doubt have found their way into society and to the individuals and institutions that interact in it. Apart from the power, the elegance and also the pretence of the theory, this is also due to society’s receptiveness to this theory. Theory influences society and its individuals and institutions, and vice versa. Ferraro et. al indicate that there are a number of mediating devices involved in the relationship between the theoretical and the empirical domain (see Ferrarro et. al 2005). First, there is language. Theories provide for a language through which phenomena in society are depicted and interpreted. It can be observed that the language of economics has penetrated deeply into society and its institutions. Terms as ‘market mechanisms’, ‘customers’, ‘suppliers’, ‘customer-supplier relationships’ and ‘efficiency’ are frequently used. Second, there are values and norms as mediating devices. Powerful theories producing powerful language have the potential to fuel the perception that they prescribe how to behave. For example, the success and language of organizational economics might lead individuals and institutions to think that acting from the perspective of self-interest is desirable social behavior. And it might lead individuals to think that introducing market mechanisms for controlling parts of organizations is always a good thing to do, irrespective of context. Third, an important category of mediating devices is that of institutional arrangements. It is through these arrangements
that the insights of economic theory are translated into practice. It is through these arrangements that modern performance management and the language and values that come with it (performance ‘contracts’, incentives, rewards, monitoring) emerge at the level of specific organizations. The insights from agency theory get materialized through ‘management by the numbers’ in private as well as public organizations. In the name of the economic performance of the organization at large, ‘performance contracts’ between managers at different levels in the organization are concluded. Through these ‘performance contracts’, agreements about desired output, available resources, action constraints, the monitor and incentives are made. These ‘performance contracts’ can be viewed to be an extension of the labor contracts concluded at the labor market. Basically, in the name of an efficient governance and management of the organization they aim to motivate individuals and to compensate for their potential opportunistic behavior.

2. Ethics in a nexus-of-contracts

From an ethical perspective the nexus-of-contracts organization is strongly connected to utilitarianism. The moral is determined by what is considered to be the useful (see, for instance, Van Oosterhout et al. (2006); Van Staveren, 2007). Moral conduct equals contractual conduct. Contractual agreements as negotiated by self-interest seeking actors reflect preferences of utility-maximizing human actors. By definition, behavior that is in line with contractual agreements is considered to be appropriate behavior. Such contractual behavior takes the interest of the ‘Other’ into account, but only insofar as it does not violate the contractually safeguarded interest of the ‘Self’. As a consequence, morality is reduced to well understood self-interest. For instance, it is in the self-interests of all the parties involved to include safeguards in the contract that mitigate or prevent potential opportunistic behavior. These safeguards take the form of constraints, of monitors and/or of incentives. Surveillance and taming and incentivizing individuals is thus legitimate from both an economic point of view and a moral point of view. At the other hand, in a nexus-of-contracts a certain forgiveness towards the individuals belongs to the internal morality of contracting (see Van Oosterhout et al., 2006). For all human participants know that certain unexpected circumstances and events may occur that hinder or frustrate a straightforward execution of the contractual agreements. In other
words, in a nexus-of-contracts individuals are aware of the boundedness of their rationality, of the limits to their cognitive and predictive competencies. They may intend to act according to contract, but they may experience problems. And who wants to be enforced to contractually agreed upon behavior that, given the unfolding circumstances, cannot (hardly) be executed? So, showing a certain forgiveness towards each other is in the self-interest of each individual. Therefore, both the inclusion of contractual safeguards for preventing and fighting opportunism and a certain forgiveness related to unexpected circumstances are essential in an internal morality of contracting (Van Oosterhout et al. 2006).

As the so-called ‘financial scandals’ reveal, a self-regulating internal morality of contracting may fail. Therefore, nexus-of-contracts organizations may need additional moral codes of conduct. A code of conduct may be negotiated and decided at the level of the nexus-of-contracts organization, but may also reside in an organization-overarching structure (for instance the ‘code Tabaksblatt’ in the Netherlands). Codes may even reach the status of a law, for instance Sarbanes-Oxley. But the point is that moral rules and constraints are needed in addition to morality as it is internal to contracts. From an ethical perspective these rules and constraints are connected to deontological ethics. Moral conduct is then based on formal rules. So, sources for moral behavior are not restricted to individual preferences as they are reflected in contractual agreements, but include organizational and institutional rules and constraints.

3. Alternative conceptualizations of organizations

Compromise as the associative principle: the utilitarian organization

Individuals join a nexus-of-contracts organization out of the pursuit of their self-interests; they seek for the accommodation of their interests. They do not seek for certain values they want to share or for organizations that enable them to perform activities they feel committed to; to them, there is no inherent attraction in the activities the organization performs. There are no institutionalized virtues in the market bureaucracy, there are just interests and, thus, potential conflicts of interests. There is no inherent common pursuit
in a market bureaucracy. In many cases, however, individuals not only seek to accommodate their interests, but also reflect on what ends are collectively achievable. In such cases, the associative principle is *compromise*. Social units with which individuals associate out of the principle of compromise are usually ‘organizations in which remuneration is the major means of control over lower participants and calculative involvement (i.e. mild alienation to mild commitment) characterizes the orientation of the large majority of lower participants’ (Etzioni, 1975, p. 31; cited through Heugens et. al, 2008, p. 105). This utilitarian organization, though bearing similarities with and to a certain extent being a continuance of the nexus-of-contracts organization, is substantially different from the nexus-of-contracts organization. Here, organizational participants have to subscribe to principles that govern joint action; they value such joint action and corporate purpose. The ‘telos’ of the organization is now in the collective. Corporate purpose is best conceived as an emergent collective property of the practice of contracting into the firm, given the restrictions imposed on this process by the reasons other contracting parties have for joining the cooperation” (Heugens et. al, 2008, p. 106; see also Heugens et. al, 2006).

The utilitarian organization calls for virtues of common pursuit. Apart from the particular products and activities that may define a certain community, the community consists of individuals that value doing things with others. As Heugens et. al (2008), following Sherman, 1993, p. 278) state: “A willingness to compromise, to seek consensus, to be trustworthy and fair, all go with valuing collective endeavor”. These ‘virtues of common pursuit’ are shared amongst the present participants in the organization through joint action and communication. They are not institutionalized in an organizational climate or an organizational culture. Therefore, utilitarian organizations are vulnerable to turnover. “Individual members may not leave the organization immediately in case a marginally better outside option comes along because of their endorsement of the collective purpose, but when turnover does occur, part of the organization’s stock of virtues literally walks out the door. Unless the departed members can rapidly be replaced with other participants willing to endorse the collective telos, the organization will see its sum of moral qualities diminish”. (Heugens *et. al* 2008, p. 107).
Individuals may also associate with an organization out of a principle of shared reasons. As a consequence of an association out of shared reasons an organization can evolve into a moral community. The operating logic of a moral community is based on a set of ‘rules for the general regulation of behavior which no one could reasonably reject as a basis for informed, unforced general agreement’ (Scanlon, 1982, p. 110). In contrast with the nexus-of-contracts organization and the utilitarian organization the rules underlying the operating logic have intrinsic attractions; the organization has become ‘infused with value beyond the technical requirements of the task at hand’ (Selznick, 1957, p. 17). The ‘telos’ of a moral community no longer hinges on the production of extrinsic rewards, but is intrinsic. It is the social fabric that binds the individuals together. Not mistrust, legitimate as it may be in a nexus-of-contracts, but trust is the basis for accountability. The implication of this is that participants have the expectation that the ‘Other’ will behave appropriately in the interest of the cooperation. And because they have that expectation, they are willing to take risks. They are willing to act without safeguarding the behavior of the ‘Other’. As a consequence of the trust, a social fabric is created. Through the social fabric, virtues are fully institutionalized. The social fabric is resilient, because it is detached from the individual participants that once produced the robust organization through interactions. The institutionalized properties materialize as rules, traditions, or conventions (Weick, 1979). In the utilitarian organization, and even stronger in the nexus-of-contracts organization, the operating logic is endorsed by participants based on principles for private and extrinsic reasons.

There are a number of boundary conditions to collective moral agency (Heugens et al., 2006, 2008; van Oosterhout et al., 2006). These conditions are autonomy, alignability and ability. If any of these boundary conditions is transgressed, the organization regresses to a utilitarian organization. Autonomy is a necessary precondition for moral agency because it opens up possibilities to make promises that fully reflect the telos of the organization. Autonomy guarantees that individuals ‘are acting from principles that they would
acknowledge under conditions that best express their nature as free and equal beings’ ((Rawls, 1971, p. 515). Alignability is a boundary condition because a collective ‘telos’ can only be realized to the extent that the interests of the organizational participants are morally and materially aligned. Moral communities must find a way to withstand an eroding of the collective morals by a centrifugal force of self-motivated behavior. To realize a continue primacy of the collective morals, in many cases moral communities not only need a common goal, but also an incentive structure or an administrative system that is robust against at least minor defections (Sugden, 1989) and that make the attainment of individual goals subordinate to the attainment of collective goals. Ability is a boundary condition because a moral community must have the ability to abide by the promises it makes. To be capable of collective moral agency, organizations must possess that precise set of skills that allows them to realize their self-selected ‘telos’(MacIntyre, 1985).

4. Ethics in a moral community

In a moral community the sources of ethical behavior are the virtues. Virtuous behavior is located within the individuals themselves, not within their preferences (Aristotle, 1980; see also Van Staveren, 2007). Morality comes from the inside, not from extrinsic incentives or rules and constraints. Individuals are intrinsically motivated to act appropriately in the interest of the organization. They are committed to the goals of the organization and they aim to do justice to Other. This does not imply altruism. It does imply, however, the recognition that there is fundamental uncertainty, that people are fallible in their behavior and that there is (strong) interdependence between individuals. And it is precisely for that reason that they feel that (economic) self-interest is not the best guide for their conduct.

Virtue ethics puts the specifics of the situation up front. Virtuous behavior is behavior in concrete circumstances. It has nothing to do with an application of explicit (more or less) universal standards. What is virtuous or not is determined by the circumstances and may change through the passage of time. Virtuous behavior is trial and error behavior (MacIntyre, 985). The ‘good’ may have many faces; different sets of values may conflict and it may be very difficult to find a good balance between the different sets of values
and corresponding norms. But it is the intention that counts: people honestly try to find a compromise between extremes.

Virtue ethics do not deny that the realization of the goals of an organization is of importance and that the members of the organization are restricted in their behavior by external rules and institutions. However, virtue ethics start from the position that what is ‘good’ behavior is strongly dependent on social relations in a specific context. Moral conduct is a balancing act.

In sum: virtuous behavior is a balancing act through which Self is related to Other. Virtuous behavior is reflexive behavior. Such reflection, and the learning experiences that come with it, are in sharp contrast with instrumentality.

5. Alternative conceptualizations of organizations and their impact on the framing\(^2\) of accountability

Instrumental versus relational accountability

Drawing on Roberts’ (1991; 1996; 2001) distinction between disciplining and socializing consequences of accountability, two (often implicit) overarching focal goals of accountability can be distinguished. One is to discipline individuals, the other is to socialize individuals, and thus, to enhance individuals’ commitment to an organization. A nexus-of-contracts asks for accountability with disciplining (or instrumental) consequences, whereas a moral community asks for accountability with socializing (or relational) consequences. The instrumental accountability in a nexus-of-contracts is centered: a visible hand (management) is holding calculable selves responsible for their actions and/or outcomes of their actions. Conversely, relational accountability in a social network is a-centered: it originates from the interconnected intentions of individuals at local positions. It encourages and channels intrinsic motivation, committed behavior and

\(^2\) According to Goffman, social situations are subject to ordering by frames which establish the meaning of what is going on and regulate participants’ activities (Goffman, 1974, pp. 10–11). In general terms, a frame of accountability reflects and projects the focal goal of accountability. A frame defines the situation in terms of the focal goal, and, in turn, also helps to structure the situation. Individuals define the situation they are in, and then act upon this definition. Therefore, a frame helps reflecting the situation as well as constructing it. In doing so, it mobilizes the norms, knowledge and expectations associated with its pursuit (Lindenberg, 2000).
self-realization and it pushes purely economic and opportunistic interests to the periphery.

A frame of relational accountability in a moral community

The relational accountability frame in an organizational network that can be characterized as a moral community reflects and constructs a performance management regime through which individuals benefit from open communication. The ‘less guarded flow of information’ (Argyris, 1990) opens up opportunities to challenge, elaborate, clarify and to question (Roberts, 2001). Individuals are not instrumentally disciplined on the basis of mistrust, legitimate as it may be 3. Rather, individuals are mobilized through trust (building). Positive expectations about the ability, the benevolence and the integrity of the other individuals form the input for a willingness to accept vulnerability (Mayer et al., 1995; McEvily et al., 2003; Schoorman et al., 2007). The output of such willingness is risk-taking behavior in the relationship, which is the behavioral manifestation of trust. Trust enables, encourages and mobilizes commitment and identification with the organization, whereas mistrust entails safeguards against opportunism and creates distance between individuals.

The accountability frame of a moral community implies a control regime that produces relatively frequent face-to-face contacts with relatively few differences in power between individuals. Interaction is not meant to have disciplining consequences, but is meant to have relational consequences. It is directed towards integration and not towards differentiation. The presence of trust will induce a problem solving attitude and the sharing of information. This is quite contradictory to the nexus-of-contracts (or market bureaucracy); in a market bureaucracy with its characteristic conflicts of interests there is private information and, thus, an unequal distribution of information across parties. In other words, there is information asymmetry that parties might explore to their own interests. In a market bureaucracy, at best there is information exchange, whereas in a moral community there is information sharing.

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3 See Vosselman and Van der Meer-Kooista, 2009, for a further elaboration on the notion of legitimate mistrust
Accountability in a moral community takes the form of dialogue and interaction instead of instrumental practices. Of course, interaction sometimes involves controversies and battles between individuals, but the accountability frame encourages ‘constructive controversies’ and discourages polarization.

To conclude, the associative principle of shared reasons or shared ambitions matches with the frame of relational accountability. However, in many cases there will also be a frame duality. In order to withstand an eroding of the collective morals certain (weak) controls at the periphery of the organization have to be in place. An instrumental frame of accountability will then be in the background. Only in case of a very strong moral community the best match would be the pure frame of relational accountability.

Duality of framing in a utilitarian organization

The associative principle of compromise (and, thus, the utilitarian organization) is not incompatible with an instrumental framing of accountability. Although self-interest is not in the foreground, it remains to be a basis for an individual’s association with the organization. Therefore, calculativeness, and, thus, instrumental accountability remains to be important in order to prevent potential opportunistic behavior from occurring. However, there is a danger of a downward spiral, because the virtues of common pursuit might be ‘crowded out’ (Frey, 1997) by too much emphasis on strong controls. Therefore, the frame of instrumental accountability has to be combined with a frame of relational accountability. As the individuals experience stronger virtues of common pursuit, the frame of relational accountability has to be more in the foreground, switching the frame of instrumental accountability to the background. As will be explained in the next section, a frame switch may easily lead to ‘crowding out’ of commitment, thus leading to organizational decline and jeopardizing the continuance of the organization. The more people part away from ‘homo economicus’, the more the frame of instrumental accountability should be in the background.
6. Towards a performance management paradox?

The tendency to design and implement control systems with an instrumental framing of accountability regardless of the associative principle that connects individuals to the organization may create what it aims to prevent or fight: opportunistic behavior. If the basic assumption that individuals enter an organization out of the desire to accommodate their self-interests is false, instrumental accountability may have paradoxical consequences. The individualizing and disciplining consequences of the hard controls connected to instrumental accountability might produce the unintended effect of ‘preoccupation with self rather than an awareness of reciprocal dependence’ (Roberts, 2001, p. 1568). An existing cooperative mindset might then switch towards an orientation to the self. As Ghoshal and Moran (1996) have theorized, in such a situation opportunistic behavior might be provoked instead of attenuated.

It is not only theoretically, but also empirically indicative that an introduction of hard controls to attenuate opportunistic behavior in an organization that can be characterized as a moral community might effectively induce opportunistic behaviour (Ghoshal and Moran, 1996; Osterloh and Frey, 2004). Performance management using modern performance contracts and tools as monitors, bonding mechanisms and incentives thus might therefore precisely do the opposite of what is desired. The solution for a non-existing problem becomes itself the problem. The instrumental practices of performance management then create a ‘self-fulfilling prophecy’ (see also Ghoshal and Moran, 1996; Roberts, 2001) of opportunism, and have negative economic consequences. By reducing the social it hinders the development of the learning capacity and the adaptability of the organization. It can be claimed that such a reduction of the social is eventually not in the interest of the organization at large and of the individuals that comprise it. This leads to a possible performance management paradox: performance management that is framed by instrumental accountability is intended to improve organizational performance, but actually has a negative effect on organizational performance.

In order to capitalize on the benefits of intrinsically motivated and committed men, an accountability frame of a moral community should be pulled at the foreground. Such a frame shows dense interaction and communication between (almost) equally empowered individuals. The frame of instrumental accountability should simultaneously be pushed to
Instrumentality should be more at a distance. Hard controls may safeguard against opportunism, but at a safe distance of the core of the network. These hard controls have to compensate for legitimate mistrust as perceived by the individuals involved, without provoking excessive mistrust (and the opportunistic behavior that is connected to it). Legitimate negative behavioral expectations are instrumentally compensated for. As long as the threshold of legitimate mistrust (i.e. mistrust that the parties involved perceive as acceptable) is not exceeded, these hard controls enable instead of hinder processes of trust building at the core of the network. They produce thin trust between the parties as a basis for further trust building at the core of the organization (Vosselman and Van der Meer-Kooistra, 2009). Such trust building requires relational communication and interaction, driven by social values and norms.

7. **Conclusions**

The public sector in the Netherlands (and in many other Western countries) has shown a development towards nexus-of-contract organizations or market bureaucracies with inherent forms of instrumental accountability. Hospitals, housing corporations, universities and many other organizations were framed as entities in which Homo Economicus 2.0 and principal-agency relationships are paramount. At least at a number of places this has resulted in increased opportunistic behavior or even worse. Apparently, the behavior of Homo Economics 2.0 with its focus on efficiency and utility has gained space from ethical behavior that comes from the inside of human beings. The internal morality of contracting with its emphasis on constraining and incentivizing proves to be insufficient, at least in a substantial number of cases. As a consequence, management and regulators try to construct ‘codes of conducts’. Although such codes aim to improve moral behavior, they remain consistent with the foundations of the underlying concept of the organization (the nexus-of-contracts). They are a further means to constrain behavior and to incentivize good behavior.

This paper has argued that there are alternative conceptualizations of public organizations with alternative ‘associative principles’. Alternative conceptualizations allow for reasons other than self-interests to join the organization. At the other extreme, individuals join a moral community out of shared reasons or shared ambitions. Individuals are intrinsically
motivated and they do not need to be incentivized. Even stronger, incentivization might jeopardize individuals’ intrinsic motivations and commitments. In a moral community, virtue ethics rule in a social fabric that is held together by trusting relationships. A moral community does not match with forms of instrumental accountability, but requires conditions under which relational forms of accountability emerge. Moral conduct comes from the inside; it is virtue ethics that rule behavior. In a moral community, there is room for trial and error and, thus, for the recognition that there is uncertainty and complexity and that people are fallible in their conduct.

There also is a conceptualization of an organization that is in between a nexus-of-contracts organization and a moral community: the utilitarian organization. Here, the associative principle is compromise. Particularly in a utilitarian organization, instrumentality has to be balanced with relationality. The common ‘telos’ is not in the organization itself, not in the social fabric, but in the people that make up the organizations. As soon as the people leave, the common ‘telos’ is in danger. So, different from the moral community, there is no strong institutionalized social fabric.

My proposition would be that the conceptualization of a public organization as a nexus-of-contracts has gained too much space. The discourse of New Public Management and the market bureaucracies that resulted from it have come to downplay ethical behavior that comes from the inside of individuals. It has hindered emergent constructions and developments of social fabrics and, related to this, it has led to ‘crowding out’-effects: intrinsically motivated and committed people lost their intrinsic motivations and a number of them even left the organizations. In order to really ‘capitalize’ on the commitments of individuals, instead of creating more and more market bureaucracies regulators and managers have to more consciously think of conditions under which we can make a movement towards moral communities. To a substantial degree, this implies a substitution of instrumental and disciplining forms of accountability towards relational forms of accountability; accountability ‘as transparency’ has to be balanced with accountability in encounters with Other. More attention should be given to conditions that promote virtuous behavior. Instead of taming and disciplining individuals, managers and regulators should aim at conditioning networks and relations in these networks. At least, intrinsic motivation and commitment should not be frustrated, but, even better,
individual commitments and shared ambitions should be enhanced. Future empirical research might provide knowledge of the performance consequences of such a shift in the framing of accountability.
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