

**Accrual Accounting and Struggles of Non-Profit Health Care Organisations under
Competition Threats in Finland: A case study.**

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ABSTRACT

This study analyses the relevance of accrual accounting information for non-profit health care organisations under harsh price competition. Motivation of the study is to fill gaps in accrual accounting literature of public and third sector organisations. Drawing on institutional framework of management accounting change proposed by Burns and Scapens (2000) and the neo institutional sociology framework of "circuit of power" (Clegg, 1989), a qualitative case study became made in a large municipality in Finland from 2008 to 2011. The study concentrated on document analysis, interviews and observations (Yin, 2008; Dul and Hak, 2008; Cunningham and Harris, 2005; McKinnon, 1988; Ahrens and Chapman, 2006). The research question was how accrual accounting information helps non-profit private health care organisations survive harsh price competition. A comparative approach to accrual accounting practices in a hospital district in Finland was made in order to robust the study.

The study found instrumental change towards full accrual accounting routines and loose coupling between accrual accounting dynamics and management accounting practices in negotiating health care contracts with the municipality. The circuit of market powers there between remains a battle field whose effects on accrual accounting practices on the part of non-profit health care organisations depend on their capacity to negotiate order in their favour (Modell, 2006; Ribeiro and Scapens, 2006). The study highlights the need to fill gaps between municipal cash-based accounting approach in managing outsourced health care service contracts and short-run focus of non-profit health care organisations to win competition by offering under-priced services (i.e. prices not based on full accrual accounting information).

The paper starts with introduction (section 1). It is followed by background literature (section 2), methodology (section 3), discussion of research findings and their implications (section 4) and conclusion (section 5).

Keywords: accrual accounting, non-profit health care, competition, power, order, routine, change, municipalities.

INTRODUCTION

Since the late 2007, non-profit health care organisations in many European countries started to face strong price competition consecutive to mandatory public tendering which public organisations started make before purchasing any product or service whose price is beyond 15000 euro. The pressure to make public tender in the purchasing process of EU countries is based on a controversial EU directive issued by the EU commission in the early 2000 to all EU countries in order to implement free movement of goods and services, free competition and equal opportunities for any business or non-business organisation in the EU to enter into any EU public sector market. The shift in public sector purchasing policy has affected local non-profit health care organisations in EU with tremendous outcomes due to their lack of enough professional expertise in financial and management accounting which are necessary for sound managerial decision making especially when the market environment is dominated by multinational business competitors that have necessary skills, financial resources and experience to offer competitive prices to public organisations (i.e. buyers), at least during the competition process, thereby driving out of the market local non-profit private health care organisations. This has been the case in the public elderly care market in Finland (Pello, 2010).

Prior research in accrual accounting practices in EU and elsewhere showed nuanced outcome regarding the level at which EU countries have adopted and implemented accrual accounting. Example: countries like UK, Germany, the Netherlands, Sweden and Finland have been active implementers of accrual accounting principles while others such as Ireland and Norway are still lagging behind or even hesitant to do so (Hood, 1995¹; Pettersen, 1995 and 2001²; Monsen and Näsi, 1996³; Lapsley, 2001⁴; Groot and Budding, 2008⁵; Vinnari and Näsi, 2008⁶; Hanks, 2009⁷; Pina et al., 2009⁸ Christensen and Parker, 2010⁹; Kober et al., 2010¹⁰; Hyndman and Connolly, 2011¹¹; Jagalla et al, 2011¹²). Moreover, while some scholars defended the rationale and accuracy of applying accrual accounting in public institutions (Carlin, 2005); others have been critical about

¹ Comparative approach between early and late adopters of NPM reforms such as (1) Australia, New Zealand and UK; (2) Italy, Ireland and Austria; and (3) Spain, Greece and Japan...

² For Norway

³ For Finland and Norway

⁴ For UK public hospitals

⁵ For the Netherlands

⁶ For Finland

⁷ For US department of defense

⁸ For accrual accounting in EU countries using a comparative approach

⁹ For Australia

¹⁰ For Australia

¹¹ For UK and Ireland

¹² For Germany

it (Lapsley, 2009 and 2008; Hoque and Moll, 2001, McCrae and Aiken, 2000; Guthrie et al; 1999; Robinson, 1998; Monsen and Näsi, 1996). Adoption and implementation of accrual accounting in a given country may still give room to accounting manipulation when the accrual rules applied are not specific enough not to require subjective interpretation of their applicants (Vinnari and Näsi, 2008; Jacobs, 2009). Moreover, applying accrual accounting in the public sector is not a guarantee that cash-based thinking and acting in budgetary management of public institutions disappears (Monsen and Näsi, 1996, Hyvönen and Järvinen, 2006) These studies, however, focused on accrual accounting practices at national levels or in local public organisations and none has analysed the relevance of accrual accounting in non-profit health care organisations that are not owned by public institutions. It is necessary to fill this gap because non-profit private health care organisations have their own specific features, needs and challenges not shared by business and public organisations such as limited managerial autonomy, relative weakness of business bargaining power and obligation to survive by their own i.e. not relying on public subsidies and being required by their own founding regulations not to make profit or to reverse it for future use (Teerooven and Raja, 2007). Carlin (2005) maintained that accrual accounting (as opposed to cash accounting) provides relevant information about total operational costs and revenues of the organisation in which it takes place during a specific timeframe, which improves measurement of organisational performance and efficiency in order to make sound decisions regarding resource allocation. From institutional theory perspective, however, Carlin's (2005) approach can also be regarded as painting a symbolic picture of accrual accounting showing that the organisation applying accrual accounting is well managed i.e. accrual accounting as a ritual (Pettersen, 1995) while internal practices of that organisation are still loosely coupled with the outside painted picture (Nyland and Pettersen, 2004; Ribeiro and Scapens, 2006; Lukka, 2007).

Modell (2006) maintained that management accounting practices regarding resource allocation can be better understood by the use of negotiated order literature (Basu et al., 1999; Phillips et al., 2000) as supplement to neo institutional theory (Modell, 2002; Maines, 1984; DiMaggio and Powell 1983; Meyer and Rowan 1977). Modell (2006), however, used public institutions as illustration and called for further research applying the institutional negotiated order framework to other research fields. The call for further research was reiterated by Ribeiro and Scapens (2006) in their study of management accounting practices and change in a business organisation which they analysed by combining old institutional economics theory (Burns and Scapens, 2000) and new institutional sociology (NIS) framework of circuit of power (Clegg, 1989).

The aim of this study is to contribute to this growing body of literature of management accounting and change that combine old institutional economics theory and new institutional sociology and to provide major implications for the use of accrual accounting information in municipal and non-profit organisations in public health care.

Drawing on institutional conceptual framework of management accounting and change proposed by Burns and Scapens (2000) and the new institutional sociology framework of "circuit of power" (Clegg, 1989), a qualitative case study became conducted in a non-profit private health care organisation in Finland from 2008 to early 2011. The study concentrated on document analysis, interviews and observations (Yin, 2008; Dul and Hak, 2008; Cunningham and Harris, 2005; McKinnon, 1988; Ahrens and Chapman, 2006). The research question was which institutional role(s) has accrual accounting in non-profit private health care organisations when faced with strong price competition? A comparative approach to accrual accounting practices in a hospital district was made in order to robust the findings of the study.

The study found instrumental change towards full accrual accounting routines in the non-profit private health care organisation analysed and loose coupling between accrual accounting dynamics and management accounting practices in negotiating health care contracts with municipal authorities. The circuit of market powers there between remains a battle field whose effects on accrual accounting practices on the part of non-profit health care organisations depend on their capacity to negotiate order in their favour (Modell, 2006; Libeiro and Scapens, 2006). The study highlights the need to fill gaps between municipal cash-based accounting approach in managing outsourced health care service contracts and short-run focus of non-profit private health care organisations to win competition by offering under-priced services (i.e. prices not based on full accrual accounting information). The remainder of this paper is structured as follows: section 2 analyses background literature that leads to this study, followed by methodology (section 3), discussion of research findings and their implications (section 4) and conclusion (section 5).

BACKGROUND

This section analyses major concepts on which this study is built and presents the conceptual framework of the study.

Accrual accounting reforms and their impacts on public health care management in Finland

The traditional accounting approach in the public sector of Finland until the early 1990s was cameral accounting. This form of accounting used an administrative cash in-cash-out approach leaving behind accounting transactions that were due but not yet paid, amortisation, accrual cost of capital.... (Näsi, 1999). Starting from 1992, however, the cameral accounting system became replaced by accrual accounting under the new Accounting Act (1992). Applicability of this Act to municipal organs became reiterated in the new Municipality Act (1995). Currently, accounting practices in Finland are based on the revised Accounting Act (1997) as far as non-listed companies are concerned. Further clarification concerning applicability of the 1997 Act to municipalities is issued by Municipality Section of the Finnish Accounting Board (Näsi, 1999).

Budgetary practices for municipalities in Finland are based on relevant provisions of the Municipality Act (1995). The 1995 Act requires zero balance budgets for every municipality during a period of three consecutive years and these budgets are expected to be based on accrual accounting principles. In practice, however, municipal budgeting includes a political process during which municipal political governing bodies (i.e. the council and the board) issue budgetary rules and limits to technical budgeting organs and have power to approve the final budget of the municipality. This practice leads to lengthy budgetary negotiations between municipal technical organs and politicians during which the initially planned budgets on the basis of accrual accounting become decreased to minimum levels often equivalent to budgets not including accrual based accounting variables such as allowances for paid holidays, amortisation, accrual costs of capital... (Vinnari and Näsi, 2008).

Regarding municipal public health care management, the State Subsidy Act (1992) provides that each municipality receives a Government grant for health care costs on per-capita basis. Beside the Government grant, municipal health care costs are largely financed by municipal tax revenues (Kurunmäki, 1999). The budget allocated to health care costs, however, becomes shared between specialty health care costs (paid to hospitals), primary health care costs (paid to health care centres) and costs of care for the elderly and the handicaps. Following the growing percentage of ageing population in Finland, many municipalities outsource health care services for the elderly from local health care enterprises. This is done through the process of mandatory public tendering based purchaser-provider model (Hyvönen and Järvinen, 2006) in which local enterprises compete with multinational health care business organisations (some of which quoted in stock markets) in order to conclude health care sale contracts with municipalities.

Health care organisations are bound to apply accrual accounting rules in force in Finland in making their official annual financial reports. This requirement, however, does not apply to internal management accounting practices.

Old institutional theory perspectives on accounting change

This study draws on the institutional conceptual framework of management accounting change proposed by Burns and Scapens (2000). That framework is based on old institutional economics (OIE) theory¹³ and helps understand management accounting change by focusing on organisational rules and routines and their institutionalisations (Scapens, 1994; Burns and Scapens, 2000). The Burns and Scapens (2000) framework is therefore suitable to analyse intra-organisational management accounting practices and change and has been applied successfully in other similar studies (Nyland, et al., 2009; Lukka, 2007; Hyvönen and Järvinen, 2006; Ribeiro and Scapens, 2006; Burns and Baldvinsdottir, 2005; Perren and Grant, 2000...).

The starting point of the Burns and Scapens (2000) framework is that organisational rules and routines are institutions. Burns and Scapens (2000) defined institution by reference to an old definition given by Hamilton (1932, p.4) as “a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of the people.” Institution incarnates “*settled habits of thought or action*” which have been produced and reproduced during the process of *routinisation* until they became institutionalised. Institutionalisation of new rules or old routines becomes achieved when they have become taken for granted assumptions about how things are done in the organisation concerned regardless of contrasting behaviour and actions of organisational actors encountered during their institutionalisation process (Burns and Scapens, 2000, p.6; Hyvönen and Järvinen, 2006; Lukka, 2007; Nyland et al., 2009). Thus, contrary to habits that tend to replicate previously acquired or adapted forms of action at individual level (Hodgson, 1993); routines deal with thoughts or actions adopted by groups of people (Burns and Scapens, 2000). Consequently, the approach taken in this study is to analyse accrual accounting practices of organisational actors (as a whole and not individually) of non-profit private health care organisation during price competition.

¹³ Old institutional economics theory (OIE) is opposed to new institutional economics (NIE) which pays more attention on effects of extra-organisational forces as drivers of change (Walker, 1998) and new institutional sociology (NIS) which concentrates on neo-classical economic theory (Carruthers, 1995; Burns and Scapens, 2000).

Burns and Scapens (2000) defined rules as normative and formal dispositions prescribing ways things should be done. Thus, continuous application of a rule gives rise to tacit knowledge, which when shared by a group of people becomes a routine. The routinisation process, however, may change the purpose of the original rule in practice depending on the way that rule has been acquired, understood and interpreted (Scapens, 1994). The change in purpose of the original rule can lead to *deliberate* change of the rule in case of resistance against that rule or *unconscious* change when the rule had been misunderstood (Burns and Scapens, 2000).

Conversely, already established routines without prior formal rules backing them can be made rules in order to avoid anarchy and be able to control their further application. In this case, the routinisation process starts from routines to rules (Burns and Scapens, 2000). Institutionalisation and routinisation, therefore, combine synchronic and diachronic aspects of management accounting change. Institution commands and influences actions synchronically whereas institutionalisation emanates from diachronic production and reproduction of actions over time. Hence, institutionalisation of new rules and routines imposed from *institutional realm* can take longer than institutionalisation of rules or routines initiated by organisational actors at the lever of *realm of action*, depending on the level of resistance against change encountered during the institutionalisation process.

The starting point of this study is that accrual accounting rules have been imposed on municipalities and non-profit private health care organisations in the late 1997s. Each of these organisations, however, has had freedom to apply them to their management accounting practices as it deems it necessary in order to comply with minimum legal requirements applicable to official financial accounting reports. This means that accrual accounting dynamics can have different roles in management accounting routines of different organisations (Ribeiro and Scapens, 2006).

Circuits of power and institutional change

Recently, combining old institutional economics theory (Burns and Scapens, 2000) and the framework of circuit of power (Glegg, 1989) has been found helpful to explain institutional change of accounting process involving multitude actors having different levels of power to influence the change process (Ribeiro and Scapens, 2006). The framework of circuit of power (Glegg, 1989, p. 187-210) is based on neo institutional sociology and helps understand the role played by power of influential actors located outside the organisation, inside the organisation and the organisation itself in shaping organisational change and mechanisms through which power becomes used.

Power in this framework is divided between *formal* (i.e. legitimate and hierarchical) and *informal* (illegitimate and sporadic) powers. Hierarchical power confers authority and legitimacy to control and implement organisational goals throughout organisational hierarchy. Informal power, on the other hand, is based on political, financial, and professional ideologies of organisational members (and non-members) allowing them to use discretion in making decisions which are not necessarily a threat to the organisation but can have impacts (often negative) on other organisational members involved in the same process of change. Hence, formal and informal powers form a complex *system of powers* (Clegg, 1989, p. 188).

Discretion is a significant tool in the *system of powers* as far as it can be used by organisational (non-) members to resist against change or to implement it in the best favorable way of the holders of informal power even when this is contrary to the initial intentions of the reformer(s). Hence, the circuit of power is characterised by continuous negotiations and renegotiations occurring between and within organisational members by the use of *authority*, *ideology* and *expertise*. In this way, power ceases to be seen as function of resource dependency of Y towards X, in order to include extended roles of *ideologies* and *expertise* in the system of powers (Clegg, 1989, p.190).

Ribeiro and Scapens (2006), found that application of the framework of circuits of power in studies of management accounting change goes beyond the taken for granted approach of old institutional economic theory by showing intrinsic aspects which trigger behavior of organisational actors during management accounting change beyond the mere focus on hierarchical and resource dependency contingency approach. However, while Ribeiro and Scapens (2006) applied Clegg (1989) circuit of power framework to intra-organisational actors, this study extends its application to the role of accrual accounting in the circuit of power between purchasers and providers of public health care services during price competition and management of health care sale contracts emanating from there. In this regard, Clegg (1989) stated as follows:

“Power, viewed episodically, may move through circuits in which rules, relations and resources that are constitutive of power are translated, fixed and reproduced/transformed.” Clegg, 1989, p.211

While the above citation refers to the routinisation process of institutional change through which new rules or old routines become institutionalised (Burns and Scapens, 2000), it also highlights the negotiated order character (Modell, 2006) through which the use of accrual accounting in management accounting may shape the bargaining-power-relationships between purchasers and providers of public health care services during price competition.

Accrual accounting in negotiation of institutional order

Literature on negotiated order is extensive and has been applied in institutional theory literature since many decades ago (Blumer 1969; Fine 1984; Strauss 1959, 1978, 1993; Maines, 1982 and 1984...). Maines (1982) defined negotiated order as “*realms of human conduct through which social structures are processed and social processes become structured.*”

Negotiated order theorists (Maines, 1982; Basu et al., 1999, Phillips et al, 2000) focus on the role of human negotiation in shaping social structures whereas as neo and old institutional theorists (Ribeiro and Scapens, 2006; Burns and Scapens, 2000; DiMaggio and Power, 1983; Meyer and Rowan 1977) focus on analysing how organisational structures end up taking rule-like models and taken-for-granted ways about how things are done in organisations (Modell, 2006). Prior research in negotiated order and institutional theory found that the role of accounting in shaping organisational management is symbolic or ritualistic on the one hand (Pettersen, 1995) and technical (i.e. rational) on the other hand; these two roles may be tightly *connected* (Maines, 1982); *decoupled* or *loosely connected* (Hall, 1997; Thomas, 1983; Lukka, 2007). Recently, Modell (2006) recommended combining these two streams in analysing management accounting change involving actors that/who are outside of the organisation but have strong coercive power to influence organisational change as illustrated in the new University resource allocation system in Sweden analysed in that study. This study draws on the framework of negotiated order proposed by Modell (2006) in analysing the role of accrual accounting in management of health care sales contracts between non-profit private organisations (sellers) and municipal authorities (buyers) in price competition.

The framework of the study

From theoretical considerations discussed above, the framework is based on old institutional economics literature on institutionalisation of management accounting rules and routines from institutional realm to realm of action presented by Burns and Scapens (2000), and the role of accrual accounting as a tool for non-profit health care organisations to renegotiate order in their favour during performance of their health care sale contracts which in turn reshapes their market positions through the process of circuits of power based on neo institutional sociology (Clegg, 1989; Modell, 2006; Ribeiro and Scapens, 2006). Figure 1 below, presents framework of this study.

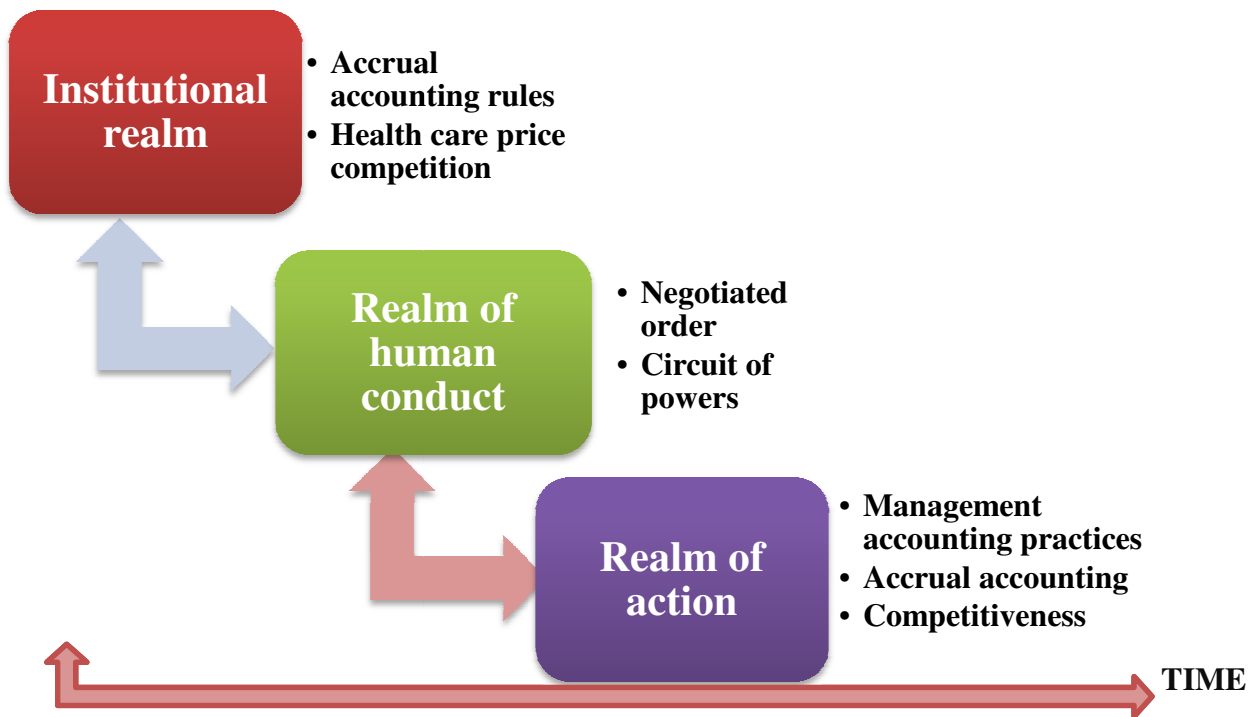


Figure 1: Institutional framework for analysing the role of accrual accounting in price competition

METHODOLOGY

This is a qualitative field research study based on observations, document analysis and interviews (Lukka and Modell, 2010; Yin, 2008; Dul and Hak, 2008; Ahrens and Chapman, 2006; Baxter and Chua, 1998 and 2008; Brown, 2005; Lillis and Mundy, 2005; McKinnon, 1988).

Description of research field

The case study was conducted in a non-profit private health care organisation that provides specialised elderly care in one municipality in Finland. This non-profit private health care organisation has good reputation in terms of the quality of its health care services at national level and has long experience in selling its services to the municipality in which it is located. In order to increase its specialisation, some of its services are provided through its daughter companies. The choice of this non-profit private health care (hereinafter called *Credo health care*) was based on it having been involved in price competition with other companies during the late 2000 organised by the local municipality in which it operates and survived the heat. Credo health care has professional leadership and qualified nurses and assistant nurses who participate in everyday health care activities provided to the elderly. The study obtained access to accounting material used in price setting system of Credo health care and extensive information regarding its financial and management accounting activities, including possibilities to attend board meetings and some other

managerial meetings in which financial issues were discussed. Municipal authorities in charge of health care management in that municipality have also been interested in providing necessary material regarding their purchasing processes and the role played by local politicians (elected representatives) in this process. Quite few information regarding management of health care services is posted on the website of the both organisations due to their top commercial character. However, municipal leaders and managers of *Credo health care* have sometimes expressed themselves in local newspapers and this triggered further discussion with them about their statements published in those newspapers during the process of collecting data for this study.

Data Collection

Data collection was done from early 2008 to 2011. The starting point was to discuss the process of municipal procurement of health care services through public tendering in early 2008. At that time, a new EU based law about public procurement had entered in Finland and obliged municipal authorities to make public tender before purchasing any product or service whose cost is beyond 15000€. This public procurement law, however, was not accompanied by enough training of municipal personnel about how to implement it in practice and who should supervise its implementation during the purchase of speciality health care services such as elderly care. In practice, therefore, elders who already had moved into elderly homes since a long time ago faced the threat of having to move from those homes into other locations owned by winners of price competition. The issue became a political hot topic and family members of the elders required active information from municipal public servants and elected representatives (local politicians) involved in decision making process of that municipality. Municipal officials made open statements in local newspapers explaining why price competition was compulsory before purchasing health care services from non-municipal organisations while their opponents claimed the loss of ethical considerations in the municipal commercialisation approach of public health care of the elderly, a class of the population which is highly respected in the society because some of the elders participated as volunteers or professional soldiers in the second world war defending the country. In order to obtain further information about the rationale of public tendering in the municipal procurement process of health care for the elderly, interviews with chief finance officer of the municipal social services followed by multiple interviews with chief controller of the municipality, one of the auditors of the municipality, local politicians, chairperson of the board of *Credo health care* as well as its chief executive officer and two product and sales managers became made from 2008 to early 2011. In order to assess the level of application of accrual accounting principles in management accounting activities of *Credo health care*, a comparative approach to accrual

accounting practices in a hospital district not located in the same city as Credo health care became made in 2010 and early 2011. This was done by interviewing financial manager, chief internal auditor and chief external auditor of the hospital district and by analysing management accounting system of that hospital including its internal accounting reporting process and its price setting system. Time spent in gathering data through formal and informal interviews, participation in board meetings (of Credo health care) and document analysis at Credo health care, the municipality and the hospital district is beyond a hundred hours.

Credibility and reliability

Credibility and reliability are of great importance for qualitative field studies as they are for any other study (Cunningham and Harris, 2005; McKinnon, 1988). Therefore, interviews with municipal authorities were recorded and their reports became discussed with them afterwards. Interviews of the executives of Credo health care, on the other hand, have been informal but they provided full access to accounting data and processes used in that organisation strictly for the purpose of this study. In order to ascertain reliability of their statements, the use of secondary material such as accounting data, statements made in local newspapers, statements made during general meetings and board meetings observed at different intervals of time and statements made in their official operating reports were found coherent with their informal statements made in casual interviews. Moreover, the municipality in which Credo health care operates is relatively small and nothing goes unnoticed there. Information gathered through formal interviews with representatives of the hospital district was recorded and their written reports became discussed with the interviewees afterwards in order to make sure that no misunderstanding occurred during the interviews. Information gathered during data collection is therefore trustworthy.

DISCUSSION OF FINDINGS AND THEIR IMPLICATIONS

In this section, a résumé of the main findings is presented in table 1, below. It is followed by conceptual discussion of the main findings and their implications.

1) The main findings

Table 1, below, presents the main findings.

	Credo health care	The municipality
Business relationship	Contractual	Contractual, with supervisory power

Health care contracting process	-Compulsory competition -Credo makes offer	-Compulsory competition -The municipality accepts the offer
Key to winning competition	-Lower prices	Lower prices and quality of health care services
The level of financial pressure	-Employment costs for health care personnel	-Using a limited budgets approved by municipal politicians
Keys to making acceptable offers for health care services	<ul style="list-style-type: none"> - Accrual cost per patient per hour and per personnel - Managerial accrual overhead costs per patient per day - Accrual cost of capital used per day per patient - Accrual cost of amortisation by patient and per day. - Risk premium (room for price discussion). - Minimum time of personnel per patient per day - Quality of health care program and services (accrual reporting costs). -The final price per patient per day payable by the municipality -Price per patient per day payable by the patient (can influence the choice of competitors in case they have offered a lower price here). 	<ul style="list-style-type: none"> -Price per patient/per day payable by the municipality -Price per patient per day payable by the patient (not really enforced during price competition) - Health care quality standards and plans for future improvements (not really enforced in practice). - A wish to connect contractual relationships with new firms not having had struggles with municipal authorities before.
Challenges faced in price competition	<ul style="list-style-type: none"> -Market risks in competing with competitors who offer under-priced services in order to win competition - Ethical considerations in making lower priced offers in order to keep contractual relationships with the municipality - Legal obligations to conclude long term contractual relationship with employees (who as time passes become quite expensive to hire) -Vulnerability of having only one too big client with no other alternatives in case the price 	<ul style="list-style-type: none"> -Making a sound invitation to make legal tender that includes all variables - Evaluation of offers made by multinationals companies not yet present in the municipality (i.e with no personnel and reputation yet) - Common criteria for evaluation of health care quality from company to company - The relevance of past business relationship in the new price competition race. - Budgetary constraints and obligation to purchase health care services from the cheapest

	competition race is lost	possible firms (though not sure about their quality)
The role of accrual accounting information during price competition	<p>-Very important because it helps know own costs and possible revenues.</p> <p>-Very important because it helps know which product not sell anymore and which one to give priority.</p> <p>-Helps to know the minimum possible price per product to offer</p>	<p>- Not really important in price tendering because it is of relevance for municipal decision makers. What matters is the final price of the service bought per day</p> <p>- However, accrual accounting information helps in negotiation of additional social health care budgets requests to the municipal political governing body (i.e the council)</p>
The role of accrual accounting during performance of health care contracts	<p>-A good tool for following-up actual costs and revenues</p> <p>- Can be used as proof of change in market conditions (e.g. higher costs of labour) allowing them to renegotiate the sale contract with municipal authorities</p>	<p>-Follow up of costs of purchased health care services not based on accrual accounting but on agreed prices</p> <p>-However, accrual accounting information of private providers of health care services can be used as a ground to increase the purchase price of services that the municipality buys from them.</p>
The role of negotiation during price competition	-No room for negotiation, everything goes through written communication (offer)	No room for negotiation with each health care organisation separately
The role of negotiation during performance of health care contract	<p>-Possibility to renegotiate additional services softly.</p> <p>-Possibility to implement limitation clauses softly or to change the sale contract when the health care clients have become too demanding than it could be expected during price tendering.</p>	<p>- Possibility to use accrual based financial reports of health care organisations having contractual sales relationships with the municipality as proof of the need to increase budgets allocated to them.</p> <p>- Possibility to make additional direct purchases from health care organisations having good contractual business relationships with the municipality.</p>

Table1: The main findings

2) Conceptualisation of the main findings and their implications

The findings of this study suggest that the use of accrual accounting information in Credo health care is *instrumental* (a) and that management accounting practices prevailing in that organisation make use of accrual accounting information in setting optimal health care prices of its services, which become reduced to a minimum level during price competition (b). However, when the competition race is over, new softer negotiations with the municipality lead to the increase of health care prices to their normal levels again (c). Each of these findings is discussed further below.

a) Instrumental role of accrual accounting

Burns and Scapens (2000) maintained that when new rules are introduced into an organisation, those rules go through the process of routinisation before becoming institutionalised. Institutionalisation of new rules become achieved, when they have reached the level of acceptance in that organisation making them taken for granted ways about how things are done in that organisation regardless of their historical bouncing background. This study found that accrual accounting rules and practices at Credo health care have become taken for granted ways about how financial and management accounting have to be done in that organisation in order to give to the executives of that organisation relevant financial information on the basis of which they make managerial decisions about which services and at which prices to sell them to the municipality, which ones to sell to the elderly directly (i.e. private services) and which ones to stop selling altogether. According to Bush (1987 pp. 5-9), two following and opposite dichotomies are present in any institutional change process: ceremonial and instrumental. Main characteristics of ceremonial values are as follows:

- They give rise to behavioural patterns that prescribe statuses,
- They reinforce principal and agent relationships
- They legitimate the use of power by one group of people over another.
- And the rationale for judging ceremonial values is based on the presence of “sufficient reasons” or “plausible argument” to do so.

Hence, ceremonial values do not change the status quo as such but introduce a mimetic façade change not touching upon substantial issues (Bush, 1987, p.5). Main characteristics of instrumental values to the contrary is apply the best possible tools, skills and knowledge in order to solve the problems faced by the organisation in which change has taken (or is taking) place. The test of any instrumental change is whether the change focuses on solving problems efficiently, by introducing a shift in power relationships between organisational actors involved in the change process if

necessary (Bush, 1987, pp. 6-7). Another institutional change scholar (Dugger, 1990, p.426) maintained that one of the ways to test whether organisational change is instrumental is to analyse if what emanates from the change “helps the community even at the expense of self...” In the contrary scenario (i.e. when the outcome of change is to help the self even at the expense of the community), the change is ceremonial. These tests became recommended by Burns and Scapens (2000) as pre-requirements before reaching any conclusion regarding the level of institutional change under analysis. This study found that the use of accrual accounting information in financial and management accounting activities of Credo health care is *instrumental* on the basis of following findings:

- The board decisions about which service to sell or not to sell and at which price is based on accrual management accounting information coming from its finance department.
- The financial manager of that organisation is professional and is always invited to take part in board meetings in which she/he make statements based on accrual accounting expertise and its application to specific needs of that organisation. This manager uses high standard software in processing management and financial accounting information daily and issues accrual financial reports each month to the speaker of the board and the chief executive officer. Further operational information is given by the chief executive officer in board meetings.
- The speaker of the board is expert in financial management and many members of the board have leading business positions in other organisations. They are therefore acquainted with accrual accounting requirements and want to insure that those requirements have been fulfilled during management accounting activities leading to price setting (minimum and maximum) levels.
- Management and financial accounting practices at Credo health care apply accrual accounting rules and recommendations in force in Finland in the same manner as they are applied in the public hospital district analysed specifically for the purpose of this study and which has good management reputation.
- Consequently, some of the health care services of Credo health care become withdrawn from the market (once found unprofitable) even when sales and product managers maintain that they can still try to sell them better (i.e. this is a shift in managerial power when accrual accounting reports show negative signs).

Hence, the institutional role of accrual accounting practices at Credo health care is instrumental. This finding confirms the study by Kurunmäki et al., 2003 on the use of accounting information in hospital clinics in Finland and extends its application to the non-profit private health care organisation analysed in this study. The main implication from this finding is that accrual accounting in itself does not add value to managerial decision making unless when decision-makers are willing to base their decisions on accrual accounting based information beyond the minimum legal requirement as it is done in Credo health care. However, how does accrual accounting based information help Credo health care deal with price competition?

b) Loose coupling between accrual accounting reports and internal management accounting practices

Although the study found that the use of accrual accounting in management activities of Credo health care is instrumental, internal management accounting practices of that organisation are not always tightly connected with what accrual accounting based numbers may suggest pro-actively. This loose coupling, however little, has been observed as follows: during competitive tendering to the municipality, analysis of market environment usually shows tendencies that competitors are likely to under-price their services in order to start competing against Credo health care in the municipal price competition. Hence, it is not uncommon at this time, that new service design become made by including in the service production costs lower costs of labour (pretending that the new recruits will not be too expensive), not to including into service cost analysis all risk factors such as paid sick leaves, holiday allowances...

This goes through the same accrual accounting process, though in practice, it ends up to the same result in price setting as if only cash accounting principles had been used. There are many strategic reasons why this is done such as the necessity to keep good contractual relationships with municipal leaders (who are the sole big clients for Credo health care) and difficulties involved in withdrawing an established health care service from the market (in case no offer is made to the municipality or when that offer becomes rejected), such as having to repudiate employees to whom the organisation had paid much in terms of continuous learning during their employment time, knowing well that once repudiated they will immediately be hired by competitors... Despite these challenges, however, it is not uncommon that the board ends up deciding to close providing some services whose loss of profitability is less likely to be recovered. Hence, contrary to the rationale behind loose coupling in previous Nordic health care studies based on institutional theory such as not willing to connect budgets decisions to actions (Pettersen, 1995; Nyland and Pettersen, 2004) or difficulties to comply with unclear management accounting guidance given by the central

administration office of multinational corporations to their daughter companies (Lukka, 2007), this study found that loose coupling between accrual accounting rules and management accounting practices at Credo health care is often caused by market constraints and helps that organisation reorganise its operations without losing its potential clients. These strategic maneuverings take part in the realm of human conduct (as shown in figure1, above) and involve renegotiation of multiple circuits of power. A major implication from this finding is that accrual accounting information helps organisational management make strategic decisions even when this requires temporal loose coupling between accrual accounting rules and management accounting routines. This confirms the study by Carlin (2005) about the roles of accrual accounting in Australian and New-Zealand's public sectors and extends its application to the local non-profit making health care organisation in Finland analysed in this study.

Accrual accounting and renegotiation of market order through the circuit of powers

According to Maines (1982) the role of negotiated order is to shape social structures so that social processes can be restructured conveniently. This requires interaction between actors involved in the negotiating order process with the aim of making their different kinds of power converge into the same direction or at least into non-contrasting directions (Clegg, 1989). There is therefore complementarity between negotiated order literature (Basu et al., 1999; Philips et al., 2000; Modell, 2006) and neo institutional literature on circuits of power (Clegg, 1989; Ribeiro and Scapens, 2006), especially when these different streams of thoughts are used to provide further explanation for complex institutional phenomenon (Ribeiro and Scapens, 2006; Model, 2006 and 2009; Lukka and Modell, 2010). The findings of this study suggest that Credo health care has been successful to use accrual accounting information in order to "renegotiate order" in its favour, when the race for price competition was over, regarding its services that it was selling below the minimum level suggested by its accrual accounting based information. Credo health care used the three main mechanisms predicted by Clegg (1989) which are: authority, ideology and expertise in addition to discretion. The tool of authority derived from major interventions in the media that leaders of Credo health care made before, during, and after price competition showing the weakness and unfairness of the EU based law imposing compulsory price competition in public health care of the elderly and efforts made by specialised lawyers in this issue to tell municipal authorities that they had misunderstood and poorly implemented that law throughout. Moreover, some of the losers in price competition race made claims in local business courts against municipal leaders on the basis of law.

Beside the authoritative power, was the ideology based power that price competition in private health care for the elderly who already had moved from their homes in order to live in private elderly institutions was equivalent to buying and selling human kind and that municipal authorities could give no guarantee that the quality of health care standards will be maintained if their policy was to purchase health care services from the cheapest providers often with no background in the local market.

The findings of this study, however, suggest that the role accrual accounting information in this respect was paramount because family members of the elderly and other experts used available prices of health care labour (based on syndicate agreements of salary levels for nurses and assistant nurses at national level) to tell municipal authorities that prices offered by some companies could never be realistic and advised them to apply other strategies in future procurement of private health care services for the elderly. In this context, it became feasible for leaders of Credo health care to renegotiate some of its health care prices to the acceptable levels and this could not have been possible prior or during price competition time. Thus, while Ribeiro and Scapens used the framework of circuit of power (Clegg, 1989) to explain why organisational actors may resist change within the organisation, this study extends that finding by showing how understanding circuits of power in the process of renegotiating order (Basu et al., 1999) between organisations (Philips et al., 2000; Modell, 2006) helps understand instrumental roles of accrual accounting in health care price negotiations in the context of hard competition. This confirms the study by Modell (2006) and extends its finding from public university sector of Sweden to non-profit private health care sector in Finland that is analysed in this study. A major implication from this finding is that private non-profit health care organisations not willing to offer under-priced services during competition have to make tremendous efforts when competition is over to keep contractual business relationships with the municipality, which is not easy without having and using relevant and reliable accrual accounting information regarding minimum acceptable prices amongst other things in order to prove their price renegotiation claims.

CONCLUSION

The aim of this study was to analyse institutional roles of accrual accounting in municipal price competition faced by non-profit private health care organisations. The study used a qualitative case study in a non-profit private health care organisation for the elderly in Finland as illustration.

Combining institutional framework of management accounting change proposed by Burns and Scapens (2000) and the neo institutional sociology framework of circuit power (Clegg, 1989) integrated into a negotiated order perspective (Modell, 2006), the study found that accrual accounting plays instrumental roles at institutional level of the non-profit health care organisation analysed and strategic loose coupling, however little, between accrual accounting rules and management accounting routines during price competition at the realm of action. The circuits of market power there between (i.e. at human realms) remain a battle field whose effects on accrual accounting practices on the part of non-profit health care organisations depend on their capacity to negotiate order in their favour. These findings confirm the framework of this study illustrated in figure 1, above. The study highlights the need to fill gaps between municipal cash-based accounting approach in managing outsourced health care service contracts and short run focus of non-profit private health care organisations to win competition by offering under-priced services (i.e. prices not based on full accrual accounting information). The main limitation of this study is that is largely based one non-profit health care organisation. Generalisation of its findings to other organisations is therefore not possible. The main contribution of this study is that it shows the relevance and necessity of combining old institutional economics theory focusing on management accounting change from institutional realm to realm of action (Burns and Scapens, 2000) and neo institutional sociology integrating the realm of human conduct (i.e. issues related to negotiated order (Modell, 2006) and circuit of powers (Clegg, 1989)) between the realm of action and the institutional realm (see illustration in figure 1, above). In addition to the theoretical contributions (Burns and Scapens, 2000; Kurunmäki et al., 2003; Carlin, 2005; Riberio and Scapens, 2006; Modell, 2006; Lukka and Modell, 2010) the study makes major implications regarding the relevance of accrual accounting information in management of non-profit private health care organisations operating in markets dominated by municipal (or public sector) monopoly. Further accrual accounting research is recommended in different market contexts.

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LEGAL METERIAL

Accounting Act, 1997
Municipality Act, 1995
State Subsidy Act, 1992
Public Procurement Act, 2007

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