

Role of management accounting in applying new institutional logics

Role of
management
accounting

A comparative case study in the non-profit sector

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Abstract

Purpose – The purpose of this paper is to explore the adoption of management accounting and control systems in the non-profit sector.

Design/methodology/approach – The theoretical framework of this comparative interpretative study draws on new institutional theory, especially the concepts of institutional logics and institutional work.

Findings – New accounting and management controls serve as a medium through which organizations negotiate between multiple and conflicting objectives and choose institutional logics in the organizational field.

Research limitations/implications – The data comprise interviews, observations and archival data and provides a limited view on how the organizational field is structured.

Originality/value – The paper contributes to the accounting literature by investigating how institutional work and operating under contradictory logics explain management accounting change.

Keywords Management accounting change, Non-profit organization, Institutional logics, Institutional work

Paper type Research paper

1. Introduction

Lately, developments in European Union (EU) – level competition and taxation legislation have challenged the role of non-profit health care sector, as the regulations stipulate that tax exemptions and subsidies of the non-profit sector may not distort competition[1]. In addition, recent decades have witnessed a significant increase in the number and turnover of private firms offering services that had been produced predominantly by non-profits, such as rehabilitative health care. The empirical setting of this comparative case study is Finland's non-profit health care sector, where many activities that were once considered fundraising for the non-profit sector have now begun to be considered comparable to private businesses.

The changing institutional and competitive environment seems to have led to a gradual commercialization of the non-profit health care sector, which is evident in the appearance of corporatized functions, company group structures and management accounting systems in health care organizations that were previously charitable organizations, associations of general interest and foundations. The growing importance of management controls and reliance on accounting has had implications for the operating logic of the non-profit organizations (Weisbrod, 1998). For instance, the study by Schiff and Weisbrod (1991) illustrates how non-profit organizations have a



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tendency to adopt profit maximizing strategies such as engaging in profit maximizing cost allocations and expanding to new areas of business (Jegers, 2010).

The analysis will illustrate how, even when faced with similar institutional pressures, two apparently similar organizations may devise different strategies and actions to legitimize their existence to external constituents and adhere to different institutional logics – contradictory practices and beliefs in Western societies that determine how individuals engage in their organizational struggles (Friedland and Alford, 1991). These are the socially constructed, historical patterns of cultural symbols and material practices, including assumptions, values and beliefs embedded in an organization (Thornton and Ocasio, 2008).

For instance, Lounsbury (2008) and Greenwood *et al.* (2010) note that the concept of institutional processes should not be viewed narrowly, for the logics that organizations face may be complex and reactions to such logics may vary significantly. This is especially so when organizations are heavily influenced by increasing market logics, but nevertheless receptive to non-market logics originating from the state. Relating to tensions between the logics, Greenwood *et al.* (2010) took the example of a rather classic tension between downsizing and philanthropy/social responsibility, which resulted in favor of market logics as downsizing deals generated, rather than distributed, profits.

In such conditions, organizations engage in institutional work to negotiate the tensions arising from conflicting institutional logics. Institutional work is, according to Lawrence and Suddaby (2006, p. 216), “purposive action of actors aimed at creating, maintaining and modifying surrounding institutions.” The concept highlights the importance of agency in institutional analysis, where institutional change is seen as an overlapping process of disrupting old institutional arrangements and creating new ones. For instance, Lawrence *et al.* (2011) call for researchers of institutional work to shift their gaze away from large-scale social transformations of the organizational field and attend more closely to the organizational level and action.

The research question is:

RQ1. How do organizations employ management accounting to choose between or reconcile contradictory institutional logics?

Accounting numbers are based on the logics of industrial/market worlds that are evaluated on the principles of efficiency and financial performances, but can possibly be used as a pressure instrument arising from other logics (charitable/philanthropic and health care). This paper addresses the issue by investigating two non-profit organizations under pressure to corporatize their functions and separate business-like activities from their charitable core functions – a process where budgeting and cost allocation systems play a major role.

Theoretical underpinnings

New institutional theory defines institutions as “historical accretions of past practices and understandings that set conditions on action” (Barley and Tolbert, 1997, p. 99). Organizational forms and practices are institutionalized when they are adopted because actors take them for granted, rather than because a rational choice process found them to be the most appropriate for the technical requirements of the task. In empirical work, institutionalization is typically operationalized by prevalence within a given population rather than by direct assessment of “taken-for-grantedness.” Later research has, among other issues, focussed on how so-called exogenous jolts may cause

changes in the structure of institutional fields, typically by introducing new, competing logics (Rautiainen and Järvenpää, 2012).

Recent research has addressed the micro-processes associated with conflicting and competing institutional logics (Battilana and Dorado, 2010; Pache and Santos, 2010) that have the capacity to continue to coexist for a lengthy period of time. For instance, Reay and Hinings (2009) investigated the conflicting institutional logics of managerialism and professionalism, identifying various mechanisms that allow actors to manage the rivalry between the institutional logics. Relating to the latter point, Rautiainen (2010) found that an organization is likely to experience decoupling of formal accounting-related rules and routines if there are conflicting normative or social pressures among decision makers with different professional backgrounds.

In fact, organizational fields with multiple logics and strong professionalized structures have been found to engage in institutional work such as creating, maintaining and modifying institutions and institutionalized practices (Lawrence and Suddaby, 2006; Suddaby and Viale, 2011; Empson *et al.*, 2013).

According to Thornton *et al.*, studying institutional work and institutional logics are mutually compatible research strategies that are connected by an interest in practice. For instance, Hayne and Free (2014) studied institutional work around a new agency, a “hybridized” professional group that takes on various activities relating to creation and maintenance of new institutions. Similarly, Hyvönen *et al.* (2009) investigated how the interaction between institutional logics and professional groups influenced the use of information systems, while Amans *et al.* (2015) illustrated how diverse and contradictory logics are reflected in budgeting practices.

Institutional work is often required to bring together a dispersed set of actors to agree upon a management accounting practice. For such actors, Chiwamit *et al.*, (2014) argue that the relevance of management accounting practices is related to wider social interests which become apparent in the creation and maintenance of cohesive organizational fields. An example of such diverting field-related interests is provided by Chenhall *et al.* (2013), who found that compromise between different organizational goals required the toleration of imperfections in accounting control systems, while disruptive organizational action was associated with “purification” of accounting techniques. However, institutional work is not only related to disrupting and creating institutions; in many cases, maintaining institutional arrangements can also require constant institutional work (Lawrence and Suddaby, 2006) and establishing enforcement mechanisms (Greenwood *et al.*, 2010).

2. Research method

This study analyzes cost allocation practices with a comparative case setting in two Finnish non-profit health care institutions called the “Veterans’ Rehabilitation Institute” and the “Charity Healthcare Foundation” (VRI and CHF, respectively – the names are disguised). The opportunity to study the process of new management control system implementation and adaptation in non-profit health care organizations came in the summer of 2007, when the author gained access to two non-profit health care organizations with plans to corporatize their functions and implement new management control systems. At that time, my research interests were guided only by a vague sense that corporatization and the emergence of MACS was the principal object for research. Within these case study settings, I explored the external pressure to alter or reform organizational control systems, the extent of change and the role of organizational actors in creating strategies for how to deal with such expectations.

In order to enable comparison, some effort was made to secure a meaningful case selection. Here, I followed Yin's (1991) advice on screening and selecting case studies. First, I identified a total of five non-profit health care organizations under pressure to corporatize their peripheral business-like activities. Then preliminary interviews were conducted in each organization with three to four people (managing director, chief of finance and manager(s) responsible for service production) about the background and relevance of the topic. After the first round of analysis of recorded and transcribed interviews, the present author identified several research issues that could be conceptualized by the chosen theoretical framework. The purpose of this explorative research method was to identify and understand new, interesting phenomena in the data. After this, the present author selected two case organizations for closer scrutiny that I thought would be most interesting in serving the purposes of this study. These two organizations were those subjected to a drastic change in the institutional environment, and ones where I felt the phenomena I was interested in would mostly likely be found.

The case organizations also granted the permission to observe some of the meetings on the related issues. At the individual case level, this explorative focus led to direct observation and participation as the main research method, as the case organizations were in the process of actually establishing corporations and implementing new management control systems. At first, I was invited to give an expert opinion on the corporatization issue (a minor consultancy fee was paid), after which I requested and was granted the opportunity to follow the rest of the process. Admittedly, maintaining academic integrity in such a case may be challenging as the intentionality of research with an aim to publish (Arbnor and Bjerke, 1997) must be maintained at all times. However, getting access to empirical data is particularly important as the case focusses on how institutional contradictions develop, and the expert opinion acted as a gate-opener. Participant observation lasted for ten days (see, Appendix 1), during which extensive notes were taken.

Concerning the interpretation of such data, I felt that it was crucial to distinguish between the method of data collection (participant observation) and data analysis, which was mostly done *ex-post* on the basis of documents. In such an interpretive process the researcher visits the case organizations and draws on his/her preunderstandings to engage with various issues, makes notes and records interviews. After the empirical phase and the data (i.e. notes and transcripts) are analyzed in the through the selected theoretical lense in order to come up with the final interpretation. Since data collection took several months, there were also iterative elements in the research process, as I was able to process the data before next participant observation. Analysis of the transcribed data took place in two stages. First, I used theme identification (Alasuutari, 1995) to come up with broad categories derived from the theoretical framework. These categories were used in analyzing the field-level institutional logics. Then, a cross-case analysis was carried out on the basis of the above field-level analysis and the cases were compared in order to identify differences in institutional pressures and organizational responses.

In addition to participant observation, the data consisted of interviews and project documents. This has to do with triangulation (Denzin, 1978; Yin, 1991; Hopper and Hoque, 2006), a measure taken to increase the credibility of findings. All in all, a total of 15 taped and transcribed interviews (see, Appendix 2) were conducted. Additionally, the secondary dataset included notes from a meeting between the tax administration and representatives of non-profit organizations, plus various archival documents and newspaper clippings.

3. Empirical setting

The institutional field is defined by actors that provide financing for the non-profits by channeling government money and grants. These actors, the Social Insurance Institution (SII), the Slot Machine Association (a governmental gambling monopoly) and the Social Housing Association engage in a discussion between governmental bodies, especially the tax and competition authorities, over what is acceptable. Here, the logic of charitable health care contests with the logic of the health care market. There is a change in conceptions and views concerning what the boundaries of business and non-profit activities are. This means that the conditions for grants and allowances must be redefined in order to prevent government money flowing to subsidize private business.

The mentioned change in the institutional field of non-profit health, the re-definition of the boundary between non-profit and business care, was reflected in the case organizations which were forced to alter their organizational designs in order to adjust the situation. This involved corporatization of certain functions and setting up cost allocation systems to keep the functions separate. Of the two case organizations, VRI corporatized its functions. While the nature and extent of these actions differed in the two case organizations, they did reveal the importance of accounting systems in reaction to the shift in field-level logics.

Background

Unlike many other countries, health care in Finland is tax-financed and its provision is a responsibility of the municipalities. Typically, the role of the public sector has been great in municipal health centers and speciality health care while in many other areas, such as rehabilitation and welfare services, the role of non-profit organizations has been important. At the end of the 1970s, the non-profit sector providing health care services began to expand rapidly. On the one hand, demand for their services increased, and on the other hand, the overall economic situation endowed the financiers with more resources. In fact, the governmental financiers indicated that if non-profit organizations expanded their health care production, funding would be readily available.

As a part of the comprehensive State Subsidy Reform in early 1993, the position of local governments (municipalities) in health care changed rather radically. In the reformed system, state subsidies for health service operating costs were a lump sum paid to municipalities, who then purchase the health care services from the service providers. This led to municipalities increasingly adopting the role of purchaser, with organizations actually providing the various services. In this new environment, non-profit health care organizations also became financially dependent on the local governments. However, when the flow of subsidies to non-profit organizations increased over time, other developments were taking place. First, there was expansion of the activities of non-profit organizations to areas that were clearly private businesses, such as hospitality, catering, congress services and even management consulting. Second, for-profit firms began to appear in fields that had been traditionally dominated by the non-profit organizations (especially in health care and child protection). Third, EU competition policies were implemented to ensure that the extensive subsidies would not distort market prices. These policies were embodied in the European Commission Green Paper on Services of General Interest in 2003 and the ensuing White Paper in 2004.

Non-profit financiers

A Finnish peculiarity is that non-profit organizations historically have been considered a part of the welfare system that is integrated into the functions of the society as a

whole. This thinking has two implications. First, legislation has assigned the non-profit health care sector certain tasks that would otherwise have belonged to the domain of the public sector, such as the treatment of certain illnesses. The second implication of such “outsourcing” by the public sector has been the allocation of funds to these organizations, resulting in subsidization mechanisms run by various semi-governmental organizations; Finland’s Slot Machine Association (RAY), the Social Housing Association (ARA) and the SII. Of the three subsidy-providing organizations, RAY enjoys a gambling monopoly in Finland. This association was in fact established in 1938 for the sole purpose of raising funds through gaming operations to support Finnish voluntary and non-profit health and welfare organizations. RAY has an exclusive right in Finland to operate slot machines and casino table games, as well as run a casino. ARA is an organization that channels government funding to social housing and real estate projects. In addition to RAY and ARA, a third important funding party for non-profit health care organizations is the SII, a governmental organization responsible for distributing various social benefits as well as subsidies to private health care.

Of the three, SII and ARA basically circulated taxpayers’ money to non-profit organizations, while RAY distributed its profits originating from its gambling monopoly. All in all, the traditional institutional arrangement where non-profit organizations, typically associations or foundations, were providing municipalities with social, welfare and health care services that were partly subsidized by Finland’s RAY were dismantled quickly as the EU competition laws and new tax legislation came into force. Non-profit organizations were forced to corporatize their activities and to implement sophisticated management controls both for controlling the “new” businesses and for external reporting purposes. One key characteristic of the Finnish non-profit sector is the very small number of private donations. For instance, in the World Giving Index Finland ranks on 33rd place, sharing the rank with many developing countries such as Kenya. Tax reliefs for private donations are also non-existent, which differs significantly from most other industrial nations (Viren, 2014). This means that the majority of the external funding of non-profits is acquired from the mentioned semi-governmental organizations.

4. Institutional pressures and emerging logics

The change in the institutional environment of the non-profit health care sector coincided with cuts in overall health care spending in the wake of the mid-1990s recession. In fact, the cuts in Finnish total health expenditures in the 1990s can be characterized as quite drastic in the OECD context. For instance, in 2000, the health care expenditure per capita was still lower in real terms than at the beginning of the 1990s. This means that, on average, the financial situation for non-profit health care organizations was already deteriorating when the institutional pressures from competition, tax authorities and financiers began to appear.

Pressure from the competition authorities

The Ministry of Trade and Industry was first to react to changing circumstances when it published a report concerning the status of competition in Finnish internal markets, raising the issue of the non-profit sector providing services to the municipal sector, as the subsidized and tax-exempt status was seen to prevent fully private service providers from entering the market. At the same time, a widely publicized report by a right-wing think-tank, gained publicity by demanding openness and fair competition in municipal procurements (Kanniainen, 2002). The Finnish Tax Administration was

quick to react: in March 2002, it initiated an inquiry about the way tax exemptions in the non-profit sector distorted competition. In the same year, the Finnish Competition Agency (2002) responded that the issue was indeed problematic and warranted action. At approximately the same time, RAY was pressured by the Finnish Competition Agency and various business lobbies to change its subsidy policy in such a way that service production in health care and social services would not be subsidized. In the future, only those services where there was no private competition, plus some R&D activities, would receive funds from the gambling monopoly.

The origin of this pressure to which Finns reacted so quickly was in the EU policies that stressed the competition neutrality of services of general interest. This meant that it was imperative that the services of non-profit organizations should not distort pricing in areas where private enterprises operated. In retrospect, this paper gave the Finnish Tax Administration the leverage it had been looking for to force the non-profit sector to pay more taxes. A senior tax official stated in an interview:

Sometimes, being exempt from tax does influence prices, it forces them unrealistically low. This is especially the case because the non-profits may be exempt from value added tax, too (Senior director, tax administration).

Thus, the tax authorities were well aware of potential competition-distorting effects of non-profit organizations having business-like activities. Arguments originating from EU competition policies were now influencing the way both corporate tax and VAT were imposed on tax subjects.

Financier pressure

While establishing limited companies was seldom overtly demanded in such a way that it would appear in written documents, corporatization was nevertheless recommended or actively suggested. RAY also recommended that consultants be used in this process:

In our case it [corporatization] has been a recommendation for them [the fund-receivers], not an actual demand. And, on the other hand, we have been involved in these processes [...] tax officials have speeded up the process even more (Manager, RAY).

Originally the pressure to corporatize began to mount when the Finnish Competition Authority and the entrepreneurial lobby persuaded RAY's top officials to implement a policy where RAY subsidies had to be separated from other funds in accounting. This meant that the recipients of funding had to demonstrate that no subsidies would flow into the production of such services where there were private, profit-making competitors. RAY would recommend corporatization as a viable solution to this. If the recipients of funding felt that this was hard to accomplish, RAY would recommend the use of consultants:

During these last three years we have also employed consultants connected with the big auditing firms, and we have advised our recipients of funding to employ the consultants (Manager, RAY).

The top managers of both case organizations had initially been slow to comply, and control was exercised by withholding funds to projects where such cross-subsidization seemed obvious or likely. At first, VRI was practically able to neglect the pressures because its business model was based on competitive bidding, where the influence of RAY was smaller. This situation would later change rather dramatically. But CHF was more dependent on direct subsidies, and therefore it had to listen to financier opinions more carefully. It opted for more immediate, but smaller scale, corporatization.

A few years after RAY's initial policy statements, the pressure to corporatize and set up accounting controls mounted as the Finnish Tax Administration began to implement EU competition policies requiring non-profits to distinguish between non-profit and business activities in their reports lest all profits be taxed as gains from business. This had implications especially for VRI that had been able to resist corporatization pressures initially. One director of RAY commented on this in an interview as follows:

But I would say the resistance of non-profits (to corporatization) was broken by the tax officials' actions, starting from 2005. I mean, the Tax Administration began to demand that all non-profits submit their financial statements and fill out tax forms properly. And when the taxing procedure was standardized across the field that finally broke the camel's back (director, RAY).

Pressure from the tax authorities

After the publication of the European Commission White Paper, the Finnish Tax Administration took another action: it began to pressure the non-profit organizations to corporatize their service production functions. One of the tax administration's first actions was to conduct high-profile tax inspections where the surplus from some non-profit organization's service production was taxed as business revenue, actions which predictably led to legal actions and lengthy processes in the courts. Both the lobbyists for the non-profit organizations and the tax administrators seemed to ensure that these court cases received more than ample publicity.

Perhaps unexpectedly for the tax administration, this strategy did not prove very successful. In 2008, the tax administration suffered a severe setback in the so-called "amusement park trial" where the non-profit organization operating Finland's largest amusement park was allowed by the court to retain its tax-exempt status. However, the tax authorities lodged a complaint with the Supreme Administrative Court. At this time, many non-profit organizations that had not yet corporatized their functions called a halt to such plans, waiting for the final ruling in the case. CHF was one of such organizations. Initially, it had set its first limited company up very quickly, but then decided not to continue:

Our business is a social business. Of course, in our field, we always get to participate, when legislation is being prepared [...] I have been in many committee hearings [...] and we always have a rough feeling on how the legislation was intended to function. This is why we are so willing to test their (tax authorities) views (Managing Director, CHF).

It seems that CHF at this stage felt secure that it would be on the winning side in tax disputes. However, VRI did go on with the corporatization. Its corporatization plans were already under way, its financial situation was troubled and losing the battle against tax authorities was deemed too high a risk to take. In fact, a high official of the Finnish Tax Administration admitted in an interview that their intention had indeed been to attack the non-profit status of charitable organizations:

Under Finnish tax law, if you are exempt from income tax, you cannot be liable for VAT either, that is the main point here [...] so in retrospect it may have been the case that we have challenged their [non-profit health care organizations] tax-exempt status perhaps a little bit too eagerly, and suffered setbacks (Senior Director, tax administration).

Revoking the non-profit status was essential for removing the VAT exemptions, which were considered both a fiscal problem and a problem related to the functioning of the

free market. However, at least one representative of the tax administration seemed to regret taking action too quickly, without ample preparation. A summary of the financier and government originating pressures is provided in Table I.

The pressure also provoked organizational restructuring (corporatization), which has been illustrated above.

Emergence of new institutional logics

As pressures from the tax authorities mounted, most non-profit organizations, the case organizations included, realized the immediate potential for aggressive tax planning. Overall, if non-profit organizations had to be divided into taxable and tax-exempt parts, then it became more than obvious that possible profits should be declared regarding the tax-exempt part of the organization. This created an instant market for tax consultants for non-profit organizations. A cursory glance at the marketing materials of major auditing firms confirms that the active marketing of such consultancy activities increased dramatically after 2005. One interviewee commented on this:

When you have very little business experience inside the association, and the tax officials keep pressuring you, you easily turn to auditors and the consulting companies associated with them for assistance. And these always recommend corporatization, so in the end, you are perhaps too easily led in that direction (Chief of finance, CHF).

The transformation of the non-profit sector had naturally been a major influence on the organizations' economic environment: as subsidies vanished, taxes increased, profit-making competitors appeared and competitive bidding became commonplace. The first major economic crash in the non-profit health care sector took place in spring 2008, when the Finnish Epileptic Foundation and its recently established limited companies filed for bankruptcy. The foundation had lost significant subsidies, and the subsequent increases in service prices had resulted in loss of competitive advantage in the private health care market.

Drawing on both interviews and literary accounts, we identified three broad logics that defined the non-profit health care sector. Of the three, charitable logic has been the tradition of the industry. Originally, the institutions were set up with a diverse and mostly private funding base with the aim of curing illness. With the money originating

	VRI	CHF
Background	Foundation-run health care institution expanding to other business areas	Foundation-based hospital highly reliant on public financiers
Financier pressure	Low, financed through competitive bids that leave operational freedom to the service provider	High, with possibility for funding cuts if requirements are not met
Governmental/ tax pressure	High, transfer pricing between the corporations under scrutiny	Low, no forceful demands for corporatization. Cost allocations and transfer prices not scrutinized
Organizational actions	Corporatize virtually all functions with foundation acting as the sole shareholder	Corporatize only obviously business-related functions
Accounting-related actions	Budgets of individual companies balanced with transfer prices and cost allocations	Product costing systems, transfer pricing and cost allocation between the business part and the charitable core

Table I.
Institutional pressure and organizational action

from various donors, private or public, it was important to spend everything. Surplus, or profit, was in essence a signal of not spending the money wisely, on good causes.

As the organizations became more and more dependent on public sector financiers, a managed care logic emerged. This meant that the public sector financiers began to make demands for accountability and visibility. The financiers also needed to know what value they received for their money, which lead to prioritizing certain functions and decreasing the funding for others. As the flow of subsidies decreased, the health care organizations began to set up business activities. In some cases, tax exemptions made this appear lucrative. In order to provide a wide range of services, the more profitable sectors would subsidize the less profitable. This seemed to be one key driver for the development of management accounting systems.

As the business functions rose in importance, a market logic emerged. Non-profit health care organizations were now facing the conundrum of combining business activities with non-profit activities and legitimizing their activities toward society. Here, accounting systems would play a major role in intermediating conflicting demands for organizational control and tax efficiency. Eventually, struggles ensued, where the non-profit status was questioned by the financiers and challenged by the tax authorities and the competition (Table II).

Under charitable logic, the role of accounting controls was rather small. When logics began to shift, accounting systems started to emerge. Previously, emergence of accounting systems has been investigated in SME's (Davila and Foster, 2005) and in new economy firms (Granlund and Taipaleenmäki, 2005). According to Davila and Foster (2005), operating budgets are usually the first management accounting systems adopted, followed by other systems with forward-looking emphasis. Granlund and Taipaleenmäki (2005) see future orientation as tightly connected with growth in new economy firms, while profitability analyses relate to a stable market share and late stages of the life cycle. Agency costs, perceived costs and benefits, company scale and management style are related to the timing of management accounting system adoption. Companies that access venture capital are likely to speed up their adoption. It would be interesting to speculate whether this effect extends to funding received by the non-profits.

Table II.
Institutional logics of
the non-profit health
care sector

	Charitable logic	Managed care logic	Emerging market logic
Goals	Raise funding and use it to cure illness	Expand health care services by contracting with state and local governments	Selling services to central and local governments, make profits and use them either to expand or to fill charitable causes
Core vs peripheral activities	Little business activities	Rising importance of business activities in addition to the charitable core	Business activities become the new core
Profit-making principles	Profit is mostly a non-issue	Little or no profit at the institution level, but cross-subsidization is likely	Hybrid mission of combining profit maximization with maintaining a non-profit status
Role of accounting control systems	Small importance of accounting controls	Importance of accounting system in controlling cross-subsidization and transfers between charitable core and business activities	Importance of accounting controls in controlling profitability and legitimating tax-exemptness

Of course, the pressures to abandon the associations of general interest, corporatize activities and adopt business-oriented management controls were political as much as functional. The political pressure originated from the European Commission, which had become concerned over the competition-distorting influence of the European non-profit sector. The competition authorities began to pressure the non-profit organizations to corporatize their functions, and were joined by the private business lobby. The strength of this political pressure remained weak until the tax authorities began to formulate new policies for taxing non-profit organizations. As the political pressure was translated into tax laws, the authorities could also exert some functional pressure. As is the case of political pressure, the strength of this tax-driven functional pressure was, however, limited in nature, as its main function was to extend the boundaries of taxable business. Many of the business functions carried out by non-profit organizations had already been taxable, although potential for cross-subsidization existed.

5. Comparative case studies

Next, we present two case organizations, the VRI and the CHF. The names of the organizations have been changed for purposes of confidentiality. Both are medium-size organizations operating in the fields of rehabilitation, private hospital services and hospitality. VRI's approach to management accounting and control was to set up a group structure with numerous small limited companies, with the charitable organization retaining the ownership and acting as a holding company. Between the companies, there existed numerous service contracts, the prices of which were negotiated by top management's radically changing plans and strategy. Budgeting was the main focus of management control, with internal revenues and expenses playing a major balancing role. In contrast, CHF's approach was different, as it organized its functions into product lines where the profitability of each service was closely monitored by a detailed cost accounting system, and only a small part of the functions were corporatized.

Case A: the VRI

Historically, the post-war period marked a significant change in the popular attitude toward disabilities. After the war, tens of thousands of war injury patients had to be rehabilitated and every pair of hands was needed for reconstruction. This post-war political atmosphere helped various charity organizations to found the VRI in a rural wilderness location.

While it had always been relatively easy to find funding for providing veterans' rehabilitation services, by the end of the 1960s it became clear that new business areas and new customers should be sought. Over the years, VRI first expanded its operations to various other fields of rehabilitation, and later began to operate a commercial spa, a hotel and several restaurants. At this point, the institute established the first limited company to handle the hospitality functions aside from the non-profit rehabilitation activities. Eventually, their activities were transformed into a consolidated group where the non-profit foundation owned the buildings and premises and operated the veterans' rehabilitation services, while the new business areas were treated as normal corporations.

At the start of the participant observation period, one of the impressions was that even though the institute was in effect a corporate group, it seemed to lack many of the accounting-related features of a "normal" private business enterprise. For instance, the profitability of individual functions was not monitored or reported very closely, and the various functions (including the non-profit activities receiving SII, RAY and ARA

subsidies) supported and cross-subsidized each other. This situation was clarified somewhat when, in the wake of the government-initiated changes in the subsidy policies in 2002, VRI corporatized its buildings and premises. Evidently, the logic was that rent could be paid directly to the tax-exempt non-profit, while the maintenance fee would be paid to the corporatized building. And since rent from the premises had always been accepted as tax-free revenue for non-profits, this would apply to transfer prices within the group as well.

Naturally, this transfer pricing mechanism allowed for tax planning if the tax-exempt charity renting or leasing the premises was part of the consolidated group, and in effect, its "holding company." Second, in rural areas the corporate form allowed for certain investment subsidies that would not have been otherwise available to a non-profit organization. Third, it can be seen as a response to pressure by RAY and the Finnish Competition Agency to demonstrate that investment subsidies would not flow into subsidizing service prices. However, the group still lacked any semblance of cost accounting, performance measurement or profitability reporting systems. It was also evident that the intra-group transfer prices were mainly negotiated, and based neither on market prices nor on cost accounting calculations.

After 2000, the VRI (now a consolidated group) found that new business areas proved not very lucrative and had to be subsidized by the non-profit activities, which was contrary to the original aim of the non-profit foundation. As the subsidization policy of non-profits changed, this difficult situation began to deteriorate. At this time, the foundation board members made a strategic choice that VRI would also expand geographically, offering services in cities, where new customer segments would be located. In 2006, they decided to begin construction of a new private hospital.

During this time, VRI's financial situation was on the verge of crisis. The group could not afford to invest equity in the new hospital, thus the entire operation was extremely leveraged. During the participant observation period, top management repeatedly raised the point that VRI could not afford a failure in this new project; more unprofitable operations would certainly sink the entire group. Plans were also made to establish functioning management control systems.

Participant observation began in April 2007 with the review of VRI's group business plan and the drafted business plan for the new private hospital. The review lasted for a full day. At this point, the managing director, the chief of administration and the hospital manager had already been interviewed. Topics discussed included various financial targets and budgeted sales across various functions. Also, the fact that finances were quite strained was repeatedly pointed out. Some functions were decidedly unprofitable and had to be subsidized by others. This subsidization was put into practice by adjusting transfer prices between limited companies. The main control mechanism in such circumstances seemed to be the cash budget, which was closely monitored. In addition to the static, periodically reviewed budget and cash forecasts, VRI did not have a management accounting system. Transfer prices were based on ad hoc calculations, and there was no system to monitor the profitability of individual products and services:

Actually we don't do any cost accounting [...] there have been some experiments, but they have seemed to fail time after time. I have concluded that in this environment, we should not do [cost accounting] in a detailed way. It adds up to nothing but extra work, for which you don't get any benefits. Sometimes we have done this in a way that resembles sampling that means we have occasionally reviewed the cost structure of some of our products, what the prices should be approximately, but systematically, no (Chief of finance, VRI).

In June 2007, we observed a meeting with top management discussing the group's financial standings on the basis of updated financial figures. The meeting lasted for half a day. VRI's financial accounting system tended to lag behind, which seemed to cause insecurity in troubled times. Three major issues were discussed. First was the follow up and *ex-post* calculations of investment spending in the new private hospital as the operation was quite leveraged. Luckily, the total investment cost had not been as high as expected. The second major issue was the cash situation for the upcoming summer, as well as VRI's ability to pay wages during the holiday season when sales were low, but salary costs remained high. The third topic concerned the fact that while the new private hospital's business plan was otherwise complete, the financial figures were mere drafts and not a result of a systematic budgeting process, let alone any kind of management or cost accounting system:

There is a strategy, but it's not reaching down to the lower levels [...] We do have a decent business plan, but it has no financials. There is a budgetary target, but no budget. In this new situation, we need to start developing these systems (managing director).

The budgeting process for the new private hospital started at the end of July 2007 with the present author, the hospital manager, the sales manager and VRI's chief of administration. The group began by preparing a revised sales budget for the new business functions, and continued by calculating a detailed personnel budget and other expense budgets. Since a large proportion of costs was fixed, the key performance measure was thought to be capacity utilization, the percentage of beds taken from a theoretical maximum. Various drivers and indicators of capacity utilization were also discussed.

In fall 2007, the changes in VRI's group structure were completed. There was now only a single non-profit foundation as a legal entity. Although in principle a charitable foundation, its financial situation did not enable any grants for purposes of general interest, commissioning of charity, etc. Rather, the foundation's function was primarily to act as a parent or "holding company" to the companies within the group. Considering the turnover of the group, it was felt that the number of limited companies was somewhat high. However, it seemed that by establishing a number of companies, the profitability of various functions could be easily monitored. Naturally, this implied that a set of transfer prices had to be operated for purposes of intra-group business transactions.

As new profitability reporting systems were implemented and transfer pricing systems renewed, the cross-subsidization between profitable health care functions and unprofitable peripheral activities was highlighted. At this time, a decision was made to write off the losses previously incurred and masked by transfer prices and intra-group debts in the upcoming financial statement. The result would be a drastic loss for 2007. In order to keep one of the foundation-owned companies solvent, assets were transferred from the non-profit part of the organization to the corporatized part, and the corporatized part was given a reduction in facility rents. The fair value of the resultant loan to the foundation then became an issue:

This corporate structure has complexities that the board did not think of originally [...] problems with asset depreciation schedules, problems with transfers (of assets), cost allocations, rents below market price. Then, a problem with potential write-offs. And after the write-offs, problems with loan collateral (managing director, VRI).

In the spring of 2008, VRI sold its buildings and real estate to a private investor in order to raise both equity in its financial statement as well as cash to pay the debts incurred

by the hospital investment. Under the tax laws, revenue from leasing premises had been undisputedly tax-free for non-profit organizations, since the nature of such revenues was comparable to investment revenue (instead of business). The forced sale made VRI's revenues almost entirely taxable, completing the transformation from a non-profit organization into a business group owned by a non-profit organization. The new structure also had the effect of raising profitability targets for individual businesses, as unprofitable segments could no longer be subsidized by low rents and no doubt the new owner would demand return on capital invested, something that VRI rarely did. Instead, profitability would be increasingly demanded from each particular product line or activity. Thus, the newly formed management control systems would be put to the test.

Case B: the CHF

CHF, was originally a non-profit organization formed to treat certain disorders, but also to lobby the government for research funding and the advancement of patient rights. Traditionally, CHF received sizable investment subsidies, which meant that the organization did not have to fund its investments in hospital buildings and other infrastructure. This allowed prices for the treatments to remain competitive. In the late 1990s, however, many of the foundation's assets were fully depreciated, their book value approaching 0. A few years later, just as the pressures for re-investments were mounting, public policies changed to limit the investment subsidies available. This alerted the foundation's management to the fact that the current profit levels could not sustain the renovation of the facilities and premises and the replacement of equipment in the future. Thus, despite being a non-profit, the foundation would need to start making more profit than before in order to finance its future investments.

Despite all the activities aimed at increasing budget responsibility and highlighting unprofitable areas, the financial situation did not significantly improve. These circumstances gave top management the impulse to declare that pricing would henceforth be one of management's top priorities. In 2002, top management began demanding that full cost calculations be used in service pricing. Also, the possibilities of changing the product mix and discontinuing some unprofitable products were now discussed, although the last option was not met with enthusiasm. At the time, the general feeling was that health care organizations should be providing a wide variety of treatments, not just profitable ones. The profitable products would just have to subsidize the unprofitable ones – this was the very nature of the non-profit institution – or most health care organizations, profit-making or otherwise. In fact, the interviewees commented that many physicians had originally questioned the need for detailed cost reports that highlighted this necessary cross-subsidization.

In 2003, the hospital management began to make plans for abandoning the current organizational structure and replacing it with profit centers and centralized service units. The former organizational structure with wards and clinics was replaced by splitting the organization into two parts: the profit centers and the partially corporatized service provider organization. The profit centers would be directed by personnel responsible for sales (the product managers), who also handled admissions, patient care planning and quality control. The majority of the work force would be employed by the service provider organization for delivering the health care services ordered by the purchasers for use in patient care.

In essence, this new form of organization meant that most organizational structures common to nearly all health care organizations (e.g. wards and clinics) would cease to

exist as a responsibility structure. The purchaser organization was divided into products (e.g. surgery in specialized health care would be divided into general surgery, outpatient surgery and several specialized groups). Each of the products had a product manager, who was responsible for the profitability of his or her product. Significantly, not all of the product managers were physicians. This fact initially caused some tensions in cases where a non-physician product manager, such as a physiotherapist, was to hold a product development meeting with a physician – as a physician could not be subordinate to a non-physician in health care matters. In essence, the new organizational structure seemed to introduce a major influx of financial rhetoric into the non-profit health care organization with traditionally charitable ideals:

When we first started to reform the budgeting and financial reporting systems, we decided to inform middle management and called a meeting. But we immediately ran into the trouble of defining who was middle management [...] in the end, we had to involve all physicians, even if they did not have any budget responsibility (Chief of administration, CHF).

One major implication of the responsibility structure was that now the organization had only one set of managers, instead of the traditional system of having administrators, physicians and nursing managers. The renewed organizational structure did not, however, result in improved profitability. Instead, the financial distress continued, and at the end of 2007, there were personnel layoffs. At the time, CHF began to make plans for corporatizing the rest of its functions (so far, only a small number of support functions operated as a limited company). However, it was deemed very important that management control systems be ready for the eventual change, and a project was initiated to draft out the corporate control system with more detailed costing, budgetary procedures and transfer prices. As the financial situation reached crisis stage in early 2008, CHF began to downsize its operations and reduce its headcount. While setting up the new management control system continued in 2008, profound organizational change was deemed too risky. At the same time, the Finnish Tax Administration suffered a defeat in a legal battle over a non-profit amusement park that decreased some of the immediate pressure to corporatize. For that reason, forming the corporate structure was postponed, but the management control system was implemented nevertheless.

During the participant observation period, access was granted to CHF's internal accounting data. The foundation's management accounting system consisted of two distinct systems of calculation. First, multiple cost driver rates were calculated on the basis of both budgeted and historical data for full cost pricing purposes. This was a hybrid costing system, with a complex set of interdepartmental allocations made to arrive at the total cost of a product line, and then a simplified activity-based cost calculation performed to arrive at the cost per product. Both the non-profit and the corporatized parts had their own accounting systems. The second part of the system consisted of calculations used for arriving at the full cost transfer prices between the non-profit and the corporatized part of the organization. We were granted access to these calculations, as well as a document reporting that the transfer prices had been calculated and recalculated several times iteratively in order to produce a target balance of profits between the corporatized and the non-profit part of the organization.

During the participant observation in 2007, much of the discussion revolved around the issues of unprofitable products, their cross-subsidization and whether this cross-subsidization could be effectively maintained if there was further corporatization. Subsidizing unprofitable product lines from the profits of others was easier if done

within the interdepartmental allocation/cost accounting system than if a transfer pricing system was used. This was mostly because transfer prices would have to be legitimated in the eyes of auditors, and could be subjected to tax inspections when transactions were made between non-profit and for-profit entities. We were also left with the impression that some senior managers and board members originally did not believe that the cross-subsidization would turn out to be so extensive and would have liked to question the cost accounting principles used. In fact, this may have contributed to the present author's initial access.

6. Corporatization and management accounting

Prior research in accounting has employed the concept of institutional logics as a potential explanation for observed differences in the institutionalization of new accounting practices and has concluded that various institutional logics may develop and coexist within an institutional field (Hyvönen *et al.*, 2009; Rautiainen and Järvenpää, 2012; Kantola and Järvinen, 2012). In fact, neoinstitutional theory proposes that in such circumstances, the potentially competing institutional logics are interconnected with each other and the field, yet they are able to defy pressures for change (Reay and Hinings, 2009). For instance, Greenwood *et al.* (2010) found that even under overreaching market logic, organizations would vary in their receptivity of non-market logics.

In circumstances where conflicting institutional logics exist, organizations seek to negotiate their actions through institutional work “the myriad, day-to-day equivocal instances of agency that, although aimed at affecting the institutional order, represent a complex mélange of forms of agency – successful or not, simultaneously radical and conservative, strategic and emotional, full of compromises, and rife with unintended consequences” (Lawrence *et al.*, 2011, pp. 52-53).

According to Lawrence and Suddaby (2006), the study of institutional work is characterized by the following: actors are rational in the sense that they are able to act within the boundaries of institutional logics, institutions are comprised of collective actions of individuals and there is an interest in organizational practice. Notably, these actions do not rule each other out, but can be concurrent, especially in fields with strong professional groups (Empson *et al.*, 2013).

In the accounting context, Chiwamit *et al.* (2014) and Hayne and Free (2014) illustrate how accounting systems in complex institutional fields are adopted by institutional work that ties together the interests of diverse actors. These actors (government agencies, professions, etc.) are needed in bridging the gaps between various types of institutional work. The heterogeneous nature of institutional work explains why consequences of adopting accounting methods are likely to be quite context-specific. In what follows in this section we will examine accounting-related institutional work (i.e. actions to disrupt, create and maintain the practices that are considered legitimate within the organizational field of health care).

Disrupting institutional arrangements: highlighting cross-subsidization of “products”

One key finding in the case studies is that the corporatization and the resulting use of transfer prices, cost allocations and budgetary targets seemed to extend beyond the technical issue of allocating costs “correctly.” These practices highlighted the conflict between different institutional logics, and the resulting institutional work seemed to extend well beyond the realm of accounting.

Of course, the adoption of market-oriented and accounting terminology (product profitability, profit margins, etc.) is only the surface, but it is nevertheless argued that managed care and market logics were in increasing conflict with the charitable third-sector ideals. Here, one key issue seemed to be that corporatization and subsequent investments outside the charitable core areas changed the profit targets of VRI. First, it was argued that a profit margin close to 0 was no longer enough for a corporatized non-profit, as it was not sufficient to sustain investments (especially if funding by the traditional financiers decreased). This argument challenged the previously taken-for-granted definition of a non-profit organization.

At the time of the interviews, however, the interviewees' arguments concerning profit-making were no longer limited to sustaining the level of investments, but they seemed to have adopted a definition of being a non-profit that was tied to the use of business profit for charitable purposes. This way, talk about accounting profits illustrates the deinstitutionalization/disruption of the old ideas relating to charitable institutions. Now, profits had to be made in order to come up with the funds for good causes.

When profits are to be made in a complex organization, it is the role of managerial accounting tools to pinpoint the sources of income and loss. This is why especially interdepartmental allocations and product costing become to be viewed as critically important instruments. According to Davila accounting systems emerge either because of the information needs arising from the increasing separation of ownership and management, or because of the need to take decisions when organizational size or complexity increases. In the case studies, decision making needs were related to profit margins of products, while corporatization itself implies an increasing separation of ownership from actions. Relating to these rationales, cost allocations between the corporatized and the non-corporatized parts of the organization make the separation of business and charitable activities visible, and highlight their profit generating ability and possible cross-subsidization.

However, institutional work often entails unintended consequences in different settings. In the case studies, the core problem in providing health care services was increasingly being seen as inefficiency and unprofitability, instead of maximizing the access to such services. Chua (1994) argues that such reframing is essential for driving changes in the underlying logic of service production.

Creating new institutional arrangements: embracing market logic through corporatization

Eventually corporatization and detailed management accounting systems became alternatives that were tied in with conflicting field-level institutional logics. As VRI embraced the idea that its legitimacy would be best ensured when functions were corporatized, the need for accounting systems was limited to ensuring market-priced transactions between the charitable foundation and the limited companies. At the same time, individual balance sheets had to be maintained, which had the effect of increasing targeted profit margins.

In contrast to VRI, CHF had chosen to corporatize only a relatively small part of its functions – those that were outright commercial. For this, strong pressure had originated from the governmental financiers (RAY, ARA and SII), but, as the case of CHF illustrates, organizations had the opportunity and means to engage in institutional work where the negotiation between competing demands would take place. Here, the internal dynamics of the organization allowed for a selective response as to which institutional logic to apply (Pache and Santos, 2010).

To an outside observer, the visible difference between the two case organizations was the extent of corporatization: VRI established corporations (with transfer prices between the corporatized and non-corporatized parts) while CHF went on developing a minutely detailed budgeting and interdepartmental allocation systems. In VRI, there was no centralized budget system – all corporations were supposed to plan their activities so that the annual profit would be positive. Only in the case that there was going to be a loss, a simplified budget would be prepared in order to ensure capital and cash requirements. In CHF's new annual budgeting system, premises were set in June before the summer holidays. Autumn would be the time for extensive budget negotiations, with budget proposals and counter-proposals between top management and the profit centers. Finally, a consensus would be reached, resulting with master budgets that were formally approved by the board of directors.

In both case organizations, the concept of accounting profit is one key medium that connects market and charitable logics, as charitable organizations were not expected, by definition, to produce profit. Changing this meant that actors had to engage in the institutional work of embracing and actively disseminating a new concept where a higher level accounting profit was desirable. A practical managerial approach would require establishing the new view of the relationship between profit and charity, where being a non-profit would be interpreted as using the profit for charitable causes. This is a case of institutional complexity (Greenwood *et al.*, 2012) where emerging market logic is evident. Chiwamit *et al.* (2014) illustrate how important field-level agencies are for institutional creation, and how the differences in the constellations of actors may lead to different types of creation. CFH was much more tied to the interests of the financiers – this was evident in, e.g. financiers being able to influence the appointment of board of directors – thus concerns for legitimacy of corporatization were also greater.

Maintaining institutional arrangements: how to remain a tax-exempt charity

Maintaining the new institutions also requires institutional work, one important aspect of which is negotiating how demands for efficiency have the potential to influence the objectives of the organization (e.g. profit, societal concerns, etc.). Institutional theory holds that legitimacy and decoupling play a key role in negotiating such arrangements (Meyer and Rowan, 1977). Regarding the profit objective and corporations, one interviewee commented:

Of course, we have a clear organization structure, with profit-center managers. So it would be easy for all of them to become managing directors. Managing – it's just a fancy prefix for a director, no problem with that [...] but rehabilitation, it is charitable. It is our ideological core, and it will never be anything else. So why establish any corporations? (managing director, CHF).

The interviewee reflected on the notion that while profit orientation, even maximization, was important in CHF, it was equally important that this was not immediately obvious to outsiders.

However, in VRI the institutional work seemed to be more focussed on negotiating the representations arising from the organization's various internal interest groups (e.g. representants, medical personnel, etc.). Such institutional work is likely to take place in highly professionalized fields (Suddaby and Viale, 2011; Empson *et al.*, 2013). In VRI, the management that included both administrators and medical professionals argued that establishing corporations was justifiable from the viewpoint of internal efficiency. This is in line with Rautiainen (2010) suggesting a likelihood of decoupling in circumstances where administrative and medical professionals' aims differ.

Examining the accounting aspect of this, it is evident that organizations developed extensive product costing systems to monitor their profitability. CHF applied activity-based costing principles to control product line profitability and to assist in preparing the annual budget. In VRI, costing systems were simpler, company-specific systems with an overhead rate based on the amount of intercompany cost allocations the organization unit received. This also suggests that in highly institutionalized environments, accounting systems may evolve differently than in highly competitive environments such as evidenced by e.g. Davila and Foster (2005) (Table III).

In VRI, practically all the business functions were corporatized. This meant that the group structure itself could serve as a responsibility/accountability mechanism, as limited companies must in the long run produce profit and maintain their equity capital. Since corporate tax is based on the profit of each individual company, this also means that since corporatized functions are separate legal entities, all transactions between them should be recorded in financial accounts – a transfer pricing system. Problems arise when the companies use the common resources of the headquarters – a non-profit foundation. In such circumstances, cost allocation becomes both a management and a legal issue.

Transfer prices and headquarter cost allocations were linked to the annual budget, which focussed on both profit planning and forecasting at the individual company level. At the group level, the master budget was used to allocate resources for strategic projects and to adjust the transfer prices and cost allocations in order to maintain roughly equal profits across all companies.

In CHF, only major business functions (about 30 percent of the total in terms of turnover) were corporatized to a single limited company. As a control structure, a rather typical responsibility accounting system was in place, together with product lines, product line managers and product-specific profit targets. Profit margins of the products were scrutinized with a rather complex activity-based costing system. In addition, the existence of a corporate 30 percent and a foundation-based 70 percent required constant negotiation and re-definition in order to establish the boundary between the taxable and the tax-exempt. Here, the transfer prices of services provided from one organization to another, and the cost allocation of common managerial resources were under intense scrutiny.

	VRI	CHF
Budgeting	Simplistic for old/existing functions, target-driven for new functions	Detailed top-down, with extensive budget negotiations
Corporatization	Extensive	Only undisputable business activities
Interdepartmental cost allocations	Corporations charge each other from services provided. Charitable foundation owns premises and provides financial services	Between the corporation and the charitable core
Responsibility accounting system	Cost centers with product lines and profit targets for each product. Bonus systems for product managers	Costs reported by center
Product costing and cost-based pricing	Cost accounting and product profitability reports for each product	Cost accounting systems in place for several product lines

Table III.
Comparison of use of
accounting controls
VRI and CFH

7. Concluding remarks

The purpose of this paper was to report how contradictory organizational field-level pressures interact with local management accounting and control practices in a highly institutionalized setting. The research question was:

RQ1. How do organizations employ management accounting to choose between or reconcile contradictory institutional logics?

The answers to this are sought by conducting a comparative case study in two non-profit organizations that have corporatized their business-like functions and adopted firm-style management controls.

Institutional theory has illustrated how multiple institutional logics can come to coexist in a given institutional field (Lounsbury, 2007, 2008; Reay and Hinings, 2009). Relating to accounting, coexisting and conflicting institutional demands have been shown to influence the adoption of accounting principles (Guerreiro *et al.*, 2012), accounting information systems (Hyvönen *et al.*, 2009) and strategic goal-setting (Rautiainen and Järvenpää, 2012; Chenhall *et al.*, 2013). In such circumstances, organizational actors and the organization's constituents engage in institutional work to position themselves with respect to the pressures (Chiwamit *et al.*, 2014; Hayne and Free, 2014). This study contributes to this discussion by illustrating how organizational actors engage in institutional work in developing their management accounting and control systems under contradictory institutional logics.

The pressure to corporatize originated directly from government (tax and competition authorities) and funding parties. However, such pressures were not uniform, with non-profit financiers tolerating a lesser degree of marketization. These pressures had to be negotiated with coexisting institutional logics, charitable, managed care and markets. As new institutional logics became prevalent, institutional work required to disrupt existing institutional arrangements, and to create and maintain new arrangements.

Revealing how some functions in effect subsidize others financially could be viewed as a powerful tool which, when combined with outside pressures, enables institutional disruption. Establishing corporations inside charities allowed new, market-based logics to take effect, while cost allocations between the charitable core and corporatized functions were useful in negotiating the balance between contradictory logics and conflicting aims.

All in all, the two case organizations were not only subjected to outside pressure, but engaged in institutional work to resolve conflicting aims in applying new, conflicting and contradictory institutional logics. While prior research has shown that in highly institutionalized environments the emergence and function of accounting systems is likely to be driven by institutional forces, much needs to be done in developing the understanding of how the interaction between field-level logics and organizational agencies has the potential to influence the adoption of accounting controls. Likewise, further research will undoubtedly investigate in more detail how accounting systems are used as a medium in the institutional work carried out by organizations, enabling them to respond to conflicting institutional demands.

Note

1. Commission Green Paper of 21 May 2003 on services of general interest (COM(2003) 270 final – Official Journal C 76 of 25.03.2004).

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(The Appendix follows overleaf.)

	Topics observed/discussed	People present
<i>Case A. Veteran's Rehabilitation Institute</i>		
April 30, 2007	Review of the groups' the new functions business plans. Review of financial targets and the sales budget. Strategy review concerning corporatization, the resulting corporate group structure, possible mergers and divestments, cross-subsidization within the group. Discussing transfer pricing, especially rents on premises and the interest on intra-group loans	Managing director Management consultant
June 10, 2007	Preparing the budget for the new business functions. Evaluating the premises on which the budget will be prepared. Discussing the practicalities of sales and personnel recruitment	Hospital manager Chief of finance Sales manager Product line manager
June 18, 2007	Review of the new functions' business plan with updated financial figures Review of the investment budget and spending to date Discussion concerning the cash situation in the upcoming summer holiday season and the measures taken to avoid insolvency	Managing director Chief of finance Hospital manager Sales manager Product line manager
August 13, 2007	Strategy review, long run investment budget and divestment possibilities	Chairman of the board Managing director Management consultant
September 18, 2009	Finalizing the budget for new business functions. Discussing sales and capacity utilization targets	Hospital manager Sales managers Product line manager
September 25, 2007	Discussion of the transactions required to write off property values. Evaluating the short-term and long-term consequences of write-offs. Transfer pricing system between the charity and the corporate part	Managing director Management consultant
<i>Case B. Charity Healthcare Foundation</i>		
June 12, 2007	Review of foundation's strategy and financial situation	Managing director Chief of administration Chief physician Management accountant Chief information officer
July 26-July 27	Review of foundation's management accounting system (two consecutive days)	Management accountant Management information system designer
August 22, 2007	Development of pricing system and costing calculations for pricing purposes	Management accountant Chief of administration
September 20, 2007	Discussion on how corporatization would influence management control and the management accounting system	Chief of finance Management accountant

Table A1.
Summary details
of the author's
participant
observation

Appendix 2. Interview Guide

Pre-interview procedure

1. Thanking for the possibility to an interview. Discussing the interview timetable (0.5-1 h).
2. Brief introduction of the research project. Generally we are interested in non-profits and charitable organizations becoming more business-like. On topical subject is the setting up accounting controls [...] To make the limited companies a part of a functioning corporation.
3. Discussing the anonymity of the interviewees and the organizations.
4. Asking permission to use the voice recorder.
5. Explaining the interview plan. We have interview themes and some pre-set questions, but we highlight that interviewer and interviewee can also freely discuss more about the themes and issues that turn out to be important.
6. Asking the interviewee to state his/her name and job title.

Interview themes non-profit organizations

Background: What is your role and job description? How long have you worked for this company?

Interview themes for civil servants and financier representatives

Background: What is your role and job description? How long have you worked for the administration?

1. Do you remember the time when non-profits subsidies/taxation/competition status were first raised as an issue? What happened then?
2. Who raised these issues? Were there literary documents?
3. A common claim is that before what we have just discussed the non-profits were encouraged by the government to widen their sphere of activities. Do you remember anything related to this?
4. In your view, what is the extent that non-profits are engaged in profit-making business? Is it problematic, and if so, why?
5. Specifically, do you see potential cross-subsidization between for-profit and non-profit functions a problem? If so, what could be done?
6. In cases where there are business activities, would the corporatization of business functions solve the problematic issues?
7. In your opinion, should corporatization of business functions be mandated or voluntary? Why?
8. In general, limited companies exist to make profit. To what extent do you think that non-profits have profit in mind when establishing companies, or is this just a change of judicial form, or perhaps something else?
9. In cases where there are business transactions between the non-profit and for-profit parts, how should these be monitored? Are there/should there be auditing procedures?
10. Specifically, think of a case where a non-profit owns the premises where the for-profit organization operates.

Post-interview procedure

1. Giving the interviewee the possibility to add something to the discussion.
2. Asking if it is possible to get back in touch on some issue if needed.
3. Thanking and ending the interview.

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A. *Veterans Rehabilitation Institute (VRI)*

1.	Managing director	65 min
2.	Chief of administration	60 min
3.	Hospital manager	65 min
4.	Sales manager	50 min

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B. *Charity Healthcare Foundation (CHF)*

5.	Managing director	90 min
6.	Chief of administration	40 min
7.	Management accountant	60 min
8.	Management information system designer	40 min
9.	Chief of finance	70 min

C. *Other interviews*

10.	Director, Finnish Slot Machine Association RAY	65 min
11.	Senior director, Finnish Tax Administration	80 min
12.	Head of lobby group, Managing director of a competitor	50 min
13.	Member of lobby group, CFO of a competitor	55 min
14.	Management consultant (rehabilitative services)	40 min
	Total	14 h 55 min

Table AII.
List of interviews

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