



# Distance and coupling: analyzing the pressures of accounting change in a city

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## Abstract

**Purpose** – The purpose of this paper is to analyze the accounting performance measurement (PM) change process in a Finnish city.

**Design/methodology/approach** – Interpretive case study. Data consisted of 16 semi-structured interviews. Analysis was based on institutional theory, particularly on “new institutional sociology” (NIS) studies.

**Findings** – Budgeting and accounting PM became coupled into action when various intertwined (mostly institutional) pressures affecting change converged. Perceived crises were found to accelerate accounting change by deinstitutionalization, i.e. by breaking (drastically) existing routines and myths. Further, accounting rules and routines changed somewhat independently. Further, the notion of “distance” between rules and routines clarifies the dynamic nature of coupling of institutional rules and routines. Further, analysis of both internal and external institutional pressures facilitates understanding of the case events.

**Research limitations/implications** – Case studies cannot be generalized and so further research on public sector PM change is encouraged.

**Practical implications** – Understanding of the interplay of various organizational pressures, deinstitutionalization and institutionslization of routines may facilitate management of PM change processes.

**Originality/value** – This analysis of the pressures and rationales of PM change in a Finnish city contributes to the accounting literature by noting the complexity of public sector change pressures. For example, some changes in accounting PM in the municipal field only occur when several non-dominant pressures align.

**Keywords** Accounting, Performance measures, Organizational theory

**Paper type** Case study

## Introduction

“We have tried to develop the scorecard and to sharpen our goal-setting. It has required a lot of learning in the municipal sector as, you see, there is no tradition of it” [Chairman of the city board].

Both rational[1] and institutional pressures (DiMaggio and Powell, 1983) have been used to explain accounting performance measurement (PM) change in the public sector (Abernethy and Chua, 1996; Järvinen, 2006; Kurunmäki *et al.*, 2003). While the importance of PM has been noted and aspects of accounting change have been depicted



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(Johnsen and Lapsley, 2005), not enough is known about the institutionally influenced changes in PM usage after explicit PM system adoption (Abernethy and Chua, 1996; Mouritsen, 2005). In particular, the interplay of PM rules and organizational routines has been found complex (Lukka, 2007). Thus, PM change is currently considered a multifaceted process where, for example, Mouritsen (2005) distinguishes “design” and “mobilization” of a control system. Design is similar to implementation, but “not (only) an end but also a beginning” (Mouritsen, 2005). Mobilization is largely analogous to use, but also a “process where design is carried, transformed and bent around purposes” (Mouritsen, 2005). Thus, studying PM change is not only about studying PM system adoption, but also about studying changes in the PM usage process and in the institutional pressures affecting changes.

This paper analyses change in the PM usage process in a Finnish municipality where a voluntary accounting PM system (Balanced scorecard, BSC, Kaplan and Norton, 1992) became “coupled” into action (Lukka, 2007; Meyer and Rowan, 1977). The change was legitimized by the convergence of external change pressures (Abernethy and Chua, 1996; DiMaggio and Powell, 1983) and internal change pressures (Oliver, 1992) in the organization. These change pressures encouraged the deinstitutionalization (Oliver, 1992) of old habits by requiring learning and thus creating anxiety (Busco *et al.*, 2006). The learning of new habits was encouraged by a change of city manager who brought new myths (Modell, 2004), and by BSC training which created trust for change (Busco *et al.*, 2006) thus facilitating the learning of new behaviour. Further, the change of city manager was a “mounting crisis” (Oliver, 1992) during which old routines could be deinstitutionalized. Consequently, the “distance” between budgeting rules and organizational routines slowly diminished; budgets were intended to hold. Thus, PM rules and routines became “more coupled”, but in such a manner that new routines emerged and were institutionalized while PM rules were initially left relatively intact.

To facilitate rich analysis of the changes that occurred in the case city facing various institutional change pressures, this paper uses “new institutional sociology” (NIS) related theories about the coupling of rules and routines (Meyer and Rowan, 1977), and about institutional pressures (DiMaggio and Powell, 1983; Oliver, 1992). However, “rational” (economic or resource based) decisions from an “active agency” are acknowledged (also Abernethy and Chua, 1996; Kurunmäki *et al.*, 2003; Oliver, 1991). Analysis of the pressures on rules and routines is important in order to understand how changes in the case city occurred. Further, analysis of PM routines is central while Hyvönen and Järvinen (2006) note that public sector accounting changes are often “gradually institutionalized through enacting and reproducing the budgeting routines”.

This paper contributes to accounting PM change literature with a comprehensive analysis of the pressures and rationales of the PM change process in a Finnish city. First, the study notes that the public sector context permits a variety of rational and institutional pressure mechanisms. Second, it is noted that some changes in public sector PM occur only if several non-dominant pressures converge. Third, a change in PM rules is not necessarily needed for a change in routines; new PM routines may also create trust and reduce “learning anxiety” (Busco *et al.*, 2006). Fourth, deinstitutionalization seems to include more discontinuous elements while institutionalization is more of a continuous process. Fifth, the notion of “distance” between rules and routines clarifies the dynamic

nature of the coupling of rules and routines. Sixth, as Lukka (2007) suggested for the private sector, in the public sector, too, stricter adherence to rules also encourages changes to some rules and thus drives further institutional changes. Finally, the four propositions made clarify public sector PM change and recapitulate the main contributions of this paper. Next, the research problem and an outline of the research are presented.

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### **Research problem, data and design**

The above discussion indicates that not enough is known about accounting PM change processes or about change pressures in the public sector. Thus, the following questions are asked. How can a voluntary PM change process be understood in the case municipality? How and why did budgeting and accounting PM change occur? To answer these questions, an interpretive (Chua, 1986) case study was conducted in a Finnish city that was subject to fiscal and political pressures to change. The case developments during an initiative to improve the financial position, budgeting and PM were observed and discussed, for example, in meetings and training sessions in 2005. However, the main data consist of 16 semi-structured interviews (see Appendix), which were made and recorded between November 2005 and August 2006.

It was soon discovered that the change of city manager which happened in 2004 was a turning point for accounting PM developments in the case city. Therefore, several representatives of various parties occupying central positions during the PM development process were interviewed. Both the current and the previous city manager were also interviewed. Further, to acquire a wide view of PM and developments in it, certain city officials and sub-unit managers as well as other Balanced Score Card (BSC) preparers were interviewed. A typical interview lasted about an hour. The interviews were transcribed and the data coded according to the pressure type found. Further, background information, such as dates, was checked from the city council minutes. In addition, budget preparation instructions of the city were examined in order to get a rich view of the case city (triangulation, Yin, 1984, p. 91). For clarity, some interviewees are presented using a number that specifies the interview according to the Appendix of this paper. The remainder of the paper is organized as follows: first, we look at the various studies and backgrounds of accounting change and institutional pressures in public sector accounting PM. Next, the case is presented. After the case, discussion (including four propositions) and conclusions follow.

### **Theoretical perspectives on accounting change**

#### *Institutional theory background*

Institutions may be regarded as settled habits that form “the rules of the game in a society” (North, 1993, p. 3). The institutionalization of habits is regarded both as an outcome and as a process reflecting the power of organized interests and the actors who mobilize them (Covaleski *et al.*, 1993). In a classic “new institutional sociology” (NIS)[2] study, DiMaggio and Powell (1983) divide the (mostly external) pressures affecting organizational development into competitive and institutional pressures. Institutional pressures may be divided further into coercive, normative and mimetic pressures (DiMaggio and Powell, 1983). Coercive pressures stem from political influence and problems of legitimacy, normative pressures arise from professionalization, while mimetic pressures stem from uncertainty (DiMaggio and Powell, 1983). In mimetic

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isomorphism “organizations tend to model themselves after similar organizations in their field that they perceive to be more legitimate or successful” (DiMaggio and Powell, 1983). Institutions are legitimized by regulative elements exerting coercive pressures (e.g. rules and laws), by normative support from work roles and professional bodies, or by cultural-cognitive elements such as shared social meanings imposing mimetic pressures (Scott, 2001, pp. 55-9).

Oliver (1992) and Abernethy and Chua (1996) argue, however, that intra-organizational pressures have been neglected in classic NIS literature. Thus, Oliver (1992) categorizes the change pressures leading to the erosion or “deinstitutionalization” of old practices within an organization into political, functional and social pressures. For example, an increase in the number of organizational members whose interests conflict with the status quo may lead to a mounting crisis. Functional pressures stem from a decline in the perceived utility or instrumentality of a practice that may be caused, say, by an increase in the perceived goal clarity (Oliver, 1992). Further, social pressures for deinstitutionalization may arise, for example, after a leader succession that creates historical discontinuity, which pre-empts the “reproducibility of activities over time” (Oliver, 1992). Further, Oliver (1992) distinguishes moderating forces that cause entropy (e.g. personal and work role development in time) or inertia (e.g. high perceived costs of change) for institutionalized patterns. Further, Greenwood and Hinings (1996) noted that radical changes require “capacity for action” (skills) and power (control over decisions).

These categorizations of change pressures provide insight into the analysis of the case city where, for example, a leader succession occurred. However, in a municipal context the categorization of pressures into external and internal is fuzzy as the city council both represents people facing external pressures and is a body that exerts (coercive) power over other members of the municipal organization. What is more, normative pressures may be exerted within an organization by central administrative staff over personnel in sub-units. Further, sub-units may mimic other sub-units in PM usage. Thus, the categorizations of intra-organizational pressures (Oliver, 1992) may intertwine with external pressures (DiMaggio and Powell, 1983). Furthermore, the relative importance of various pressures may still be unclear, although Modell and Wiesel (2007) suggest that coercive pressures tend to dominate other institutional pressures.

However, corroborating the importance of cultural-cognitive elements (Scott, 2001, p. 57) in accounting changes, Busco *et al.* (2006) note the importance of trust in PM changes. When accounting is trusted it may be employed to “confront environmental disturbances or organizational crises, and to reconstitute . . . conditions of safety” in organizational practices (Busco *et al.*, 2006). Further, Busco *et al.* (2006; also Schein, 1999, p. 121) noticed the importance of anxiety in institutional changes. “Survival anxiety” refers to those cognitive feelings experienced when it is understood that old habits need to be given up in order to “stay in the game”. Survival anxiety is needed to stimulate change (Schein, 1999, pp. 121-2; Busco *et al.*, 2006). Paradoxically, learning new habits causes some “learning anxiety” that prevents change (Schein, 1999, p. 121; Busco *et al.*, 2006). Thus, survival anxiety might result from decreased functionality of old routines, and facilitate the birth of a mounting crisis (Oliver, 1992).

In addition, many NIS studies have discussed the coupling of organizational rules and routines (Lukka, 2007; Meyer and Rowan, 1977; Weick, 1976). The coupling of

rules and routines may be “loose” or “tight”, and rules and routines may even be “decoupled” to maintain legitimacy or to reduce conflicts (Lukka, 2007; Meyer and Rowan, 1977). In addition, the “degree of tight coupling” may vary (Greenwood and Hinings, 1996). However, Brignall and Modell (2000) state that there may be a “need for decoupling” in public organizations, which stems from the lack of coherence between, say, budgeting rules and the organizational environment. Loose coupling may indicate poor performance as rules are not obeyed as intended, but on the other hand routines may protect over-strict rules from change pressures – even for too long (Lukka, 2007). Thus, good routines (mobilization) from an active agency may save a poor rule (Mouritsen, 2005). In addition, Burns and Scapens (2000, see also Barley and Tolbert, 1997; Giddens, 1984)[3] stress the continuity of the institutionalization process of encoding institutions into rules (“how things should be done”) which are used by actors forming routines (“how things are actually done”).

*Institutional pressures in accounting change studies*

Much of public sector accounting has focused on “rational” considerations such as performance measurement (PM) and efficiency (Hood, 1995; Lapsley and Mitchell, 1996; Olson *et al.*, 1998). However, institutional issues, such as traditions and politics, strongly affect public sector PM (Aidemark, 2001; Brignall and Modell, 2000; Kurunmäki and Miller, 2006; Modell, 2001, 2004; Northcott and Llewellyn, 2003). Still, despite the importance of institutional issues in PM adoption and usage, adoptions of new accounting technology are often camouflaged as rational (Burns and Vaivio, 2001; Malmi, 1997, 1999; also Brunsson, 1987). However, new accounting systems can also facilitate change by legitimizing the operations of change (Burchell *et al.*, 1980; Burns and Scapens, 2000; Busco *et al.*, 2006; Modell, 2004). Indeed, accounting changes may involve other changes (Hopwood, 1987), anxiety (Busco *et al.*, 2006), chance or drift (Quattrone and Hopper, 2001), as well as political struggles and contradictory interests of professional groups especially in the public sector (Aidemark, 2001; Johnsen and Vakkuri, 2006; Modell, 2004). However, if a consensus of political interests is achieved it may provide substantial potential for performance improvements (Aidemark and Lindkvist, 2004).

Hence, both rational (economic or competitive) and institutional (legitimizing) rationales as well as the complexity of change processes have been acknowledged in public sector accounting studies (Aidemark, 2001; Järvinen, 2006; Kurunmäki *et al.*, 2003). For example, Aidemark (2001) viewed the BSC (Balanced scorecard) (Kaplan and Norton, 1992) as both increasing communication and being suitable to most professional groups in Swedish municipal health care. Thus, legitimacy does not necessarily conflict with efficiency (DiMaggio and Powell, 1983; Malmi, 1999). In addition, Seo and Creed (2002) suggest that both efficiency gaps and misaligned interests in the organization increase the likelihood of institutional change.

Yet, institutional pressures or constraints on change vary in place and time (Järvinen, 2006). Thus, in the mobilization of an accounting system, change and stability may co-exist (Burns and Scapens, 2000; Burns and Vaivio, 2001; Modell, 2004). For example, changes may be made to maintain the appearance of rationality or to preserve control (Burns and Scapens, 2000). However, in the institutionalization process, the organizational rules and routines or their coupling are not necessarily static. Hence, in this paper:

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[...] the analysis of the “tightness” of coupling is also referred to as analyzing the “distance between rules and routines” as “distance” well depicts the case events and the idea that coupling is a dynamic continuum and not only a division between “tight” or “loose” forms of coupling.

Next, the case events are presented in greater detail.

## **Changing the course of a city**

### *Background*

The financial status of the case city was weak because of high spending and certain changes in the state grant policy[4]. The 1995 municipal act required accrual accounting and financial deficits to be covered within a planning period, generally speaking, of three years. However, budgeted targets were often unmeasurable and spending almost traditionally exceeded the budget while healthy finances were not considered an important goal. Further, there was a lack of coherence in sub-unit budgets and reports. For example, balanced scorecards (BSCs) had been implemented in trial units independently starting in 1998 -1999, but still many city council members did not know that the city used a “scorecard”. However, the city was growing and had a good image, but unemployment was relatively high and the number of elderly people was increasing. These lines of development demanded more social services and more rigorous financial management.

In autumn 2002, a financial committee (comprising city council members, city manager X and city officials) was appointed. In its report in summer 2003 it suggested cutting costs by closing small libraries and schools, for example. However, the report was not discussed in the city council because there was no real support for drastic service cuts among parties. This caused friction in the relationship between city manager X and certain politicians. Soon discussion started about who would be the next city manager. Finally, in November 2003 a loose budget including heavy debt was agreed. This was not acceptable to some council members. Thus, a member of the financial committee demanded the resignation of the city manager and offered a “golden handshake” to smooth the process. In December 2003 the city manager X resigned so that his contract of employment ended in April 2004. The sum of money offered to him to resign was hotly discussed, but the city council agreed to pay the money to prevent “paralysis” of the city administration. Thus, here a “mounting crisis” resulted in leader succession (Oliver, 1992).

In May 2004, a new city manager, Y, was appointed. The new city manager Y was perceived as putting more focus on PM and financial matters. Also, co-operation between politicians and the city manager improved, and the poor financial situation was acknowledged. After analysis with the board, the city manager introduced a programme to stabilize the city’s finances. The legislative (coercive) pressure to balance the financial result promoted changes, as a council member (interviewee no. 1) noted:

[...] Legal is a kind of magic word [...] when it is legal requirement it causes some action.

Still, balancing the city’s finances was achieved via an intra-group sale of the city’s Water Company to a subsidiary energy company in October 2005. The sale covered previous deficits in the balance sheet of the city (the parent company), which recorded over 100 million euros of extraordinary profit. Although the legislative financial

balance was established with the help of this “accounting trick”, the common will to improve the financial position remained:

[...] When we sold the pipes (the Water Company) we got an immense surplus that we could use for a long time, but we do not intend to use it [City council member, interview no. 12].

The improvement in the city’s financial position had already been included in the political agenda before the municipal elections of October 2004. After the election, a new financial committee was organized, and now its suggestions including closing small schools and libraries were taken seriously. Further, budget training was given to unit managers and BSC was brought to budgets with targets categorized into “customer”, “processes”, “personnel” and “effectiveness” perspectives. However, the budget preparation instructions required ambiguous categorizations of financial information both in “BSC categories” and in “output, efficiency, width and resource” categories. Still, the interest of employees in better targets and PM was raised, while BSC and budget training also invoked some normative pressures. However, social (Oliver, 1992) and mimetic pressures (DiMaggio and Powell, 1983) also encouraged the adoption of BSC. For example, certain new managers advocated BSC usage, and when the street maintenance unit was given praise for their PM, other units wanted to mimic their measures. Further, an enterprise resource planning (ERP) system had been discussed, but the old financial accounting system was considered adequate despite the laborious reporting involved. In summer 2005, ERP was again introduced to the city council as a control and personnel management tool in line with new development plans. Here, functional pressures had decreased the trust in the old system:

[...] ERP [...] is an investment of over two million euros [...] besides planning it also includes reporting [...] we are building it from scratch [...] The integration of current systems [...] is – and has been – a problem [...] Reporting has to work – it has not worked [City manager Y].

Interestingly, the personnel management part, which was considered inaccurate, was not adopted during the first phase of the ERP project. Nevertheless, more measurable targets were demanded in budgets and reports, and the number of premises and personnel was to be slowly reduced by about ten per cent. Hence, the amount of new debt taken on fell by 60 per cent in 2006 if compared to 2005. Further, the city was placed on course for achieving financial equilibrium (a zero-result) within three years and the strategy statement of the city was also slightly modified to reflect the increased importance of city finance. Further, an agreement was made (mimicking the labour policy of the municipality where the new city manager had been employed) that no employees would be dismissed from their jobs before 2009, but employees had to be ready to accept new tasks. This allowed efforts to be focused on sectors where employees were most needed. Thus, there were at least economic, coercive, mimetic and functional pressures facilitating change. However, we still need to look at the other institutional pressures in more detail.

*Political pressures, distance and a mounting crisis*

In the case city, there was no clear political majority for the left or for the right as the vote often split. Therefore, decision-making was not always fast. City manager X had had an influential role in decision-making during the time the image and economy of the city had been improving at the beginning of his term, starting in 1994.

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However, there was no tradition of budget discipline or PM, but supplementary budgets were common, as the chairman of the city board states:

The budget has been one thing and the supplementary budget the main thing [...] Now the budget is made seriously and it is to be followed.

City manager X relied heavily on his administrative staff and had the idea that in order for decisions to be effective and fast, the political decision-making process had to be kept away from these: “as long a distance as possible was made between the (perceived rational) administrative process and the (perceived as irrational) political process”. City manager X says:

I had the tactical idea that was probably sometimes a mistake, but that was the only path to those innovations, that the further away from the political decision-making you put these structural innovations with various organizational arrangements, the more likely you were to get them through [...]. In city management it was the old “divide and conquer” thing.

We had [...] ten leaders [officials] below city management, we formed a common vision and everyone defended it. Really, we made such innovative decisions [...] [the case city] was living quite inefficiently because of political decisions, and we always rescued it by inventing things that produced savings of 10-20 million, or got money from the state [...]. For example, we founded the “Educational Facilities” and got free buildings from the state, rented them to the Polytechnic and got tens of millions of euros, and no city council member was clever enough to say thank you for the innovation we made [...].

Obviously, the “inventing and fixing” and the “divide and conquer” type of “distance-building” was not welcomed by all politicians. Thus, games about power and budget money started to escalate, leading to conflicts, a lack of trust and to a separation of the administrative and political decision-making processes. Further, an election year was coming and not all board members wanted to be remembered as “service-cutters”, as city manager X recounts:

Political leaders are elected every four years. They have to make partly populist decisions. A person that [...] is willing to make hard decisions is not always liked, it’s natural. Persons that have overall responsibility for the city’s financial status are quite few [...]. Of course you end up with personal troubles if the political leaders think that you cannot cut anywhere, but the finances should be ok.

Politicians reacted to this type of management and decision-making slowed:

In the beginning of this millennium, politicians noted that officials had the power. Then among politicians jealousy appeared that power is in the wrong hands. New administrative boards were set up [...] decision-making slowed [...]. We had a good [administrative] team [...] all we needed was some good [political] decision-makers, but we lacked them [...] [City manager X].

As a result, the budgeting process in its political, functional and social respects (Oliver, 1992) became complex. For example, a member of the city council (no. 1) told that ‘If ... council gave money to one unit, he [the city manager X] would take it away with rents’. Disagreements became clear when the report of the financial committee in 2003 was not discussed either because, as some politicians thought, of the city manager X, or because of the chairmen of the council (from the three major parties), as city manager X thought. Thus, the social relations were poor and there appeared some survival anxiety (Busco *et al.*, 2006). The role of the manager also changed as city manager X spent more

time with his new wife and was not so eager to fight about every euro. Hence, a loose budget was made jeopardizing the equilibrium of the city. Council member (no. 1) recalls a budget seminar in Helsinki [the capital of Finland] in autumn 2003:

Well, I was mad after all the work of the financial committee had gone to waste, and so the next morning I told the city manager that it would be best if he resigned and got a golden handshake. Well, it took about five weeks and he resigned. Then this awful mess about the golden handshake started [...] Still I think that when you look at the need for a change of direction, it happened too late and it was the best investment we have made in years.

Here, the management situation turned into a crisis (Oliver, 1992). The leadership succession was also a discontinuity which altered the social relationships between politicians and managers causing (financial) goal clarity and deinstitutionalizing the old ways of operating. After the resignation of city manager X, the table was relatively clear for trust and direction change. Also some new, more co-operative unit managers were hired. City manager X explains:

I think, now they've changed the decision-makers and all, that there will be a better spirit. It was a kind of rupture, and in a democracy [...] it is good that management changes.

However, a change of city manager does not remove "the burden of old decisions" already made. These decisions narrow the organizational capacity for action (Greenwood and Hinings, 1996). For example, something may have been promised to voters. However, the change of city manager formed a critical situation where deinstitutionalization (Oliver, 1992) occurred and the course of the city could be altered. Also, after the election the moment was favourable for making changes. Social relations were normalized allowing goal clarity and the capacity for change:

Decision-makers have to have support from each other [...] if there is a situation where everyone has to give up something, in a way their promise, it is always easier [...] sufficiently many see that here we have all suffered a small defeat in the eyes of voters, but on the other hand we guarantee the finances and the good things [Chief administrative officer].

[...] Many things influenced here, but even before the municipal election political groups started to draw closer to each other [...] This crisis is so merciless that everyone must give up a bit of their own operating policies [...] [Chairman of the city council].

With the new city manager trust was slowly regained. BSC and ERP were part of the new PM myth of "how to survive" (Modell, 2004) and ways of coping with anxiety. BSC brought trust for change (Busco *et al.*, 2006), and soon the "distance" between administrative and political actors as well as between political parties diminished. Political and personal relations (social and cultural-cognitive issues) thus advanced changes in addition to coercive pressures.

#### *New city manager and the social pressures*

The choice of the new city manager Y was not a simple procedure in the social and political turmoil[5], but after the choice of new manager was made, a clear message was given that a real change was coming. There was trust in the continuity of change:

Now what is promised actually happens. That is the uppermost thing: credibility. The city finances will be balanced and the services for people will be maintained even if we have to make harsh decisions – and we will make those decisions [Chairman of the city board].

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Further, the development was now conducted in a spirit of co-operation: the new city manager Y speaks more frequently of “us”, including the politicians also:

The owners’ representative in this company, the city group, is [...] the council and the board. Together, with them we went through this matter and based on that we formulated this so-called financial balancing program [...] For this first year I already know that we are on that track, going forward.

Further, co-operation and social relations between the parties improved, there was a common will and thus information was spread more openly and soon the savings made were of larger magnitude than before indicating bold decision-making ability in the city:

We are going against the main stream [...] the financial status of municipalities is weakening, our status is improving [...] The easiest way is to go with the market, go with the flow [...] we have chosen another kind of road [City manager Y].

However, the social relations among municipalities may also affect decision-making. At the time, other municipalities also faced financial difficulties and were trying to improve efficiency. Yet, relations between the city and the neighbouring municipalities were poor, although the government was vaguely trying to increase co-operation between municipalities:

We follow the example of certain big cities in development projects, but not that of the neighbouring municipalities. In contrast, in earlier years it was like this: if they did something, then we did not do it [City council member, no. 1].

Here, the social pressures and mimetic change pressures unite interestingly: even if the actions of the neighbouring municipality were legitimate, it would have been impossible to follow their example, perhaps this is a kind of “non-mimetic” or “asocial” pressure.

#### *About the coupling of rules and routines*

The institutional pressures in a municipality are strong and vary to such extent, as administrative officers often pointed out, that “politics” or the “public opinion” may override any rational reasoning in municipal decision-making:

Rational [...] reasons may mean nothing if the public opinion is stronger [Chief administrative officer].

As there were ambiguous pressures from voters and consequently from the city council, the old routines did not include budget discipline or PM. Especially, in some mandatory social and health services budget discipline was considered a trifle. The manager of day-care suspected that too little money is initially made available in order to encourage thrift and then “in the supplementary budget money always comes”. Indeed, the chairman of the city council said that “we always accept these budget over-runs”. Hence, the budget rules and routines were only loosely coupled, if at all.

However, at this point the financial perspective became important. In the new situation line managers have to explain overspendings to the board, and there is no longer support for overspendings. Interestingly, this also simplifies managerial work:

I have to report to the top management, if something [spending in the budget] is in danger of being exceeded, and even to the board. It is a challenging task [...] to go there to tell them what caused this. It really affects the operating culture. You do not want to go there many times [...] When there is political unanimity; there is no problem managing this: it's an easy and pleasant job. Really, it means a lot [Director of social affairs and health].

Thus, the council and the board also exerted coercive power (others were accountable to them). When the pressures changed, operations changed towards tighter coupling of rules and routines. Further, BSC was seen as a tool for both external and internal reporting having the potential to simplify controlling and accounting procedures that used to include several systems:

In the BSC – in that one card – we have gathered the important things that we follow and what we tell outsiders, for example to our financiers, up to the city board, what we tell to the board of social affairs and health [...] and also for our development purposes [Manager of day-care].

Gradually, with institutional principles also the individual perceptions changed: “it is a cultural issue. . . current leaders consider it a kind of matter of honour” [to stay within the budget. Chief Administrative Officer]. Further, financial issues have become everyday issues:

It is a kind of atmosphere that has developed, the thing that is trendy [...] surprisingly many people say that they fully approve of the economy and efficiency principles [...] [Chairman of the city council].

However, the budget rules had remained relatively intact despite changed routines. Still, the BSC and budgeting rules were not considered final, but also in need of change:

What is difficult is that we do not have a city-wide structure and the preparation instructions are in the making [Manager of day-care].

Thus, accounting PM change is likely to proceed in a loop where the rules and routines of the organization are gradually improved to match the new institutionalized beliefs (also Lukka, 2007). For example, the adoption of an ERP system will continue for a long time. ERP training may align professional interests and create normative pressures for PM routines.

In sum, when the “distance between administrative and political actors” was kept wide, there was an opportunity for either politically or administratively made “forced” decisions overriding parts of the municipal decision-making system. However, the more distance there was, the more dissatisfaction, power games and ruptures started to occur because of misaligned interests, anxiety and poor personal relations. The solution to survival anxiety stemming from reduced functionality of the decision-making system was either to create new rules or deinstitutionalize old routines and thus move routines towards the rules. Along with new manager and new pressures, the “distance between administrative and political decision-making” diminished meaning that co-operation increased. Co-operation may make decision-making slower, but in the case a common vision (also Aidemark and Lindqvist, 2004) was created uniting the power of parties and improving the decision-making capacity. Earlier, administrative reasoning was perceived as “more rational” and political reasoning as “more institutional” (because parties had conflicting interests), but now various pressures favoured “rational” decisions.

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For example, coercive legislation, normative recommendations of BSC training and mimetic pressures from other municipalities advocated financial equilibrium. Further, a new city council and manager were elected, and new myths such as BSC appeared diminishing learning anxiety. Finally, the new more fiscally prudent agenda was effectively communicated by the new city manager (Simons, 1994) diminishing learning anxiety and creating trust. Hence, even the windfall profits from the Water Company did not stop – they gave time to pursue – the PM and budgeting developments because most pressures (e.g. actual financial and normative) remained convergent. Thus, the change in budgeting and PM routines became inevitable.

### Discussion – coupling it together

In the case, trust and a common vision among political parties were created under various organizational pressures. Hence, budget-discipline became stronger, and the myths (Modell, 2004) of good performance changed. The case events suggest the following proposition, which refines accounting change literature in stable municipal context and is in slight contrast to the notion of Seo and Creed (2002) that misaligned interests cause changes:

- P1.* The likelihood of change in a stable environment – where no decision-making rationale is superior to another – depends on the convergence of rational and prevalent institutional (external and/or internal) pressures.

For example, Modell and Wiesel (2007) suspected that coercive pressures are most influential, but here it was found that sometimes the political will may override other considerations. Further, the next proposition refines the forces causing inertia as well as the reciprocal interplay of change and the various institutional pressures (e.g. Oliver, 1992):

- P2.* Convergence of intra-organizational pressures is likely to occur if there are perceived external pressures demanding change. If convergence of pressures, and subsequently a clear goal (common vision), is reached the deinstitutionalization of old habits is postponed mainly by coercive pressures or by individual aspirations leading to a mounting crisis.

This clarifies that when outside pressures (e.g. fiscal, legislative) align changes are also caused in the intra-organizational pressures (e.g. political, social pressures). When internal pressures align, there are less preventing forces and some cultural-cognitive belief appears in the continuance of the change process. In addition, voluntary mimicking behaviour may occur among sub-units of an organization. Thus, under the political and social pressures the old organizational routines of the case city started to deinstitutionalize. The use of PM became more important and rationally based arguments about cost cutting were widely accepted as a way of coping with pressures diminishing anxiety (Busco *et al.*, 2006). Further, other changes, for example in state grants, were used to stress the importance of cost-efficiency, representing coercive outside pressures. Hence, the use of accounting PM became institutionally accepted and coupled into action. Further, trust and clearer goals at the political level reduced “gaming” and promoted co-operation. In terms of Burchell *et al.* (1980) the degree of uncertainty of objectives diminished and the accounting PM became a control mechanism instead of, say, a political “ammunition” machine.

The training sessions and the new, although fuzzy, budget preparation guide produced normative and mimetic pressures, but also offered a way of dealing with learning anxiety by going along the new financially focused way. Under pressures, old routines broke down (were drastically deinstitutionalized) and new routines could be advanced. Further, the new manager brought new rules and myths which facilitated a change in institutional beliefs. For example, North (1993, p. 6) noted that formal rules may change overnight and routines stay intact, but it was found now that budgeting and PM routines may also be deinstitutionalized and changed without radical changes in formal budget rules or in strategy. In terms of Mouritsen (2005) the mobilization changed more than the design (budget rules) when the new management insisted on staying within the budget. This leads us to the next proposition:

P3. Even if a change in accounting PM rules is not revolutionary in organizational scope there may still be substantial changes in the routines of an organization.

Hence, routine reproduction may go on in an organization until ruptures (pressures and crises) emerge and demand learning through the evolution or revolution of existing institutions. In the studied case, the operating rules and even the city strategy were slightly altered to reflect the financial focus, but the change in routines is considered larger although, of course, some traces of the old remain (Modell, 2004). However, PM usage became more approved, a part of the widely held myth of improvement (Meyer and Rowan, 1977; Modell, 2004). For example, BSC perspectives were at least loosely coupled to the budget. Thus, PM became more coupled with the budget and budget rules (design) became more coupled to operations. Hence, the change became an overall change, when the city manager, many council members and labour policy were changed. This indicates that several types of pressures (DiMaggio and Powell, 1983; Oliver, 1992) are features of deinstitutionalization and PM change as well as features of building trust for accounting change (Busco *et al.*, 2006) in the public sector.

After the deinstitutionalization of old habits in the case, a diminished “distance” was found between budget rules and routines (Figure 1). Here, distance refers to the dynamic “tightness” of the coupling of rules and routines, but emphasizes that diminishing distance between rules and routines required diminishing “distance” in city management, between political parties, and between the various change pressures. Further, distance clarifies how far the “institutional realm” and the “realm of action” (Burns and Scapens, 2000) are from each other (dashed arrow in Figure 1).

In Figure 1, convergence (increased coupling) of budgeting (or PM) rules and routines facilitates some deinstitutionalization of the old and the institutionalization of

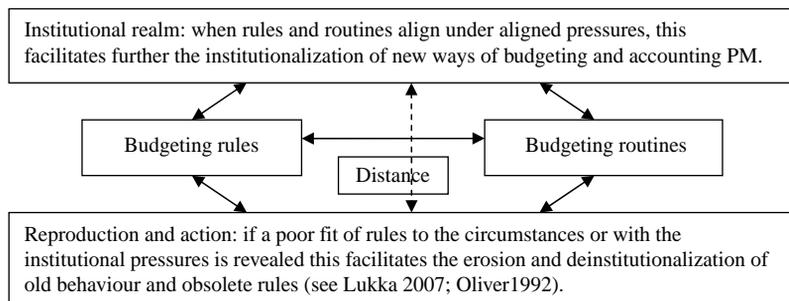


Figure 1. “Distance” and the convergence of budgeting rules and routines in the case

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new behaviour. In the case, the budget figures were traditionally exceeded, indicating decoupling (Lukka, 2007; Mouritsen, 2005). However, when change in the pressures occurred there was a need for modification of both budget rules and routines. Hence, the “need to decouple” (Brignall and Modell, 2000), perhaps stemming from anxiety to survive (Busco *et al.*, 2006) under divergent pressures and obsolete rules, was faced and re-routed to a “need to couple” the rules and routines under more convergent pressures. Hence, the myth that budgets do not matter was in conflict with both budget rules and with new social pressures leading to deinstitutionalization of old behaviour. As Lukka (2007) noted, old routines may have protected the non-flexibility of the existing PM and budgeting system, but also the cost of a new sufficient system is likely to oppose PM system changes (Oliver, 1992). These considerations bring us to the fourth proposition of the paper:

- P4.* The (degree of) coupling between rules and routines varies with perceived pressures and reigning organizational myths. Diminished “distance” between rules and routines allows stricter adherence to rules and facilitates the institutionalization process, but also encourages a change of rules if poor fit of the rules with actual operating circumstances is revealed.

In the case, both the rational and the intra-organizational institutional pressures advanced by the new city manager supported strict budget discipline. As there were smaller opportunities for supplementary budgets, good budget preparation became more important and thus good targets and their measurability were stressed in training sessions and in practice. However, neither the basic budget rules nor the organizational structure changed dramatically. Still, goal clarity led political decision-makers to refine strategy slightly and to reach a common vision. Old myths, such as keeping maximum distance, tumbled down in a crisis and gave way to new myths of co-operation and the importance of timely accounting PM. Thus, the mobilization of PM designs changed and accounting PM also reinforced the institutionalization of new operating principles. However, the reproduction of changed routines is not self-evident while windfall profits from sales of property may diminish the perceived coercive pressures about the city’s financial status. That may again allow some decoupling of rules and routines and allow more divergence in decision-making rationales as well as more versatile visions of future development needs.

## Conclusions

The PM usage of the case city changed in 2004-2006: more budget discipline was introduced, BSC training was given and a new ERP system was introduced. As a refinement to the literature (e.g. Abernethy and Chua, 1996; Järvinen, 2006; Kurunmäki *et al.*, 2003), it was found that only when both rational and institutional (non-dominant) pressures converged, did the budget and PM routines in the case city actually change. The most prominent feature in the deinstitutionalization of old organizational habits was the mounting crisis (Oliver, 1992) leading not only to leader succession, but also to a new city board. However, the institutionalization of new habits was a slower process where both budget rules (design) and routines (mobilization) were changed. The changed routines also helped to reveal the need for changes in obsolete rules (corroborating Lukka, 2007 in the public sector). Further, in the municipal context the division of institutional pressures into intra-organizational (Oliver, 1992) and

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extra-organizational (DiMaggio and Powell, 1983) was found to be blurred. However, NIS based theory tools facilitated deep understanding of the forces affecting accounting PM change in the case city.

As other contributions, it was noted that budget rules (e.g. budget design) and organizational routines change somewhat independently so that routines may change more than rules. Further, change involves both continuous and discontinuous elements. In particular, the deinstitutionalization of old routines often includes more discontinuous elements while the institutionalization of new beliefs usually occurs in a more subtle way, for example through budget processes (Hyvönen and Järvinen, 2006). Further, the concept of distance created in this paper facilitates understanding of the dynamics of the coupling of rules and routines. For example, Lukka (2007) examines static loose coupling, but here PM routines gradually became “more coupled” into action – towards tight coupling without drastic changes in rules. Further, the alignment of pressures demonstrates how and when PM changes can be made, facilitating management in similar public sector change processes. The change in the accounting PM was a part of the continuous process of organizational change: a myth among myths or a way to legitimize action or to reduce uncertainty and learning anxiety. Thus, the pressures affected the cultural-cognitive perceptions of the way things are done here. Further, the resignation of city manager X constituted a critical situation that facilitated (drastic) deinstitutionalization and cleared the way for new institutions. The new manager offered practices (BSC, ERP) that could be trusted and which reduced learning anxiety (Busco *et al.*, 2006).

In the case, reasoning rationales converged under fiscal and various institutional pressures. For example, social relations were important in understanding change. A few key persons, change agents, such as the city manager and certain politicians had the power to affect rules and routines. Further, the increased co-operation between municipal actors and among political parties reduced uncertainty and thus efforts were not wasted on “power games”. Also, the common perception about financial crisis facilitated changes. BSC and ERP projects offered well-known solutions to encourage budget discipline considerations. When the institutionalized beliefs changed, so did the mobilization of accounting PM designs. Accurate budgets and reports became legitimate, and BSC with its various perspectives was an acceptable addition to budgets for most actors. BSC training increased communication and intra-organizational mimetic and normative pressures facilitating change. Further, the poor relations between neighbouring municipalities indicate the complexity of legitimation and mimetic pressures in the municipal field.

Finally, the four propositions made in this paper clarify institutional pressures, rules and routines, and the change process in the case city. In particular, the pressures as well as the interplay and coupling of rules and routines were depicted (e.g. with the concept of distance) in a way that allowed improved understanding of the fragment examined here of the continuous process of institutionalization in the case city. For example, rational (classic accounting) calculations do not always have much weight if institutional pressures such as political opinions are strong – or if there are no perceived pressures for change at all. Of course, one case study may not cover all possible aspects of change situations, but the contributions and the propositions made here do offer increased understanding of municipal accounting PM where change processes are entangled with other organizational change processes. However, further

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study is needed to understand decision-making rationales and the complex interplay of pressures as well as rules and routines in public sector accounting PM change processes.

### Notes

1. The term rational is used here for brevity. The “rational” reasoning for PM may also be referred to as “competitive”, “economic” or “accountingization” rationale (DiMaggio and Powell, 1983; Järvinen, 2006; Kurunmäki *et al.*, 2003).
2. A basic division of “institutional theories” is: “old institutional economics” (OIE), “new institutional economics”, “old institutional sociology” and “new institutional sociology” (NIS). In OIE, the rules of conduct (habits, social institutions) were explicitly taken into consideration as affecting the behaviour of actors (Scott, 2001, p. 3). Habits and routines reduce uncertainty by offering tested ways of conduct, and are thus useful in coping with the complexity of everyday life (Scapens, 1994). New institutional economists have sought “to develop an economic theory of institutions” using, for example, transaction costs (Scott, 2001, pp. 28-31). Old institutional sociologists saw society as an organic system evolving through time “from individual activities to folkways, to mores, to full-fledged institutions” (Scott, 2001, p. 9). Finally, NIS gives additional attention to shared knowledge and to belief systems: to cultural-cognitive dimension of institutions (Scott, 2001, p. 39, 57). Further, the actors in NIS are currently considered pro-active and not only as passively complying with institutional pressures (e.g. Oliver, 1991). Hence, Scott (2001, p. 2) notes that “in many respects, the “old” institutional economics bears a stronger intellectual kinship with the “new” institutional approaches advanced by sociologists and anthropologists than with the “new” institutional economics”.
3. The work by Burns and Scapens (2000) represents old institutional economics (OIE), but is not considered for the most part as contradictory, but complementary to new institutional sociology (NIS) research.
4. Finnish municipalities tax their inhabitants and enjoy a large degree of independence from the state. Most government grants are given as lump sums with the municipality deciding about actual spending. However, the government grant policy was perceived to have become tighter. Further, the tax levied does not always benefit the collecting municipality in full because of evening-out between municipalities in the Finnish tax and grant system.
5. Council member no. 1 describes: it was a happy result of political conspiring: we [Coalition party] had candidate Y in our back pocket all the time, but we could not produce him, and then, when we could get nowhere . . . the Greens offered candidate Y and they talked the Centre Party into it... We could easily concur that he might be ok for us too. Finally, a council member was converted in the toilet to vote for Y and so it was "30-29" [result of the vote].

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### Further reading

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### Appendix. Recorded interviews

Number /Date/Person/Approximate duration of interview

- (1) 9.11.2005/Member and former vice-chairman of the city council/1 h 15 min.
- (2) 11.11.2005/Chairman of the city council/1,5 h.
- (3) 14.11.2005/Member of the city council and vice-chairman of the city board/1 h.
- (4) 15.11.2005/Member of the city council and chairman of the board of financial control/1 h.
- (5) 16.11.2005/Chairman of the city board/1 h.
- (6) 16.11.2005/Administrative officer/1 h.
- (7) 25.11.2005/Budget officer/45 min.
- (8) 25.11.2005/Director of social affairs and health/45 min.
- (9) 28.11.2005/Administrative officer/1 h.
- (10) 28.11.2005/Day care project manager/40 min.
- (11) 29.11.2005/Chief administrative officer/50 min.
- (12) 8.12.2005/Member of the city council and former vice-chairman of the city council/1 h.
- (13) 16.12.2005/Administrative officer in social affairs and health/1 h.
- (14) 16.12.2005/Manager of day-care/45 min.
- (15) 21.12.2005/City manager Y/45 min.
- (16) 29.8.2006/City manager X/1 h 20 min.

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