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**ACCOUNTING FOR CARING AND ACCOUNTABILITY IN THE  
INSTITUTIONALIZATION OF COMPETITIVE TENDERING**

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## **ACCOUNTING FOR CARING AND ACCOUNTABILITY IN THE INSTITUTIONALIZATION OF COMPETITIVE TENDERING**

### **ABSTRACT**

This paper analyses how the institutionalization of competitive tendering during procurement of public health care services affects budgetary accountability of public decision makers. Competitive tendering in welfare States, such as Finland, has brought considerable capital market pressures into the ways of thinking and doing of public decision makers. Local and multinational corporations have received a niche in which to use their innovative and production skills as a source of power to compete for resources that are in the hands of public decision makers. In the institutional change, the traditional decision making process, previously dominated by political and legal rationalities, in public sector organizations, was expected to switch to sound business minded ways of handling public procurement bids, offers and contracts dominated by capital market mechanisms. Previous literature documents major institutional change failures. How various circuits of power involved in public procurement processes affect budgetary accountability of public decision makers, however, remain an under-researched accounting field. This paper fills this gap by extending the institutional conceptual framework of management accounting change proposed by Burns and Scapens (2000) to the framework of circuits of power proposed by Clegg (1989). A practical motivation is to show how practitioners and policy makers can enhance accountability of public decision makers through the institutionalization of public procurement mechanisms whose outcomes in terms of costs and service quality they can control. Findings, based on intensive field research over a period of 4 years in regional city in Finland, confirm the theoretical reasoning of the paper with policy implications.

**Keywords:** accountability, institutionalization, competitive tendering, circuits of power, public health care

## **1. Introduction**

The institutionalization of competitive tendering in public sector organizations has attracted research attention from various fields (Arlbjørn and Freytag, 2012; Sorenson and Kanavos, 2011). The relationship between competitive tendering and accountability of public decision makers in procurement of public goods and services, however, remains largely overlooked in critical accounting research (Diggs and Roman, 2012; Rolfstam, 2012; Rönnbäck, 2012). This study fills this gap by analyzing how the institutionalization of competitive tendering affects budgetary accountability of public decision makers.

The paper uses the framework of circuits of power proposed by Clegg (1989) to extend the institutional framework of management accounting change proposed by Burns and Scapens (2000). The Burns and Scapens (2000) framework gives insights on how to analyse the intra-institutional process through which management accounting rules and routines become institutionalised at micro organizational level (Lukka, 2007; Nyland et al., 2009; Scapens, 2006; Scapens and Varoutsas 2010). The framework needs further theorization, however, to analyze the role of power and its circuits in intra-organizational institutionalization processes, such as competitive tendering, that are related to management accounting rules and routines change (Burns, 2000; Ribeiro and Scapens, 2006; Yazdifar et al., 2008). A circuit of power is an inter-related structure of power that allows a person or organization to make another person or organization do something, that the person or organization being commended would not like to do otherwise (Clegg, 1989). In complex organizational settings, however, the person or organization being commended can use other sources of power based on technical dominance, disciplines of production, networks and alliances to resist the order. The framework of circuits of power (Clegg 1989) shows how various sources of power form different circuits whose interactions can affect the outcome the institutionalization process (Clegg, 1989). Recent studies by Ribeiro and Scapens (2006), Yazdifar et al. (2008) and Lapsley et al. (2011) call further institutional accounting research in this perspective. Analyzing the relationship between circuits of power and accountability during the institutionalization of competitive tendering gives relevant policy implications and shows to what extent the institutionalization of competitive tendering can lead to taken for granted ways of thinking and doing of public decision makers in managing public services and discharging their budgetary accountability.

The study conducted intensive field research from 2008 to 2012 at Sunset City in Finland. Data were based on document analysis, interviews and participation in meetings. Findings confirm the theoretical reasoning of the study with policy implications. The next sections explain the theoretical framework of the study, field research, findings and conclusion.

## **2. Theoretical framework**

Burns and Scapens (2000) argued that intra-institutional change process can be initiated from the institutional realm (i.e. top hierarchy) or realm of actions (i.e. field of practice). The institutionalization process goes through four main stages: encoding, enacting, reproduction and routinization. In encoding, a new policy or an old routine becomes codified into organisational principle that underlies a given practice. An enacted principle becomes policy about how things should to be done at the realm of action. Reproduction is the process of continuous application of an enacted policy leading to its routinization. Routinization is the process through which synchronic change of old routines or new policies into new ones occur. A routinized policy or routine cannot become an institution, however, unless when institutional actors have acquired taken-for-granted assumptions about how that policy or routine has to be applied in practice regardless of resistance to

change that occurred during the institutionalization process (Burns and Scapens, 2000). An institution is ‘a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of a people’ (Hamilton, 1932). The outcome of the institutionalization can be evolutionary or revolutionary. An evolutionary change results from a shift of old policies and routines into new ones that become taken for granted by institutional actors in their fields gradually. An revolutionary outcome occurs by replacing old routines or policies by new ones (Burns and Scapens, 2000).

Power relationships between institutional actors during routinization of a new policy have an impact on the outcome of the institutionalization process (Burns, 2000). The study by Burns (2000) defined power in relation to resource dependence in decision-making between institutional actors and analysed effects of power on institutionalization of management accounting policies. This study, however, did not tackle complex relationships between circuits of power through which institutional actors can resist change. The framework of circuits of power defines power as a capacity to influence thoughts and actions of actors in their fields, which can be formal, informal, continuous or sporadic (Clegg 1989). In this setting, power is not a one-way traffic of influence and resource dependence between actors but a threefold circuit depending on how actors can use dominance in the giving of a reward or a punishment (i.e., dispositional power), how they can use discretion, technological dominance, networks and alliances to influence the application of the rules of the game (i.e., facilitative power) and how they can influence the interactions between actors in their daily activities (i.e., sporadic power). Dispositional, facilitative sporadic circuits of power are different by nature. All the circuits of power interact, however, in obligatory passage points through which power of some actors prevail over others (Clegg, 1989).

Ribeiro and Scapens (2006) used the framework of circuits of power to extend the Burns and Scapens (2000) by analysing the process of institutionalization of innovative project in a manufacturing company. They found that institutional actors that have high level of technologic knowledge (i.e., circuits of power based on technical dominance) could resist institutionalization of policy change (i.e., resistance against formal power) when the new policies undermine established practices in the field (i.e. sporadic circuits of power between old routines and new policies). Lapsley et al. (2011) used the framework of circuits of power to analyse budgetary processes of minority governments in Scotland. They found that successful budgetary setting (formal circuit of power) depended on how the minority government convinced opposition parties to enrol into government policies. Thus, enrolment constituted informal networks and alliances (i.e. informal circuits of power), which affected the outcome of budgetary negotiations. The Lapsley et al. (2011) study, however, did not include the role of sporadic circuits of power in obligatory passage points through budgetary negotiations led to a successful outcome. This study fills this gap by analysing how sporadic and facilitative circuits of power of companies that provide health care services influenced the dispositional circuit of power of political decision makers and public officers in charge of health care service during the institutionalization of competitive tendering and their effects on accountability.

### **3. Field Research**

Field research took place in a regional city, hereinafter referred to as Sunset City, between 2008-2012 in Finland. Any city or municipality in Finland has local governance autonomy and political leaders who are democratically elected for a four-year term. The council is the highest political governing body. It shapes governance policies of the city or municipality, approves its budgets and annual financial reports. The audit committee is the second political body that monitors

accountability of all municipal officers in their activities. It reports directly to the council and issues an audit evaluation report every year, which is part of annual financial reports of the city or municipality. The executive board is the third political body. Its role is to monitor implementation of the council's decisions. Each sector of municipal affairs such as education, social and health care, logistics and technical services... is run by an elected political committee, which reports directly to the executive board of the city or municipality. Daily management of municipal affairs, however, is delegated to public officers appointed by the major on approval of the council. The officers are accountable towards their political leading bodies and make regular reports to them (Municipal Act, 1995).

The social and health care unit of Sunset City has its own financial management and spends more than 40% of the budget of the city. By law, each municipality and city has obligation to organize and finance public care for its elderly. Financial stability of a municipality or city depends by large on local tax revenues in addition to State subsidies that the central Government allocates on per-capita basis to each municipality or city every year (Häkkinen and Lehto, 2005). In 2007, the head of the social and health care unit of Sunset City suggested to organize competitive tendering of public elderly care services. The social and health care committee approved this suggestion on ground of the EU directive on competitive tendering during public procurement of goods and services that the Parliament of Finland ratified and gave force of law in 2006 effective in 2007. The head of the social and health care committee, however, expressed his/her personal concerns on efficacy of allowing competition in public elderly care and emphasized the need to maintain high quality standards of care in any case. The head of social and health care unit of Sunset City, on the other hand, explained to the media that there was an accurate need for the city to conclude contracts for elderly care services based on so called market prices, and that international health care corporations were welcome to compete with local entrepreneurs. Local and international corporations responded positively and made their bids as suggested. Towards the end of 2007, the social and health care committee made its final selection of competitive winners, which the executive board and council of Sunset City approved effective in 2008. This macro institutional change introduced new circuits of power in the governance of public elderly care services in Sunset City raising the question of accountability.

Data collection started with informal discussion with local entrepreneurs who had made their offers unsuccessfully. One of the entrepreneurs was considering lodging a legal claim against the city for unfair competition. Another company had already made a similar claim. A second step consisted in analyzing financial details included in various bids, followed by exploration of accounting and managerial practices of selected local health care providers. This included participation in informal and formal board meetings. A third step consisted of interaction with various decision makers of the city and participation in formal meetings of the social and health care and auditing committees of Sunset City. Participation in meetings and interaction with actors in their fields lasted around sixty hours. A fourth step consisted of formal interviews with the head of social and health care committee (Sunset City), the manager of social and health care unit (Sunset City), the head of elderly care services (Sunset City), two members of the social and health care committee (Sunset city), internal controller (Sunset City), a member of the audit committee (Sunset City) and a regional public health care inspector. Formal interviews with selected key actors in their field lasted 10 hours. Interview questions focused on public statements made by interviewees and other key actors in the media, competitive tendering process and criteria for selecting competitive winners, governance and accountability of public officers in managing contracts for public elderly care services during competition and budgetary settings in Sunset City. Interviewees could express themselves in English, Finnish or Swedish depending on their choices. The study made continuous informal interactions with interviews afterwards to fill gaps in interview summaries. Information

gathered in this process through different methods confirmed each other to establish validity (Yin, 2008).

#### **4. Findings**

The study shows that the institutionalization of competitive tendering in public procurement of elderly care services in Sunset City went through formal steps of institutionalization as predicted by Burns and Scapens (2000). The outcome of the institutionalization process, in terms of accountability, is an evolutionary dilemma.

##### ***Competitive tendering as an inter-organisational institutional change process***

The institutionalization of competitive tendering went through four steps: encoding, enactment, reproduction and routinization. The encoding process included the choice of criteria to be included in Sunset City's official call for competitive bids. Local and multinational companies enacted the information included in the call for competitive tenders and reproduced it strategically in deciding which cost accounting and health care information to include in their bids. Routinization took place during the implementation of bids that won the competition. A local entrepreneur commented:

‘The city called for competitive bids to take care of  $y$  number elderly... We analyzed the level of care needed by each elderly, benchmarked operational costs, and calculated an average price to take care of an elderly on daily basis... We did not include any profit marginal because we are a non-profit making organization...’

Although the city expected health care entrepreneurs to offer prices that included all costs, public officers at Sunset city did not monitor the soundness of price levels submitted. A member of the audit committee of Sunset City explained:

‘After reading all bids... submitted to the city, I made my own calculations to check the soundness of their price levels ... This is relatively easy to do because around 70% of costs are salaries to the nurses and assistant nurses ... Their salary levels are publically known ... I therefore warned the director of social and health care services of the city that some of the apparently appealing bids were seriously under-priced ...and that the city will probably have to pay more than it was estimated in the bids afterwards ...’

The head of elderly care services in Sunset City confirmed this and gave further clarification:

‘ ... The role of our public procurement committee was to analyse price levels included in all bids... to check if they were in line with our service requirements... We did not need to know details of how they had calculated their prices...’

The belief that public officers could transfer their price-setting accountability to competitive bidders increased procurement risks and led to an institutional change paradox. A member of the audit committee commented:

‘ ... First, the city concluded the contract of elderly care at an acceptable ...price... However, one of the winners of competition had no real estate in the city and no health care personnel yet... It took some time to have this done... And then, the city realized that an elderly could not afford renting an apartment in the new locality owned by the winner of competition... Some further sponsorship was needed and the city council approved it... Currently, total daily costs to take care of an elderly during the implementation of competitive bids is much beyond what the city had expected...’

The manager of social and health care services at Sunset City confirmed the institutional change paradox and made an additional comment:

‘... According to the new public procurement law, it was compulsory for us to organise competitive tendering of elderly care services that the city needed to purchase from private organizations ... In a way, we have now realized that competitive tendering of public elderly care services is not the most appropriate strategy ... It can even lead to a monopoly in the long-run...’

Burns and Scapens (2000) suggested a framework to analyze of process of institutionalization of management accounting change. The framework predicts that institutional change can fail when institutional actors resist the change. This study extends the Burns and Scapens’ framework by showing how the institutionalization of a macro institutional policy, such as competitive tendering imposed by a supra national organization, can lead to an intra-institutional change paradox in a local organization in which no resistance to change took place.

### *Evolutionary accountability*

The study argues that the institutionalization of competitive tendering at Sunset City opened the room for sporadic and facilitative circuits of power of local and multinational companies specializing in elderly care to influence the outcome of competition. The head of elderly care services at Sunset City commented:

‘When the social security board of the city decided to organise competitive tendering of elderly care services, it was my responsibility to design a call for competitive bids and to publish it nationally and internationally... I am an expert in public management of social services ... However, I had no previous experience of doing this...’

In this setting, what became a challenge for public officers challenging, what proved challenging was to monitor quality standards of elderly care quality standards that competitive bidders promised to provide and the soundness of their price levels. The head of elderly care services at Sunset City remarked:

‘My colleagues and I coordinated the design and implementation of competitive tender of elderly care for the city... We use an excel model to analyse how competitive bids complied with our requirements... Price levels was the main issue ... In addition, we had to ensure the quality of care services offered.... Evaluating quality standards in elderly care is quite difficult...’

The head of elderly care services at Sunset City gave further comments:

‘ ...Evaluating the quality of elderly care services could include anything such as previous records of private companies in their business units somewhere else, care quality certificates, level of education and experience of their care personnel...’

As a consequence, multinational and local companies used their informal circuits of power based on technical dominance (in explaining their quality standards and designing price levels), networks and alliances, such as holding companies operating at local and international levels, to influence the choice of their bids at Sunset City by showing that they had national and international quality records in elderly care. A local entrepreneur in elderly care at Sunset City commented:

‘Multinational companies that submitted bids have operative networks around Europe and used their previous references to show that they are serious providers of elderly

care... What we have now realized, however, is the great difference between the wording of their bids and actual realities in the field...'

An internal controller at Sunset City explained the evolutionary accountability dilemma resulting from the institutionalization of competitive tendering of elderly care services and budgetary benefits:

'When competitive the tendering process was launched, the city could not stop it anymore anymore... The city had to choose bidders that obtained more points in relation to others... Otherwise, it could lead to legal litigations... As you can see in our accounting reports, however, the costs of public elderly care have not ceased to increase...'

As to the quality of elderly care services during the performance of competitive bids, a regional health care inspector commented:

'As care inspector, I have realized that we have to the audit quality of elderly care services with a different focus... I mean, there is great difference between standards of care services promised in competitive bids and what happens few years later during the implementation of elderly care contracts...'

Clegg (1989) argued that facilitative and sporadic circuits of power can influence the dispositional circuits of power in obligatory passage points. This study extends the framework of circuits of power to the Burns and Scapens framework of institutional change, and accountability, by showing how competitive bidders used their sporadic and facilitative circuits of power in elderly care to make bids that were apparently cheap while promising high quality standards of care services. This strategic approach to use sporadic and facilitative circuits of power in competitive tendering was an obligatory passage points for competitive bidders to win the competition. In practice, however, political decision makers and public officers used their dispositional circuit of power of choose competitive bids whose total costs in the long-run less obvious. This finding shows how mechanisms of inter-organizational circuits of power led to an evolutionary budgetary accountability dilemma at Sunset city during the institutionalization of competitive tendering.

*In the early 2012, a new head of the social and health care committee at Sunset City invited all private entrepreneurs in elderly care in a media conference at the city hall. The aim of the meeting was to announce publically that the City had made a wise decision not to organize competition in public elderly care anymore. To promote high quality of care and respect for the elderly, the city will allocate daily allowances to each elderly. The amount of the allowance will depend on personal income level of the elderly. The elderly will be free to decide from which providers to purchase health care services that he/she needs. This change will be implemented in 2014.*

## **5. Conclusion**

This study has analyzed the relationship between the institutionalization of competitive tendering and budgetary accountability. The theoretical aim of the study was to extend the institutional conceptual framework of management accounting change proposed by Burns and Scapens (2000) by using insights from the framework of circuits of power proposed by Clegg (1989). Field research took place between 2008-2012 at Sunset city in Finland. Data were based on document analysis, interviews and participation in meetings. Findings show an institutional change paradox caused by a contrast between the aim of the institutional change, that is, to reduce costs of public elderly care to a minimum level, and actual costs of implementing competitive bids afterwards. Sporadic and facilitative mechanisms of circuits of power at inter-organizational levels explain how local and



international companies specializing in elderly care used their price setting strategies and well established networks in health care to win the competition. In the long run, however, the implementation of competitive bids led to an evolutionary budgetary accountability dilemma at Sunset city.

Extending the institutional conceptual framework of management accounting change proposed by Burns and Scapens (2000) to the framework of circuits of power (Clegg, 1989) is the main contribution of the study. The study warns practitioners and policy makers about the danger of institutionalizing macro institutional policies, such as competitive tendering, into local organizations without a careful design of the institutional change process. In this setting, there is an accurate need to minimize budgetary risks caused by inter-organizational circuits of power in the intra- institutional change process. Further research in this perspective is recommended.

As any other field research, the empirical findings of this study are not intended and do not claim to be generalised to other organizations directly. The theoretical framework used in the paper can be applied validly in other studies.

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