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Accounting of Hybrid Organizations

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Synonyms

[Public service reforms](#); [Hybrid organization](#)

Introduction: Hybridity in Public Organizations

The concept of hybrid organization is widely used and discussed in several fields of research, such as economics, organization studies, management, public administration, law, and political science. More recently, the accounting studies increased the attention and the number of papers. Despite the interdisciplinary interest, the concept does not seem to have a unique agreed definition. It is therefore relevant to make a clear distinction on its meaning, as well as consequences, problems, and solutions in the context of public organizations. In doing so, the focus here will be brought to how accounting is involved in the process of hybridization and the management of hybrid organizations.

Hybridity is a multidimensional concept and can be referred to multiple levels. It is possible to observe hybrid forms either at the macro level

(national or supranational), meso level (organization), or micro level (individuals or groups). Those levels need to be considered in their interrelation, since focusing on just one of the three may be too limited. Much of the literature is focused on the meso level in order to provide a definition of hybrid organization. The concept of hybrid organization can be considered an umbrella term, without a clear demarcation of what is a hybrid or what is not, and how an organization, an individual, or a technology can become a hybrid (Denis et al. 2015). Transaction cost economics (TCE) offered one of the first definitions of hybrid forms of economic governance. Williamsons (1996) distinguished three forms of discrete governance mechanism: market, hierarchies, and the hybrid intermediate form. The main critique to this approach is that by occupying the continuum between the two ideal forms, most of the existing organizational forms can be considered a hybrid, from subcontracting to cooperative and from networks of organizations to alliances. As a consequence, hybridity could not be considered a discrete form of organization but a wide range of different combinations. The classical organizational forms of market (e.g., firms) and hierarchies (e.g., public sector organizations) seem to be residual and not sufficient to theoretically explain the way in which public services are nowadays designed, delivered, and made accountable. We are now observing public services coproduced by the users, delivered through a network of actors or through forms of public-private

partnership, joined-up governments, in which lateral/horizontal interorganizational processes are developed. Hybrids are fundamentally different from market and hierarchical forms, and such differences impact inevitably on the coordination and controlling mechanism, as well as in their accountability.

The public management literature attempted to overcome this limitation in different ways. From one side, an attempt was made to identify a discrete form of hybrid organization. As an example Koppell considered hybrids as organizational forms that deliver public policy, but with a corporate status. The combination of public policy and corporate status leads to the development of hybrid organizations that are thus clearly visible and manageable (Koppell 2003). A different approach considered the TCE categories of market/hierarchies/hybrids and translated them into government/business/not for profit. Hybrid organizations, according to the proposers, are the result of any combination among two or more of the basic forms leading to a wide array of possible outcome of the process. This last approach was specifically developed by theorist in dealing with complex societal issue, such as social care (Evers 2005). On a similar vein, Battilana and Lee (2014) argued that hybrid organizations combine multiple organizational forms, experiencing unique organizing challenges in public services and policy.

This latter approaches are particularly useful in the context of public services, due to the continuing reform processes that led to changes in the traditional public administration, taking elements coming from the New Public Management (NPM) (Hood 1991) and/or New Public Governance (NPG) (Osborne 2006) waves (see Table 1). NPM-inspired reforms were, and to some extent still are, based on the belief of the failure of traditional public administration to deliver efficiently and effectively the promised services. The consequences were the privatization of several public services and the adoption by public organization of corporate features in order to create more autonomous, flexible, efficient, and effective organizations. NPM is primarily based on a vertical and hierarchical view and

concentrated on the outputs of individual organizations (result orientation). NPM considers the market or quasi-market relation between the provider and the client as the main solution of the traditional public organization problems. Where privatization is not possible or feasible, then public organizations should adopt corporate solutions in terms of management solutions. Hierarchical control of the results of single organizations through performance indicators on efficiency and effectiveness is a standard set of accounting techniques under NPM. In such contexts, if the client is not satisfied with the service, the main mechanism of the relationship would be to exit. As a consequence of that, most of public services in several countries are nowadays delivered in forms that are neither market nor hierarchies: agencies, public-owned corporations, and public-private partnerships are examples of the hybridizing process of public organizations.

On the other hand, NPG, while counterweighting the limits of NPM in achieving its aims, put emphasis on the role of cooperation between public administration and the wider set of actors within the society. NPG considers the limitations of the state, market, and society to solve complex issues. On these perspectives, public sector organizations should pay attention to the means through which resources, competences, and skills can be pooled in order to plan, design, and deliver a more effective and efficient set of services. Voluntary and not-for-profit organizations, individual and groups of citizens, and other public and private actors are considered resources to be steered and pooled in order to create public value in the delivery of public services. NPG aims at building a cooperative environment, based on lateral relations and with a focus on the outcomes to be achieved through collaboration. The control systems tend to be enabling through dialogue-driven systems of performance indicators, strengthening the contribution of single organizations/individual to the overall performance. Coproduction, joined-up governments, and networks of public and private organizations are additional examples of hybridizing process under NPG logic and where the

Accounting of Hybrid Organizations, Table 1 New public management and new public governance and related hybrids

	NPM	NPG
<i>Characteristics</i>	Hollow state Competitive/market mechanisms Corporatization of public organizations Exit as main response	Strong state to steer and pool societal resources Interorganizational arrangements Voice and trust as main responses
<i>Example of hybrids</i>	Public-owned corporations Quasi-government organizations (i.e., agency) Public-private partnerships	Joined-up government Public/private/nonprofit networks Coproduction

relationships tend to endure by adopting more voice and trust as relational mechanisms.

Hybridity is, thus, not the problem, since hybrid organizations appear to be quite the norm, rather than the exception. What is relevant and attracts the interest of researchers are the process of becoming a hybrid with the struggles, ambiguity, tensions, compromises, and the role of different actors and technologies deployed. The ambiguity in hybrid organizations is related to the combination of public and private characteristics and objectives which may be diverse and contradictory (Kickert 2001). Besides, the mixed private and public interests entail the presence of a wider range of stakeholders, making more complex the governance and the decision-making process. Hybrid organizations are, for instance, criticized for the lack of accountability and transparency and for problems in securing liabilities. Hybridity problematizes the organizational boundaries, in physical, technological, and cultural aspects. The traditional institutional boundaries are therefore put under question in a process of hybridization of knowledge, identity, rules, technologies, and structures. It is not surprising that in public management literature, the hybridity theme was studied in a varied array of theoretical perspectives: from governance theory to actor network theory and from institutional theory to cultural theory, just to name a few. Such theoretical borrowing allowed to have a better understanding, not just of why hybrid exists, but on the process of hybridization both at the macro, meso, and micro level.

Perspectives on Accounting in Hybrid Organizations

The typified forms of economic governance of market and hierarchy are closely related to accounting. Indeed, accounting can make visible or invisible certain things, through calculation. It provides financial and nonfinancial information to coordinate and control the organizational activities. It is not surprising that accounting is also considered a relevant technology in hybridization and the management of hybrids. Hopwood (1996) urged accounting scholars to look at the lateral flow of accounting information, not just at the traditional hierarchical vertical flow of information. This intuition led to the development of a stream of literature looking at the accounting practices at the margins, on how they are implicated in the management and control of relations beyond the boundaries of organizations. On a similar manner, Otley et al. (1995), while stressing the limitation of management accounting research in focusing only in a functionalistic and hierarchical view of organizations, argued that such focus was not coherent with the development of new organizational forms.

Accounting in hybrid organizations can be analyzed in two perspectives, an internal and an external, reflecting, respectively, the management accounting and financial accounting divide. The latter perspective is related more generally to the theme of accountability. Accountability systems define the answer to some simple questions: who is accountable? To whom? For what? And by what means? Traditional accountability

mechanisms tend to fit with the traditional public organizations characterized by vertical/hierarchical relations. Vertical accountability, with financial reporting as typical example, does not allow to make hybrid organization fully accountable. Vertical accountability mechanisms need to be integrated with horizontal accountabilities, particularly where hybrid organizations are dealing with wicked and/or tame problems (Hodges 2012). Accountability arrangements in hybrids present special concerns because of the potential for accountability to get “lost in the cracks of horizontal and hybrid governance” (Romzek et al. 2012: 443). The traditional hierarchical structure of accountability is not coherent with the new hybrid forms of public service organization and delivery. In the age of network, joined-up government and PPP/PFI initiative public officials are required to move outside the hierarchical structure of government searching for collaboration, quasi-market relationships with contractors, competitors, and coproducers (Considine 2002). Where co-responsibility and cross-collaboration prevail in the delivery of public services, accountability becomes a structural contingency problem. The accounting and accountability systems need to adapt constantly to reflect the actual conditions of hybrids. As the way in which public services are delivered become more complex, involving several agents and principals, accountability goes through process of change (evolutionary or adaptive) or even crisis (Considine 2002). As stressed by Kickert (2001), the dilution of accountability and the lack of transparency of the results and the use of public money are two main concern related to the increasing presence of hybrid organization in delivery public services and/or policies.

The internal perspective of accounting is concerned with the management accounting. Management control systems are implicated in the measurement and management of tasks, risks, and economic flow in a multiactor network, to diffuse and establish trust and associated information requirements among actors. As Hopwood (2009: 801) explained, “management accounting research gives little or no guidance on the modes of organizational response to economic crises,”

which is all the more true in the context of public service organizations. The crisis of public finance is leading to the development of hybrid forms of organizations in order to pool resources from both the public sector and the private sector. It represents an interesting context for providing a better understanding of the unique functioning of management accounting practices, such as budgeting, cost control, performance measurement, and incentive systems (Arnaboldi et al. 2015). The nature of management accounting practices means that they can provide information on the day-to-day decisions being made inside organizations, but they also have the ability to influence significantly on governance and accountability arrangements at the societal level. The overriding question in this respect is how they are skillfully reconfigured (in terms of scale and the kinds of activities they are used for) to effectively remedy the situation. The study of the interrelations between management accounting and organizational changes, although not new (Broadbent and Guthrie 2008), will continue to represent an important field of observation, since the hybridization of public sector organizations involves some form of organizational change. Probably more than in other periods, there are a large number of public service organizations undergoing radical changes combining public and private elements (Broadbent and Guthrie 2008). Existing dynamics will continue, in terms of growing role of interorganizational relations, complex governance and network structures, and public and private organizations joining up in order to cope with complex (wicked) problems and declining resources (Jacobs and Cuganesan 2014). In such hybrid context, management accounting has the function to support the coordination and the control within and outside organizational boundaries and to build the trust among the different actors.

In the last two decades of public sector reforms, accounting was diffusely mobilized in order to foster or trigger the organizational change (Broadbent and Guthrie 2008). At the macro level, the process of reforming accounting technologies in terms of financial reporting, management accounting, and audit, particularly in the NPM era, was observed. As an example, the shift from

the traditional cash accounting to the accrual accounting, by adopting IPSAS or similar national accounting standards, was introduced on the faith of the superiority of the business-like accounting tools. However, the implementation in public organization of accrual accounting was not linear, nor without tensions and compromises, with some successes and failure. We have now example of traditional public sector organizations like local authorities, universities, or hospital using corporate management tools like accrual accounting, budgeting, performance measurement systems, internal audit procedures, and discussing about corporate plan, strategic plan, and deployment. Hybridizing at this level may also become a policy objective. The so-called regulatory hybrids (Kurunmäki and Miller 2011) are the explicit target of government policy creating new organizational forms to deliver public services and programs.

At the meso level, accounting was considered at the organizational level attempting to observe the way in which accounting was used and changed. Each organization may be transformed and hybridized as organizational boundaries are shaped and transformed. In hybrid organization boundaries tend to be blurred, requiring new forms of control and coordination. Measuring, controlling, and being accountable across boundaries are central elements in hybrid forms of organizing public services. In the case of hybrid forms of governance, accounting has a claimed role of building trust among the actors involved, as well as its extension may be affected by the level of trust existing in the complex organization. In many accounting procedures, trust is obviously implicit, but the relationship between the two cannot be considered monotonic. There are different types of accounting information involved, some more related to continuous processes of relation and some related to specific events. The relationship between trust and accounting is correlated and in which the least level of trust is associated with a higher intensity of accounting information. Accounting information is thus implicated in the management across the boundaries in hybrid forms of organizations. Llewellyn (1994: 10) problematized the idea of

organizations arguing that any organization “has to be achieved” through boundary management. Boundaries can be used and work as a threshold between what is within and outside and as a binding structure to create an internal unity of what is within. Accounting is involved in the constitutive role of producing the hybrid organization. The organizational consequences in conceptualizing the boundary work is that boundaries are socially constructed and they are evolving over time rather than taken for granted. Accounting can be considered as a practice that is influenced by the organizational boundaries (Otley et al. 1995), but at the same time is implicated in shaping them (Llewellyn 1994). Indeed, boundaries can be established as thresholds and/or as binding structures with accounting heavily implicated in this processes.

At the micro level, single or group actors take the stage. Hybrids have an impact on individual actors: medical professions, social workers, teachers, nurses, and many others are nowadays forced and/or encouraged to learn and use an increasing amount of accounting knowledge and tools, generating new forms of expertise (Kurunmäki and Miller 2006). Within an organization not all individual actors may accept the hybridization of their role and resist in some way or another. Such situations will produce a polarization in which some actors accept to hybridize their role, while others continue refusing the new knowledge and/or technology coming from a different source of legitimation (Jacobs 2005). Accounting in hybrid organizations does not necessarily mean that a more complex or different set of technologies and tools are necessary. The same accounting concept can be applied, or accounting can go through a process of change, becoming itself a form of hybrid. The hybridization of accounting is a relevant research theme, in order to understand how new accounting hybrids emerge by the combination of different sources of knowledge and culture. Accounting in this process changes in order for the actors to make sense of the reality they observe. At the same time, accountants become hybridized affected by knowledge coming from other disciplines and using new technologies. For instance, enterprise

resource planning (ERP) system was considered an example of technical device and knowledge coming from different disciplines changing the accountants' practices, role, and expertise (Caglio 2003). The direction of hybridization between accountants/accounting and other professional groups is not predictable, nor are the consequences.

Concluding Thoughts

Nowadays, most of public services are delivered through hybrid organizational forms, at least in developed countries (Broadbent and Guthrie 2008). The post-NPM and austerity-driven policies don't show path of decreasing their grip to this trend in the near future (Bracci et al. 2015). The understanding of how accounting is implicated in the management of hybrid organization will represent a focal theme of interest for practitioners and researchers alike.

While the definition of what is a hybrid organization will continue to remain debated, its operational consequences will need to be developed through the use of different theoretical perspectives (Skelcher and Smith 2014). Given the multidimensionality of the concept and the diversity of knowledge and skills involved, the role of interdisciplinary research is fundamental to untangle the complexity of the issues. Besides, the macro, meso, and micro levels need to be taken into account, to achieve a comprehensive view of ongoing process of hybridization and change in public services. As Evers (2005) argued, most of the hybrid governance systems in welfare services are not the result of a clear strategy but the muddling through of organizations and actors under conditions of uncertainty.

Accounting in hybrid organizations can be analyzed and studied in two interrelated aspects. From the one side, the binding of organizations and the definition of thresholds represent the two manners in which accounting can be part of the hybridization of an organization and/or a profession. Accounting is implicated in the maintenance, destruction, and shaping of new boundaries in hybrid organizations. The role of

accounting in the management of boundaries is crucial both in its internal and external perspectives, in order to support the adequate level of control and accountability. Besides, it is possible to observe several cases in which accounting was involved in the hybridization of a profession, such as physicians or nurses. Integration, collaboration, and joint efforts are central in the public organization ecosystem. In doing so, accounting needs to move from a hierarchical coordination approach and vertical information flows, to a more horizontal coordination approach with the management of lateral information flows.

On the other hand, accounting technologies when encountering new knowledge and competences may become hybrids on their own. Non-accountants when using accounting may shape it, adding new knowledge and transforming accounting itself. The case of accountant meeting engineering and/or medical knowledge is a clear example of cases in which the accounting solutions evolve in manners that are now feasible beforehand (Hopwood 1996; Miller et al. 2008). However, what is not fully clear is the learning process involved and the factors fostering or triggering the hybridization, which requires additional research effort. Accounting in hybrid organizations will continue to be enriched by the knowledge coming from the fields it encounters, shaping the development path of the research, profession, and education.

Cross-References

- ▶ [Joined-up Government](#)
- ▶ [Public Private Partnership](#)
- ▶ [Networks in Public Services](#)

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