

Formal control and trust in monitoring financial accounting outsourcing in hybrid organizations – a multiple case study of municipally owned corporations

International
Journal of Public
Sector
Management

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Received 1 March 2024
Revised 7 August 2024
27 January 2025
10 April 2025
Accepted 20 May 2025

Abstract

Purpose – This study explores the role of control archetypes and trust in the monitoring of established financial accounting outsourcing (FAO) in municipally owned corporations (MOCs).

Design/methodology/approach – Drawing on Spekle's control archetypes, designed to manage inter-organizational relationships in outsourcing, and the concepts of trust, we analyzed conducted interviews, contracts and other archival material in three MOCs.

Findings – MOCs employ both hybrid and non-hybrid control archetypes in controlling FAO. Detailed contracts played a key role in the monitoring of FAO, but only at the strategic management level. All MOCs used hybrid exploratory control such as joint development groups, which increased the role of trust at the operational management level. The hybrid organizational form related to ownership seems to complement trust, either directly or via the owner-city. Direct ownership of SP was, however, not required for trust to substitute formal control.

Research limitations/implications – Our study builds on the perceptions and experiences of accounting professionals regarding the use of control mechanisms and prevailing trust. To mitigate potential subjectivity in our analysis, we used both data and researcher triangulation.

Practical implications – Both strategic- and operational-level managers are needed to balance formal and informal control in the monitoring of FAO.

Originality/value – We enhance the understanding of the control practices employed by MOCs in managing their FAO in hybrid organizational forms.

Keywords Monitoring, Trust, Hybrid control, Hybrid organizations, Financial accounting outsourcing, MOC

Paper type Research paper

1. Introduction

Municipally owned corporations (MOCs) are independent legal enterprises with a considerable degree of managerial autonomy. However, due to their multiple interests, values, and logics, they are considered hybrid organizations (Grossi *et al.*, 2022; Krause and Swiatczak, 2020; Voorn *et al.*, 2017). Hybrid organizations can be conceptualized through the dimensions of hybridity, which refers to distinct modes of ownership structures, competing

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Data availability: The data that support the findings of this study are available on request from the corresponding author.



institutional logics and diverse sources of funding and various forms of social and institutional control (Vakkuri *et al.*, 2021, p. 246) or through their approach to value creation (Grossi *et al.*, 2022).

We aim to enhance the understanding of the control practices employed by MOCs in managing their financial accounting outsourcing (FAO) service provider (SP) in hybrid organizational forms, where municipalities own the SP and MOCs, which may be either owners or non-owner customers of the FAO SP. In this study, both the MOCs and the SP are hybrid, non-profit organizations tasked with fulfilling societal duties while also meeting efficiency requirements.

Hybrid organizations form complex inter-organizational relationships (IORs). Therefore, monitoring in a multi-ownership setting can be problematic, as the goals of different owners are not always aligned (Voorn and Van Genugten, 2021; Ditillo *et al.*, 2015; Cristofoli *et al.*, 2010). However, insufficient monitoring is likely to cause inefficiencies (Voorn *et al.*, 2019). Previous inter-organizational control (IOC) literature on MOCs (e.g. Krause and Swiatczak, 2020; Van Veen-Dirks and Giliam, 2020; Krause and Van Thiel, 2019; Voorn *et al.*, 2017; Argento and Peda, 2015; Ditillo *et al.*, 2015) maintains that control mechanisms extend beyond written agreements, and are combined with informal control, like trust (Argento and Peda, 2015; Dekker, 2004). While exaggerated control may decrease the role of trust (Argento and Peda, 2015; Vosselman and Van der Meer-Kooistra, 2009), trust may be complemented by control through information sharing (Dekker, 2004) and monitoring (Vélez *et al.*, 2008). The environmental and behavior uncertainties in hybrid organizations require hybrid and non-hybrid control archetypes [1] (Bracci *et al.*, 2024; Speklé, 2001).

Literature on organizational hybridity primarily focuses on organizational forms and value creation (Ferry *et al.*, 2024; Grossi *et al.*, 2022), related to accountability ethics (Baudot *et al.*, 2022), and the content of sustainability disclosures (Argento *et al.*, 2019). Prior literature largely neglects the hybrid practices, processes and expertise, which enable horizontal information sharing and coordination across the boundaries of organizations and among groups of experts or professionals (see however Agarwal *et al.*, 2024). Further, different ownership structures influence the control mechanisms employed (Ditillo *et al.*, 2015). The ownership relationship enhances partner knowledge, which allows cities to rely on an extensive history of relationships grounded in bureaucratic culture and mechanisms, while also benefitting from informal trust relationships to manage and control the behavior of their owned enterprises (Cristofoli *et al.*, 2010). Ownership together with interaction frequency and contract formalization affects the interaction between trust and formal control (Argento and Peda, 2015).

We anchor this study on the concepts of hybrid organizations (Vakkuri *et al.*, 2021; Krause and Swiatczak, 2020; Battilana and Lee, 2014), control archetypes (Greenwood *et al.*, 2017; Speklé, 2001) and trust (Bracci *et al.*, 2024; Langfield-Smith, 2008) to understand how different control mechanisms and trust interplay in monitoring IORs in hybrid organizational forms. Especially, we focus on established IORs between MOCs and their FAO SP, as collaborative performance critically depends on actual practices, given that coordination challenges in already established [2] IORs cannot be fully anticipated or mitigated *ex ante* (Dekker *et al.*, 2013). Further, conflicting control situations may arise, for example, when 1) the municipality supervises the MOC, 2) the municipality or the MOC supervises the SP (in the role of owner or development group), and 3) the MOC is a customer of the SP, thereby overseeing the SP in the execution of financial accounting (FA) processes. Thus, we aim to understand how various control mechanisms are employed and balanced [3] in managing these IORs related to FAO. We pose two questions:

- (1) How are different formal control mechanisms and trust used in monitoring an established FAO relationship in hybrid organizations?
- (2) What is the role of formal control and trust at different organizational levels in hybrid organizations?

Previous literature approaches hybridity at various levels, including societal, organizational, and individual levels (Grossi *et al.*, 2024). In this study, we examine how strategic and operational level management combines formal and informal control mechanisms to manage appropriation concerns and coordination costs in IORs.

We build on semi-structured interviews, complemented with archival material. To increase the power of our findings, we choose a multiple case study among customers of the same FAO SP. FAO differs from other outsourced municipal services, like water services or waste management, because it is measurable and quite standardized (Nicholson *et al.*, 2006). FA processes (e.g. payroll, accounts receivable, general ledger) are essential parts of the accounting information system and their outsourcing can significantly affect the organization's management control systems and financial reporting processes (Christ *et al.*, 2015; Hirsch *et al.*, 2015).

Our study contributes to the IOC literature by examining the interplay between hybrid and non-hybrid control archetypes, goodwill and competence trust and organizational hybridity. More specifically, this study adds to the debate on IORs by examining the control of FAO SPs in contexts where the MOCs, as the service users control the SP either as shareholders or clients.

The remaining structure is as follows. Chapter 2 introduces the theoretical framework, followed by a description of the research design in Chapter 3. Chapter 4 includes the findings, which are further analyzed and discussed in Chapter 5. Chapter 6 provides concluding remarks and suggestions for further research.

2. Theoretical framework

To achieve the set objectives, successful outsourcing relies on effective IOCs (Dekker, 2004). IOCs include formal and relational (informal) control mechanisms (Dekker *et al.*, 2019). We draw on Speklé's (2001) control archetypes and trust (Langfield-Smith, 2008), designed to manage IORs in outsourcing. Greenwood and Hinings (2017) demonstrated that using archetypes is valuable for studying and understanding hybrid organizations. As the MOC context is characterized as hybrid (Vakkuri *et al.*, 2021), the competing systems of beliefs, values, and practices (institutional logics) in the MOC context leads to tensions between the collaborating parties (Grossi *et al.*, 2024), for example regarding how and when they rely on formal control and trust (Bracci *et al.*, 2024).

2.1 Control archetypes

Speklé (2001, p. 427) defines a control archetype as "a characteristic, discrete configuration of control devices that is descriptively and theoretically representative of a significant group of observable management control structures and practices". Speklé (2001) categorizes five control archetypes (market control, arm's length control, machine control, exploratory control and boundary control), which encompass hybrid and non-hybrid (hierarchical or market-based variations of control). Hybrid control archetypes are either arm's length control or exploratory control [4], emphasizing the importance of contracts as formal control mechanisms (Angelov, 2020). Detailed contracts ensure compliance with contractual provisions aiming to guarantee continuous monitoring (action-oriented machine control), performance measurement, and evaluation (hierarchical exploratory control) (Argento and Peda, 2015; Langfield-Smith and Smith, 2003). Detailed contracts are not required if competition can be activated easily (hybrid exploratory control) (Nicholson *et al.*, 2006; Van de Meer-Kooistra and Vosselman, 2000).

As non-hybrid control archetypes, arm's length, exploratory and boundary controls have also hierarchical variations. In the hierarchical arm's length control, the service provider has significant autonomy and market-based performance benchmarks are used (Nicholson *et al.*, 2006). In hierarchical exploratory control, information sharing is deeply embedded in the

organizational structure and process design and rewards are paid through advancement, based on sustained performance (Speklé, 2001). Hierarchical boundary control is based on prescriptive codes of conduct and budget includes authorization of maximum expenditure. Other forms of control archetypes include market-control, machine control and market-based boundary control. Market control is based on competition in an open market and partly suitable for FAO, as programmability enables ex-ante definition of the expected outcomes (Nicholson *et al.*, 2006). Machine control is based on standardization of behavior or predefined and codified performance targets (Speklé, 2001).

Previous studies on IOC in the hybrid context show that a bureaucratic-based control is dominant, with the contract as the main reference for service quality and performance measurement (Krause and Swiatczak, 2020). The high level of contractual trust among parties significantly influences the relationship management and ensures compliance with the contractual obligations (Bracci *et al.*, 2024).

2.2 Trust

Alongside formal IOC, trust plays a significant role in the monitoring of MOCs (Krause and Van Thiel, 2019). There must be a minimum level of trust to monitor IORs, but monitoring every detail is impossible (Das and Teng, 1998). Trust can exist at both organizational and individual levels between the parties in the outsourcing alliance (Dekker *et al.*, 2019).

Competence trust refers to the partner's ability to perform according to the contract, while goodwill trust is defined as the perception of a partner's intention to honor the agreement, the ethical obligations, and the non-exploitative conduct during unforeseen situations (Langfield-Smith, 2008). Competence trust is based on a partner's technical, economic, and managerial abilities, encompassing skills, expertise, credibility, and dependability (Vélez *et al.*, 2008). Proactive gathering of information and the size of the collaborating organization contribute to competence trust (Langfield-Smith, 2008; Vélez *et al.*, 2008). Common values and standards, regular communication and the reputation of the partner can influence the level of goodwill trust (Vélez *et al.*, 2008). Trust develops through learning and adaptation processes, which strengthen the relationships between collaborating parties, enhance durability, and promote knowledge sharing (Van der Meer-Kooistra and Vosselman, 2000).

Trust-based controls rely on trust as a mechanism of control (Dekker, 2004). Trust links control with behavior during collaboration, and trust is commonly explored through interacting individuals (Dekker *et al.*, 2019; Argento and Peda, 2015). The SP's good performance increases the goodwill and competence trust among the SP's owners, but failure to follow the owner's strategic goals decreases goodwill trust in the SP (Cäker and Siverbo, 2011). A higher degree of trust results in deeper collaboration and improved information sharing (Dekker, 2004). However, excessive trust can create unhealthy situations by fostering blind trust in one another (Argento and Peda, 2015). Purely bureaucratic or trust-based control mechanisms are, however, rarely found in the real-life context (Argento and Peda, 2015; Cristofoli *et al.*, 2010).

2.3 Interplay between control archetypes and trust

The interplay between formal control and trust in IOC depends on the ability of the individuals involved and their organizations to maintain aligned interests in the services in question (Argento and Peda, 2015). To understand the interplay between trust and formal control configurations, we must consider trust as a consequence of the interactions within the IOR (Dekker *et al.*, 2019; Argento and Peda, 2015). For example, a lack of belief in the partner's goodwill or competence trust has been found to increase the dominance of formal control configurations (Das and Teng, 1998; Krause and Swiatczak, 2020). However, trust can also reduce the necessity for formal controls, especially when individuals' actions are adequate to handle the complexity of the relationship (Dekker *et al.*, 2019). Organizations may establish

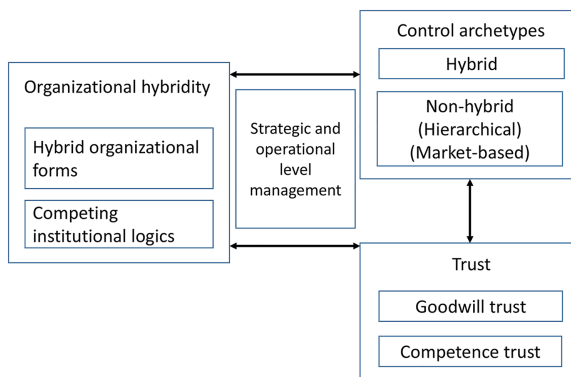
routines based on past experiences to facilitate smooth collaboration and enhance trust between the collaborating parties (Dekker *et al.*, 2019).

According to the rational concept of trust, trust-based control mechanisms may either substitute or complement formal control configurations (Krause and Swiatczak, 2020; Argento and Peda, 2015; Dekker, 2004). Arm's length control exploratory control and partly boundary control can be assumed to complement trust-based control, as minimal effort to establish performance standards beforehand, information sharing embedded within the organizational framework, and contracts that are generally vague in their overall direction (Speklé, 2001). A complementary relationship between control archetypes and trust suggests that trust and formal control configurations are additively related, meaning that a higher level of either trust or formal control configurations results in a higher level of control (Poppo and Zenger, 2002; Das and Teng, 1998). In a substitutive relationship, trust and formal control configurations are inversely related. Thus, more trust decreases the use of formal control configurations, and *vice versa* (Dekker, 2004).

2.4 Interplay between organizational hybridity, formal control and trust

Hybrid organizations need to combine social and political objectives with the ideals of profit maximisation, in the context of complex social structures and diversified accountability regimes (Grossi *et al.*, 2022). This requires hybrid organizations to balance diverse goals and complexities across sectors. Essentially, hybrid organizations leverage resources and control forms from multiple sectors to fulfill divergent purposes and values, encompassing societal, financial, and ethical considerations (Baudot *et al.*, 2022; Rautiainen *et al.*, 2022).

Figure 1 illustrates the interplay between hybrid and non-hybrid control archetypes, goodwill and competence trust, and hybrid organizations. In hybrid organizations, conflicting institutional logics operate at the organizational and individual levels (Skelcher and Smith, 2015). These institutional logics lead to different control forms (e.g. hybrid, hierarchical or market-based control mechanisms). Trust can take different configurations depending on the type of formal control used (Bracci *et al.*, 2024). The use of formal control mechanisms may either increase trust or indicate a lack of it (Dekker, 2004; Das and Teng, 1998). MOCs are dependent (on their own cities) and they must balance the conflicting objectives, such as public value creation and profitability (Krause and Swiatczak, 2020). In FAOs, the client (MOC) is dependent on the SP for (all) accounting services and the SP is dependent on the revenue generated through the continuation of the client relationship (Nicholson *et al.*, 2006). Furthermore, the role of formal control (control archetypes) and trust at the strategic and



Source: Authors own work

Figure 1. Interplay between hybrid and non-hybrid control archetypes, goodwill and competence trust and organizational hybridity.

operational levels of collaborating organizations is highlighted, as the interplay between trust and formal control may vary at different levels in the organizations (Bracci *et al.*, 2024). Figure 1 serves as a guide to the empirical study illustrating the interplay between hybrid and non-hybrid control archetypes, trust and organizational hybridity.

3. Case setting and research methodology

The nature of the research problem and the aim of this study makes an interpretive multiple case study suitable (Yin, 2002). This approach facilitated close interaction with the interviewees of the case organizations to explore issues in depth and develop an in-depth understanding of the contextual-related control issues. The aim is not only to describe what kind of control structures are found in the cases, but also to interpret how these control mechanisms are used in monitoring an established FAO relationship in the hybrid organizational form.

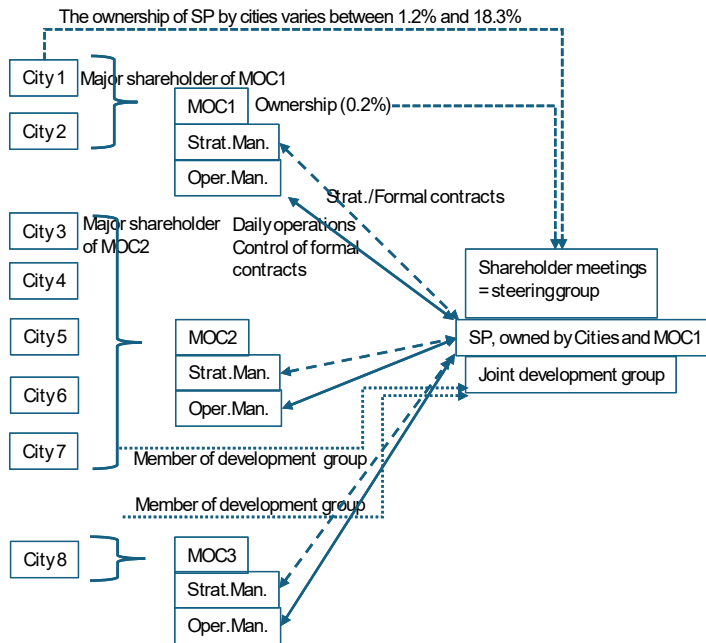
3.1 The case setting

We chose to conduct an interpretive multiple case study with a few customers of the same FAO SP, as we aim at contextualized and thick descriptions (Eriksson and Kovalainen, 2016). First, we contacted a major SP in the municipal sector, requesting its participation and access to MOC clients who had recently outsourced their FA to the SP. The SP was chosen, as it is one of six FAO SPs for the public sector in the country. The SP is a limited company owned by municipalities and MOCs (altogether 33 owners). It also serves several non-owner MOCs. SP has to balance the interests of its many owners, pointing to a hybrid organizational form related to ownership also from SP's point of view. The focal SP offers FA and information and communication technology (ICT) services to municipal organizations.

Thereafter, SP's client organizations (MOCs) were emailed about potential participating in this study, and three organizations agreed. These three MOCs [5] provide societal services, that is education, waste management and housing services. The three MOCs had outsourced their FAO, including payroll, accounts receivable and invoicing, accounts payable and ledger, invoice circulation and general ledger to gain access to enhanced knowledge and resources as well as advanced technologies. After the outsourcing decision, the organizations' accounting specialists were transferred to SP, except for those who retired. We interviewed strategic and operational level actors whose responsibilities included the monitoring of the FAO, among other tasks. For MOC1, this is the second FAO, which began in 2019. MOC2 had previously outsourced its FA to another service provider, which was merged into the focal SP in 2018, when the focal SP was established. MOC3 had outsourced its FA to the pre-organization of the focal SP. Interviews at the strategic level unfolded that MOC2 was forced to follow its owner city's choice of the SP.

MOC1 owns 0.2% of the shares in the SP and is therefore a member of the SP's steering group. This group consists of SP's owners, who are responsible for directing the use of its resources and overseeing its overall financial and operational management, including risk management. The major owner city of MOC1 owns 8.7% of the SP's shares. MOC2 and MOC3 do not own any shares in the SP but their owner-cities are members of the steering group. Further, City3 owns 18.3% and City8 11.9% of the SP, respectively. City1 owns more than 60% of MOC1, while City2 similarly owns more than 60% of MOC2. City8 owns MOC3 entirely. Thus, all MOCs belong to the city group and must adhere to the group guidelines as applicable. The SP organizes regular shareholder meetings, where strategic-level managers from the customer organizations can address issues that might cause disagreements among the owners. The hybrid organizational forms related to ownership and control mechanisms used are illustrated in Figure 2.

The MOCs can own shares in the SP or they can use SP's services through their owner-municipalities. SP's owners are all so called affiliated entities [6]. Further, all the owners of SP



Source: Authors own work

Figure 2. The hybrid organizational forms related to ownership and control mechanisms used.

have differing goals regarding outsourced FA services but one common goal is to produce their services as efficiently as possible to their municipal owners. The dependency on the owner city is significant, which influences the collaboration between MOC2 and SP. MOC1 receives the majority of its funding from the Ministry of Education and Culture as a state contribution. MOC2's financing is based on waste management fees, while MOC3 relies on rental income. MOC1 does not pay dividends to its owner municipalities. However, MOC2 and MOC3 may do so at the discretion of the owner municipalities.

3.2 Data collection and analysis strategy

In the data collection, we followed recommendations of case study analysis (Yin, 2002) and combined semi-structured interviews at both strategic and operational management levels with archival data. A multiple case study is viewed as providing stronger and more persuasive evidence compared to findings obtained from a single case. If the conclusions drawn from several cases remain consistent despite variations in their contexts, those results are considered more universally applicable than those derived from a single case (Yin, 2002).

The semi-structured interviews involved three participants from each of the three MOCs and the SP, representing both strategic and operational levels. The interviewees were selected based on their involvement in the monitoring of the FAO services [7]. In total, four strategic-level directors and eight operating-level actors were interviewed between November 2020 and January 2021, during a period when the FAO with the SP was expected to operate "normally" after potential implementation challenges. To confirm the results obtained and enhance the reliability of the data, follow-up interviews [8] were conducted in 2025. From the previous participants, three strategic-level and five operational-level participants were reached.

Altogether twenty interviews, lasting from 30 min to one hour each, were conducted using the Microsoft Teams online application or phone. The interviews were recorded with the permission of the interviewee, transcribed and coded through an iterative process, in which the researchers read the transcripts and documents several times in search of passages related to hybrid and non-hybrid control archetypes and the concepts of trust derived from the theoretical framework. The full transcriptions ensured a reliable analysis, since everything said can be analyzed (Gioia *et al.*, 2013).

We coded all initial quotations as well as information from the archival material through three-level coding. For example, in the initial quotation, we found readiness to tender again as the first code. As the second code we identified easily activated competition to ensure propositional performance, based on Spekklé's definitions of the different control archetypes. This refers to hybrid exploratory control as final code. In our analysis, we used Langfield-Smith's (2008) definition of competence and goodwill trust as applied to strategic alliances. We also identified the factors that were important for maintaining trust in the FAO. Examples of the three-level coding are presented in Table 1.

The SP drafted all contracts. The service contracts provided information on various aspects, such as ownership structures, service descriptions, responsibility allocations between MOCs and SP, and service management procedures (e.g. steering and/or development groups and designated contact persons). As noted, all three contracts between the MOCs and SP, as well as the group guidelines of each largest owning city and SP's owner strategy, were coded using definitions of archetypes and trust-enhancing factors. To avoid subjective interpretations, interview transcripts and all archival material were used to triangulate data. Researcher triangulation was also applied, i.e. researchers analyzed the data individually, then compared, discussed and agreed on interpretations. Only minor changes were made. Consistent with

Table 1. Three-level coding of control archetypes used by MOCs

Initial quotation	Code 1 Summarizing a quote	Code 2 Based on the characteristics of control archetypes	Code 3 Control archetype
"If there are issues with the current service provider, we can simply initiate a new bidding process." (Principal, MOC1)	Readiness to tender again	Latent (but easily activated) or endogenized competition to ensure commensurate competition	Hybrid exploratory control
"The contract is quite detailed and includes many attachments." (Financial Manager, MOC1)	Detailed contract	Detailed, reasonably completed contract	Hybrid arm's length contract
Three-level coding of factors important to maintain trust in FAO relationships			
Initial quotation	Code 1 Summarizing a quote	Code 2 Based on the definition of factors to maintain trust	Code 3 Factor to maintain trust
"And, of course, the mutual trust that things will proceed as agreed." (Financial Secretary, MOC2)	An effective expectations management system helps maintain trust	How to set realistic expectations for clients to help maintain trust	Managing expectations
"If there are trusted people you can talk to and collaborate with effectively, everything works smoothly." (Financial Manager, MOC3)	Effective communication helps maintain trust	How effective communication with clients helps maintain trust	Communication
Source(s): Authors' own work			

Gioia *et al.* (2013), we used concepts such as monitoring based on control archetypes and trust in a matrix to synthesize the findings from the three MOCs.

4. Findings

4.1 *Interplay between hybrid control archetypes and trust in hybrid organizations*

The detailed contracts as hybrid arm's length controls play a key role in the monitoring of SP in MOC1 and MOC3. The relationship with the major owner city [9] along with the size of the SP as a guarantor of the SP's overall service quality seemed to foster trust at the strategic management level. Trust in this hybrid organizational form is based on the timely exchange of accounting information among all parties involved.

The SP was already known, as our owner city uses the same SP. Being a sufficiently large operator, [SP] is considered a reliable and trustworthy service provider. (Principal, MOC1)

I receive some guidance from the city . . . from the strategic director, from our own board and the financial director of our main owner city. The guidance is not clear, but action must be taken. We rely on mutual trust among all parties. There is trust in the owner-cities, and among the parties involved . . . based on open and adequate communication. There has always been an effort to foster mutual trust. (Administrative Director, MOC2)

According to the SP's owner strategy, its main task is "to provide industry-independent ICT as well as financial and human resource management services as an affiliated unit under procurement law to its owner groups. The company can also provide industry-specific services to meet the needs of multiple clients." The operational-level managers seem to be skeptical and lack trust in the joint ownership.

It seems we are receiving significantly worse service as a subsidiary owned by the city. When I meet with city staff, they do not seem to face the same challenges as we do. Therefore, being a client of the same service provider may not be as beneficial. (Financial Manager, MOC1)

At the operational level, monitoring is done through different communication channels and trust is built gradually.

Different functions operate with various models at different levels. In practice, staff members communicate as needed via phone, email, or Teams. Meetings with staff are held approximately every 1–3 months to address ongoing matters, during which interim checks on current issues are conducted. (Financial Manager, MOC1)

Trust is not built overnight, if you do not know each other. Also, SP's staff turnover has been quite significant. We gradually get to know each other's ways of working. (Cashier, Accountant, MOC1)

While there was trust in the SP, it was also believed that the SP had insufficient resources.

SP's resources are usually not enough. (Financial Manager, MOC1)

SP's outdated accounting processes have been difficult to accept. Interviewees from MOC1 stated that the service level has deteriorated and efforts have been made to initiate negotiations to improve the service quality related to the FA processes.

We used to operate differently . . . We have tried to negotiate changes to address aspects that do not please us. They [SP] have, however, operated according to their standardized contracts for years, and the contracts have not been changed. (Financial Manager, MOC1)

Further, the interviewees argued that the SP prioritized the needs of the owner cities and only addressed the development of FA processes for the MOCs if time permitted.

I feel that SP has engaged in more personalized negotiations with the city compared to us. (Cashier, MOC1)

SP seems to prioritize the larger owner cities first, and only considers us if there is time. This certainly does not help build trust. (Administrative Director, MOC2)

The affiliated unit -position of MOC3 is based on the fact that its owner city is also the owner of the focal SP. The IOC is rooted in the contractual documents and trust in the owner city's ownership of the SP.

This is naturally the case, as the group [owner city] owns this [SP], and its financial accounting has been outsourced to the SP . . . Thus, there is trust in the SP's expertise, and they [SP] have drafted the contract. (CEO, MOC3)

All MOCs exercise control of the FAO based on mutual coordination at the operational management level. This interaction between the collaborating parties strengthens trust, particularly competence trust. In MOC2, the importance of daily monitoring at the operational level seems to be emphasized. Further, daily monitoring foster competence trust in SP.

Communication is regular. We have joint meetings four times a year to discuss financial accounting matters. All organizational levels are present, including our Financial Manager and CEO. (CEO, MOC3)

Anything can happen when you do not see the transactions [customer billing] yourself. Therefore, billing must be continuously monitored to ensure revenue. (Financial Secretary, MOC2)

At the operational level, regular meetings in the form of joint development groups take place several times a year, through which FA processes are developed. Joint development groups are defined in the detailed contracts. While performance evaluation is based on broad, emergent standards (hybrid exploratory control), these meetings form the basis for competence and goodwill trust. Trust based on these joint development groups seems to substitute formal control, even though MOC2 is not an owner of the SP. However, trust in joint development groups is not always very strong.

Development meetings for each area (Finance, HR) are held in the spring and fall. (Financial Manager, MOC1)

The SP has also started hosting a development group with us once or twice a year, in accordance with our wish. (Administrative Director, MOC2)

If there are trusted people you can talk to and collaborate with effectively, everything works smoothly. (Financial Manager, MOC3)

Even though the contract between MOC2 and the SP is only a checklist of the activities to be carried out, the strategic management level continuously monitored the FAO processes. This monitoring of the reporting system aims at evaluating the achievement of the quantitative and qualitative performance standards of the service.

The MOCs are primarily forced to choose the same SP as their main owner-cities, which highlights the dependency on the main municipal owner in IOR monitoring. It seems that trust has developed based on the ownership structure, and influences the formal controls implemented by the board of directors.

I found it [contract] hidden among other contracts. When you asked about it, I thought we did not even have it. This outsourcing was mandated by our primary owner city. (Administrative Director, MOC2)

The content of the service package is determined by the company's decision-making authority. However, a broader disengagement might, for example, require discussions with the owners regarding their guidelines. (Principal, MOC1)

4.2 Interplay between non-hybrid [10] control archetypes and trust in hybrid organizations

The IOR is also monitored through daily interactions (hierarchical arm's length control) and detailed responsibility clarifications (hierarchical exploratory control). The contracts of

MOC1 and MOC3 include detailed responsibility allocation tables, defining the responsibilities of the customer and the SP.

The accounts receivable service does not include the processing of payment transactions or accounting materials. However, the provider is fully responsible for the service if the client has also entered into an agreement with the provider for accounting services and payment transaction services. (Service contract, MOC1)

The service descriptions attached to the contract clearly outlined the responsibilities of both the client and the SP by accounting processes. For example, regarding the general ledger process, the following is described:

The on-line reporting is the responsibility of the SP, as well as the maintenance of the reporting system. (Service contract, MOC3)

The responsibility allocation tables seem to work at the operational level of MOC1, which owns the SP. However, MOC3 faces challenges due to a lack of updates.

These responsibility tables for the different functional areas show how we and the external actor work. They are needed, as our job descriptions have changed. The tables make it easy to check who [MOC or SP] is responsible for each task. (Cashier, Accountant, MOC1)

Sometimes there are ambiguities regarding the responsibilities, such as who is responsible for the accuracy of the fixed asset entries. There is certainly a need to review them point by point (Financial Manager, MOC3)

Trust is built through daily interactions and partner training.

The recently recruited accountant [of SP] has asked a lot of advice and we have familiarized her with our operations (Administrative Director, MOC2)

All MOCs monitored the IOR through the SP's appointed customer's contact persons, seen as action-oriented machine control. The appointed contact persons were approachable when challenges arose, and their role was to ensure the smoothness of the accounting processes. These persons played a key role in fostering both competence and goodwill trust through daily interactions.

We have, for example, our own account manager, who ensures our accounting transactions are well-managed. (Financial Manager, MOC1)

The contract between MOC2 and SP contains a short list of agreed services. The interviewee at the strategic management level maintained that MOC2 does not use specific formal control mechanisms besides the short list. Monitoring of IOR is employed through daily interactions (action-oriented machine control) (Administrative Director, MOC2). MOC2 relies on the indirect ownership, daily interactions and formal joint development groups, which foster both competence and goodwill trust.

Monitoring SP's services through monthly reports, and collaborating with the SP to further develop these services, form the foundation of trust in our [IOR] relationship. (Administrative Director, MOC2)

Service production handles routine tasks well, but development and change efforts are lagging because the pricing for the customer is often based on pass-through billing in change situations, which does not motivate development. For example, costs for development consultants and similar expenses are passed on to us and they [SP] are not willing to guarantee decrease in standardized prices in the long run. (Financial Manager, MOC3)

At the operational level of MOC2, monitoring is completed through continuous collaboration but trust does not appear very strong.

We learned over the summer not to make assumptions. Everything, such as sales invoices, must be checked. (Financial Secretary, MOC2)

MOC1 and MOC3 have a systematic service level agreement (SLA) disorder management process including pre-defined and codified performance targets. Transaction costs are controlled through pricing mechanisms based on transaction volumes. These control mechanisms refer to result-oriented machine control. The strategic-level managers believe that the operational-level managers monitor the outsourced service and strategic-level managers' complaint, if needed (action-oriented machine control).

We [strategic level managers] give feedback and complain about processes that do not work, like travel expense reimbursement. The HR and finance teams continuously monitor the SP. (Principal, MOC1)

At the strategic management level, competence trust exists between the collaborating organizations in all MOCs. This is based on the hybrid organizational form (SP owned by municipalities), as MOCs trust that their owner cities have established a reliable company to manage their FA functions. Further, transparent processes and previous references foster the competence trust towards the SP.

We can trust this service provider, which has its own transparent risk management processes . . . We can consult other referenced organizations. (Principal, MOC1)

The operational-level managers do, however, not trust the competence of the strategic-level managers in monitoring through the joint development groups. Strategic management level may be dependent on at least the main owner municipality, which increases the dependence on the owner municipality. This may foster the trust in the SP at the strategic management level.

Sometimes, only the strategic-level directors participate in the joint development group meetings. They may not know or understand the challenges that the operational-level managers and accounting specialists face. (Financial Manager, MOC3)

Trust does not replace the control archetypes, but remains a collaboration tool and expresses the mutual commitment between the parties. The formal control archetypes foster the customer's confidence in the SP.

When a client decides to proceed with outsourcing and begins to search for service providers, open communication from the very beginning is crucial. (CEO, SP)

5. Discussion

The findings of our study indicate that MOCs utilize hybrid, hierarchical, and market-based controls to monitor the FAO SP through joint development groups, tendering, detailed contracts and daily monitoring to ensure the functionality and efficiency of the FAO operations. In hybrid organizational forms, there are different logics in controlling FAO: the municipality's hierarchical ownership is used to monitor the SP, ensuring resources, and obtaining expertise; the management of the SP by the MOCs emphasizing market orientation and efficiency requirements and from municipalities point of view, organizing operations through the MOCs. This finding is consistent with the prior findings of organizational hybridity (hybrid organizational forms and competing institutional logics) (e.g. [De Waele et al., 2021](#)). From the analysis of the three MOCs and the SP, hybrid organizations, control archetypes and concepts of trust ([Figure 1](#)), the following reflections are made.

First, MOCs employed hybrid, hierarchical and market-based control archetypes. The strategic level of MOC1 and MOC3 primarily relied on detailed contracts as hybrid arm's length control to foster trust between collaborating parties and ensure compliance with the agreed-upon operating principles. This finding is consistent with [Krause and Swiatczak \(2020\)](#). At the operational management level, detailed monitoring as machine control was required to ensure compliance with the agreements and the understanding of the industry. The adoption of market-based control in the form of competitive bidding did not replace the

hierarchical-based control (detailed contracts), which aligns with the findings of [Ditillo et al. \(2015\)](#). Rather, the public sector's re-tendering among SPs led to the use of more control archetypes. Our finding that the MOCs employed numerous control archetypes contradicts the findings of [Speklé \(2001\)](#), who recommends hybrid arm's length control to manage outsourcing relationships.

Second, the hybrid organizational form related to ownership, i.e. direct ownership of the SP (MOC1) or ownership via an owner city (MOC3), complicated the balance between formal control and trust, especially at the operational level, where trust was based on joint development groups and daily interactions. Especially through daily interactions, the operating level management conducted the monitoring of the FAO. Consistent with prior IOC literature ([Bracci et al., 2024](#); [Dekker, 2004](#); [Das and Teng, 1998](#)), trust-based controls were used either as substitutes for or complements to control archetypes. Competence trust existed in the beginning of the IOR because of the municipal ownership of the SP. Reliance on SP's reputation (market-based boundary control) increased the role of competence trust in complementing formal control, which supports the findings of [Argento and Peda \(2015\)](#). Consistent with [Anguelov \(2016\)](#), the municipal ownership of the SP may suggest that municipal managers sought to protect their organizations against SP's opportunistic behavior through MOCs. SP also used control archetypes to foster the competence trust among its client organizations. However, contrary to [Argento and Peda \(2015\)](#), we found that ownership was not always necessary to substitute formal control with trust, as demonstrated by the case of MOC2.

Finally, the findings also show how different control archetypes and trust interplay at different organizational levels. At the strategic management level, the reaction to the main or only owner city reinforced the significance of the detailed contract, which in turn strengthened trust, as discussed by [Bracci et al. \(2024\)](#). At the organizational level, this led to the coexistence of two control archetypes: the hybrid arm's length control focusing on the detailed contract and a trust-based control, where informal controls emerged as active communication at both strategic and operational management levels in the joint development groups. The combination of both formal control and trust at operational management level highlights that trust-based control did not completely replace formal control. This result supports the complementary role of trust and is consistent with findings of [Dekker \(2004\)](#). Further, all MOCs employed hybrid exploratory control through joint development groups, which enhanced the role of goodwill trust at the operational management level. Consistent with [Argento and Peda \(2015\)](#), ownership facilitated competence trust between the collaborating parties at the strategic management level, and ensured membership in SP's steering group. Moreover, neither the strategic- nor the operational-level managers on the customers' side were able to predict all appropriation and coordination concerns in monitoring the FAO relationship in the hybrid organizational form. Therefore, consistent with [Bracci et al. \(2024\)](#), we suggest that both strategic- and operational.level management are needed to balance the interplay between formal control and trust in monitoring the SP in the municipal context.

6. Conclusions

Adding to previous research on MOCs as hybrid organizations (e.g. [Krause and Swiatczak, 2020](#); [Argento and Peda, 2015](#)), this research investigated the interplay between control archetypes and trust in the monitoring of established FAOs in the hybrid organizational form covering dimensions of ownership and the use of different control mechanisms. This study takes the understanding of hybrid organizational forms further by focusing on the IOR between MOCs and their FAO SP, where the MOC can be either owner of SP or use the services via the owner municipality. Our analysis revealed that MOCs employed both hybrid and non-hybrid (hierarchical and market-based) control archetypes. The hybrid organizational form related to ownership seems to be relevant regarding the interplay between formal control and trust in the IORs between the MOCs and the SP, and seem to complement both goodwill

and competence trust, either directly or via the owner-city, however only at the strategic management level. Further, trust appears to play a key role, not only in complementing or substituting formal control configurations, but also in having an independent and unpredictable influence on mobilizing key actors and shaping the IORs.

Our study contributes to the IOC literature as follows. We enhance the understanding of the interplay between hybrid and non-hybrid control archetypes, goodwill and competence trust and organizational hybridity. More specifically, this study adds to the debate on IORs by examining the control of FAO, where MOCs may be either owners or non-owners of the SP. This study showed that as hybrid public sector organizations MOCs can be understood to be guided by several institutional logics simultaneously, and their control of FAO SP is a mixture of hybrid and non-hybrid control archetypes and trust. Second, the hybrid organizational form related to MOCs and their FAO SP seems to strengthen the importance of detailed contracts and trust. However, even without direct ownership of the SP, trust may substitute formal control in monitoring the IOR. Finally, our study indicates that the role of control archetypes and trust at strategic and operational management levels vary in monitoring the FAO in the MOC context. At the strategic management level, detailed contracts are critical, as MOCs often seem obligated to choose the same SP as their main owner city. At the operational level, trust is fostered through daily interactions and joint development groups. Both strategic- and operational-level managers play essential roles in balancing formal and informal control mechanisms to manage appropriation concerns and coordination costs in IORs.

Our study has some limitations. This study builds on the perceptions and experiences of accounting practitioners regarding the use of control mechanisms in the monitoring of FAOs. The interviewees' perceptions may be inaccurate or the factors identified and interpreted as important control mechanisms may vary between the interviewees. We have, however, confidence in our data because we have interviewed practitioners working in different roles who are directly involved in or responsible for the monitoring of the FAO relationship. We have also relied on archival material.

Our study highlights specific themes that may be of interest for further research. The hybrid organizational form of MOCs could be investigated from the owner-cities point of view to find out the performance effectiveness of this form of organizational structure in FAO. Overall, the use of hybrid control forms in the context of state-owned enterprises warrants further studies, especially given the growing interest in outsourcing public services to external limited organizations in this sector.

Notes

1. Previous IOC literature classifies control archetypes in slightly different ways (Bracci *et al.*, 2024; Langfield-Smith and Smith, 2003). In this study, we use Spekl s (2001) classification into hybrid and non-hybrid (hierarchical, and market-based) control archetypes.
2. Established means accepted or respected because of having existed for a long period of time (<https://dictionary.cambridge.org>)
3. Certain actions between the collaborating parties must be controlled to find a balance between control and trust. Trust and control reinforce each other, meaning that control depends on trust, but trust also requires control (Van Veen-Dirks and Giliam, 2020).
4. Hybrid arm's-length control relies on detailed pre-established contracts with compliance measures for issue resolution, whereas hybrid exploratory control uses less specific contracts, focusing instead on close interaction, shared responsibility, and effective information flows to foster cooperation and align behaviors.
5. MOC1 is owned by two cities. MOC2 is a limited company owned by five municipalities. One municipality in the district owns the majority of MOC2. MOC3 is a consortium of two limited companies and MOC3 is owned by one city.
6. An affiliated entity is formally separate from the contracting entity and operates independently in its decision-making. The contracting entity, either alone or jointly with other contracting entities,

controls the entity in the same way as it controls its own establishments. Additionally, the affiliated entity must not conduct more than 5% of its business with entities other than the contracting entities controlling it, up to a maximum of EUR 500,000. Furthermore, the affiliated entity may not hold capital other than that provided by the contracting entities. ([Act on Public Procurement and Concessions, 1397/2016](#), § 15)

7. The MOCs retained some accounting staff in-house for monitoring purposes and customer service, including roles such as cashiers and financial secretaries.
8. The follow-up interviews confirmed the previous results, allowing the findings to be described and analyzed in an integrated manner.
9. MOC1 is part of a municipal group.
10. The non-hybrid control archetypes refer to hierarchical and market-based control archetypes ([Speklé, 2001](#)).

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