

Book Review

ACCOUNTING IN NETWORKS. HKAN HKANSSON, KALLE KRAUS AND JOHNNY LIND. NEW YORK: ROUTLEDGE. 2010. 368 PP. \$155 (CLOTH).

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While networks are increasingly seen as the right thing for public administrators to do (O'Leary & Gerard, 2013), there is little research on the financial accountability of public networks and collaborations (Thurmaier & Mitchell, 2013). Even though surveys of public managers reveal that some of the top reasons for collaborating and network service delivery are financial (O'Leary & Gerard, 2013), practical knowledge of how networks are financially managed is quite limited. As a field of study, accounting is much more directed toward these issues. While the book *Accounting in Networks* (Hakansson, Kraus, & Lind, 2010a) reflect that its subject is a new area of study even for the broader field of accounting, the publication of this book marks a foundational work for those that are interested in the subject of accounting and financial management of public networks as well.

The following seeks to synthesize the many important points of this book, but also to extend the literature on accounting in networks into the study of public networks. In spite of the many different purposes of public networks, this review suggests that much can be learned about networks generally by studying their accounting and financial management. For public management scholars, this book drives home the point that contemporary accounting is likely to be an obstacle to the development of networked organizations and that new ways of financial management and theory are required to extend principles of the financial management of organizations into the important but understudied subject of organizational networks (O'Toole Jr, 1997).

The review first discusses the chapters of the book in relationship to the main sections of the book: the need for network accounting, different types of network settings, different types of accounting tools, and the final section on the theories that have been used in the accounting literature. Some of the important contributions of the book for public organizations are then discussed, which includes the notable observation that traditional financial accounting reinforces hierarchy and may limit networking and collaboration. The discussion is extended to some additional considerations that are

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notable for public organizations; including the lack of managerial financial data in public networks and the need for more research on the topic.

INTRODUCTORY CHAPTERS

Of all the thoughtful chapters in this book, the introductory chapters are some of the most insightful. The first chapter (Hakansson, Kraus, & Lind, 2010c) takes a chronological view of the development of research on accounting in networks. First, the chapter points out that accounting in networks is a new field of study that dates to the 1990s. New “embedded” services put new and increasing pressures on managers to manage shared services and processes. In recent years, there have been increases in the number of inter-organizational relationships documented. While accounting may be a prerequisite for large multinational firms (Chandler & Daems, 1979; Johnson, 1983), traditional accounting reinforces hierarchical organization (pg 5). But it is the contention of these authors that other accounting methods may better support networking and collaboration of organizations.

The second chapter asks whether the subject of accounting in networks is a new and interesting area of study because of changes in business environment, or because of changes in organizational theory (Ford & Hakansson, 2010). The authors use a well-known case about the motorcycle manufacturer Ducati and its integration with its suppliers to support the idea that it is a change in business environment that is primarily responsible for changes in business theories regarding network organizations. The chapter points out that these technologies, especially those involving communication, have intensified specialization and interdependencies between firms. To remain relevant, companies must further specialize and partner with other firms. In the process, the relevant unit of analysis becomes the relationship itself and not the transaction.

DIFFERENT NETWORK SETTINGS

The settings reviewed in the book were at a conceptually high level, but there is one chapter that is specifically dedicated to collaborative financial management in the public sector that I discuss more thoroughly. The first chapter of the section is about dyadic networks (Cullen & Meira, 2010), more commonly referred to in the public literature as partnerships or collaborations. They note that dyadic networks are the most common type of network studied in accounting literature and that trust is a very important component.. The second chapter is a conceptual chapter about networks of more than two organizations (Lind & Thrane, 2010). The chapter posits that the type of network will dictate the theory used to analyze the situation, with relatively simple networks dominated by the transaction cost economics (TCE) perspective (Williamson, 1985) while more complicated networks are driven by network theories. Both chapters share the perspective that accounting is partially responsible for the observed structure of the network, but that larger networks may have unintended consequences due to accounting controls.

The chapter on public sector research on organizational collaboration and networking was both interesting and limited by the small amount of previous research done on the topic (Kraus & Lindholm, 2010). The authors first do a review of the accounting literature for joint ventures, outsourcing, public private partnerships and related terms and get a final sample of 35 articles. Most of these focus on outsourcing and public private partnerships (31 out of 35) and they note that “there is little discussion of ongoing day-to-day cooperation between interdependent public sector units/organizations and the role of accounting therein” (p. 119). In the conclusion they note that there has been very little done on these inter-organizational accounting practices and there is a serious need for more research.

To address the lack of case studies, they describe a case of collaboration between nursing staff and home social workers in Sweden in the process of caring for the elderly. They describe how formal accountability controls were put in place during and after a financial crisis. By establishing these controls, they show that both groups became financially sustainable. This is important because it demonstrates how accounting controls can lower collaboration costs, which makes collaboration more sustainable. The work addresses some interesting issues for financial accountability of collaboration and highlights the need for more discussion and research on the financial aspects of collaboration in the public sector, such as the ways that professional groups become concerned about financial considerations, how financial issues may be resolved in collaborations, and different means of collaborative accounting and control.

ACCOUNTING TECHNIQUES APPLICABLE TO NETWORKS

One of the advantages for public administration and policy scholars in reading a book on accounting is that it gives concrete examples of actual financial techniques that are used in inter-organizational relationships. Much of the public administration literature focuses on budgets and contracts and skirts the issue of actual accounting practices. As Kraus and Lindholm noted, accounting issues are not often a part of the research on collaborations, but this reinforces that it should be, especially as public networks experience fiscal stress. While not all of the techniques reviewed, such as customer accounting (Caker & Stromston, 2010), may be widely practiced or applicable in the public sector, some such as target costing (Carlsson-Wall & Kraus, 2010) may be particularly applicable in government manufacturing setting (Geiger & Ittner, 1996). Open book accounting (Kajuter & Kumala, 2010) is likely to be widely applicable to the study of government collaboration generally.

The principles of open book accounting are generally that network partners need to open their financial records to their collaborators, which leads to a better partnership and trust. These principles are not likely to be controversial in the public network literature that often promotes trust among collaborative partners as one of the most essential features of collaboration. While trust is marked as essential in this chapter and in the others of this book, it is important to note that the research discusses the resistance to this type of accounting and that open book accounting requires attention paid to how accounting information is structured, or what is known as managerial or

cost accounting (Kajuter & Kumala, 2010 p. 229). These are difficult topics that public administration and public budgeting and finance are not well positioned to deal with, but closer examination of these issues are needed if public collaborations and networks are to be financially sustainable and accountable.

THEORETICAL ORIENTATIONS OF NETWORK ACCOUNTING AND CONCLUDING CHAPTERS

Generally, the theories discussed fall into two groups: institutional and network theories. The first institutional theory discussed was transaction cost economics (Anderson & Dekker, 2010). It states that transaction costs will influence network development and it is marked as significant because it is the “dominant” theory of the inter-firm relationships (Anderson and Dekker p. 235). While they focus primarily on transaction cost theory, Anderson and Dekker also discuss its limitations and related theories. The other chapter from the institutional perspective splits the literature of institutional economic and new institutional sociology (Scapens & Varoutsas, 2010). While they review many different institutional theories from two broad fields, the research might best be summed up as indicating that institutions are often just as important as costs and accounting, and that accounting and institutions often reinforce one another. The book also presents two very interesting network theoretic chapters on actor-network theory (Mouritsen, Mahama, & Chua, 2010) and the industrial network approach (Hakansson, Kraus, Lind, & Stromston, 2010). Whereas institutional theories tend to put emphasis on the individual or organizational level, these theories are interested in the network as a whole. The boundary of person, organization and network is important and is further elaborated on in the conclusion.

In the concluding chapters, three issues were noted as being important practical and theoretical concerns (Hakansson, Kraus, & Lind, 2010b). First, the boundary of “organization” in a network is a difficult one to untangle from the legal boundary of the organization, which leads to the problem of establishing a proper boundary for the accounting entity and for the theories being used. Secondly, the interactive capability to use financial information to teach and persuade potential and current collaborators remains a challenge. Finally, the book pushes the idea that changes in the environment lead to changes in organizational theory and will need to continue to adjust to changes in technology and finance. These issues make the general study of networks and also the financial study of networks a new and engaging field for the foreseeable future.

IMPORTANT CONTRIBUTIONS AND ADDITIONAL CONSIDERATIONS

The book makes many important contributions to the management and study of networks. First, it clearly articulates how accounting relates to organizational structure. Common accounting practices reinforce hierarchical organization and may be a barrier to networked organizational forms. The book goes a long way toward explaining what networked accounting and financial management look like in different situations and provides some of the common tools and theories in the field of accounting.

While the book does not focus on public organizations, the implications for the study of public networks are very interesting. The thrust of the book is that accounting matters, which follows most of the literature in the study of business networks that costs are an important driver of network structure. While some literature notes that institutional structures and trust between partners are very important, others in public management and administration often neglect the cost and financial aspects of collaboration. Surveys of managers indicate that the financial reasons for collaboration are some of the most important reasons that managers work to collaborate and network (O'Leary & Gerard, 2013) but the research of this book shows that there is not a lot of literature on the accounting and financial management practices in networks (Kraus & Lindholm, 2010).

The reason that there might not be a lot of analysis of how costs and finances generally influence public networks is that the cost data in public organizations is not sufficiently comparable, due to the underdevelopment of managerial accounting. The use of managerial accounting is critical for network financial management techniques like open book accounting (Kajuter & Kumala, 2010). The problem is that there is very little academic research on the topic in public organizations (Rivenbark, 2005). For the literature on the financial management of networks to progress, it will be necessary to understand how public organizations actually use accounting data and this gets into the relatively uncharted realm of managerial accounting.

CONCLUSION

Accounting is an important topic to study in networks, which has largely been ignored. This book provides a solid foundation for the study of accounting in networks that has been almost completely absent in the public administration, budget and finance literatures. It provides clear examples of the tools, techniques, theories, and settings that may influence both network accounting and the dynamic structure of the networks. It specifically applies many of these ideas in a chapter on accounting in the public sector, but this chapter notes that research on this topic is quite limited. The limited amount of literature on network financial management is quite discouraging because of its clear importance to structuring the incentives of networks and providing information for accountability in networks. The study of public networks needs more research in this area but this will require more research in the area of managerial accounting. Both the study of accounting in public networks and the study of public managerial accounting are important scholarly topics that need additional research in mainstream public administration, public policy, and budget journals.

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