



Explaining the choice of accounting standards in municipal corporations: Positive accounting theory and institutional theory as competitive or concurrent theories[☆]

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Abstract

Municipal corporations exist in an institutional twilight area, being both private and public, a characteristic, which presumably would be reflected in their choice of accounting standards. The literature of accounting choice does not, however, live in a twilight area, but is fragmented into two main divisions: positive accounting theory (PAT) and institutional theory (IT); only in a very few cases do the theories meet or cross-fertilize. We use both theories in this paper and derive hypotheses from them to explain accounting choices made by municipal corporations. Through testing the hypotheses on a sample of 545 Swedish municipal corporations, we indicate the empirical relevance of both PAT and IT. We conclude by suggesting an integrative approach of PAT and IT in an eclectic alternative. © 2008 Elsevier Ltd. All rights reserved.

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1. Introduction

Municipalities in Sweden organize some of their operations in corporations. These municipal corporations are located in a twilight zone, being both private in one sense, acting according to the legislation of joint stock companies, and public in another sense, oriented towards fulfilling the needs of the municipal citizenry. Their twilight character is indicated in their relationship to profit. Municipal corporations are subject to business risk, which can imply profits in some years, but according to Swedish municipal legislation, they are forbidden to organize with the object of making a profit. They are thus organized according to a capitalistic principle, but are prohibited from fully using the driving force of capitalistic organizations.

Municipal corporations must have separate accounting systems and must account for the management of their resources. According to the opportunities in the regulation of Swedish corporate accounting, municipal corporations can choose between two sets of standards, or a mix of them: the less detailed, more prudent, conservative standards of the Swedish Accounting Standards Board (SASB), or the standards that are harmonized with the International Accounting Standards Board (IASB) and thus more costly to apply, which are issued by the Swedish Financial Accounting Standards Council (SFASC). Stressing the fundamental differences between the two opposing alternatives, SASB or SFASC, we ask the question: What can explain the Swedish municipal corporations' choices of the accounting standards of SASB or SFASC?

The scientific literature contains mainly two theories that are engaged in explaining accounting choice: positive accounting theory (PAT) and institutional theory (IT). Given our aim to explain accounting choice in municipal corporations, we are confronted with the choice of PAT or IT. Which theory should we choose?

According to the founding fathers of PAT, the choice is very simple: “. . .the only accounting theory that will provide a set of predictions that are consistent with observed phenomena is one based on self-interest” (Watts and Zimmerman, 1979:300). PAT is a theory that derives predictions about accounting choice from the wealth effects the choice has on important stakeholders (Watts and Zimmerman, 1986), thus emphasizing agency conflicts. PAT studies tend to have a nomothetic orientation, using large samples and statistical testing on data from capitalistic, preferably listed corporations (e.g., Inchausti, 1997; Meyer et al., 2000; Bradshaw et al., 2004). PAT appears to be an appropriate theory to use in explaining municipal corporations' accounting choices since there is probably an agency problem present. Managers of the corporation control the corporation and are engaged in municipal operations, organized according to the capitalistic principle of the joint stock company. On the other hand, politicians are involved in governing the corporation, presumably according either to their interests in re-election (Downs, 1957; Laswad et al., 2005) or to their interpretation of their voters' will and utility (Zimmerman, 1977). This could create conflicts of interest in which accounting choice could be a factor.

PAT has not been tested, however, on governmental organizations, except by Zimmerman (1977). The other main theory, IT, is more frequently found in this empirical area (Mezias, 1990). IT explains accounting choice through organizational actors being subject to institutional pressure, be it normative, coercive, or mimetic pressure. Studies using IT tend to be ideographic in orientation, using case studies, often from governmental organizations

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