Accounting for austerity

ACCOUNTING FOR AUSTERITY: THE TROIKA IN THE EUROZONE

Forthcoming in **Accounting, Auditing and Accountability Journal**, 2015, Vol.28, No.6

Sandra Cohen*, María-Dolores Guillamón**, Irvine Lapsley***, Geraldine Robbins****

* Athens University of Economics and Business; **Murcia University; ***Edinburgh University; ****National University of Ireland Galway

Corresponding Author: Irvine.Lapsley@ed.ac.uk

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INTRODUCTION

This paper analyses austerity in Europe in response to the global fiscal crisis. The paper provides an overview of what austerity has meant in terms of the changing financial position of three countries in the EU that have been badly affected by austerity, and also reflects on the consequences of their changing financial positions. This paper contributes to our understanding of the implications of the deepest recession experienced in modern times by focussing on Ireland, Greece and Spain to provide a comparative analysis of the experiences of vulnerable countries in the Eurozone. Specifically, this study examines the research question of how the Eurozone crisis has impacted on countries seeking ECB/EC/IMF (the Troika) assistance. There are a number of dimensions to this. These include the extent to which the dependency on resources from the Troika, during the Eurozone crisis, shapes the way governments behave. Another dimension is the extent of the power wielded by the Troika as the tripartite Commission charged with monitoring, and making recommendations on policy to help solve, the euro sovereign debt crisis. The power relationship of the Troika and the countries affected is therefore explored. This study reveals the importance of available accounting information in shaping the programmes of governments in need of financial assistance and the actions of the Troika. This available accounting information was cash based, which is regarded by NPM reformers as the least sophisticated form of accounting, compared to their preference for the accrual accounting practices of commercial companies (Lapsley et al, 2009).

This study has a second research question on the extent to which the enactment of austerity in the Eurozone can be explained through Resource Dependency Theory and /or through the lens of legitimation theory. Legitimation theory has been widely used in public sector studies. In this study there is particular interest in determining the explanatory power of legitimation *in extremis* as the global financial crisis unfolds. The study also illustrates how resource dependency theory (RDT) (Davis and Cobb, 2009; Hillman *et al*., 2009; Pfeffer and Salancik, 1978 and 2003) offers a rationale for the actions of the governments included in this study. RDT has been used widely as a framework for studying organizations. In this study we consider the special case of governments, which are more complex than typical private organisations or governmental agencies. In this way the study contributes to our understanding of RDT by supporting the contention that governments have asymmetrical power relationships with overarching bodies such as the EU, as their comparative advantages are weak and insufficient for their financing needs, especially in this acute crisis.

This paper is organized in the following sections. First, there is a discussion of the research context of the Eurozone – the distinctive nature of its financial crisis and the tools, including accounting practices, mobilised to address this crisis. Second the theories of legitimation and resource dependency are examined, particularly from the perspective of power. Next the research design sets out the nature of this comparative study. The results of this investigation are then set out for the countries in this study. Finally a discussion and conclusion complete this paper.

The Euro currency union has been depicted as a sub-optimal currency because of its lack of integrated fiscal management policies across the union. In this sense, the Euro is a political arrangement, although with clear economic implications. These facets of the Euro currency union make it particularly vulnerable to the current financial crisis. The 2008 global financial crisis has been depicted as the most severe since the 1930s which experienced the Great Depression (Albers and Jonung, 2010). While many OECD countries have had persistent financial deficits since the 1970s (OECD, 2009), the scope and scale of the current crisis is different.

This paper focuses on the experiences of Greece, Spain and Ireland. These countries are geographically located in an expanded European Union with neighbouring countries also facing fiscal and economic challenges from 2008. After 2008, many European countries suffered decreased domestic demand and were impacted by negative events unfolding in the external economic environment after the declaration of bankruptcy by Lehman Brothers in the US. After the 2008 banking crisis, which accelerated the economic decline, the growth rate in most European countries declined but started to recover from 2010 (Kickert *et al*., 2013).

The antecedents of the crisis were accentuated by differences in all three countries. In Greece the crisis was primarily one of public finances. In Ireland and Spain the problem was initially more masked as in both of these countries there were hidden problems of revenue weakness, resulting from over-dependence on tax flows arising from the long property boom (Brazys and Hardiman, 2013). But the most significant source of crisis in Ireland and Spain proved to be the under-capitalization of their banks, exposure of which had grown extremely rapidly during the 2000s, fuelled by ready access to cheap credit on international markets. Instead of allowing their banks to fail, governments devised elaborate rescue schemes for the banks affected by the toxic assets crisis. This resulted in a shift from a private sector banking crisis to a sovereign debt crisis. In this second crisis, those countries in the unified monetary system of the Euro which have weaker economies than strong EU countries were vulnerable because of the inflexible currency union. As members of the Eurozone, they could not adjust the exchange rate for their currency (the Euro), nor could they change the rates of interest charged by the central bank or adjust the money supply, as these decisions are made by the European Central Bank.

This lack of financial tools exacerbated the financial weakness of some Eurozone countries and intensified the effects of the initial global crisis. The 2008 crisis had resulted in recession - lower government revenues especially for countries dependent on particular sectors, such as the tourism, real estate and financial sectors, and - increasing public expenditure mainly aggravated by policy decisions to support the ailing banking sector in the Eurozone (Verhelst, 2011). Government efforts to support its banking industry led to a reassessment of sovereign credit risk in which the risks attached to the banking sector were reassigned to government (Attinasi *et al.,* 2009). These circumstances combined to create market anxieties which started over the solvency of certain Eurozone countries, notably Greece (Sgherri and Zoli, 2009). The weak fiscal performance of Greece resulted in a set of decisions by rating agencies to downgrade the security of its government debt, thereby increasing Greece's cost of borrowing and further undermining its capacity to meet its financial obligations. This circumstance threatened the Greek economy, but also the sustainability of the Eurozone

(Kaplanoglou and Rapanos, 2011). As the financial crisis spread across Europe, governments of member states came to the rescue of their banks. Soon after this, national governments began to experience problems servicing this debt. The EU adopted a wide range of measures to safeguard the Euro area's financial stability. On May 2010, the 27 EU member states agreed to create the European Financial Stability Facility (EFSF), a legal instrument aimed at preserving financial stability in Europe by providing financial assistance to Eurozone states in difficulty. The EFSF followed Greece's request for assistance and was used to provide funds to Ireland, Spain and further funds to Greece. To facilitate a detailed study of the response of countries to the crisis, so as to understand the contemporary response in both its historical context (Kickert, 2012 and 2013) and in terms of resource dependency, we focus on the success story of Ireland, the politically unstable example of Greece and the major economy of Spain. This study of the experiences of Greece, Ireland and Spain in the Eurozone crisis reveals commonalities but also differences in terms of context and policy actions taken. Table 1 below reveals the impact of this financial retrenchment on the economies of Ireland, Greece and Spain.

	2009	2010	2011	2012	2013
IRELAND					
▪ GDP (million euros)	168,114	164,928	171,042	172,755	174,791
▪ % Change of GDP	-10.0	-1.9	3.7	1.0	1.2
▪ Gov.Expenditure (million euros)	79,952	109,083	79,127	73,127	71,091
▪ Gov. Expenditure % of GDP	47.6	66.1	46.3	42.3	40.7
▪ Deficit % of GDP	-13.9	-32.5	-12.7	-8.1	-5.8
▪ Unemployment Rates	12	13.9	14.6	14.7	13.1
▪ Government Debt % GDP	62.3	87.4	111.2	121.7	123.2
GREECE					
▪ GDP (million euros)	237,431	226,210	207,752	194,204	182,438
▪ % Change of GDP	-1.9	-4.7	-8.2	-6.5	-6.1
▪ Gov. Expenditure (million euros)	128,150	117,774	111,633	104,491	108,009
▪ Gov. Expenditure % of GDP	54.0	52.2	54.0	54.4	60.1
▪ Deficit % of GDP	-15.4	-10.9	-10.2	-8.7	-12.3*
▪ Unemployment Rates	9.5	12.5	17.7	24.2	27.3
▪ Government Debt % GDP	129.4	148.3	171.3	156.9	175.0
SPAIN					
▪ GDP (million euros)	1,079,034	1,080,913	1,075,147	1,055,158	1,049,181
▪ % Change of GDP	-3.3	0.2	-0.5	-1.9	-0.6
▪ Gov. Expenditure (million euros)	493,865	493,106	488,618	499,288	464,759
▪ Gov. Expenditure % of GDP	45.8	45.6	45.4	47.3	44.3
▪ Deficit % of GDP	-11.0	-9.4	-9.4	-10.3*	-6.8*
▪ Unemployment Rates	17.9	19.9	21.4	24.8	26.1
▪ Government Debt % GDP	52.7	60.1	69.2	84.4	92.1

Source: Eurostat (http://ec.europa.eu/eurostat). *Includes the effect of bank support

Greece, Spain and Ireland had high pre-crisis growth rates (Hein *et al.*, 2011, p.17) These three countries have different historical contexts which provide an interesting basis for a comparative study. In all three countries, over the period since the crisis, GDP growth rates were predominantly negative with minor exceptions. Whilst Greek debt as a percentage of GDP had been a concern for a number of years prior to the crisis, the onset of the crisis caused debt in all countries as a percentage of GDP to soar. The intention of financial conservatism was to minimise and reduce this debt burden and these indicators are indicative of a policy which is failing to achieve a principal aim within the timescale of this study. The

measures adopted in all three countries resulted in significant impacts on government spending as shown in Table 1.

Programmes of financial support offered by the Troika to countries in financial crisis involve a compliance framework which includes the provision of regular financial and accounting information. The role of accounting information within the three countries in this study has been important, but in a very particular way. There has been a sustained campaign by NPM reformers for the adoption of accrual accounting by governments, as accrual accounting`s recognition of both assets and liabilities is regarded as more sophisticated than cash accounting (Lapsley et al, 2009). However, the countries included in this study have been slow to adopt this reform in accounting practice and cash-based information was the central focus of the Troika and our case study countries. Furthermore, as discussed next, governmental accounting in these countries is undertaken by civil servants. While there is some evidence of modest reforms in accounting practices, the reality is that none of these countries would be regarded as being at the leading edge of government accounting practice. Nevertheless in a financial crisis, accounting assumes significance as the medium by which policy actions may be articulated. In this situation, the Governments of Greece, Ireland and Spain and the Troika used the information available to them in shaping their policies and actions. However, the modest reform which has taken place in Ireland, Greece and Spain is the late adoption of limited accrual accounting. In any event the pressing concern of the Troika and these governments has been with cash based budgeting information.

The crisis in Greece strengthened the use of budgeting as the most important financial management tool. The Troika has been solely interested in monitoring the implementation of the public budget and in reviewing variances between the budgeted and actual expenditures and revenues. The Ministry of Finance produces monthly reports containing such information. The plan of the Greek government to implement programme budgeting from 2012 was suddenly abandoned (Cohen and Karatzimas, 2014). As a result it was no longer possible to map decreased public resources due to budget cuts against government programmes. Therefore not only was the quantity of service provision in health, education, social security and justice difficult to plan in advance, it was also difficult to assess the feasibility of the forecasted cost savings claimed in the Economic Adjustment Programmes . In 2011 the Greek government produced financial statements on a modified cash basis for the first time. This superseded the cash basis of accounting. However, these modified cash accounting numbers produced and reported from 2011 onwards are never discussed in periodic reviews or used for target setting. Additionally, it became obligatory for all public sector entities to follow their expenditure decisions through commitment registers so as to ensure that they would not exceed their approved expense budget and that the amount of accounts payable would be controllable. Commitment registers were part of the Troika's requests included in the Technical Memoranda. Accounting sophistication has not progressed during the period of austerity. This is indirectly verified in the European wide PwC study assessing implementation of accrual accounting in the European public sector where they note that "Greece shows the lowest accounting maturity across all levels of government" (PricewaterhouseCoopers, 2014, p. 83).

In Spain, central government is the main accounting regulator and determines obligatory accounting standards for private companies and public sector entities through legislative means. Reforms in the governmental accounting system were not significantly influenced by

the crisis or the austerity programme. Traditionally, governmental accounting reforms are modeled on a business accounting conceptual framework. From January 2011, a New Chart of Accounts for the public sector was approved which adopted International Public Sector Accounting Standards (IPSAS). The basis of accounting is full accrual since the adoption of IPSAS. The adoption of IPSAS in Spain was motivated by the political need to demonstrate improvements in public sector accountability, well accepted code law-based systems of governance, European Union pressures for the harmonization of business accounting, and enhanced credibility objectives fostered by the Troika. There have been no changes in the budgetary system, which still retains the existing modified cash basis of accounting. The lack of significant reforms in budgetary accounting shows the political importance attached to administrative traditions (Brusca *et al.*, 2013). In Spain, as in Greece and Ireland, the Budget has been the most important instrument in public management and austerity measures have focused primarily on it (European Commission, 2013a and 2013b).

In the Irish Public Service Reform Plan 2011 a greater role for accounting in public sector financial management was envisaged. It was planned to improve expenditure management across the public service by implementing medium-term expenditure frameworks, performance budgeting, accrual accounting and the publication of balance sheets by quarter one of 2013. Performance budgeting and medium term expenditure frameworks have been rolled out. In addition, a new public spending code has been introduced which aims to ensure that both current and capital expenditure are subject to more rigorous value for money appraisal in advance of public money being spent (Public Accounts Committee, 2014). However, Government accounts are still prepared on a cash based appropriations basis. An IMF assessment of fiscal transparency in 2013 found that, although the Irish government prepares two sets of annual accounts, which are audited and published within nine months of year-end, neither provides a comprehensive overview of the central government finances or follows international accounting standards though they do conform with domestic legal requirements (International Monetary Fund, 2013, p.7). The IMF note that although many items of financial information are tracked and collected, they are not consolidated and published as a comprehensive set of financial statements for the public sector and its sub-sectors, which means that Ireland is not reaping the principal benefit from its accounting efforts. The coalition Government's five-year programme for government which commenced in February 2011 commits all public sector bodies to publish balance sheets and move from cash to accrual accounting (International Monetary Fund, 2013). However, progress has been slow, although the publication of balance sheets has commenced (DPER, 2014). Unlike Spain, where government accounting standards rely heavily on IPSAS as their primary basis, in Greece and Ireland this is not the case.

Therefore these three countries present interesting case examples of austerity as economies in a currency union in a time of deep recession. The Euro currency union both constrains and offers apparent solutions to the impact of the global fiscal crisis on these countries. As noted above, Eurozone countries are constrained because they have limited discretion over their fiscal and monetary policy because of the dominance of the currency union's central bank, the European Central Bank or ECB. However, the EU and the ECB, in conjunction with the IMF, offers financial resources as rescue packages to Eurozone countries in severe financial difficulties. Within these arrangements cash based accounting information dominates in the shaping of reform packages and monitoring of individual country progress towards Troika targets. Despite this assistance from the Troika, the financial outturns to date in the three

countries in this study raise question marks about the efficacy of the Troika`s policy of financial conservatism or austerity.

THEORY: LEGITIMATION & RESOURCE DEPENDENCY

As noted above this paper investigates the complex issue of the Eurozone crisis and austerity. There are a number of facets of the Eurozone which make it a particularly complicated setting to study. There is the severity of the fiscal squeeze in Eurozone countries. The outcome and origins of the squeeze are different in different economies. As noted earlier there is limited discretion available to national governments to resolve the crisis. The EU solution of the establishment of the Troika and its interplay with those countries most adversely affected by the financial crisis is yet a further dimension in this complex situation. In the examination of complex issues, the writers of this paper draw on Jacobs (2012) observation that complex social problems may require theoretical pluralism to tease out understandings of practice and two sets of ideas are deployed to make sense of the unfolding events in the Eurozone.

The main theoretical perspectives mobilised in this paper are (1) legitimation and (2) resource dependency. It is the aim of this study not only to mobilise these ideas in the interpretation of findings, but also to use this study to examine the explanatory power of these widely used theories in the extreme situation of the Eurozone crisis. Both of these theories have been used widely in studies of public sector organizations, particularly in the context of reforms. While these ideas have been widely used by a variety of disciplines and have been used internationally in scholarly studies, these theories share a common heritage in their development. Both of these ideas were articulated to great effect by scholars in California in the 1970s, notably by John Meyer and Walter Powell (the neo-institutionalists) and by Pfeffer and Salancik who were the originators of resource dependency theory. While we acknowledge the depth and spread of scholars who actively used ideas of legitimation and resource dependency, it is apposite to examine whether these ideas which emerged in the circumstances of California in the 1970s (economic prosperity and wealth, even with significant distribution issues) are pertinent to the current situation of austerity and economic stagnation. One particular theoretical dimension included in this analysis is power – its existence and use. While both legitimation and RDT have offered considerable explanation of public sector changes, there is a question of how or whether they address issues of power. This is a further aspect of the present study and we reflect on the discharge of power below, particularly regarding the actions of the Troika.

Legitimation

In scholarly research on ideas of legitimation, the contribution of Berger and Luckman (1966) is widely regarded as seminal. However, the contribution of the Californian scholars, such as Meyer, Powell and the members of the Scandinavian Consortium SCANCOR, such as Brunsson (2006 and 2009) and Brunsson and Olsen (1993), have had considerable influence over the past three decades. The enduring nature of scholarly interest in ideas of legitimation is captured by Lepoutre and Valente (2012) and Cho *et al.*, (2015).

The subtlety of legitimating behaviour is expressed in the contention that many government organisations indulge in `sagacious conformity` in their reforms, without actually implementing policy changes (Meyer and Rowan, 1977). This perspective has been mobilised to study many government reforms. A significant strand of this is the manner in which these managerial reforms may result in window dressing (Lapsley, 1999). Indeed, the *apparent* adoption of reforms may become part of elaborate mechanisms which serve as legitimating devices (Meyer and Rowan, 1977). The adoption of specific business practices from the private sector may be an important part of legitimation (Christensen and Molin, 1995; Arnaboldi and Lapsley, 2004). Overall, there is a major focus on portrayal rather than action, which indicates legitimation (Mouritsen and Skaerbaek, 1995). Specifically in the context of political organisations, Brunsson (1994) has observed that these organisations are more about talk than action. An important dimension of legitimating behaviour is the way in which organisations seek to project a particular image (modern, efficient, responsive) to their external controlling environment (Meyer and Rowan, 1977). For many public sector organisations, oversight bodies or government departments are the external controlling environment and legitimating behaviour by public sector organisations is directed at influencing these bodies. In the present study we examine the national governments of Greece, Ireland and Spain. The key element of their external controlling environment is the Troika. However, as in all democracies, these governments are acting on behalf of their citizens and they also seek legitimacy in the eyes of their electorates. In all three countries the institutionalization of external surveillance by the Troika was an element of the reform programmes.

It has also been suggested that there has been a relative absence of the analysis of power in institutional theory (Maurice *et al*., 1980; Greenwood and Hinings, 1996; Suddaby et al, 2007; Clegg, 2010; Malsch and Gendron, 2013). This is surprising as it has even been suggested that power is the main concept in the social sciences (Clegg, 2010). There is evidence that power can shape the construction of legitimacy in the context of public sector organisations (Gordon *et al*., 2009). In the context of this most recent financial crisis Malsch and Gendron (2011) note how the changing institutional environment requires the research community to question the redistribution of power. It is also evident that in government, the study setting of this paper, ideas of power and legitimacy are of singular importance (Beetham, 2000). The longstanding interest in politics, power and the state can be traced back to Machiavelli (Bull, 1999). It has been observed that the essence of the modern state is the exercise of legitimate power (Clegg, 1989, p.265) and that dominant agents have the capacity to stimulate the pace of transformations (Malsch and Gendron, 2013). It has also been suggested that the role of political power is to invent and engineer powerful institutions to deliver legitimacy (Courpasson *et al*., 2006, p.382). The Troika could be seen as an example of this.It is interesting to observe this fundamental link between the exercise of power and the establishment of legitimacy. In this, the legitimacy of the powerful is an important component of the exercise of power.

Therefore, in particular, this paper analyses whether the context of financial crisis eliminates or extends legitimating tendencies by governments and the manner in which the exercise of power by the Troika in seeking solutions to vulnerable Eurozone countries may result in legitimating behaviour by the key parties involved in seeking to resolve the crisis.

Resource Dependency Theory

While Resource Dependency Theory was first articulated in the late 1970s, it continues to be used by scholars (Verbruggen *et al.*, 2011; Agostino and Lapsley, 2013). The ideas of resource dependency have been widely adopted, by inter alia, organizational scholars (Toms and Filatotchev, 2004; Morris, 2007), and by accounting, managerial and public sector academics (Jonsson, 2002; Erakovic and Wilson, 2006; Jung and Mood, 2007; Xia, 2011). The original ideas of resource dependency were framed in the context of the organisation. The ideas of resource dependency have been used to analyse non-profit organisations (Helmig *et al.*, 2004; Verbruggen *et al.*, 2011), the interdependencies of non-profit and government organisations (Agostino and Lapsley, 2013) and a variety of private and public organisations (Hillman *et al.*, 2009; Davis and Cobb, 2009). The interest and uptake in resource dependency theory can be attributed to the articulation of its initial ideas by its originators (Pfeffer and Salancik, 1978 and 2003) in a very clear and powerful way, particularly around ideas of survival. Pfeffer and Salancik (1978) articulated this theory in terms of organisational survival.

"To survive, organizations require resources. Typically, acquiring resources means the organization must interact with others who control those resources. In that sense, organizations depend on their environments. Lack of self-sufficiency with respect to resources creates dependencies vis-a-vis the parties that control them (Emerson, 1962). Because the organization does not control the resources it needs, resource acquisition may be problematic and uncertain. *Others who control resources may be undependable, particularly when resources are scarce* (emphasis inserted)" (Pfeffer and Salancik, 1978, p.258).

This theory differs from the institutional theory perspective in the manner in which it envisages key actors in organisations taking a more proactive role in shaping the destiny of their organization. In particular, resource dependency theory states that organizations are not self-directed, but `other` directed (Pfeffer and Salancik, 2003). Resource dependency theory not only recognises that organizations are interdependent with each other, but it also elaborates a set of organizational responses to these interdependencies. Specifically, evidence of resource dependency can be found where weaker organisations initiate mergers and acquisitions with resource rich organisations. Further manifestations of a resource dependency perspective can be found where financially weak organisations establish joint ventures or partnerships with relatively more robust, well-resourced entities. These markers of resource dependency are the more obvious ones. Less obvious markers exist where resource poor organisations seek to recruit influential members of society to their Board of Directors to gain a resource advantage from these directors` expertise or connections. This more subtle form of evidence of resource dependency can be also gleaned from political positioning, where political influences hold sway in resource allocation decisions which affect weaker organisations.

Resource availability can therefore be linked to the exercise of power. An important ingredient in the disposition of power and the existence of power relationships rests on resources as bases of power (Uphoff, 1989). However, what the powerful can get those subordinate to them to do is not simply a matter of the resources they command but also the quality of the cooperation they need from subordinates (Beetham, 1993). This is indicative of resistance to the exercise of power which may be exhibited as overt aggression, as expressing dissent according to prevailing norms in society or organisations or as facilitating public interest goals (Ashforth and Mael, 1998).

This paper takes the resource dependency perspective as one reference point in making sense of the Eurozone crisis. The paper explores the extent to which dependency on resources from the Troika shapes the nature of government actions to tackle the fiscal crisis.

Legitimacy Theory, RDT and Power

While the major focus of this paper is on legitimation and resource dependency theory, as noted above, there is an overlap within these theories with ideas of power. The notion of power is even more evident in RDT than in institutional theory. Indeed, implicit within RDT is the notion of power, with asymmetrical power relationships. Ability to influence the terms and conditions of contracts is highly contingent on the bargaining power of those with resources (Argyres and Liebeskind, 1999). However, legitimation theory also melds with ideas of power. Thus, the intermingling of power relationships and legitimation are evident in the explanation that public sector bureaucracies appear as legitimate sources of power over their members, neutralising all potential sources of countervailing power (Courpasson and Clegg, 2006). In that context, Courpasson and Clegg (2006) argue that the influence of New Public Management ideas has not eliminated the power of many bureaucracies. These views reinforce and confirm the earlier observation that organisations can mobilise resources, exercise power and manage legitimacy (Suchman, 1995). The manifestation of power may take many guises. Using a modified versions of Lukes (1994, 2005) model of power, Malsch and Gendron (2011), reveal the significance of the exercise of ideological power in regulatory matters. The use of ideological power is not achieved through formal indoctrination, but through the preclusion of alternatives, such that interested observers see the policy option selected as `natural, inevitable and common sense`(Malsch and Gendron,op.cit.,p.458). This facet of power may shed light on the adoption of neoliberal policies of financial conservatism and austerity by the Troika in the Eurozone. In this sense, the Troika represents the dominant agent within the Eurozone, with significant power in economic and political action (Malsch and Gendron, 2013). However, the political context of the present study requires us to be mindful of the exercise of political power, which may be problematic and not achieve its intended aims in the delivery of government programmes (Rose and Miller, 1992). The existence of political and economic power does not guarantee efficacy in policy formulation and execution.

These ideas on resource dependency, legitimation and power are mobilised to analyse the activities of governments in difficulties in the Eurozone and of the Troika in securing financial assistance for the countries in this study.

RESEARCH DESIGN

This study is international in scope and is focused on assessing the impact of the Troika`s austerity programmes and on determining if legitimation and resource dependency theories can help us to interpret the actions of governments which have sought financial assistance because of the Eurozone crisis. To evaluate the design, adoption and outcome of policies adopted by governments in the Eurozone crisis it is necessary to undertake a comparative country study. This comparative method is most likely to yield more nuanced understandings

of government actions (Caperchione and Lapsley, 2011). In this paper we have examined the experiences of Ireland, Greece and Spain which have all sought the financial support of external bodies - essentially the Troika of the European Commission, the European Central Bank and the IMF. A particular challenge in comparative research is the interpretation of different national government policies on reforms (Hantrais, 2009, p.53; Usunier, 1998, pp.152-163). These challenges are greatest where foreign nationals who are not familiar with their study settings undertake comparative international research. However, this research team has members from each of the countries under investigation.

The nature of governmental activity is such that academic researchers are unlikely to deploy experimental research in the investigation of government policies (Hantrais, 2009, p.6). Comparative research, widely defined, has long been depicted as dominated by the qualitative tradition in social science research (Ragin, 1989, p.2) and this research paper is consistent with that approach. Specifically, this paper adopts a documentary analysis approach. This research approach recognizes that policy documents are important elements of policy debates and practices (Prior, 2003, p.31). In this regard, policy documents are not mere `receptacles` of information. These documents are not mere `facts`, but important artefacts which may shape policy judgments and actions. These documents may have an important representative quality as evidence of the integration of the views of leading actors in key policy debates (Prior, 2008).

Indeed, the prevailing trend of transparency in public finances makes significant amounts of publicly available data accessible by researchers interested in this area. This study draws on a variety of documentary sources. These include the statistical reports of Eurostat, but also financial documents of these countries such as the specific arrangements (Memoranda) between these countries and the Troika to address financial imbalances. In addition, this study evaluates government financial documents. This study proceeded by a thematic analysis of these documents to answer the research question set out above. This entailed scrutiny of financial assistance programmes and the identification of specific proposals by government and the impact of these proposals.

ANALYSIS: LEGITIMATION, POWER AND RESOURCE DEPENDENCY

Resource dependency and some limited elements of legitimation theories can help us interpret the actions of governments in responding to the crisis and to the power exercised by the Troika. Each country has a distinctive historical context and so the response in each country needs to be examined separately. Table 3 offers a comparison of net receipts by Ireland, Greece and Spain from the EU. This table offers important evidence of the dependency of these states on resources from the EU. The analysis of each country reveals the interplay of resource dependency, the exercise of power by government bodies and legitimating behaviour, with austerity the major force for public sector reform in all of these countries.

Ireland: A Dependency Relationship

The reliance on European Union monies by Ireland to fuel its economic trajectory over a forty year period is well understood (O'Toole and Dooney, 2009) and is reflective of a

resource dependency relationship (Pfeffer and Salancik, 1978). In joining the EU the Irish government pursued this arrangement and it did so again in 2010 in seeking financial assistance. The legitimacy of its actions were supported by its citizens in the pursuit of additional resources. Resource dependency is fundamental to understanding Ireland's story. Ireland joined the European Economic Community in 1973 following a referendum in which 83 per cent of Irish voters supported membership.

Table 2: Comparative Net Receipts from the EU since joining

	Ireland		**Greece**		**Spain**	
	Joined					
	1973		**1981**		**1986**	
Year (see note)	Net Receipts € million	% of GDP	Net Receipts € million	% of GDP	Net Receipts € million	% of GDP
1975	126.1	2.4				
1980	598.9	4.6				
1985	1162.3	4.6	1,138.9	2.1		
1990	1851.4	5.1	2,278.1	3.5	719.2	0.2
1995	1877.3	3.5	3,798.1	4.2	6,840.2	1.5
2000	1532.2	1.5	3,752.7	2.8	4,298.6	0.7
2005	882.2	0.5	3,808.2	2.0	4,872.2	0.5
2010	532.9	0.3	2,551.6	1.1	2,000.4	0.2
2012	444.7	0.3	3,884.6	2.0	2,693.3	0.3
TOTAL	**69,464**		**98,306.7**		**93,387.2**	

Note: This table shows comparative net receipts in primarily 5 year intervals from 1975. The total includes all years from date of joining EEC/EU.
Amounts in € million
Sources: Compiled from information from the Central Banks of Ireland, Greece and Spain

The Irish experience is almost a classic case of an entity with less wealth, ceding discretion over its financial future, to a resource rich larger entity with the aim of securing additional resources in a time of crisis (Hillman et al, 2009; Davis and Cobb, 2009). Ireland has certainly benefitted economically from EU membership. Ireland's GDP was only 53 per cent of the EU average at the time of joining the EC in 1973 while by 2008, Irish GDP had reached 140 per cent of the EU average, the second highest level of wealth after Luxembourg (O'Brennan, 2010). Ireland has also benefited from infrastructural development, financed in part by the EU, which has been critical in attracting foreign direct investment (European Commission, 2013c). Ireland gained from the increased scale of global foreign direct investment from the 1970s, by having established a more fiscally- and financially-welcoming environment than other countries in Europe and by adopting a targeted approach at investors in two high-tech sectors – electronics and pharmaceuticals (Ruane and Buckley, 2006).

Over the period of membership from 1973 to 2012 Ireland received €69.4 billion from the EU budget, and made payments of €26.6 billion to the EU – a net receipts position of €42.8 billion (Department of Finance 2012, p.10, Table 10). Table 2 reveals the level of EU financial support for Ireland and the value of that support as a percentage of GDP. This total figure for gross receipts from Europe of €69.4 billion over its forty year membership period is remarkably close to the Programme for Support combined loan amount of €67.5 billion from the Troika. Ireland has been resource dependent on Europe for forty years. The case of Ireland is one of the Troika exerting its power and legitimacy as the continued provider of funds to Ireland, with strings attached in terms of policy implementation to cut back and reform public service delivery (Uphoff, 1989; Robbins and Lapsley, 2014).

Europe needed Ireland to demonstrate a financial reform success story and stabilise the Euro and it had the power (Clegg, 2010) to seek compliance through the Troika. The Troika Programme of Financial Support was underpinned by a rational oversight model (Jonsson, 2002) of quarterly reviews which required compliance with structural changes, reform of financial/banking systems and a series of fiscal measures. Widespread citizen acceptance of the need to adhere to the Troika programme of financial support is evidenced by the relative political stability in Ireland (Robbins and Lapsley, 2014). The current coalition government elected in February 2011 enjoys a substantial majority in Parliament and has had the numerical capacity to tolerate a small number of defections on the basis of individual political dissatisfaction with the austerity programme over the four year life of this government to date. This relatively stable political climate has facilitated implementation of the programme of financial assistance and achievement of most of the targets over the eleven quarterly reviews that preceded Irelands exit from the programme after the final review in the third quarter of 2013 (Robbins and Lapsley, 2014). But the Troika too have been instrumental in supporting the implementation of reforms in Ireland (Malsch and Gendron, 2013). Market sentiment has improved as measured by bond yields. However, while exit from financial assistance programmes is seen as a measure of success, other measures also reflect positively on the implementation of the Irish programme such as declining unemployment rates (European Parliament, 2014). High private and public debt levels are being addressed. Although Government debt-to-GDP ratios are among the highest in developed economies, both government and private debt in Ireland has fallen and is anticipated to decline further in the next five years (Dobbs, Lund, Woetzel, and Mutafchieva, 2015), although this small economy remains exposed to the threat of global economic shocks.

Resources are a basis of power (Pfeffer and Salancik, 1978; Uphoff, 1989). What the powerful can get the subordinate to do is not only a matter of the resources they command but also an assessment of their moral authority (Beetham, 1993). The Irish taxpayer bore the cost of assurances and protections given to unsecured bond holders in Irish banks. The ECB was anxious to protect the stability of both the Irish and European banking system. The extent to which legitimacy was necessary for the Troika – the powerful partner at this time of crisis (Beetham, 1993), depended also on the level of co-operation they required from the Irish government. The Irish government had implemented a national recovery plan and began to address fiscal and liquidity challenges placing it in a stronger position to legitimately (Christensen and Molin, 1995) request financial assistance in 2010. The Irish government retained legitimacy with the people also by reinstating the minimum wage rate cut by the previous government. This legitimacy may have been exercised to safeguard political interests (Beetham, 1993), but it also allowed a new government in 2011 to shape a political

agenda within the constraints of the Programme. Fiscal adjustment was carried out in a balanced way which, while having short-term negative GDP and unemployment effects, contributed to restore trust in the long-run sustainability of Irish public finances. In addition, the Irish government persisted in their discourse with the Troika to seek a reduction on the loan interest rate burden and an extension of loan maturity with a successful outcome. The average maturity extended from 7.5 to 12.5 years in 2011 and again to 19.5 years in 2013. This reciprocal legitimacy between Ireland and the Troika underpinned Ireland`s exit from the Troika programme of financial assistance for distressed members of the Eurozone.

However, there are concerns over the impact of austerity on democracy. Speaking at the Council of Europe in January 2015 the President of Ireland noted the "unquestioned leeching of power and authority from parliaments to the apostles of a narrow version of fiscal orthodoxy" (Higgins, 2015). International institutions, such as the ECB, EU and IMF contribute to the legitimacy of states, and in doing so contribute to their own legitimacy (Buchanan, 2011). Some politicians also argue that with the advent of the crisis "democratic checks are being diminished" and that a worrying development in this crisis has been an increased role for institutions such as the European Central Bank, an unelected body (Murphy, 2011). However, at a recent conference reviewing the Troika programme for Ireland the Minister for Public Expenditure and Reform had a different view of the Troika, when he welcomed back "old friends to the capital" for a review of the financial assistance programme (Howlin, 2015).

Greece: RDT Fosters Legitimating Activities

Greece had good reasons to join both the EC and EMU. Greece's entry into the EC in 1981 was expected to secure its fragile democratic regime (that had replaced seven years of dictatorship in 1974) and serve the security interests of the country. This can be seen as an example of survival (Pfeffer and Salancik, 1978). Moreover, the economic benefits from participation would strengthen domestic support for the European perspective, thus countering at once threats to the country's young democracy and its pro-Western orientation (Bourantonis *et al*., 1998). Greece's decision to join the EMU was also expected to offer an array of benefits to the country. Firstly, it would lower inflation expectations and, therefore, interest rates. Secondly, it would eliminate exchange-rate fluctuations and the possibility of competitive devaluations among Euro countries, thereby reducing risk premia and nominal interest rates. As a result the reductions in nominal interest rates could lower the costs of servicing public-sector debt, facilitating in this way fiscal adjustment and freeing resources for other uses (Gibson *et al*., 2012).

The Greek decision to join the EU has been beneficial in financial terms and can be depicted as a successful example of RDT in action (Davis and Cobb, 2009; Hillman et al, 2009). The total net amount of funds Greece received from the European Union from 1981 to 2012 is €98.3 billion. The yearly net transfers accounted for, on average 2.7% of yearly GDP for the same time period. In contrast to Ireland, the financial help through the bail-out plans for Greece was even larger. The two Greek economic adjustment programmes amount to €240 billion, 2.4 times the net amount received over the thirty-one year EU membership period. While Greece was totally dependent on the Troika and the EU in particular in order to secure the necessary financial means to avoid bankruptcy, the EU was reciprocally dependent on Greece; the failure of Greece could jeopardize the entire Eurozone. A Greek exit from the

Euro area (Grexit) would very likely have significant negative direct and indirect spill over effects that go well beyond the country's limits and this has been acknowledged by the IMF (2012). A Greek exit could even ultimately cost Europe its single currency. Therefore, while Greece forms a typical resource dependency case (Pfeffer and Salancik, 1978) in relation to the country's heavy reliance on funds provided by the Troika to avoid default, the construct of the Euro forms a reciprocal dependency relation between this country and the Eurozone.

The way both the EU and Greece acted during the crisis can be interpreted by using not only a resource dependency but also a legitimacy lens. The power of the Troika over Greece is manifest as well. Before the signing of the First Memorandum between Greece and the Troika there was a very light public sector reform programme in place that had commenced at the beginning of 2010 (EU, 2010). The programme initiated by the Greek government included a series of fiscal consolidation measures. The state of its public finances meant that the Greek government had no option but to ask for financial help from its EU partners. In advance of this request Greece, like Ireland and Spain, had developed a plan to demonstrate its interest in reforming the public sector. However, the Greek approach owed more to sagacious conformity (Meyer and Rowan, 1977) and to portrayal rather than action (Mouritsen and Skaerbaek, 1995). The EU had to help Greece for practical reasons; the integrity of the Eurozone would be severely impaired by the bankruptcy of a member State. The First Memorandum was signed only to "keep up appearances". This is evidenced by the fact that both the rescue plan for Greece and its execution were totally unsuccessful. In the First Memorandum the Troika accepted at face value the ambitious goals outlined in a detailed manner by the Greek Government (Meyer and Rowan, 1977). However, the financial markets were unconvinced about the plan's success, resulting in growing yields on sovereign bonds and Credit Default Swap (CDS) spreads.

The financial assistance given to Greece has been accompanied by significant budget cuts. Policy actions that have taken place in Greece since May 2010 were completely dictated by the Troika and compliance with defined milestones presented in detail in the Technical Memoranda between the Greek Government and the Troika, remain critically important. The reforms introduced went well beyond budgetary oversight (Morales et al., 2014). As the disbursements of the financial aid are closely linked to the progress of the programme, and Greece is highly dependent on the cash flow provided by the Troika, prioritization is solely given to policies agreed in the Memoranda. This structure enables the members of Troika which are in a position of power to easily enact their version of legitimacy (Gordon et al., 2009). Nevertheless this legitimacy is necessary to safeguard the extent and quality of co-operation with the Greek government to achieve their purpose (Beetham, 1993). Therefore all policy actions put forward by the government are legitimized as being part of the obligations towards the Troika to keep the country solvent. But at the same time this conditionality strategy was de-legitimized in the minds of Greek citizens by the knowledge that the reforms implemented up to the time of the Greek government elections in 2015 were imposed: a forced adjustment on Greek citizens from an external source. The citizens blamed the elected governments for not negotiating with the Troika, a sentiment that was reinforced by accusations raised by the opposition parties. They argued that the power of the Troika in dictating specific courses of action was not justifiable by reference to the shared beliefs of solidarity in the Eurozone which delegitimized the power of the Troika and they blamed Greek governments for not opposing it. As a consequence, Greek governments have suffered a loss of legitimacy, as they appear weak in the face of the foreigners' 'blackmail' (Featherstone, 2014).

The power the Troika exerts on Greece is unconcealed. This power not only facilitates the rationalization of the most appropriate policy options but it also facilitates the legitimization of what is taken to be `legitimate` (Gordon et al., 2009). This can be seen from the actions of the EU. The EU adopted very close supervisory responsibilities for Greece. As Morales et al. (2014) comment "Seemingly neutral expressions such as peer-review and oversight were used to describe thorough surveillance, control and discipline". In June 2011, a `Task Force for Greece' was set up by the EU to offer support for domestic institutional reforms designed to improve the receipt and effective use of EU funding. The financial help provided to the country was given in tranches. Without them, the country would not have been able to cover its short term obligations. This was resource dependency in action (Agostino and Lapsley, 2013). To gain access to successive tranches of Troika funding the periodic reviews have to be positive. Positive reviews are directly linked with specific measures that the government have to not only pass through the Greek Parliament (with the Opposition prior to the 2015 elections standing strongly against them) but which also have to be implemented with measurable outcomes. Prior to January 2015, the Greek government struggled to pass all the austerity measures through parliament. These included cutting the salaries and pensions, applying a mobility scheme for public servants and increasing taxes. Even though in some cases the success of the reforms was weak or questionable, the results can be seen as legitimating behaviour or `window dressing` (Lapsley, 1999). Despite the strikes, the protests and the growing citizen discontent, up to January 2015 Greece consented to all measures imposed by the Troika in return for its crucial financial support. This offers a view of the Troika as a powerful machine of government which had legitimacy and which neutralised all potential sources of other power (Courpasson and Clegg, 2006; Gordon et al., 2009; Malsch and Gendron, 2011; 2013) in an effort to maintain the solvency of Greece as a member of the Eurozone.

But while Greek government actions offered legitimacy to the Troika, long lasting austerity measures created serious discontent for the Greek people and political instability. It was the moral authority of the Troika to demand measures that was questioned and not its power to control resources (Beetham,1993). Snap elections took place in June 2012 and in January 2015. In January 2015, the major opposition left-wing party Syriza, having anti-austerity as its key manifesto commitment challenged the power of Troika and the Memoranda in dictating the way Greece is governed. It had a sweeping win in the elections. The discontent of Greek citizens was loudly expressed. The leader of Syriza, Alexis Tsipras, in his inaugural speech on the night of the electoral win declared that "Greece has turned a page. Greece is leaving behind the destructive austerity, fear and authoritarianism. It is leaving behind five years of humiliation and pain" (Henley, 2015).

Confrontation with the Troika and renegotiation of the repayment terms of the bailout plan were the main pillars of the rhetoric with which the new government won the elections. Austerity and unemployment have exhausted Greeks without visible results. As shown in Table 1, government debt as a percentage of GDP has increased, unemployment rates have soared, and both expenditure has been reduced during the bailout plan (since 2010). The hair cut of the nominal value of government bonds by 53.5 per cent in Spring 2012 that decreased public debt by €106 billion did not help much in lowering government debt as a percentage of GDP. Greece lost 23% of its GDP in the five years from 2009 to 2013, causing the debt to GDP ratio to increase mainly because of the denominator. Political commentators have stated that "nowhere have austerity policies been more aggressively tried — and generally failed to live up to results promised by advocates — than in Greece. After more than four years of belt

tightening, patience is wearing thin, and tentative signs of improvement have not yet trickled down into the lives of average Greeks" (Black, 2015). Greeks wanted to give a message against austerity. While the message given by the Greek people may not have sympathetic recipients outside of Greece, this electoral win also brings into question the sustainability of unpopular austerity programmes in other Eurozone countries. But the situation in Greece in May 2015 is still very fluid. The new government is facing imminent liquidity problems to cover financial obligations to lenders and pay salaries and pensions of public servants. The tranche scheduled for December 2014 never came to Greece as the review process did not conclude. The power of Troika prevails despite the anti-austerity rhetoric in Greece. The new Greek government reveals the power of the Troika by developing and negotiating a new set of reforms. These are to be approved by the Troika for the necessary funds to flow to Greece and the Troika had made it clear that they will not flow unless there is a deal. Resource dependency underpins the Greece-Troika relationship. . But what is politically interesting and controversial is generally the means rather the ends (Brunsson, 1994). The 2015 electoral results revealed that the Greek people decided that they would prefer new political leadership which promises to follow a different approach with the Troika. And so there is a Greek paradox: Europe does not want Greece to leave the Eurozone. But at the same time it will not tolerate a behavior that is contrary to the rules of legitimation which keeps Eurozone countries united.

Spain: A Struggle for Legitimation

At the beginning of the last century, the Spanish philosopher José Ortega y Gasset said “Spain is the problem and Europe the solution”. This very famous sentence shows what Europe meant for Spain. Spain joined the EU for two principal reasons: (1) it sought political legitimacy, and (2) it sought access to additional resources to energise a sluggish economy (Powell, 2011). The need for political legitimacy came from Spain`s transition from a dictatorship to a democracy with a monarchy. The economy had been backward and isolated. This intertwining of the political and the economic resonates with Spain`s experiences as a member of the EU since 1986.

The economic motivation can be seen as resource dependency in action (Hillmore et al, 2009; Davis and Cobb, 2009). As a relatively poorly performing country, Spain sought access to the resources of the bigger entity of the EU. Evidence of resource dependency is manifest in the case of Spain. According to González and Benedicto (2007), the success of the European solidarity model is clearly reflected in Spain. Spain's entry into the EC has helped narrow the gap between the country's standard of living and that of the other member states. This country has received considerable benefits from EU membership through funds (Structural and Cohesion Funds) for regional investment policies, agriculture and rural development, and the modernisation of national infrastructure (Roy and Lorca-Susino, 2011). The total net amount of funds received from the European Union from 1986 (year of joining EU) to 2012 is €93.4 billion. The yearly net transfers account for, on average, 0.6% of GDP for the same time period. Nevertheless, as stated above, this country not only has received economic resources but also intangible benefits such as political recognition at an international level.

The success of the resource dependency relationship has been challenged in light of the consequences of the global fiscal crisis for government bodies (Agostino and Lapsley, 2013).

Given that the entity seeking resources has no control over the additional resources it needs, resource acquisition can become problematic and uncertain (Pfeffer and Salancik, 1978, p.258). The assistance of the EU has been especially significant when the country suffered financial problems (EU, 2012). As a consequence of the crisis, Spain has received financial assistance for the recapitalisation of financial institutions via the EFSF/ESM of up to €100 billion. This assistance has been essential to protect banks against the debt crisis and to promote financial stability. Spain used €38.9 billion for bank recapitalisation, under restructuring and resolution plans approved by the European Commission under State-aid rules, and €2.5 billion for capitalising Sareb (the Spanish asset management company). Both the bank-specific conditionality and the horizontal conditionality requirements included in the Memorandum of Understanding were fulfilled as scheduled.

This outcome was regarded by the Troika as a success story. Recently, the European Commission (European Commission, 2014) has published this message on its webpage:

`Spain successfully exited the financial assistance programme for the recapitalisation of financial institutions in January 2014. The programme had been agreed by the Eurogroup in July 2012 for a period of 18 months and provided an external financing by the Euro area member states of up to €100 billion`

However, after exiting the Troika`s financial rescue programme, the monitoring of the Spanish economy and its financial sector continues in the context of post-programme surveillance (PPS), as specified by Art. 14 of two-pack Regulation (EU) No. 472/2013. PPS starts automatically after the expiry of the programme and aims at a broad monitoring of the repayment capacity of a country which has received financial assistance. PPS is a biannual exercise, in terms of reporting on missions and achievements.

Nevertheless, in this resource dependency relationship there is an interesting element of reciprocity. Spanish economic survival is also important for the Eurozone. Spain plays a special role for two reasons. First, it serves as a model for weaker European countries. Second, if Spain is unable to pay back its sovereign bonds, analysts and investors fear the entire Eurozone will be in jeopardy. Because many Eurozone countries have struggling economies, they are importing much less. This is taking a toll on the larger, export-driven economies like Germany. If countries like Spain continue to struggle, the countries with stronger economies may face problems as well (Harrington, 2011). This phenomenon undoubtedly reveals the interdependency between countries in the EU (Emerson, 1962).

There remain questions over the efficacy of government bureaucracy in assisting Spain, particularly as regards unintended consequences (see Rose and Miller, 1992). We have noted above that the EU hailed Spain as a success story. However, while the banking system stabilised, the price in terms of economic retrenchment and unemployment was severe. Moreover, as shown in Table 1, austerity measures have not reduced levels of public debt. Here is an example of the exercise of power by the Troika authorities who demanded stringent requirements in return for funds advanced and in so doing dominated Spain in its weakened financial condition (Beetham, 1993). This can be seen as a peculiar kind of success.

The Spanish Government`s initial struggle for legitimation was oriented mainly to the Troika and not to citizens. In general, the government did not feel the need for social dialogue to

legitimize austerity measures (Bach and Bordogna, 2015). Citizens have felt that the Spanish government did not direct the country, but the Troika did (Pfeffer and Salancik, 2003). In fact, opposition parties have reproached the government for submitting to the Troika (RTVE, 2013). They have criticized what they regard as the government`s preoccupation with its external control environment and its desire to satisfy the Troika's requirements for legitimating purposes (Meyer and Rowan, 1977), without bearing in mind its electoral programme. Currently, the main concern of Spanish citizens is unemployment, political and institutional corruption and the dramatic social consequences of the economic crisis (Center for Sociological Studies (CIS), 2015a). As a consequence of austerity measures, Spain had a snap election in 2011. In this election the opposition rightwing People's Party (PP) won and it continues in power. In 2014, a new party founded by Pablo Iglesias, "Podemos" (We can), has emerged and it has captured the attention of all of society. Podemos is a left-wing party that has benefited from Spain's economic difficulties, in particular youthful unemployment.

After Greece's electoral results, Spain is keeping an eye on the Greek situation, especially with regard to their relations with the Troika. The support of citizens for Podemos may depend extensively on the Greek government success or failure. The link between Syriza and Podemos has been fuelled by Pablo Iglesias, who takes every opportunity to brand Syriza's win as the first plank of an anti-austerity movement sweeping across Europe. For him, the Greek results seem to support his belief that Spanish citizens will vote the same way in general elections scheduled for November 2015 (García, 2015). The night that Syriza won the elections he declared that "the victory of Syriza will provoke something that's new in the political panorama of Greece – they're going to have a real Greek president, not a delegate of Angela Merkel whose interests will rank above those of the country and its people" (Kassam, 2015). According to CIS (2015b), in January 2015, Podemos was the first party in voting intention in general elections (with 19.3 %) followed by the PP with 12.9 %, and the Socialist Party with 12.4 %.
Given that the local and regional elections held on 24 May 2015 may be a foretaste of the results of next general elections, its analysis is outstanding. In these elections, the PP won the most votes overall, capturing 27 percent of votes cast. However, it lost the absolute control it had in eight of the thirteen regions. The Socialist Party came in second with 25 percent of the vote. Nevertheless, both lost a significant number of votes to emerging groups. This way, Podemos' Party and the centrist Citizens' Party, two organizations that only began operating on a national level last year, obtained a strong third and fourth position. These elections confirm the erosion of Spain's bipartisan system.
European Commission President Jean-Claude Juncker, who travelled to Spain recently, praises Spain for its reforms, but warns that the crisis will not go away until the unemployment rate declines. Furthermore, he believes that whether the Syriza and Podemos' programmes are implemented, the European project would be completely blocked (Pérez, 2015).

DISCUSSION AND CONCLUSION

This paper has provided an overview of the experiences of what austerity has meant in terms of financial outcomes in three countries in the Eurozone: Greece, Ireland and Spain, which have been significantly affected by austerity programmes. Greece presents a complex case in which the political establishment has been overturned by Syriza which campaigned in the January 2015 election on an anti-austerity manifesto. There has been speculation that Greece

might leave the Eurozone (so called Grexit) and even renege on its debts if it could not secure a new arrangement for their repayment. This possible political outcome is a consequence of high unemployment and an apparently never-ending recession. The case of Ireland is different. It has been hailed as the poster boy of Eurozone efforts to assist its most vulnerable countries in financial crisis (Robbins and Lapsley, 2014) as it was the first Eurozone country in financial difficulties to emerge from recession. But both Greece and Ireland are smaller economies in the Eurozone, so we also looked at the experiences of Spain, one of the Eurozone's larger economies. Spain has also confronted recession with the assistance of EU funding. Indeed Spain has successfully exited from its EU financial arrangement and has been described as a success by the EU. However, Spain continues to have large scale unemployment, difficulties with its debt burden and financial deficit and has also experienced some political unrest. The descriptor of success story in this context is fraught with difficulties, although on one level, it is understandable if the Troika seeks to make such pronouncements to legitimise its activities. The experiences of Ireland may offer some reassurance to Eurozone countries, but the challenges of Greece and possibly Spain may endanger the Eurozone with far reaching consequences for those countries but also for neighbouring countries and countries which trade with the Eurozone. The key conclusions from these outcomes of resource dependent engagement with the Troika are set out in the following sections:

- The significance of accounting
- The Troika and financial conservatism
- An evaluation of RDT and Legitimation
- A research agenda

The Significance of Accounting

While the three countries included in this study have different financial histories, they also have many attributes in common which shape their current circumstance. In the first instance the governments of these countries have ceded discretion over their monetary policy to the European Central Bank. This means that they cannot devalue their currency, adjust interest rates or adjust the money supply by quantitative easing. These countries are at the discretion of the European Central Bank on all of these policies. Also, as members of the Eurozone seeking financial assistance they have been referred to the Troika (the European Central Bank, The International Monetary Fund and the European Union) which has been established to resolve the sovereign debt crisis in the Eurozone. This new organisational form has immense power over countries seeking its assistance.

Furthermore none of these three countries has a strong accounting expertise within central government. The accounting information prepared by their central governments is the work of civil servants, not professional accountants. This is a typical continental European arrangement. There have been only modest reforms to the central government accounting practices of these countries. In any event, the focus of the Troika has been on cash based budget projections. While there is an absence of qualified accountants within this sphere of responsibility, nevertheless the accounting information prepared by these civil servants has assumed a monumental significance in identifying austerity programmes by these governments at the behest of, and in agreement with the Troika. Thus the shaping of austerity - the nature and scale of cuts - takes relatively unsophisticated accounting information as its fundamental reference point.

The Troika and Financial Conservatism

The receipt of this financial support has been at a heavy price. The Troika has exercised legitimate power as a strong bureaucratic machine (Courpasson and Clegg, 2006; Gordon *et al*., 2009). This is most acute in its treatment of Greece and Ireland, no doubt because of the gravity of the financial situation these countries faced. This new organisational form of the "Troika" has gained notoriety heretofore unmatched by any team of financial overseers and regulators. The common man on the streets of Dublin and Athens knows the names of these Troika team leaders as regular quarterly visitors to Ireland and Greece. The Troika on each review visit brings with it the potential prize of confirmation of implementation of agreed Memoranda items. Awarding of a good report is akin to a good score and results in greater confidence in each country by the international financial markets and the prospect of initially a return to the bond markets and then the possibility of reduced interest rates on the next issue of bonds. Awareness of the power of and existence of Troika teams as invigilators of reform programmes, with the power to release or withhold further tranches of much needed funds will persist in the psyche in Ireland, Spain and Greece, even after exit from the bailout programmes. In this RDT realm, Greece is the special case as Grexit would put the single currency structure at risk, despite the small size of the country.

The Troika has adopted a fiscal conservatism approach. This can be seen as the exploitation of ideological power (Malsch and Gendron, 2011) which presents financial conservatism as the natural course of events, without consideration given to alternative approaches to the management of public finances. The financial assistance given by the Troika has taken the form of loans. The conditions attached to each tranche of finance have included extreme austerity programmes, such that the dependent economies have experienced increased unemployment, severe economic downturns, social unrest and the migration of skilled workers. This raises fundamental concerns about the exercise of political power by governments and agencies of governments in the pursuit of their programmes, which often have unintended consequences (Rose and Miller, 1992). The experiences of the Canadian fiscal consolidation of the 1990s often feature in the writings of advocates of policies of austerity (Alesina and Perotti, 1998; KPMG, 2010; Blyth, 2013), but Canada was reducing its public expenditure while sitting alongside the expanding USA economy. The policies of retrenchment in the Eurozone have reinforcing effects because these economies trade with each other and are pursuing austerity programmes in parallel, with a deflationary impact on the Eurozone and the threat of a triple dip recession. It remains to be seen if the actions of these national governments, largely at the behest of the Troika, will have successful outcomes for their economies in the longer term, but the short term outcomes are poor, other than for Ireland where unemployment is falling, GDP is positive and government debt is starting to reduce.

An Evaluation of RDT and Legitimation

The enormity of the fiscal crisis and the instrumental nature of the imposition of austerity programmes by the Troika have attenuated the significance of legitimation theory. In this

context of fiscal crisis, as governments implement austerity programmes in the pursuit of substantive cost reductions in public services, the rhetoric of legitimation is less convincing than in more benign eras. In this harsh economic climate RDT appears to offer stronger insights into the behaviour of these governments caught up in the sovereign debt crisis. However, the RDT interpretation is not straightforward. There is evidence that the applications by these governments to join the EU fit the classic interpretation of RDT (see Pfeffer and Salancik, 2003) of weaker entities seeking to secure resources from strategic alliances and, indeed, there is evidence that the three governments included in this study have received substantial resources from the EU over the period of their membership, but this fiscal crisis offers a fresh twist to the RDT lens. The governments who sought the help of the central authorities (The Troika) appear to have done so because of resource dependency reasons. The extra resources forthcoming in response to the crisis looks like RDT in action. However, the findings in this paper suggest that the extreme nature of the impact of the global financial crisis on weak economies in the Eurozone may merit some refinement of RDT. In particular, the outcome of this study confirms the significance of suggestions (Agostino and Lapsley, 2013) that organizations in longstanding relationships in receipt of funding assistance may become locked in, developing dependency relationships with their strategic allies, in this case the EU. This makes them unlikely to react proactively in the pursuit of alternative, additional revenues. This circumstance suggests a refinement of RDT in a time of financial constraints, in which the core idea of RDT of weaker partners seeking out strategic alliances to enhance their resource base may be attenuated in extreme financial situations as the opportunities for alternative providers of resources are limited.

A Research Agenda

In terms of future research there is a significant agenda in this area. The three issues which we identify are (1) a study of the EU from a governmental accounting perspective, (2) an examination of the accounting information used by the Troika and national governments in the scheme for financial rescue of financially distressed Eurozone countries and (3) further study of the nature and ramifications of the EU sovereign debt crisis.

As regards (1) above, the Eurozone has been described above as a political arrangement. The relationship of accounting practice and political behaviour has been studied in certain spheres of public sector accounting but the central government level is relatively neglected and an EU level study could prove fruitful.

Regarding (2), there is also a case for revisiting the accounting information used by the Troika in the three countries in this study to determine if more sophisticated accounting information may have led to different or even better policy choices. This could be studied by interviewing members of the Troika on their perceptions of the quality of information which was available to them. It may be that their preference was for cash based information as perceived as being somehow less open to manipulation than accrual accounting. It may be that they would have wanted accrual accounting but these preferences are not a matter of public record. There are issues over the quality of the accounting information used in cutbacks in services. There is scope for experimental research which sets out alternative outcomes with different bases of accounting measurement to investigate the sophistication of the Troika. It is also of interest whether available accounting information was an obstacle rather than an enabler in processes of reform and modernisation. Would governments in crisis

have analysed their asset utilisation policies more rigorously with accrual accounting information? The role of government accountants, their expertise and qualifications merits future investigation too. An examination of the different continental European traditions compared to the highly professionalised world of government accounting in the UK would make an interesting study.

Finally, on (3), the Eurozone sovereign debt crisis is not over. There is a need for continuing study of this phenomenon as this story unfolds. This includes the exercise of power by the Troika and whether the EU successfully addresses the weak spot of the currency union by integrating government budgets of participating states into EU and European Parliamentary approval. There remains the prospect of Grexit and the impact of this on the Euro and particularly on the Eurozone countries in southern Europe, all of which merits further study. There is a case for a careful analysis of the humanitarian and economic impacts of the programmes undertaken by these countries at the behest of the Troika. The fundamental issue of whether financial conservatism or more interventionist Keynesian policies lead to better outcomes remains a lively debate, to which accountants can and should contribute.

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