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THE ROLE OF ACCOUNTING IN MANAGEMENT CONTROL SYSTEMS OF FIRMS HAVING SUBSIDIARIES IN THE FORMER SOVIET UNION
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Abstract
This thesis investigates how Finnish firms, as examples of Western firms, control and steer the operations of their subsidiaries in Russia and the Baltic countries and the role of accounting in the management control systems. The thesis consists of three essays, which focus on different aspects of the role of accounting in the management control systems. Even though the issues discussed in this thesis are probably not unique to the area of the former Soviet Union, the characteristics of business in this context highlight specific management control questions relating to organising and using power within management control systems.

The first essay investigates the changing role of accounting in a knowledge transfer process between a head office and subsidiaries to show the importance of informal communication and cooperation in the development of accounting. Only after some time of intense informal cooperation and the development of social capital in the accounting-mediated knowledge transfer can more formal accounting controls can be relied on. The second essay illustrates how the central social position of an individual can be reproduced and how it affects accounting and formal reporting in the control system. The third essay investigates the role and power of an intermediate subsidiary in using accounting for controlling and steering the operations of its subsidiaries, when the intermediate acts between the subsidiaries and its own Western parent company. The intermediate can invoke the tensions between divergent social systems and thus use accounting signifiers according to its own needs, legitimating its existence despite the inflexibility the multilevel organizational structure may cause. Therefore, the whole thesis suggests that accounting plays an important role in integrating firms in very different contexts, but this can only happen with the help of more informal supportive structures and knowledgeable agents who utilise accounting. This is how accounting develops business thinking so that the practices adapted to the local demanding circumstances could also give something back to the parent companies.

Keywords: management accounting, management control systems, multinational corporations, transitional economies
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Oulu, August 2008 Sinikka Moilanen
List of original publications

The thesis is based on the introductory chapter and the following essays:


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1 Introduction

"In the writer’s experience and knowledge practically nothing has been said about any revolution in cost accounting in Soviet Russia – –. This subject, while not as important as some of the political or social phases, is still a subject of interest to members of our profession, – –.” (Wurman 1931: 896)

Accounting, as an integral part of management control systems (MCSs), enables control in multinational corporations (MNCs), as it makes it possible to keep discipline, to control and to act at a distance (cf. Robson 1992, Ezzamel 1994, Kirk & Mouritsen 1996, Carmona et al. 1997). The role and nature of management accounting and control systems in MNCs (e.g. Schweikart 1986, Chow et al. 1999, Quattrone & Hopper 2005) and the role of MCSs in the context of mergers and acquisitions (e.g. Jones 1985, Roberts 1990, Granlund 2003) have recently both been extensively studied. However, accounting may not serve as a common language in MNCs as business and social structures and their corresponding understandings of accounting concepts differ (Evans 2004). Difficulties can be expected, for example, when subsidiaries are located in countries that used to be under a socialist regime. Therefore, we still have a lot to learn about the expansion of firm’s operations to such different circumstances that prevail in the former Soviet Union (see Gray & Roberts 1991).

One of the greatest contemporary challenges in economics research is indeed the change in economic systems in the former Soviet Union, caused by the change in the political system (Intriligator 1996). Even though the transition towards market economy already started in 1985 and joint ventures between Soviet and Western firms were permitted in 1987, the massive change did not occur until the collapse of the Soviet Union in 1991 (Southworth 1994, Vámosi 2000). Since then Western firms have been increasingly interested in expanding their operations to exploit the enormous market potential in the area. Despite the growing number of Western MNCs entering the area, little is known about management accounting and control in the different parts of the area of the former Soviet Union and in the Western companies operating there.

During the last decade accounting research on the situation in Russia and other transitional economies has mainly focused on macroeconomic matters and financial accounting. There has been little research on the use of accounting by decision-makers other than the tax inspectorate (Sucher et al. 2005). Transition nations and researchers have considered financial accounting and improving
external reporting according to Western norms preferable to developing management accounting. Change in financial accounting has been seen as a prerequisite for the development of management accounting (e.g. Bailey 1995, Haldma & Lääts 2002). Actually, cost accounting was an integral part of financial accounting in command economies and, therefore, management accounting was a new concept (Sokolov & Kovalev 1996, Enthoven et al. 1998, Haldma & Lääts 2002). However, macroeconomic stability may be difficult to sustain without microeconomic reforms to improve firm performance and efficiency (Bevan et al. 1999) and as accounting is an important means of management control, its development becomes important in improving firm performance. In any case, accounting and management traditions in the planned economies differed significantly from those of Western countries (Elenkov 1998, Enthoven et al. 1998, Taylor & Osipenkova 2003). For example, informal personal networks became important means of coping with conditions in the Soviet Union (Ledeneva 1998, Michailova & Worm 2003, Hutchings & Michailova 2004). Therefore, it is doubtful if merely financial results control (see Merchant 1985) by the MNC’s headquarters over subsidiaries in these countries can be relied on.

Many Finnish firms have established operations in the neighbouring area of the former Soviet Union, e.g. in Russia and the Baltic countries. Therefore, Finland provides interesting settings for studying the MCSs of those firms. The purpose of this thesis is to investigate how Finnish firms, as examples of Western firms, control and steer the operations of their subsidiaries in Russia and the Baltic countries and what kind of role accounting plays in the MCSs. The thesis consists of three essays, which focus on different aspects of the role of accounting in the MCSs. Even though the issues discussed in this thesis are probably not exclusive to the area of the former Soviet Union, the characteristics of business in this context highlight specific management control questions relating to organising and using power within MCSs. Therefore, the general results of the thesis may also have implications for other contexts, showing the role of accounting vis-à-vis more informal relationships in integrating MNCs (Busco et al. 2008). The first essay investigates a case of transferring accounting-related knowledge in the MCS from headquarters to subsidiaries and vice versa. In the first essay the changing role of accounting in the process is analysed. The second essay compares the management control systems of two firms to show how family ownership and owners’ participation in the management may affect the role of accounting in the MCS over the subsidiaries. The third essay investigates the role and power of an intermediate (Finnish) subsidiary in using accounting for
controlling and steering the operations of its subsidiaries, when the intermediate acts between the subsidiaries and its own Western parent company, which firmly relies on results controls.

The remainder of the introductory chapter is organised as follows. Earlier literature on management accounting and control in multinational corporations is reviewed in Section 2. Section 3 focuses on the characteristics of the business environment in Russia and the Baltic countries and their possible effect on the MCSs of MNCs operating in the area. Research design, covering the research questions, theoretical frameworks and methodological issues, is presented in Section 4. The main results of each essay are reported and their wider implications are discussed in Section 5, which also concludes the chapter.
2 Management Accounting and Control in Multinational Corporations

2.1 Management accounting and control

Baliga and Jaeger (1984) relate control to processes “in which a person (or group of persons, or organization of persons) determines or intentionally affects what another person, group or organization will do”. According to them, the monitoring process, where targets are set and performance is evaluated, is at the heart of control. Control is needed in order to make people act according to the best interest of the organisation (Merchant 1985). Ouchi (1979) divides control mechanisms into three categories: markets, bureaucracies and clans. In Merchant’s (1985) three-part classification results and action controls resemble to some extent bureaucratic controls and clan controls coincide with social controls. Results control is usually executed in financial terms, whereas action controls include e.g. physical and administrative behavioural constraints. Social group pressures, training, individual self-control, rewards as well as selection and placement procedures constitute personnel controls. For his part, Simons (1995) has four categories for control systems use: Beliefs and boundary systems and also diagnostic and interactive control. Of these, diagnostic controls resemble the traditional results controls or accounting, even though the measures may be non-financial. Accounting information, however, can be also used interactively by managers by highlighting the most important measures in regular interaction with subordinates. Boundary systems can be seen to be somewhat similar to action controls, and Merchant’s (1985) social controls can include belief systems, which are a form of positive control posing no restrictions but showing scope for future development. These definitions of MCSs differ mainly in their stand towards the relationship between management control and strategy. Whereas Merchant (1985) sees strategy as guiding the implementation of management control, according to Simons (1995) management control is namely for controlling strategy.

Even though management control includes a wide spectrum of mechanisms and practices besides accounting, management accounting constitutes an integral part of management control systems. Accounting can eliminate the distance between a headquarters and its subsidiaries, as it is a language (see Latour 1987, Robson 1992) which can make local issues a global matter (cf. Giddens 1990, Jones & Dugdale 2001). Therefore, accounting describes operations making
performance visible and accordingly controllable (e.g. Ezzamel 1994, Carmona et al. 1997, Quattrone & Hopper 2001). However, the accountability system is often rather a means for headquarters to monitor and intervene in subsidiaries’ affairs than a means to map the subsidiaries according to their own logic (cf. Kirk & Mouritsen 1996). This means that accounting also creates and constructs distance in terms of space and time by defining the accountability structures (Miller & O'Leary 1994, Ezzamel & Willmott 1998, Carmona et al. 2002, Quattrone & Hopper 2005). In addition, accounting can protect a subsidiary against the headquarters as long as the reporting requirements are appropriately met (e.g. Siti-Nabiha & Scapens 2005).

### 2.2 Management accounting and control in a multinational context

Accountants and managers in a multinational and international context face a host of complexities, because of the environmental uncertainties, international capital flows and complex organisational structures (e.g. Choi 1989). According to Emmanuel et al. (1998), important issues for multinational management accounting are, for example, performance evaluation and control, currency changes, inflation accounting and corporate governance. Performance evaluation and control may be problematic because of the distance between headquarters and local units. Currency changes and inflation are often faced, especially in non-Western settings where differences in organisational structures and traditions may also make corporate governance issues more difficult. According to Baliga and Jaeger (1984) the issue of control is parallel with delegation. One of the major questions for MNCs is thus balancing between centralisation and decentralisation.

Actually, MNCs have been divided into taxonomies according to the differences in the intensity and form of centralisation (see e.g. Sundaram & Black 1992). Perlmutter (1969) defined a taxonomy based on management style: geocentric (world-oriented), polycentric (host country-oriented) and ethnocentric (home country-oriented). Multinationality is thus defined according to the intensity of the geocentric thinking of the managers. For Porter (1986), international competition is rather similar to domestic competition and the same strategy patterns are thus needed. Where downstream activities of the value chain are vital to competitive advantage, decentralisation and multidomestic organisation structure are recommended and when support activities are of the highest importance, global competition with a centralised structure might be the most advantageous choice. The taxonomy can also be based on the organisational
structure defining firms as global (tightly controlled and centralised), multinational (decentralised) or transnational (local flexibility and global integration) (Ghoshal & Bartlett 1990, Bartlett & Ghoshal 2002). Accounting enables decentralised control where results are monitored and controlled, but the actual operations are autonomous (cf. Merchant 1985) and accordingly, the intensity of centralisation/decentralisation affects the role of accounting in the MCS. On the other hand, accounting can also help in managing the balance between centralisation and decentralisation as it can reinforce not only hierarchical but also lateral relations (cf. Busco et al. 2008).

The role of accounting and control systems is also highlighted in the case of mergers and acquisitions, which are a typical way of extending operations to foreign countries. Jones (1985) concludes that accounting type controls might become highly significant during the first few after an acquisition. In his study inappropriate changes in management accounting systems caused considerable undesirable effects. Granlund (2003) also suggests that in a merger, an accounting system plays an important role as an integrator of the firms. Roberts (1990), on the other hand, shows how accounting controls may also impede the development of a profitable longer-term strategy.

The case firms in this thesis represent different levels of intensity as multinational corporations. The firms have also used different strategies entering Russia and the Baltic countries: greenfield projects, joint ventures and acquisitions. The Bakery in the first and second essay has evolved from home country-centred to a stage where the operations abroad in neighbouring areas truly constitute a significant proportion of the business. The Dairy for its part has remained more focused on home country operations, but is gradually increasing the coordination of its total activities across national borders. The third case firm, Finparent (and its subsidiary Balticparent) operates locally in Finland and the neighbouring areas, but is a part of a true MNC operating in 27 countries in Europe and America.
3  Management Accounting and Control in the Former Soviet Union

Even though research on management accounting and control has started to investigate transitional economies (e.g. Firth 1996, Anderson & Lanen 1999, Vámosi 2000, Luther & Longden 2001, Szychta 2002), little is known about the operations of MNCs in these economies. However, MNCs themselves affect the transnational diffusion of management accounting and control practices (Firth 1996, Granlund & Lukka 1998) in environments where the economic and/or political background differs from that of Western countries. Therefore, the most important question for the MNCs is how these different structures can be reconciled within the organisation.

3.1  Accounting traditions from the Soviet era

The present literature provides descriptions of the special characteristics of accounting and management in Russia and the former Soviet Union. Whereas accounting has been an instrument for reporting to government and the tax authorities and the role of accountants has changed, also in parts of the Western world (see Burns & Baldvinsdottir 2005, Scapens 2005), the use of accounting differed somewhat in the Soviet Union. For example, accounting reports in the Soviet Union were prepared for the authorities to protect socialist property and fulfil the plans of the central administration – not for internal management (Enthoven et al. 1998). Thus compliance with the norms of the authorities became the most important matter in preparing the reports (Seal et al. 1995). Accounting was understood as bookkeeping and cost accounting was an integral part of financial accounting. Besides, accounting was cash-based and rested on controlled prices so that the data derived from the accounting system lacked any economic content and accounting was somewhat neutralised (Bailey 1995). Planning for the future and budgeting were also the tasks of a separate Planning Department, which was detached from accounting (Sokolov & Kovalev 1996, Enthoven et al. 1998). Thus, management accounting as a concept did not exist in the Soviet Union (Bailey 1995, Enthoven et al. 1998, Haldma & Lääts 2002). According to Taylor and Osipenkova (2003), the main obstacles to effective management accounting in Russia are the predominance of tax reporting, inadequate financial accounting standards and practices, managers’ poor understanding of the usefulness of accounting information, accountants’ mindset
and discomfort with accounting innovation and the weak relationship between managers and accountants. Overall the uses and users of accounting have traditionally been different from those of the Western world because of the effect of the Soviet Union (Solodchenko & Sucher 2005).

The number of internationally acknowledged studies on management accounting and control, with special reference to former Soviet countries is likewise still small. Southworth (1994) studied accounting in a Western-Soviet joint venture in Ukraine. He focused on the information needs of the Western partner to be able to manage the joint venture. He concluded that financial accounting information produced according to Western needs was not informative for the joint venture managers, but that the precise Soviet type information provided more information for decision-making even though Western ratios could not be calculated. Therefore, the results are similar to Sokolov and Kovalev (1996), who claim that Soviet type information can be parallel to Western information, even though accounting was organised differently in the organisations of the Soviet Union. Therefore, the problem may not be in the usefulness of local accounting information, but in truly integrating the disparate practices. Because of the fundamental differences, the situation is different from that in Granlund (2003), who found accounting to be an integrator in the merger of two Western firms, or that of Busco et al. (2008), who explored how the divergent goals of the different units in a global organisation can be integrated. In addition to Southworth’s (1994) study in Ukraine, Haldma and Lääts (2002) investigated managerial accounting procedures in Estonia. Based on the contingency framework they found that product costs were difficult to specify, since the cost centres were often broadly defined. On the whole, they found the use of management accounting information in Estonia rather unsystematic, compared to the Western practices.

3.2 Challenge of traditions to the management control systems

Despite the years since the dissolution of the Soviet Union, the transition takes time and traditions die hard. It is not only a matter of accounting; the overall business tradition in the area of the former Soviet Union differs from the Western model. For example, personal, informal connections, called blat, became important in the Soviet Union for getting some welfare beyond the formal structures of society (Ledeneva 1998, Michailova & Worm 2003, Hutchings & Michailova 2004). These connections have traditionally been more reliable than
formal structures (Engelhard & Nägele 2003). Even though blat nowadays easily has a negative connotation, as it is associated with bribery, traditional blat systems were based on positive reciprocal friendships and aid (Ledeneva 1998). These unofficial relationships cannot be set aside in business and they affect, for example, the role of audit in Russia (Sucher & Bychkova 2001, Sucher et al. 2005). Problems in knowledge sharing in former socialist countries are also often due to the traditional tendency to see knowledge as a means of power, which causes information hoarding and thus questions the appropriateness of empowerment (Michailova 2002). This applies to cost accounting as well, since it was used as a means of exercising power (Enthoven et al. 1998). In Hofstede’s (1983) cultural dimensions, these findings apply to long power distance and high collectivism. Elenkov (1998) notes that Russians do indeed seem to score higher on power distance and collectivism scales than their counterparts in the US, which could influence the organising of an effective MCS. For example, while Merchant et al. (1995) do not find that anticipated cultural differences affect the incentive systems of US and Taiwanese firms, O’Connor (1995) shows that power distance affects the usefulness of budget participation, which again has an effect on superior-subordinate relationships. Naturally, the findings in Russia cannot be generalised to the whole area of the former Soviet Union. Therefore, this thesis shows some differences in business between Russia and the Baltic countries (and between the Baltic countries). Even though Russia and the Baltic countries share the Soviet background, the cultural differences and their effects on business traditions have not yet been widely acknowledged in accounting research.

Because of the specialities presented above, people in MNCs operating in the former Soviet Union need to be conscious of the historical background and the challenges history poses to management control systems (cf. Engelhard & Nägele 2003). Western management accounting and control practices may not even be the most suitable ones in transitional circumstances (e.g. Firth 1996), as daily matters embody a considerable amount of implicit assumptions about social activities, structures and institutions (Giddens 1990: 113). These seemingly obvious presuppositions are no certainties in other circumstances where accounting meanings and business culture differ (cf. Arino et al. 1997, Michailova 2002, Fey & Denison 2003). Besides, the subsidiaries need to operate in an “institutional duality” complying with both the norms of the parent and the pressures of the local environment (Kostova & Roth 2002). This may also cause parent companies to adapt their MCSs to the constraints of the host location (Chow et al. 1999). The neutralisation of accounting and using informal blat to
bypass formal mechanisms of control in the Soviet Union indicate that accounting became detached from the actual operations. It is thus highly questionable if accounting in such and environment can be a common business language drawing different parts of the organisation closer to each other (cf. Robson 1992, Evans 2004). Besides, knowledge tends to be embedded in a specific context (e.g. Nahapiet & Ghoshal 1998, Lord & Ranft 2000, Bedward et al. 2003) and is thus translated in the interaction of the transfer process (cf. Latour 1987, Jones & Dugdale 2002). Therefore, it is important to note that as Ahrens (1996, 1997a, 1997b) shows, accounting can also be implicated differently in the processes of accountability. The implications depend on how true a picture accounting is supposed to give of operations, which again depends on the local business culture.

Controlling multinationals even without such significant differences between their environments requires intensive communication because of possible misunderstandings (e.g. Noerreklit & Schoenfeld 2000), but the need for cooperation in order to communicate and develop the MCSs in subsidiaries in the area of the former Soviet Union may be even more intense as the results of the essays in this thesis show. The intense communication and control in an MNC, however, may be organised differently. These differences also highlight interesting issues about using accounting as an intermediary in such a complex setting. Therefore, it is important to study the MCS as a total package rather than focusing on small parts of it, such as incentive systems (cf. Merchant et al. 1995). Tight accounting and financial controls may need complementary operational cooperation through a geographically closer subsidiary (third essay). The finance department can play a significant role in control and development in matrix structure through the controller (first and second essays), but on the other hand the control can be organised through non-accounting managers, meaning that the finance department only has a role in consolidating reports and reporting externally (second essay).
4 Research Design

4.1 Research questions

The purpose of this thesis is to investigate how Finnish firms, as examples of Western firms, control and steer the operations of their subsidiaries in Russia and the Baltic countries. The special focus is on the role of accounting and finance department in control and how the presupposed special requirements of the environment in the transitional countries can be met in the MCS. The thesis consists of three essays, which are based on case study methodology. Two essays (first and third) focus on one case firm and one presents a comparison between two cases (second).

The research question presented above is approached from different angles in the essays. This enables findings related to different aspects of the use of accounting and power within the MCS, which may also have implications beyond the context of the former Soviet Union. The first essay studies how management control procedures are transferred from the head office (HO) to the subsidiaries in Russia and the Baltic countries. The essay explores the changing role of accounting and how accounting translates in the process. The implications of the translation to the control system are moreover examined.

The second essay continues by exploring the role of accounting in the MCS and investigates the development of MCSs of firms operating in Baltic countries (and Russia). It shows how history and previous experience affect MCSs so that the same requirements are fulfilled by a differently organised MCS. Namely, the essay focuses on how family owners’ participation in the management is reflected in the role of individuals vis-à-vis financial department and accounting in management control and how the participation at least partly explains this development.

In the third essay, the special requirements of the transitional circumstances are confronted by investigating how an intermediate subsidiary can use accounting for its own purposes in the MCS. In so doing the intermediate seemingly buffers and dampens the dictates of the parent company, which explicitly trusts results controls.
4.2 Theoretical frameworks

All the essays in this thesis explore characteristics and change of management control systems and the role of accounting as an inscription (cf. Robson 1992). Accounting can be a mediator, even a translator which enables control at a distance (e.g. Kirk & Mouritsen 1996), as it makes operations visible (e.g. Ezzamel 1994). As the research questions presented above consider how the processes studied have occurred, the basic assumptions of theoretical frameworks used in illustrating the interesting aspects of these management control processes need to be of a subjectivist nature. Different frameworks, albeit with similar basic assumptions as will be elaborated below, are mobilised for this purpose in different parts of this thesis.

The first essay exploits the concept of knowledge translation that is based on Actor Network Theory (ANT) and especially on the work of Latour (1987, 1999). The idea is that no knowledge transferred can remain the same in the transfer process, but is translated in the network of human and technological actors (Jones & Dugdale 2002). This is because knowledge is not entirely explicit (e.g. Nonaka & Takeuchi 1995) and knowledge tends to be embedded into its context (e.g. Latour 1999, Augier et al. 2001). A specific knowledge translation framework (Choi & Eriksson 2001) is borrowed from the international business studies field to investigate the change of accounting and management control in a network of human and technological actors. The knowledge translation framework is aimed at exploring how parties learn from each other in an international business relationship. It implicitly combines learning barriers and facilitators (Palmer & Hardy 2000: 209) and the stages of inter-organisational learning (Levinson & Asahi 1995). The model also distinguishes between original and translated knowledge. The process of bi-directional translation consists of the interaction between past experience and present activities (cf. Bresman et al. 1999), which seems a plausible viewpoint when looking at transitional economies with different business history from the Western countries. The sociological roots of the framework are appreciated by supplementing the framework with the notion of social capital (Coleman 1988) to show that the development of social capital is connected to the need for control and the role of accounting in the MCS.

The second essay looks at the reflections of history and internal institutions in moulding the MCS (see David 1985, Arthur 1989, Scapens 2006). The theoretical framework is based on old institutional economics (OIE) (e.g. Scapens 1994). MCSs play a significant role in institutional thinking, as on the one hand they
maintain organisational routines that constrain behaviour and on the other themselves represent organisational routines as a product of human action (Giddens 1984, Barley & Tolbert 1997). Institutions are accordingly shown in the interplay of organisational roles, (formal) rules and (informal) routines, such as an MCS in the way things are habitually done (Burns & Scapens 2000, Busco et al. 2006, Lukka 2007). Institutions also embody social relations that are structured around the attribution of meaning (signification), value (legitimation) and power (domination) (Giddens 1984, Jones & Dugdale 2002). These social relations guide the mobilisation of power in the change (or stability) of management accounting and control (Hardy 1996, Burns 2000). This viewpoint is exploited to explain how the power of individuals in the development of MCSs can be reproduced. The viewpoint is thus related to the research on organisational cultures (Järvenpää 2007), as different organisational cultures as institutions provide different options for the mobilisation of power in the development of the MCS. For example, trust seems to play an important role in a family-led firm and reflects on the organisational structures such as the MCS (cf. Luhmann 1988, Tomkins 2001). This also leads to the different roles of finance departments in the case firms compared, even though both firms face the same requirements from their environments. The discussion on socially constructed trust also brings the theoretical standpoint of the second essay close to that of the first essay, in which the role of accounting is investigated in the construction of trust as a part of social capital (Coleman 1988).

While the work of Giddens (1984) is one basis of the theorisation of the second essay, the third essay exploits Giddens’ (1990) sociology of modernity in discussing disembedding and reembedding in MCS, i.e. how accounting translates local issues into global language. This again enables the global HO to control and act on the local subsidiaries at a distance (e.g. Robson 1992, Kirk & Mouritsen 1996). However, the accountability system is often used as a means for the head office to monitor and intervene in subsidiaries’ affairs rather than as a means to map the subsidiaries according to their own logic (cf. Kirk & Mouritsen 1996). This is because accounting communicates the social relations of the parent company (Giddens 1984, Jones & Dugdale 2002). This conceptualisation is utilised to show the role and power of an intermediate subsidiary in using accounting signifiers differently in discursive practices, thus moulding the accounting regime locally by blurring the power of accounting (Jones & Dugdale 2001).
All these theoretical baselines have also been used before for accounting studies, since the thoughts of ANT have been widely exploited (e.g. Robson 1992, Briers & Chua 2001, Mouritsen et al. 2001, McNamara et al. 2004), as have Giddens’ writings and OIE (Macintosh & Scapens 1990, Macintosh & Scapens 1991, Scapens 1994, Burns & Scapens 2000, Soin et al. 2002, Siti-Nabiba & Scapens 2005, Busco et al. 2006, Hyvönen & Järvinen 2006, Hyvönen et al. 2006). The viewpoints are also somewhat complementary and combinable ways of contemplating the change and development of MCS. For example, Jones and Dugdale (2001) have combined various works of Giddens. Jones and Dugdale (2002) have also coupled ANT with disembedding and reembedding. Greener (2002) for his part has suggested ANT as a complementary way to the institutional viewpoint for studying change and stability in social networks.

The complementarity of these frameworks can also be noted in reviewing their basic assumptions. As the social construction of reality is important for all the frameworks presented, they fit the subjective stance reflected in the research questions. Regarding the ontology behind the theories, subjectivism is shown in the centrality of a researcher in explicating the interactions and the processes of social constructing, which cannot be objectively measured. The research question of the first essay deals with knowledge transfer, which highlights the role of epistemological assumptions for interpretation. As explained above, according to Latour (1987), knowledge is translated in the interaction between human and non-human actors, which implies that knowledge is unique and related to a place and a situation. This is also reflected in the more detailed framework of Choi and Eriksson (2001), as knowledge becomes a product of past experience and present activities. Yet, their operationalisation of the concepts (which is also somewhat reflected in the first essay of this thesis) tends to be more straightforward and objectively oriented without fully studying the actual actions in the spirit of ANT. For Giddens (1984, 1990) knowledge is also clearly socially constructed, but the focus of his ideas is probably more on the assumptions about human nature. He presents people as knowledgeable agents, which would imply voluntaristic assumptions, but at the same time there are structures that both restrict/determine and enable the actions, which Giddens calls the duality of structures. Latour’s (1987) interaction between human and non-human objects can be interpreted to take a similar view of human nature as on the one hand humans can act voluntarily, but on the other there are non-human objects (surely created by humans) that determine the social construction. Considering these somewhat different, albeit fairly subjectivist foci of these frameworks, the choice of the
framework for each essay has been based on the special features of the case. The interesting contributions of each case can thus be highlighted by both illustrating some interesting issues with the help of the framework selected and using the empirical data and interpretations to refine those frameworks (cf. Keating 1995).

4.3 Methodology

The dominating methodology for studying management accounting and control in different cultural environments has been to measure cultural dimensions in a quantitative study (e.g. Birnberg & Snodgrass 1988, Harrison 1993, Chow et al. 1994, Merchant et al. 1995, O'Connor 1995, Chow et al. 1999). This type of research uses Hofstede’s (1983) cultural dimensions, i.e. individualism, power distance, uncertainty avoidance and masculinity. The line of research has been criticised for overconcentrating on the dimensional definition of culture, which is rather limited (Bhimani 1999, Harrison & McKinnon 1999). Because of the limited international management accounting research activity with regard to Russia and the Baltic countries, the research questions could not be highly specific and qualitative research methodology was chosen to answer the how-questions formulated. Besides, this methodology enables a richer set of viewpoints, thus going beyond the dimensional definition of culture, which may not capture all interesting differences existing between environments. The methodology has also been earlier used in some comparative cross-national studies on management accounting (e.g. Ahrens 1996, 1997a, 1997b, Kurunmäki et al. 2003). However, this thesis is not cross-national or cross-cultural as such, but is attached to the qualitative research of management control in MNCs (e.g. Quattrone & Hopper 2005, Siti-Nabiha & Scapens 2005), extending the investigation to a special environment that has so far attached only little research attention. For the purposes of this thesis it is important to note that accounting can embody different meanings in different business cultures (cf. Ahrens 1996, 1997a, 1997b), but studying MNCs differs from a pure cultural comparison, as the duality of institutions necessitates reciprocal adaptations which may somewhat dilute the cultural effects (Merchant et al. 1995, Kostova & Roth 2002). Nevertheless, the adaptations needed in the present context can highlight issues of organising the control system and using power within it, which may have wider implications.

When searching for the possible candidates for the research, Finnish firms having significant operations (production) in the area of the former Soviet Union
were sought and the final decision based on the firms’ consent to participate in this kind of research. Semi-structured interviews were used as a principal way of gathering data. Therefore, the themes of the interviews were initially defined, but the final content of the interview was only determined in the course of the actual interview. The primary data of the whole thesis totals 41 interviews in the three case firms conducted from June 2004 to April 2007. The first interviewee in each firm was the person responsible for management, accounting and/or control for the Russian/Baltic subsidiaries and other interviewees were then chosen in cooperation with the case firms. Thus the interviewees were people from the Finnish head offices and from the subsidiaries. In the early stages of the research the choice was made so that the knowledge transfer approach would be the preliminary point of view for gathering the data. Even though having a framework may cause bias, some kind of guidelines must be used as not everything can be observed (Atkinson & Shaffir 1998). Data gathering was carried out so that a similar approach was used in the first interview in all the case firms in order to enable comparisons. The first interview in each of the case firms elicited basic information about the company and its activities in transitional economies. Management control issues were divided into three groups: budgeting and planning, organising, and evaluation and rewarding, according to the grouping by Chow et al. (1999). Management control issues especially important in Russia and the Baltic countries and the effects of multinationality as a whole were also addressed. Later on the interviews in each of the case firms focused on their own special issues.

Synchronic and diachronic primary data source triangulation were used within the interview data (Pauwels & Matthyssens 2004). This meant interviewing various respondents on the same topic or the same respondents on a particular topic more than once. People outside financial department were interviewed in order to distate the interpretation from the solely financial viewpoint and local employees of the subsidiaries were interviewed to gain a comprehensive view of the MCS taking the local point of view into account. Except for two more informal conversations, the interviews were recorded and transcribed and the data collected at any point in time were reviewed and a preliminary analysis carried out before every subsequent interview. The interview data was also supplemented with secondary data in the form of observation notes made at the case firms and internal reports, memos and other material provided by the case firms. The secondary data also includes newspaper articles, official reports on business in Russia and Baltic countries and the industries of the case
firms. These were mostly used for confirming statements made by the interviewees. Further analysis of the interview data followed a path fairly similar to that in Dent (1991). Various readings and interpretations were constructed as various parts of the study progressed. The initial data were categorised and thoroughly scrutinised in different ways to identify patterns until the frameworks used in the essays started to reveal their usefulness for understanding those patterns. The categorisations comprised, for example, the guiding concepts of knowledge translation (as the preliminary view of gathering data), different elements of MCSs and contextualisation of those elements. In addition, new data were constantly checked against with the selected framework to ensure that similar patterns applied.

However, using case study methodology means that generalisations and general laws cannot be used for purposes of explanation; explanations can be based only on the specific circumstances of each case. However, the pattern model used in the explanations does not deny the existence of theoretical regularities. Only general laws, which transcend all social systems, are negated (Ryan et al. 1992: 119-120). Therefore, despite the subjectivist-oriented assumptions of the theoretical frameworks, the use of theories in this thesis as a whole does not solely represent any research paradigm, but straddles the line between subjectivism and objectivism. This is because theoretically generalisable interpretations with a reference to the theoretical framework and the current literature were sought from the subjectivist reality of the case firms (cf. Kakkuri-Knuuttila et al. 2008). Even though the interpretation is based on interview data and the perceptions of the interviewees (cf. Burrell & Morgan 1979), it provides a relevant view of a certain reality, as subjective perceptions are based on collective understandings (Carruthers 1995).

4.4 Contributions of the thesis

This thesis contributes to the literature in four main respects. First, even though it has been observed that Western type management accounting faces challenges in the former Soviet Union (Taylor & Osipenkova 2003), there is not much research concretely investigating these problems and their solutions in such a complex context. This thesis shows how MNCs can help in developing management accounting and control in the firms in those transitional countries (cf. Southworth 1994, Firth 1996) and what kind of a role accounting can play in the process, as accounting and operations need to be united. It also addresses some differences
between operating in the different countries of the area which are not necessarily related to technical and general control matters, such as incentive systems, but may include local needs for surveillance and guidance, for example because of the differences in power distance (cf. Merchant et al. 1995, Elenkov 1998, Michailova 2002). These local specialities also yield interesting general issues regarding the integration of MNCs\(^1\) with the help of accounting and MCSs as packages (cf. Busco et al. 2008).

Second, while the role of accounting as a mediator of knowledge transfer has been shown previously (e.g. Kirk & Mouritsen 1996, Jones & Dugdale 2001, Granlund 2003, Quattrone 2004), this study contributes to the literature by showing how social capital is created in the accounting-mediated knowledge translation process. Furthermore, the social capital developed enables HO’s control at a distance (cf. Robson 1992, Kirk & Mouritsen 1996). Therefore, the development of social capital explains the changes in the role of accounting in the translation process.

Third, this thesis enhances the understanding of the interplay between formal rules, roles and informal routines in the MCSs (cf. Busco et al. 2006, Lukka 2007) by showing how the power of an individual in the development of management accounting and control is reproduced. It illustrates the involvement of the power of institutions and that of individuals, as internal institutions provide options for central social positions that again can work around (formal) rules and (informal) routines actively affecting them and the relationship between them.

Fourth, the work explores the role and power of an intermediate subsidiary in the MCS, when the intermediate dampens the transfer of budgeting-related social structures from the Western parent firm to the subsidiaries in the former Soviet Union. Therefore, it shows how the intermediate subsidiary utilises its power and the role of accounting, giving different meanings for accounting in discursive practices. Even though the reports going to the parent are not decoupled from the local operations (cf. Siti-Nabha & Scapens 2005), accounting and operations are only detached by the discursive practices of the intermediate. Thus the present study contributes to the conceptualization of the accounting regime by Jones and Dugdale (2001) by showing how the power of accounting can be formed on the local level.

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\(^1\) These issues are elaborated in the following points.
5 Main Findings and Concluding Remarks

This thesis investigates the role of accounting in management control over subsidiaries of transnational Finnish firms. More specifically, the role of accounting is explored from different viewpoints in the context of the subsidiaries in the area of the former Soviet Union to highlight specialities of management accounting and control. This specific context renders it possible to make more general contributions regarding organising and power usage within MCSs as well as integrating firms with the help of accounting. The results show that the Finnish firms have had to allocate resources to teaching the locals the Western ways of operating and accounting. Thus, the results are in accordance with Firth (1996) in that Western firms can help in the development of management accounting in transitional economies. However, the results also show that the role of accounting differs in different stages of the operations and also in different firms. In contrast to Jones (1985), accounting was not important in the control system in the early stages of the cooperation. The firms found accounting information to be unreliable, as it was not prepared according to Western principles. Later on the translations from local principles to Western ones do not require much attention, even though the practices and especially the legislation have not totally changed even almost 20 years after the collapse of the Soviet Union. The thesis also shows how the requirements for control and accounting (and controlling accounting) differ between some countries in the area so that more guidance (because of apparently power distance) and surveillance (because of a sort of dishonesty) is needed in other nations while others seem to resemble more the Finnish way of doing business. More concretely, it seems that the Finnish firms are most suspicious of their Russian subsidiaries while the Estonians are felt to be the most familiar partners.

The first essay shows that accounting can mediate the knowledge transfer from the HO to the subsidiaries (cf. Granlund 2003, Quattrone 2004), but the role changes in the course of the process. At the very beginning the cooperation around accounting is emphasised in order to enable adequate reporting. However, informal communication and cooperation around the further development of accounting is more important for the control. Only after some time of intense informal cooperation and development of social capital in the accounting-mediated knowledge transfer can more formal accounting controls be relied on (cf. Tomkins 2001). The second essay, for its part, shows that the central social position of an individual can affect accounting and formal reporting in the control
system. The people in such social positions can mobilise different dimensions of power and thus mediate between the institutional realm and the rules and routines of an MCS as well as between the rules and routines and the consequent actions. (cf. Burns & Scapens 2000, Busco et al. 2006). The role of accounting in the control system can also be utilised by an intermediate subsidiary, which operates between its parent and subsidiaries, as shown in the third essay. The intermediate can rationalise its existence by reason of the untrustworthiness of the locals, so that trust in an accounting expert system is not enough in an environment where people are used to bypassing any rules. The intermediate subsidiary has power in presenting their own control to be looser by separating the results controls (by the parent) from the local operations, even though accounting is still used for different purposes in the operational cooperation between the intermediate and the subsidiaries. The intermediate can thus use accounting signifiers according to its own needs, legitimating its existence despite the inflexibility the multilevel organizational structure may cause. The findings support the argument that the power of accounting may be blurred (Jones & Dugdale 2001), although accounting remains the basis for legitimated behaviour and is not decoupled from the local operations (cf. Siti-Nabiha & Scapens 2005). This happens because the intermediate can invoke the tensions between divergent social systems.

Accordingly, accounting also has an important role enabling control of transnational or multinational firms operating in the area of the former Soviet Union. However, the transitional circumstances give rise to some specific requirements for communication and knowledge transfer, especially concerning accounting. The facilitator of the knowledge transfer (see Noerreklit & Schoenfeld 2000) can be, informal communication within a formal organisation structure, where the financial function plays a focal role (first essay), a powerful individual (second essay) or the discursive practices utilised by an intermediate subsidiary (third essay). Informal communication and personal relationships seem to be important especially in the early phases of cooperation, but they may retain their importance, presumably because of the Russian traditions of personal networking, blat (Ledeneva 1998, Michailova & Worm 2003, Hutchings & Michailova 2004).

As personal communication has an important role in the MCS package, the results of this thesis suggest that although accounting may not be enough to ensure effective control, it has a more important role than serving the MCS ceremonially. It becomes important in creating the order of how to proceed and also becomes constitutive also in the local practices (Quattrone 2004). Accounting
embodies Western business thinking, which it can introduce in other contexts, as more informal communication also occurs around it. Communication is also important, as differing accounting meanings (cf. Ahrens 1996, Ahrens 1997a, Ahrens 1997b) need to be at least to some extent reconciled to be able to cooperate within an MNC. It seems that adapting accounting practices to common needs becomes even easier when accounting controls are not too tight and accounting only has a secondary role in creating the rationales for actions (cf. Fogarty & Rogers 2005), as when accounting norms are inclusive, it may not require much but compliance with the reporting norms (which may be somewhat the case in the third essay). Therefore, in a context of substantial differences in business environments (or institutional clash as in Vámosi 2000) tight accounting controls seem to require tight complementary controls to ensure the reliability of accounting figures, whereas looser accounting control enables the softer development of business thinking. This also means that accounting not only helps in the integration of MNCs in the form of formal performance measurement systems (cf. Busco et al. 2008), but also more informally. Accounting is thus not only some social structure (or a non-human actor) that determines the construction of social systems. There are knowledgeable agents (human actors) who can use their power in moulding local accounting practices. Their power may emanate from the technical organisational structure (as the intermediate subsidiary in the third essay) or from the reproduction of the organisational culture (as in the second essay).

On the other hand, it may not even be ultimately self-evident, who learns from whom. As some evidence in the thesis suggests, the locals have adopted Western accounting and control practices and adapted them to their own environment. Since the transitional environments are fairly demanding, the accounting applications for these environments could also be of use elsewhere in the globalising world (cf. Dent 1996). The finding that accounting helps in mediating integration is not as such a new one (e.g. Granlund 2003, Busco et al. 2008), but in the present context it moves the study beyond the technical viewpoint (cf. Covaleski et al. 1996) suggesting that Western business thought helps firms in transitional countries to develop their management accounting. By contrast, the results of this thesis suggest that the interaction also goes the other way around in both such that accounting can advance business thinking and the local practices could give something back to the parent companies.

Finally, this thesis also raises further questions to be explored. First, as single cases are used for exploration, future research could extend the viewpoint and use
quantitative methods to reach statistically generalisable results. For example, comparison could be made to ascertain if the controls over Western subsidiaries and those in transitional economies differ from each other. Second, qualitative methodology could be further utilised to enhance the understanding of the role of accounting *vis à vis* the role of individuals in integrating MNCs. In addition, the role of accounting *vis à vis* the role of intermediate subsidiaries in the management control systems deserves further exploration in different contexts.
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THE ROLE OF ACCOUNTING IN MANAGEMENT CONTROL SYSTEMS OF FIRMS HAVING SUBSIDIARIES IN THE FORMER SOVIET UNION