STOCKHOLM SCHOOL OF ECONOMICS

Master Thesis in Accounting and Financial Management

The Challenges of Coordinating Internal Transactions within Multinational Corporations

– A study of how a Performance Management System both can manage and create tensions

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Abstract: A general challenge facing managers of multinational corporations (MNCs) is to coordinate internal transactions and to manage the tensions related to integrating the separate units involved in these transactions, to create global unity effort while at the same time leave space for local flexibility and adaptation. The purpose of this thesis is to explore why tensions evolve, from the integration of separate business units involved in internal transactions, and how the design and use of a performance management system (PMS) can manage or create tensions. To explore this, we have made an in-depth case study of the accounting and reporting transactions conducted by an internal service provider within a MNC. We have built on the framework presented by Busco et al (2008) covering the following tensions: vertical vs. lateral relations, standardization vs. differentiation of practices and centralization vs. decentralization of decision-making. This framework is extended by adding the role of different actors involved in internal transactions and the tension of market vs. hierarchical control.

One of our main findings is that the relational context not only involve vertical and lateral relations, but also tilted relations involving a tension between the core vs. the non-core units. Another main finding is that a PMS has a dual role, meaning that it does not only help in managing tensions, but that it also can create tensions, which is visible in market vs. hierarchical coordination. Based on these findings we develop an extended framework illustrating the challenges of coordinating internal non-core transactions in a MNC.

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Chapter 1. Introduction

A general challenge facing managers of MNCs is that of integrating separate business units to achieve the overall global corporate goals and strategies, while at the same time leave space for local responsiveness and flexibility (Busco et al, 2008). Moreover, due to the turbulence in the global economy and the recent financial crisis, cost cutting, efficiency and effectiveness have become increasingly important for multinational corporations (MNCs), in order to survive and maintain profitability in a competitive environment (Wenderoth, 2011). The MNC context creates management and coordination challenges due to its complex nature. This complexity is a result of inherent characteristics of MNCs like geographic spread, subsidiary diversity and different backgrounds of their many employees (Busco et al, 2008).

Roth & Kostova (2003) draw attention to a stream of management literature focusing on tensions inherent in the MNC context and argue that, "A particular distinction of the MNC context that should be explored further, concerns internal and external attributes of MNCs that present themselves as extreme competing pressures, choices, or tradeoffs." (p. 896). In line with this, Van der Meer-Kooistra & Scapens (2008) argue that, "The real challenge for accounting and management researchers is to understand how managers cope with the seemingly paradoxical nature of modern business relationships." (p. 382). Busco et al (2008) have added to this understanding by exploring the role of a performance management system (PMS) for managing the inherent tensions of, *vertical vs. lateral relations, standardization vs. differentiation of practices, centralization vs. decentralization of decision-making*, that arise from processes of integrating separate business units of a MNC. PMSs are described as, "…sets of practices that support processes of strategic decision making, planning and control." (p.104). As Busco et al's study from 2008 combines several tensions, it provides a holistic view on what tensions that a PMS should be able to cope with to help in the processes of integrating MNCs. We therefore, in line with Busco et al (2008), argue that their work provide the groundwork for further research into the role of management control related to the tensions inherent in processes of integrating separate business unit of a MNC to create efficient collaboration. Nevertheless, the question of why tensions actually evolve within MNCs and the role of PMSs in these integration processes need to be further explored.

The challenges related to integrating separate units of MNCs often involve internal transactions and these transactions involve different types of actors. There are three types of generic actors; top management, 'producing' units providing goods and/or services internally, and the 'using' units which are consuming these goods and/or services. The question of how to coordinate internal transactions can be a major issue for companies (Helden et al, 2001) and this study therefore aim to build further on the work of Busco et al (2008) by focusing on internal transactions to explore why tensions evolve and what role a PMS plays in these transactions.

The question of whether the different roles of actors involved in internal transactions impact why tensions evolve is not explicitly raised in previous research. We will in this study therefore explore this aspect. Another dimension that needs to be further investigated is the role of the PMS in place for coordinating internal transactions. Internal transactions can be coordinated in various ways, but typical non-core activities like accounting, IT and maintenance are to an increasing extent separated from the core activities. The concept of core competencies was established by Prahalad & Hamel (1990), and managers today are to an increasing extent considering releasing business units from non-core activities, either through outsourcing or by organizing them into a separate organization. The Global General Manager of an internal service provider within a Swedish MNC illustrates this trend, “We aim to deliver good administrative service and release the business units of these activities so that they can focus on their core.” (Global General Manager, ASAP). Internal transactions related to such non-core activities are increasingly coordinated in market-like ways, where *internal* ‘client-supplier’ relations are created (Vosselman, 2002). This type of coordination implies a mix of market and hierarchical coordination mechanisms. For example, the producing unit charges the using unit, like on a market, but top management of the MNC still has the hierarchical power to influence the transactions. Busco et al (2008) focus on how a PMS help in *managing* tension, but in line with Dent (1987) we argue that the design of formal controls also might *create* tensions. Therefore, we claim that to be able to fully understand the management control and coordination challenges of integrating business units involved in internal transactions, one cannot solely focus on how a PMS help in managing tensions. The aspect of how a PMS can *create* tensions must also be considered. To investigate this, we will therefore use the aspect of market vs. hierarchical coordination as a potential tension created by the properties of a PMS.

From this background, the purpose of this thesis is to explore why tensions evolve from the integration of different types of actors, involved in internal transactions in a MNC and how the design and use of a PMS can manage or create tensions. The research questions specifically highlighted are:

- *Why do tensions evolve from the integration of producing units, using units and top management involved in internal transactions in a MNC?*
- *How can the design and use of a PMS manage or create tensions?*

Note that we have labeled the generic actors as producing (instead of selling) unit and using (instead of buying) units. This is because we claim that internal transactions must not necessarily involve charging as in a traditional buying and selling transaction. Moreover, throughout this thesis we use Busco et al’s (2008) definition of PMSs, which is: “PMSs are sets of practices that support processes of strategic decision making, planning and control.” (p. 104).

1.1 Delimitation

We have chosen to focus on gaining a deep understanding of the management control challenges related to integrating separate business units involved in internal transactions within MNCs, instead of getting a broader but less deep understanding. This is because we argue that the deeper knowledge is crucial for grasping the complexity of the MNC context and the interrelatedness between the units within it.

To explore our questions, we will therefore make an in-depth case-study of the management control challenges related to the internal transactions produced by the internal shared service organization *Advanced Service and Administration Provider (ASAP)* within the Swedish MNC which we choose to call *the Group*. The main focus of this case study is on the PMS managing the internal accounting and reporting transactions produced and provided by the producing unit, *ASAP Finance*. The other actors included in this study is the top management and the units using ASAP Finance’s services within the Group.

1.2 Outline

Chapter 2 of this thesis covers previous literature which serves as the base for the chosen theoretical framework presented at the end of this chapter. Chapter 3 describes the methodology and its implications on the quality of the study. Thereafter, in Chapter 4, our empirical findings will be presented. In Chapter 5, the analysis will combine the theoretical framework and the empirical findings. Finally, the conclusions, managerial implications and suggestions for future research are presented.

Chapter 2. Previous research

This section will describe and discuss the theories behind the chosen theoretical framework for this thesis. First, we will elaborate on management control and the related tensions in a MNC context. Secondly, we will add the perspective of market and hierarchical coordination, which is based on the theory of transaction cost economics. In the final part, we will combine the discussions of the previous research and develop the theoretical framework for this thesis.

2.1 MNCs and the related tensions

Distinctive characteristics of the MNC context are for example physical distance, diversity of cultures and languages, multiplicity of environments and organizational complexity (Busco et al, 2008; Roth & Kostova, 2003). These characteristics increase the complexity of coordination and management control. Furthermore, like mentioned previously, the MNC context often involves competing goals, tradeoffs, paradoxes or tensions (Roth & Kostova, 2003). Roth & Kostova (2003) argue that such tensions for example include centralized vs. decentralized decision-making, worldwide integration of activities vs. local responsiveness and standardization vs. differentiation of processes. Busco et al (2008) specifically draw attention to the general challenge facing managers in MNCs of integrating separate business units to achieve global corporate goals and strategies, while simultaneously leave space for local responsiveness and flexibility.

Much prior research has focused on how to resolve tensions. For example, transfer pricing literature has traditionally focused on finding 'optimal' transfer pricing solutions to solve the problem of managers taking decisions unbeneficial for the corporation as a whole (Busco et al, 2008). In traditional transfer pricing literature, including the one based on transaction cost economics, the tension between the interest of the individual business unit and the MNC as a whole are solved through the design of a transfer pricing system (Helden et al, 2001). This literature outline two alternative ways of creating goal alignment. The first alternative is to give the business unit full autonomy and responsibility for their profits and the transfer prices are market based. The other alternative is to centralize the decision-making and steer through budgets and cost-based transfer prices. Helden et al (2001) have however found that transfer prices can be used to increase communication and cooperation between business units and that the objective with using transfer prices to coordinate internal transactions is not always to find an 'optimal' transfer pricing system to resolve the tension between conflicting interests. In line with such findings, Busco et al (2008) draw on previous research arguing that tensions should be *managed* instead of solved. Within MNCs, it is claimed that tensions, "…are inevitable and have to be managed through processes of integration..." (Busco et al, 2008, p.105). They highlight the importance of managing contradictory or "…'oppositional forces' involved in these processes of integration" (p.122) and add the perspective of management control by specifically focusing on the role of a PMS to manage these tensions. Integration is defined as, "…the effective collaboration, among diverse organizational entities, which is necessary to achieve a global unity of effort, while at the same time leaving space for local adaptation, differentiation and flexibility." (p. 104).

Previous research has in different ways highlighted the need for balancing and managing contradictory organizational characteristics and goals through the use of management control (e.g. Busco et al, 2008; Mundy, 2010; Simons, 1995). Simons (1995) and Mundy (2010) focus on the importance for organizations to balance controlling and enabling uses of management control systems. Simons (1995) makes a valuable contribution to the aspect of use and not only design of different control mechanisms. He highlights that the same control mechanisms can be used both diagnostically and interactively. Moreover, Ferreria & Otley (2009) argue that a cornerstone of PMS is how different control mechanisms are used and that the use of PMSs can be more significant than the formal design of the system. Dossi & Patelli makes a similar case in their study from 2008 arguing that more attention should be devoted not only to the design of control metrics, but also to how these are communicated and used within MNCs. Busco et al (2008) also focus on use, by exploring how the use of a PMS of Nestlé Waters helps in managing the tensions evolving from processes of integrating the separate business units in this MNC.

Busco et al (2008) build their study on three tensions, highlighted by previous research, characterizing processes of integrating separate business units within MNCs. They argue that these tensions are inherent in the very nature of MNCs, rather than representing paradoxes. The three tensions highlighted are; (i) vertical vs. lateral relations, (ii) standardization vs. differentiation of practices and (iii) centralization vs. decentralization of decision-making (Busco et al, 2008). They argue that these previous studies focusing on the issue of management control and the related tensions within MNCs (e.g. Quattrone & Hopper, 2005; Van deer Meer-Kooistra & Scapens, 2008; Busco et al, 2006) have only covered one tension in isolation instead of combining them. Busco et al (2008) combine these tensions to give a holistic view on how a PMS can be used to manage the tensions evolving from integrating separate business units of MNCs (see Figure 1). Hence, we argue that this holistic framework developed by Busco et al (2008), is a good point of departure for exploring why tensions evolve in MNCs. Below the tensions identified by Busco et al (2008), as inherent in the processes of integrating separate business units of a MNC, will be described in more detail.

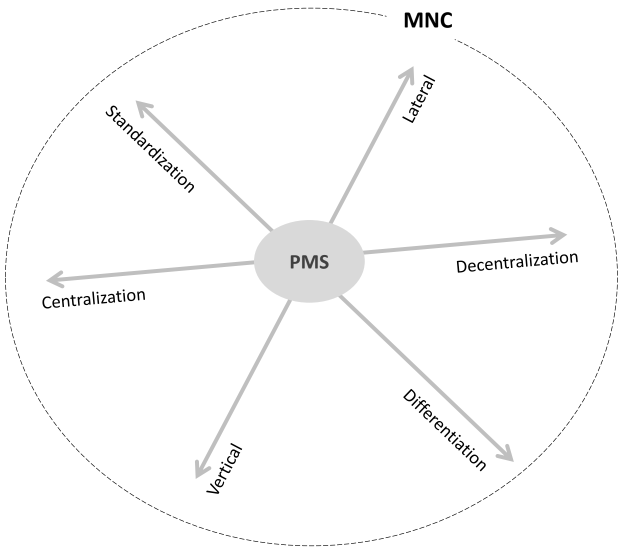


Figure 1. Own illustration of Busco et al’s (2008) framework of tensions inherent in the processes of integrating separate business units within a MNCs and how a PMS can help in managing these tensions.

2.1.1 Vertical vs. Lateral relations

The vertical vs. lateral relations are concerned with the relationships between headquarters and the subsidiaries, and the relationships between different subsidiaries, respectively (Busco et al 2008). Busco et al (2008) argue that to be able to fully understand the integration processes within MNCs, one must go beyond the vertical relations, and consider the whole relational context of the MNC in terms of *both* vertical and lateral relationships.

Busco et al (2008) describe vertical relationships as characterized by clear superior-subordinate relations, i.e. distinct hierarchies and they determine the level of centralized power. Organizations with strong headquarter-subsidiary relations traditionally are characterized by vertically driven information flows where coordination is attained through the headquarters. The subsidiaries might as a result be less willing to exchange information, since lateral ties are not encouraged (Busco et al, 2008). In decentralized organizations, on the other hand, where power and authority are more dispersed and the information flow does not solely run through the headquarters, it could therefore be argued that there is more room for direct interactions between subsidiaries which can support lateral information exchange (Busco et al, 2008). Nonetheless, Busco et al (2008) find that through the use of an integrating PMS mechanim, central or vertical control from the headquarters does not necessarily hamper lateral information exchange, but that it actually can enable interaction among subsidiaries.

Busco et al (2008) highlight that in addition to vertical relations, several researchers have found that lateral relations within MNCs have become increasingly important to consider. An increasing need for greater flexibility has replaced vertical relations and centralized power and authority, with more complex relationships within matrix and network structures (Busco et al, 2008). Van der Meer-Kooistra & Scapens (2008) highlight such complexity and describe lateral relations as relations between hierarchically relatively equal parties which are highly interdependent. Dent (1987) states that if knowledge within an organization is decentralized, this knowledge needs to be drawn together to enable an optimal set of practices to emerge for an organization as a whole. He further argues that, knowledge sharing can be facilitated not only by vertical information flows and relations, but also through lateral relationships coordinated both by formal and informal mechanisms. Van der Meer-Kooistra & Scapens (2008) also argue that informal mechanisms are important in lateral relations. This is because, in lateral relationships the cooperating parties may have different interests and motives and since no direct hierarchical control can be exercised there is a risk associated with having to rely on each other (Busco et al, 2008). As a result, lateral relation requires more informal and relational control mechanism, such as trust, between different units to ensure efficient cooperation (Van der Meer-Kooistra & Scapens, 2008). They therefore claim that lateral relations involves cooperation and coordination, rather than command and control.

2.1.2 Standardization vs. Differentiation of practices

In MNCs conflicts regarding practices and routines between culturally diverse groups are unavoidable (Kilduff, 1992). Busco et al (2008) stress that in order to attain coordination in the MNC context, there needs to be some degree of standardization, i.e. convergence towards a common set of practices to facilitate communication and knowledge transfer. Nonetheless, differences in national and business cultures require management practices to be adapted to the local culture (Newman & Nollen, 1996). Consequently, the MNC context requires both *standardization and differentiation of management practices* (Busco et al, 2008). Newman & Nollen (1996) illustrate this need for both standardization and differentiation by saying that, “Big Macs are the same around the world, but McDonald’s management practices should not be.” (p. 753). Standardization means similar preferences and practices across countries, while differentiation means safeguarding cultural differences that affect how activities and processes are conducted on the local level (Busco et al, 2008). Vance (2006) argues that standardization and differentiation are not alternative or competing forces, but should rather be considered as interdependent forces that must work together to build global synergies. Furthermore, Vance (2006) highlights that standardization and differentiation can take place at different hierarchical levels. For example, strategic decisions taken at headquarters may require global convergence, but the decisions which implement those strategies at the local level may allow divergence through local adaptation.

2.1.3 Centralization vs. Decentralization of decision-making

Centralization vs. decentralization of decision-making is concerned with the extent headquarters assign decision-making power to subsidiaries (Busco et al, 2008). Busco et al (2008) state that the conflict that arises between centralization and decentralization is grounded in the MNCs wanting to leverage their competitive advantage, and therefore need to introduce a certain degree of centralization and coordination, while at the same time they want to be able to adapt to local conditions where decentralization and local autonomy is required. This is often referred to as the dilemma of global integration vs. local responsiveness (Busco et al, 2008).

Traditionally it has been assumed that the appropriate level of centralization and decentralization can be decided in advance of action, i.e. deterministically planned and implemented (Busco et al, 2008). Quattrone & Hopper (2005) however challenge that the choice between centralization and decentralization is a conscious decision taken prior to action. They argue that it misrepresents how hierarchies and order are achieved, since power structures are complex. Furthermore, Quattrone & Hopper (2005) study changes in loci of control, rather than try to identify a specific center that exerts power. They hence argue that power distribution is not static and that multiple centers of power can emerge in a MNC. Quattrone & Hopper (2005) moreover discuss that the traditional hierarchical organizational structures with clear boundaries for decision-making are changing and that boundaries are becoming increasingly blurred. An example of such blurred boundaries is illustrated in the case study made by Dent (1987). The well-known controllability principle says that managers should be accountable for activities within their formal authority, but Dent's (1987) case study shows that this principle is not always applicable and that overlapping accountabilities might exist in modern organizations. We argue that it is important to grasp this complexity and that organizational boundaries are blurred, both between and within MNCs, to be able to understand how decision-making power is distributed and why tensions might evolve.

2.1.4 Managing or creating tensions – the role of a PMS

Busco et al (2008) find that informal control and trust is of high importance in processes of integrating separate business units of MNCs and they argue that the tensions within a MNC create a relational context that influences, "…the distribution of power and authority, the distance between the center and the peripheries, the level of information exchange and knowledge sharing, and the tendencies towards global uniformity and local adaptation." (p. 108). The findings in Busco et al's (2008) study highlight the relational aspect as an important component in the process of integrating different units within a MNC. The case of their study shows that the successful relationship between the different business units was thanks to mutual dependence and knowledge sharing grounded in a feeling of trust for one another. They argue that a PMS can be used to bind together geographically and organizationally diverse entities when integrating strategies and organizational structures. But, the formal PMS is not enough to manage the tensions involved in the process of integration, as they have to rely on informal mechanisms, which requires a certain degree of trust between units (Busco et al, 2008).

In this thesis we aim to further explore the challenges related to coordinating internal transactions within a MNC. We aim to build on the work of Busco et al (2008) by adding an additional perspective to the relational context of a MNC by exploring if the role of different actors involved in internal transactions might impact why tensions evolve. Moreover, the study by Busco et al (2008) focuses on how a PMS help in *managing* tensions, while Dent (1987) argues that the design of formal PMS mechanisms also might *create* tensions. Hence, we argue that it is important to further explore the potential dual role of a PMS for coordinating internal transactions, of both managing and creating tensions. Internal transactions in the form of non-core activities (e.g. accounting, IT and maintenance) are increasingly coordinated in market-like ways, and thereof *internal* ‘client-supplier’ relations are created (Vosselman, 2002). The development towards more market-like coordination is often carried out with the objective to increase the efficiency of transactions, while keeping hierarchical control over the transactions, since they are conducted within the boundaries of the corporation. We will add the market hierarchy perspective, grounded in transaction cost economics theory, to explore the question of whether the choice of how mechanisms in place for coordinating internal transactions are designed and used might create tensions.

2.2 Choosing coordination form for internal transactions – a transaction cost economics approach

In transactions cost economics the polar types of coordination forms are markets and hierarchies and in between these there is a continuum of different hybrids (Richardson & Kilfoyle, 2009; Williamsson, 1979). Much previous transaction cost economics research has provided insight to choices of coordination forms of inter-firm relationships (e.g. Dekker, 2004; Van der Meer-Koistra & Vosselman, 2000, 2006). Vosselman (2002) has however also showed that transaction cost economics can be useful for understanding intra-firm relationships and has developed a set of management control archetypes. We will start by giving a brief background of transaction cost economics theory to be able to understand the generic management control archetypes developed by Vosselman (2002) which predicts that the efficiency of different coordination forms depends on the nature of the transactions it is supposed to coordinate. A management control archetype is defined as, “…a characteristic, discrete configuration of control devices that is descriptively and theoretically representative of a significant group of observable management control structures and practices.” (Speklé, 2001, p. 427). Note that the coordination forms discussed below are a part of what we see as a PMS, i.e. sets of practices that support processes of strategic decision making, planning and control.

2.2.1 Transaction cost economics

Transaction cost economics analysis covers the ‘make or buy’ decisions, i.e. asks which activities should be performed in-house, which should be outsourced, and why (Williamson, 1981). This question, Williamson (1981) argues, is the criteria for defining the so called, efficient boundaries of an organization. The idea is that an organization or firm is created if it is able to complete transactions at a lower cost than the market (Richardson & Kilfoyle, 2009). Coase (1937) was one of the earliest raising this question of what determine the boundaries of a corporation.

Williamson (1975, 1979) took the transaction cost economics ideas further by suggesting that the market and the hierarchy are alternative coordination forms, involving different transaction costs depending on the nature of the transaction. Such transaction characteristics are idiosyncrasy of investments, frequency and volume, and uncertainty and complexity (Williamson, 1979). For example, the greater the uncertainty and complexity of transactions, the higher the market-related transaction costs will be. Such transaction costs evolving in the market, relates to for example finding a suitable contract party and also the cost of controlling that contracts are followed properly (Vosselman & Van der Meer-Kooistra, 2006). Hence, if these transaction costs are high enough they provide arguments for placing transactions within the boundaries of a firm, i.e. a hierarchy. This type of reasoning, leads to the hypothesis that transactions will be allocated to particular coordination mechanisms to minimize transaction costs (Richardson & Kilfoyle, 2009). The polar coordination forms of market and hierarchy are however only theoretical archetypes and like several other researchers have highlighted (e.g. Speklé, 2001), market mechanisms can be found in hierarchies and hierarchical control might be found in markets. Nevertheless, the generic coordination forms of markets, hierarchies and the intermediate hybrid forms, require a short presentation.

The market-hierarchy continuum

Price, competition, self-interest and formal contracts are the main coordination mechanisms in a *market* (Adler, 2001; Thompson, 2003). Williamsson (1979) describes the market as, "…the classic nonspecific governance structure within which 'faceless buyers and sellers […] meet […] for an instant to exchange standardized goods at equilibrium prices.'" (p. 248). Adler (2001) provides a similar description of the 'perfect' market arguing that prices are the main coordinating mechanism of markets. "The market form, […], relies on the price mechanism to coordinate competing suppliers and anonymous buyers. […]. The dynamics of competition, supply, and demand lead to a price at which social welfare is Pareto optimal (that is, no one's welfare can be increased without reducing someone else's)." (p. 216).

In a *hierarchy*, characteristic coordination mechanisms are authority, bureaucracy and administration (e.g. Adler, 2001; Thompson, 2003; Vosselman & Van der Meer-Kooistra, 2006). Minnaar & Vosselman (2011) argue that, "One of the key features of a hierarchy is that it includes management control …" (p. 2), including performance evaluation and rewards, aiming at influencing behavior to facilitate the implementation of an organization's strategies. Hence, the market mechanisms are replaced with management control systems or PMSs in a hierarchy. In hierarchies, the management group will try to prevent and fight opportunism. This is facilitated by the hierarchy's ability to avoid conflicts of interests and to overcome information asymmetry (Vosselman & Van der Meer-Kooistra, 2006). Nevertheless, a hierarchy also creates costs due to the need for information processing, coordination and control. Vosselman & Van der Meer-Kooistra (2006) argue that because of the lack of market forces, "there is the risk of over-bureaucratization and inefficiencies" (p. 321).

In addition to the extremes of markets or hierarchies, there are *hybrid coordination forms*. Dekker (2004) describes the hybrid as an intermediate coordination form including all types of exchange mechanisms between the polarities of the market and the hierarchy. It has been argued that trust is an important control mechanism in hybrid coordination forms (e.g. Adler, 2001; Vosselman & Van der Meer-Kooistra, 2000, 2006; Van der Meer-Kooistra & Scapens, 2008). Adler (2001) states that trust dramatically can reduce transactions costs by, "…replacing contracts with handshakes…" (p. 219). Van der Meer-Kooistra & Vosselman (2000) stress that trust is of high importance in situations with high levels of uncertainty and strong dependencies between cooperating parties, like in hybrids. However, trust is not the only control mechanism present in hybrids.

2.2.2 Management control archetypes

Like mentioned above, Vosselman (2002) has showed that transaction cost economics can be useful for understanding intra-firm relationships and the coordination of internal transactions. Inside organizations there is a tendency to concentrate and centralize the execution and control of certain activities and this development is particularly visible for support activities, like IT, accounting and maintenance (Vosselman, 2002), which is in line with the trend highlighted previously of separating core and non-core activities. Vosselman (2002) argues that this tendency requires an understanding of management control related to horizontal relationships, adding to the traditional vertical management control theory. He therefore develops horizontal archetypes of management control. These horizontal management control systems are described as encompassing packages of agreements, including for example internal prices, quality, speed and punctuality (Vosselman, 2002). When the service activities are concentrated, horizontal archetypes of management control arise due to the creation of ‘client-supplier’ relationships (Vosselman, 2002). “By creating lateral client-supplier relationships top management *horizontalises* management control.” (Minnaar & Vosselman, 2011, p. 6). The horizontal archetypes thus distinguishes between producing and using units, referring to the producing units as ‘suppliers’ and the using units as ‘clients’. Moreover, Vosselman (2002) argues that this creation of ‘client-supplier’ relationships, decreases the need for vertical control, although top management still will be influencing the service provider (i.e. the producing unit) and the transactions between the service provider and the clients. Also, according to Vosselman (2002) an important design element of horizontal management control systems is that the users of the services financially compensate the service provider. This could be viewed as an argument for using a certain degree of market coordination for the relationship between the service provider and its users, although it is not argued that it has to be market-based prices. In a pure market, prices contain all the information and incentives needed to create efficient transactions and use of resources, but when internal ‘client-supplier’ relations are created, weaker forms of market mechanisms might be used, creating a need for other information like for example quality or punctuality (Vosselman, 2002). Hence, this creation of internal ‘client-supplier’ relations leads to a broader notion of management control, also including market-like mechanisms (Minnaar & Vosselman, 2011).

Captive-, Free- and No buying & selling

The two main horizontal management control configurations, outlined by Vosselman (2002), for coordinating service transactions are free buying and selling and captive buying and selling. The *Free buying and selling* archetype hand involve the most market-like coordination mechanisms and include the sub-groups of outsourcing and external buy-out. Outsourcing is the extreme horizontal management control archetype on the market-side of the market-hierarchy continuum, since it is an autonomous and external service provider. An external buy-out is the option where the service provider is concentrated outside the boundaries of the firm. However, top management still has the power to control the transactions, i.e. there is still a hierarchical mechanism in place even though a relatively weak one (Vosselman, 2002). *Captive buying and selling* means that internal service providers and their customers are not allowed to use external suppliers, even though the producing unit charges the using units. According to Vosselman (2002) this archetype complements the horizontal coordination mechanisms of for example internal charging, with relatively much vertical control. Therefore, the market mechanisms do not play an important role in influencing the efficiency and effectiveness of producing units’ performance. The using units get the incentives from vertical management control systems within the organization to influence the performance of the producing units, instead of getting incentives from competitive forces in the market, where the using units might be able to buy the service at lower costs. In addition to these horizontal archetypes, Vosselman (2002) presents traditional *vertical* management control configurations characterized by stronger hierarchical control compared to the horizontal archetypes, which we call the *No buying and selling* archetype, since no internal charging is used for coordinating these transactions. To illustrate Vosselman’s (2002) reasoning we have outlined these management control archetypes on the market-hierarchy continuum (see Figure 2).

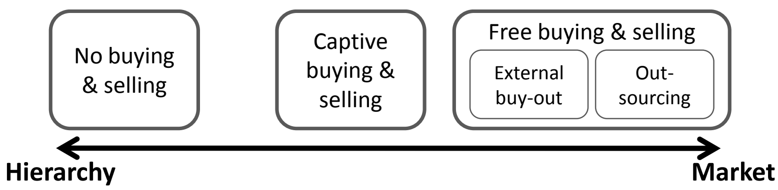


Figure 2. Management control archetypes transactions, placed on the transaction cost economics market-hierarchy continuum (Based on Vosselman (2002)).

Minnaar & Vosselman (2011) use Vosselman's (2002) archetypes, theorizing around management control structure change for service transactions, from a transaction cost economics perspective. Like mentioned, they broaden the concept of management control to also include market mechanisms and they argue that the transaction cost economics approach can guide managers into rational behavior. They argue for the possibility to introduce a market mechanism in the management control of an internal service organization, highlighting that this can be viewed as a move towards a hybrid coordination form, between the market and the hierarchy.

According to Vosselman (2002), the choice of management control structure is dependent on three dimensions of transaction characteristics presented by Williamson (1979): the nature of transactions (idiosyncrasy), the volume and frequency of transactions, and the level of uncertainty and complexity of transactions. Depending on the characteristics of the service transaction, different management control structures for different transactions are proposed, in order to secure efficiency. In the case of *standardized transactions*, Vosselman (2002) argues that the market mechanism will work at a rather low cost. In other words, for standardized transactions with occasional to recurring frequency and volume, market-like coordination is rational and efficient according to this reasoning. Hence, free buying and selling in terms of external buy-out or outsourcing can be expected to be in place for coordinating and controlling the transactions. Top management can hence choose to establish a market mechanism, i.e. establish an exit threat to the producing unit giving the users the opportunity to use an external service provider, dependent on the transactions fit with the three dimensions, i.e. characteristic of the transaction, frequency and volume and degree of uncertainty and complexity. The rationale behind this Minnaar & Vosselman (2011) argue is that the market mechanism put pressure on the managers of the producing unit, "…to further improve the price-quality ratio of the services." (p. 27). Less standardized transactions or *customized transactions* are predicted to have less market coordination. More customized transactions probably will involve both horizontal and vertical management control implying captive buying and selling as the rational management control structure. *Highly specialized and complex transactions* should not involve horizontal management control according to Vosselman (2002). Instead he argues that it is rational to organize such transactions in a decentralized manner.

The tensions discussed in the previous section are characterized by two extremes which needs to coexist to create effective collaboration between separate business units of a MNC. The management control archetypes outlined by Vosselman (2002) also involve two extremes of market and hierarchical coordination inherent in the PMS design. The extreme coordination forms can be combined in different ways depending on the characteristics of the transactions it is supposed to coordinate. Therefore, the market-hierarchy continuum provides a basis for a potential additional tension arising from mixing market and hierarchical coordination. Like mentioned, the creation of internal 'client-supplier' relations can therefore be a source for creating this tension, since they involve both market and hierarchical coordination. These type of relationships are visible in the captive buying and selling structure and the free buying and selling structure of external buy-out.

2.3 Theoretical framework

To explore why tensions evolve from the integration of the different types of business units, involved in internal transactions, in a MNC and how the design and use of a PMS can manage or create tensions our theoretical framework departures from Busco et al's (2008) three tensions. Like mentioned above, these tensions are vertical vs. lateral relations, standardization vs. differentiation of practices and centralization vs. decentralization of decision-making. We further use Busco et al's

(2008) definition of a PMS which is; "PMS are sets of practices that support processes of strategic decision making, planning and control." (p.104). We nevertheless claim that this framework needs to be further developed to fully grasp the complexity of coordinating internal transactions within MNCs.

First, we extend the framework by distinguishing between different types of actors involved in internal transactions within MNCs, that is to say, top management, producing units and using units. We argue that this is important to gain further understanding of the relational context of a MNC. This is done to explore why tensions evolve from the integration of the different types of business units, involved in internal transactions in a MNC and how the different roles of the actors might impact these processes.

Moreover, Busco et al (2008) focus on how a PMS can help in *managing* tension, but in line with Dent (1987) we argue that a PMS, also might have another role of *creating* tensions. The trend of, creating internal 'client-supplier' relations in the coordination of internal transactions implies a mix of market and hierarchical coordination in a PMS and could be seen as potentially creating a tension when the different coordination forms are combined. Hence, in addition to the different types of actors we will also add the market hierarchy perspective, to explore the potential dual role of a PMS, of both managing and creating tensions. (See Figure 3). Note that the archetypes for management control structures outlined in Figure 2, are embedded in the potential tension between market vs. hierarchical coordination.

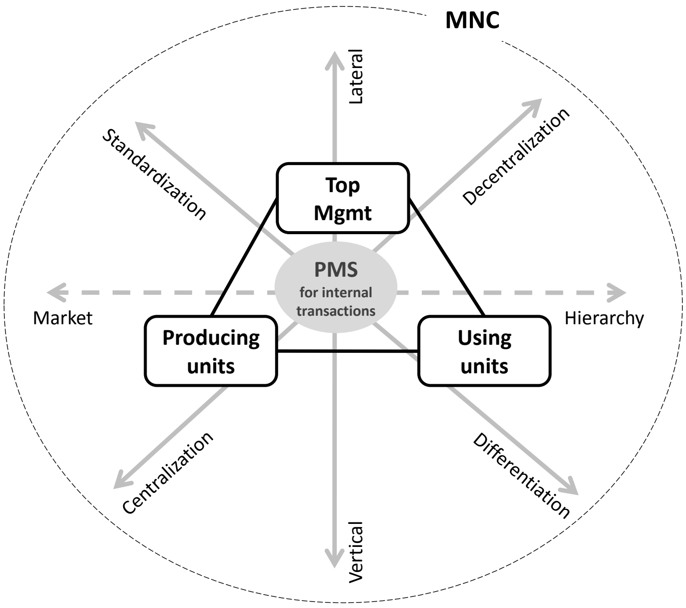


Figure 3. The theoretical framework departures from Busco et al's (2008) three tensions; vertical vs. lateral relations, standardization vs. differentiation of practices and centralization vs. decentralization of decision-making. We have added the different types of actors involved in internal transactions to further explore why tensions evolve from the integration of the different types of business units, involved in internal transactions in a MNC. The potential tensions of market vs. hierarchical coordination is added to explore how the design and use of a PMS can manage or create tensions.

Chapter 3. Methodology

In this chapter we will describe the methodology used in this thesis as well as motivate why it was chosen, to provide the readers with means to judge the reliability and validity of the study. We will start by covering the different elements of our research approach. This will be followed by a motivation of the selection of our case. Thereafter, our research process will be presented. Finally, the data collection process and the quality of research will be discussed.

3.1 Research approach

In-depth case study

We have chosen a single in-depth qualitative case study as the empirical method for the purpose of this thesis. The need for case studies arises out of the aspiration to understand complex social phenomena and the method allows investigators to maintain the holistic and important characteristics of real-life events (Yin, 2009). According to Dubois & Gadde (2002), "The interaction between a phenomenon and its context is best understood through in-depth case studies." (p. 553). This is because the case study approach offers an understanding of , "…a contemporary phenomenon in depth within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin, 2009, p. 13). We aim to explore the phenomenon of coordinating internal transactions and the related tensions in a MNC context, which imply blurred boundaries since the transactions and the tensions can be viewed as part of, or intertwined with the MNC context. Thus, the case study approach seems appropriate.

To be able to assess and evaluate the operation of management control systems they must be placed in its wider context, which is an additional reason for adopting a case study approach (Otley & Berry, 1994). As we aim at understanding how a PMS is designed and used to manage or create tensions evolving from the process of integrating the separate business units of a MNC, this provides further argument for adopting the case-based approach. Furthermore, the purpose of this thesis is to explore *why* tensions evolve from the integration of a producing unit, the using units and top management involved in internal transactions in a MNC and *how* the design and use of a PMS can manage or create tensions. This also support our choice of the qualitative case-study approach, since Yin (2009) argues that when 'why' and 'how' questions are being asked the case study method is a suitable method.

In the management control field, a central role of the case study is exploration, i.e. going beyond sheer description towards explanation (Otley & Berry, 1994). They argue that the case study can help in generating and modifying theory in the light of data, which is especially valuable when existing theories are incomplete or only partially explains the phenomena studied. Since this study attempts to build further on the work of Busco et al (2008) and explore why tensions evolve from integrating the different units of a MNC involved in certain internal transactions and how the design and use of a PMS can manage or create tensions, the exploratory approach will help in building further on the existing theories regarding coordination and management control of certain internal transactions in the context of MNCs and the related tensions.

Although, a common concern regarding the use of the case study approach is that they provide little ground for scientific generalization (Yin, 2009), this approach is the most suitable for this study. This is because case studies provide the opportunity to handle situations where there are many variables of interest and it relies on multiple sources of evidence. Further, we argue that the *single* in-depth case study provides the best possibility to fully explore the complexity of managing transactions and the tensions related to integrating the different units involved in these transactions within MNCs. When the research problem is heading for analysis of a number of interdependent variables in complex structures, like in this study, Dubois & Gadde (2002) argues that the natural choice is to go deeper into one case instead of increasing the number of cases. Hence, we have chosen to aim for depth by doing one single case study instead of width by doing a multiple case study. A qualitative approach provides a deeper understanding of the problem and the related complexity compared to a quantitative approach (Andersen, 1998). For this reason we focus on qualitative evidence.

An embedded case study design

Like argued above, the single in-depth case study is an appropriate choice for this thesis. Yin (2009) however argues that within the single case, there are the alternatives of having one single unit of analysis (holistic) or having several units of analysis (embedded). We have chosen the embedded approach with several units of analysis. Our main unit of analysis are internal transactions and the PMS in place for coordinating these transactions. Other subunits of analysis are the different actors involved in these certain transactions, i.e. the producing unit, the using units and top management. Of these three actors, the producing unit is given the main focus, since they have the transactions studied, as their main focus (see Figure 4). The advantage of the embedded case study design is that it can add important opportunities for extensive analysis, improving the insights into the single case (Yin, 2009).

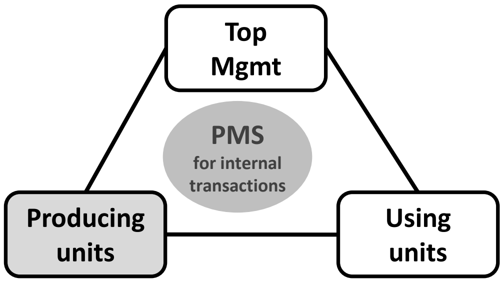


Figure 4. We have chosen to study one single MNC, but to have an embedded case study design, i.e. that there are several units of analysis within the single case. Our main unit of analysis is a certain type of internal transaction and the PMS in place to coordinate these transactions. The other subunits of analysis are the producing unit, the using units and top management involved in the specific transaction. The producing unit is given the main focus, since they have the transactions studied, as their main focus.

Systematic combining

Our case study approach is to a great extent influenced by the approach presented by Dubois & Gadde (2002) called systematic combining. Dubois & Gadde (2002) argue that the case study research process is not linear and the challenge of case study research is to handle the interrelatedness of different elements. The idea of systematic combining is that empirical findings might result in discovery of unexpected but related issues that can be further investigated in interviews or other ways of data collection. This might create a need to redirect the theoretical framework. Hence, Dubois & Gadde (2002) argue that the case study research process is abductive, i.e. a process of constantly going back and forth between theory and empirical observations. This approach should be used to be able to take full advantage of the potential of case studies, which according to Dubois & Gadde (2002), offer exceptional means of developing theory by using in-depth insights of empirical phenomena and their contexts. Hence, we have had an iterative research process, using theory and empirical observations in parallel, to be able to develop existing theories and explain the problems and challenges found in our case. Along with the data gathering, the theoretical base has continuously been revised.

3.2 Selection of case

Selecting the MNC

The relevant case for our study is an organization with separate business units which are involved in internal transactions and that operates in a MNC context. Roth & Kostova (2003) argues that using a MNC context instead of a domestic one enables theory development and an improved quality of the case study findings, "…it could be argued that using the MNC context opens up opportunities for developing novel insights, theories, and perspectives that may be generalizable to other types of organizations as well. Since the MNC, in many respects, presents the most complex case of an organization, a theory developed within it, is more likely to be applicable to other organizations compared with attempts to generalize in the other direction. The MNC can be viewed as representing the general case while a domestic company would represent a special case of an organization." (p. 898). Our case company, The Group, is a Swedish MNC which is a truly global player with subsidiaries in more than 170 countries over the world. This global presence creates good preconditions for studying the inherent complexity unique for the MNC context and the related tensions.

Selecting the internal transaction and the producing unit

Our point of departure for choosing a relevant internal transaction was to identify the producing unit since they have the studied transaction as their main focus. Furthermore, the transaction studied needs to be coordinated by a PMS involving both market and hierarchical coordination mechanisms to be able to explore the potential tension of market vs. hierarchical coordination. In the light of this, the increasingly common model for coordinating internal non-core activities called shared service organizations (SSOs) is a suitable choice of producing unit. This is because SSOs serve other business units within one single organization capturing the different types of actors involved in the same internal transactions. Moreover, SSOs often charge the using unit creating 'client-supplier' relations within the boundaries of a hierarchy, thus involving both market and hierarchical coordination. Below a brief background on SSOs is given.

Shared Service Organizations as producing units of internal transactions

A common way to coordinate service transactions within MNCs is through SSOs. Bergeron (2003) states that shared services is a collaborative strategy in which parts of existing business functions are concentrated into a new, semi-autonomous business unit. Janssen & Joha (2006) has a similar definition of a SSO and describe it as a separate and accountable semi-autonomous unit within an organization, used to concentrate activities and provide specific pre-defined services to operating units within that organization, on the basis of established conditions. Building on these descriptions we define a SSO as a semi-autonomous internal service provider, in which activities are concentrated, and which somehow charges its internal customers.

The shared service model emanates from the need for MNCs to improve their overall competitiveness. This need has driven the development of moving out and concentrating non-core activities into separate business units, SSOs, within the boundaries of the firm (Vosselman, 2002; Davis, 2005; Van der Meer-Koistra & Vosselman, 2006; Herbert & Seal, 2009). The first SSOs emerged in North America in the 1980's (Davis, 2005). Back then managers reasoned that concentrating administrative activities would decrease duplication of work, reduce headcount and thereby create the opportunity for large cost savings (Cecil, 2000; Bangemann, 2005). Today, cost reduction is still the main reason for setting up SSOs (Wenderoth, 2011), but SSOs can also contribute to a more efficient organization by standardizing processes and improve the service quality (Bangemann, 2005). Janssen & Joha

(2006) provide a similar explanation for the popularity of SSOs stating that this model provides a combination of advantages, including efficiency gains and an increase in service levels without giving up the control. Common activities to place in SSOs are accounting, IT and maintenance.

Accounting and reporting transactions and ASAP Finance as the producing unit

Based on the discussion above, we have chosen the SSO ASAP as the producing unit, which provides services globally to different business units within the Group. The focus of this study is on the internal transactions produced by the subunit ASAP *Finance*. They provide accounting and reporting services within the Group. The focus on accounting and reporting transactions makes this study relevant for a wider scope of corporations, since such transactions is conducted by all types of companies.

In sum, the SSO ASAP Finance and the accounting and reporting transactions which they conduct internally is a suitable choice of producing unit and internal transactions for this study. This is because, ASAP Finance charge the business units using their services but are accountable to the same top management team, meaning that the possible tension between market vs. hierarchical coordination can be investigated. Also, the choice of using a MNC and focusing on accounting and reporting transactions, which are conducted by all types of corporations, makes our choice of case company to what Yin (2009) calls a ‘representative’ or ‘typical’ case. Using this type of case increases the possibility to apply the findings of this study on other organizations.

3.3 Collection of data

Interview data

We have used interviews as the main source of information in our study and have conducted 24 deep-interviews in total. This approach is in line with Yin (2009) who argues that interviews are the most important source of information in case studies. The gathering of data started with a pre-study were we conducted three open-ended interviews to get background information about the Group and how the accounting and reporting activities are coordinated. Two interviews were conducted with the VP Group Controller to get a holistic top management perspective on the Group and the accounting and reporting activities. Moreover, one interview was held with the Regional Finance Service Manager 1 of ASAP Finance who had been involved in the creation of the producing unit ASAP Finance and therefore could give valuable insights to the development of how the accounting and reporting activities previously have been and how they are coordinated today.

In the case study phase we conducted two interviews with managers of the Global ASAP organization, seven interviews with managers from ASAP Finance and eleven interviews with top management of the Group and managers from the using units. We have interviewed persons representing different actors involved in the internal transactions and with different hierarchical management positions to obtain the different perspectives needed for exploring the purpose of this thesis. We have used semi-structured interviews were the construction of the questions was facilitated by the information gained in the pre-study phase. We have based the interview questions on the 12-question diagnostic framework for PMSs developed by Ferreria & Otley (2009). (See Appendix for the 12-question framework). This have been used since it provides guidelines for having a systematic approach in researching and analyzing the often very complex and intertwined nature of PMSs. As the data collection phase proceeded, we incorporated theory from Busco et al (2008) regarding tensions evolving from integrating different business units of a MNC, in the interview template. The interview templates were hence continuously revised through systematic combining. That is to say, during the interview process we compared our empirical findings to new theoretical perspectives and adjusted and developed the focus of our data collection accordingly. The interview-templates were used more as checklists rather than a strict guide to follow. The interviews lasted around 1,5 h each and were conducted in a conversational manner. During the interviews we repeatedly asked questions such as “Could you elaborate on that?” and “What do you mean?”. Since the majority of our interviews were conducted face-to-face we had the opportunity to observe the facial expressions, the body language and reactions of the interview objects and we could thereby interpret the facets of their answers.

We have conducted interviews at the Group’s sites in Sweden, Czech Republic and Belgium. Furthermore, we conducted two telephone conference calls and one video conference call with persons in the US, Australia and Denmark since lack of time and geographical distance hindered physical meetings. The opportunity to visit and speak to persons operating in different countries, enabled us to get a better understanding of the complexity inherent in the MNC context and it also gave us different national perspective from managers in different international units regarding the integration of the producing unit, the using units and top management. We recorded the interviews on an electric device simultaneously as we took notes. After conducting each interview, we listened to the recordings and transcribed our interviews. These transcribed interviews were later discussed by both of us and in cases of different interpretations, the interviewee were contacted to avoid misinterpretations.

Direct Observation, Physical Artifacts and Documents

Yin (2009) argues that using multiple sources of data to improve the quality of conducting case research. To complement the interviews, direct observations, physical artifacts and different types of documents have been gathered.

When visiting the different sites we had the opportunity to make direct observation and distinguish physical artifacts. We were given guided tours at the sites were we took individual notes of our impressions. We later compared and discussed these notes, in order to increase the reliability of these observations. We observed that the end-products are very important for the Group and permeates the entire corporation. This is visualized by several physical artifacts. For example, end-products developed, manufactured and sold by the Group is strategically placed in business landscapes and a museum displays the development of the Group’s end-products over time in the main entrance at the headquarters. Another example of physical artifacts were posters on some of the walls communicating ASAP Finance’s vision and mission.

We have first and foremost used internal documents provided by the Group such as budgets, performance data, formal incentive plans, internal presentation material and organizational charts. Further, we have taken part of public information distributed by the Group such as annual reports, press releases and pamphlets.

3.4 Analysis of data

Miles & Huberman (1994) draw out a set of classical analytical practices to use for qualitative data analysis. These are; (i) to code the notes from interviews and observations, (ii) to write down reflections continuously, (iii) to search for patterns and differences in the data, (iv) to isolate the patterns, commonalities and differences to guide further data collection, (v) to elaborate on small generalizations found in the data and also (vi) to confront the generalizations with formalized knowledge, i.e. theories.

We have used these practices throughout our analysis phase. The empirical evidence gathered has continuously been reviewed to guide our theoretical development and the focus of further data collection. For example, we discussed the findings from each interview almost immediately after they were held and these findings guided the continuous adjustment of the interview template. When all interviews had been transcribed, we started to code all the data compiled in a stricter and more formal manner. The codes followed the logic of the theoretical framework developed during the research process. When the data had been coded, we wrote down the findings for each code to find patterns and contradictory evidence.

The theoretical model was used to guide the analysis of exploring why tensions evolve from the integration of different actors involved in the same internal transaction in a MNC context and how the design and use of a PMS can manage and create tensions. We started off by analyzing the empirical observations in relation to the tensions outlined by Busco et al (2008) and then we added the market-hierarchy perspective.

3.5 Quality of study

For the reader to be able to assess the quality of this study's findings we will now address the validity and reliability of this thesis.

Construct validity is about identifying correct measures for the phenomenon studied (Yin, 2009). Yin (2009) introduces three tactics aiming at improving the construct validity. The first tactic is to use multiple sources of evidence to enable triangulation of the data. We have used several sources of data in the form of interviews with people representing different actors and from different hierarchical levels of the case company, direct observation, physical artifacts, internal documentation and external documentation. The second tactic presented is to establish a chain of evidence, to make it possible for the reader to follow any derivation of empirical evidence from the initial case study question to the conclusions in the final report. To ensure this, we have made clear references to different sources of information in the final report, and also structured the data collected in a database, stating date and place for the data gathering. We have also used a coding system for this database to facilitate the search for certain types of evidence. The final construct validity-tactic proposed by Yin (2009), is to have key informants review drafts of the case study report. Such reviews have been done several times throughout the research process. The chapter presenting the empirical findings have been reviewed and discussed with key informants to avoid misinterpretations and hence make sure that our interpretation of the situation is similar to the informants'. Moreover, some of the interviewees have examined the transcribed interview notes to come with clarifications and correct minor errors.

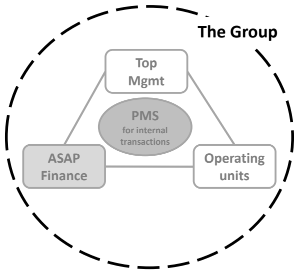
The external validity is concerned with the extent to which a study's findings are generalizable beyond the specific case study (Merriam, 1994; Yin, 2009). External validity is a challenge in single case studies because there is a risk of producing local or idiosyncratic theories which only can be used for the specific case study (Eisenhardt, 1989). Nevertheless, Yin (2009) argues that cases studies are not concerned with statistical generalization, but instead the focus should lie on analytical generalization, where the researcher is striving towards generalization of a particular set of results by using some broader theory. Hence, the theoretical model developed to guide the analysis of our empirical observations help in increasing the external validity. Moreover, Dubois & Gadde (2002) argue that, "Logical coherence as a foundation for analytical generalization is an important criterion for quality in case research." (p. 559). Logical coherence has to do with providing the reader with enough information to be able to assess the adequacy of the research process and its outcomes and also the empirical grounding of theory (Dubois & Gadde, 2002). By conducting and presenting the data collection and analysis systematically by using an embedded case study design and a theoretical model, we aim to gain logical coherence and hence a foundation for the analytical generalization to improve the external validity. Roth & Kostova (2003) claim that since the MNC represent the most complex form of organizations, theory developed from studying a MNC can be viewed as representing the general case while a domestic company would represent a special case. Consequently, our choice of a MNC as a case company can be viewed as what Yin (2009) calls a 'representative' or 'typical' case to help understand the coordination of internal transactions and the related tensions. This also improves the external validity of this study.

The aim of assessing the reliability of a study, is to ensure that if a researcher followed the same procedures as described by an earlier researcher on the *same* case study, the results between the investigators should reach the same conclusions (Yin, 2009). Yin (2009) further argues that a prerequisite for allowing other investigators to repeat an earlier case study is the need to document the procedures. To increase the reliability of this study we have documented everything in a structured manner. Even though the interviews have been semi-structured and the questions have been adjusted for each interview conducted, we have systematically documented the questionnaires, the written notes and the audio files, allowing future researchers to replicate the interviews. Also, other data material, except for the interviews, is also documented systematically, improving the reliability of the study. Nevertheless, the concept of reliability in social science is problematic since human behavior is not static, but constantly changing (Merriam, 1994). Thus, since the main source of evidence of this study are interviews, exact replicability is a challenge or maybe even impossible, as the informants' answers might change due to passing of time, change of interviewer or some other factor out of the researcher's control.

Chapter 4. Empirics

In this section we will present the empirical findings. This chapter is divided into six main sections. First, we will give a brief background description of the MNC, the Group. Thereafter, we aim to describe the development and management of the Group's SSO, ASAP. Thirdly, the producing unit ASAP Finance is presented and the PMS in place for managing the accounting and reporting transactions conducted by ASAP Finance will be described. Then, the vertical relationships between top management and ASAP Finance and between top management and the using units will be presented. Thereafter, the horizontal relations between ASAP Finance and the using units will be illustrated. Finally, the upcoming changes and plans for the ASAP Finance organization will be described in short.

4.1 The Group



The Group is a MNC providing industrial productivity solutions. The company was founded in Sweden in the late 19th century. The Group is listed on the NASDAQ OMX Stockholm stock exchange, has over 30 000 employees in over 170 countries and had a revenue of about BSEK 80 in 2011 (Annual Report, 2011). The organization is decentralized and rather complex with headquarters in Stockholm, Sweden. "The Group's culture is very strong in that the subsidiaries have both freedom and responsibility. The Group gives recommendations, but does not give any directives." (Regional Service Manager 1, ASAP Finance). Moreover, the Group is divided into four business areas and within each business area there are a number of divisions. The divisions comprise of production companies, distribution centers and sales companies called customer centers. We will focus on the internal SSO, ASAP as the producing unit within the Group (see Figure 5). The ASAP organization supports all the four business areas, and is mainly focused on providing administrative services to the sales companies. From now on the companies within the divisions using ASAP's service will be denoted as the operating units.

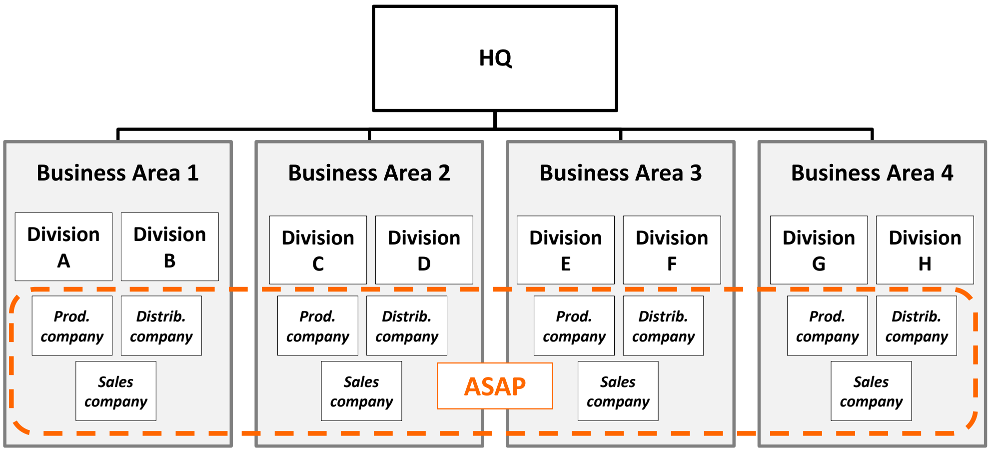


Figure 5. Illustration of the Group's organizational structure. The ASAP organization mainly serves the sales companies, but in some cases also the product companies.

4.2 The setting up of the ASAP organization

Before the ASAP organization was established in the late nineties, each sales company within the Group had their own administrative department, managed by a finance manager. These departments handled several different administrative tasks such as, accounting, payroll and IT. There were several different ERP systems in use and the processes and practices were differentiated (see Figure 6).

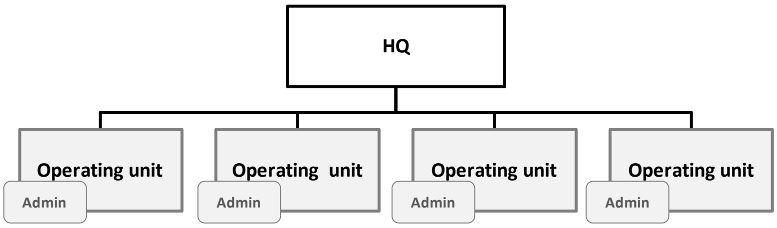


Figure 6. The organization of the administrative activities within the Group before the ASAP organization was created.

There were several reasons for creating the ASAP organization, but the main goals were to standardize and streamline administrative work processes to make them more efficient and as a consequence be able to improve the quality of the processes and also save costs. “The administrative functions were scattered. It was not efficient and as a response to this ASAP was created” (VP Group Controller). An internal document states that ASAP is supposed, “…to ensure that Business Controllers and other customer center personnel can focus on their core business.” This shows that another important reason was to increase focus on the core business by removing the administrative tasks from the operating units. The Global General Manager of ASAP also highlights this, “We aim to deliver good administrative services and release the business units from this activity so that they can focus on their core. We aim to deliver quality, efficiency and standardization.” With ASAP the problem of one-person-dependency could also be decreased which the Regional Accounts Payable Manager of ASAP Finance highlights as another important factor for establishing ASAP, saying that, “Before ASAP you had one accountant in the sales company and she was there for 20 years. She had all the information to herself and there were no documentation, building up extreme one-person dependency.”

The ASAP organization was not created over night, instead it has emerged gradually over time. The question of whether to outsource the administrative activities or keep it in-house was raised and the Global Controller of ASAP explains that the decision to keep it within the Group was due to an undeveloped market for administrative services. “At that time we were too small to outsource. The scope from the beginning for ASAP was only Europe and the market for administrative services was immature.” (Global Controller, ASAP). It was thus decided to establish the internal service provider ASAP. However, the process of setting up ASAP differed between different parts of the world, also some countries was not included in the centralization of administrative services.

A couple of administrative departments were centralized at a time, and small ASAP hubs serving different countries and regions were created (see Figure 7). In Europe, the Group’s operations in almost 20 countries were mature and each country had a number of subsidiaries handling administration independently and with different systems. “The goal for Europe was to standardize and centralize within each country. We tried to standardize processes, but at the same time stay local.” (Global Controller ASAP). In China, ASAP was more involved in setting up the administration for the subsidiaries from the start, since this was a new market. The creation of the ASAP organization had a very pragmatic approach and the Regional Finance Services Manager 1 describes the development of ASAP as, “…an emergent process, where you took what you had available and improved processes gradually”.

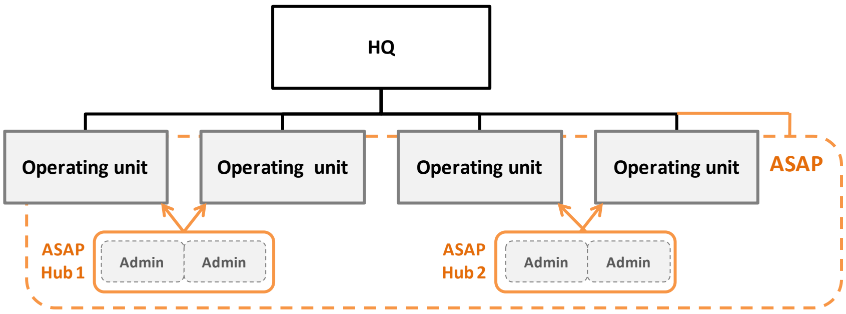


Figure 7. A simplified illustration of the reorganization of the administrative services creating the ASAP organization.

Organizational structure ASAP

From geographic division to service area division

Before ASAP was created, the accountants used to report to the Financial Manager in the operating unit. Once ASAP was created, typically the accountants were transferred to the ASAP organization, while the Financial Manager was made the Business Controller of the operating unit. Originally, ASAP was divided into geographical regions and non-core activities were put into different ASAP hubs governed by regional boards covering all service areas. “ASAP started of regionally, centralizing three or four administrative functions into one, but the goal was to become a global organization.” (VP Group Controller).

In 2007 the organizational structure changed into being divided into service areas instead of geography and each service area got its own service area board. The unifying link in the ASAP organization is the ASAP Global Board. The members of this board represent top management of the Group, the operations and also ASAP. The service areas of ASAP are; finance, IS/IT, HR and non-core purchasing (see Figure 8) and thereof ASAP Finance was created.

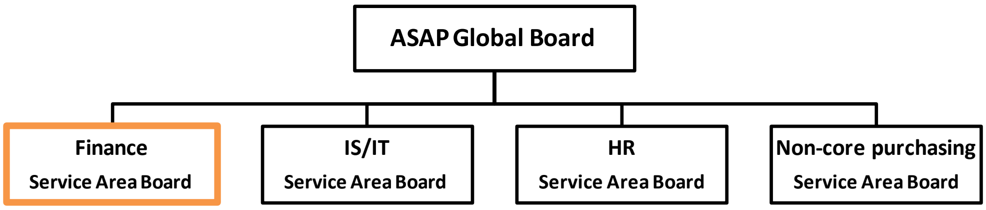
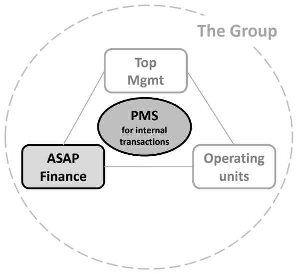


Figure 8. The ASAP organization is divided into the following service areas; finance, IS/IT, HR and non-core purchasing

The main driver for this reorganization was to reach a higher level of standardization. The Global General Manager of ASAP expresses this by saying that, “The need for driving standardization made us realize that it was not smart to make different kinds of standardizations in different regions. However, the move towards service areas made us lose some of the local adaptation”. And the VP Business Control 3 argues that, “The reason for this restructuring of ASAP into service areas was that you wanted to create unification of the different services, since there are certain synergies between the different service areas.”

With time, standardization of processes has increased since the service offering has become more focused with the service area structure, which has helped increase efficiency according to the VP Group Controller. VP Business Control 3 also thinks that the change to the service area structure has been positive, “Service area boards have helped in giving finance focus. Before, it was divided into small bits and pieces in the regional boards." The Regional Service Manager 2 of ASAP Finance stresses the value created through the establishment of ASAP. "Before ASAP there was no collaboration or standardization. Our current organization makes it possible to make changes both regionally and globally, which never would have been possible before."

4.3 ASAP Finance



ASAP Finance provides accounting and reporting services to the operating units of the Group and is currently one of the service areas within the global ASAP organization. The three main services provided by ASAP Finance are; *accounting to reporting*, *accounts payables* and *accounts receivables*. Today, ASAP Finance has almost 500 employees all over the world, providing services to 200 companies within the Group.

4.3.1 A global and virtual organization

ASAP Finance is a global and virtual organization, meaning that they operate under one global ASAP umbrella, but are physically located in different places all over the world. The ASAP Finance Board has the ruling power over the ASAP Finance organization and sets the strategic priorities for ASAP Finance. "There are a group of very experienced managers in the ASAP Finance Board that brings different perspectives, opinions and backgrounds. They often decide if we have conflicting priorities, for example choosing one system or the other. They set our priority." (Acting Global Manager ASAP Finance). The global management team of ASAP Finance is located in different parts of the world. The Global Manager of ASAP Finance is for example located in the Czech Republic, while the Business Controller of ASAP Finance is located in Belgium. There are also Global Development Managers and Regional Managers, creating a matrix organization. The Global Development Teams aim to drive process development and standardization globally, while the Regional Managers are in charge of separate geographical regions and the ASAP Accountants which are located in different countries. "We are not like traditional SSO with a few service centers. We have very small, local ASAP organizations in most countries, taking care of the local people. Getting a global view of things is therefore a big challenge." (Global General Manager, ASAP). The global management team of ASAP Finance is illustrated in Figure 9.

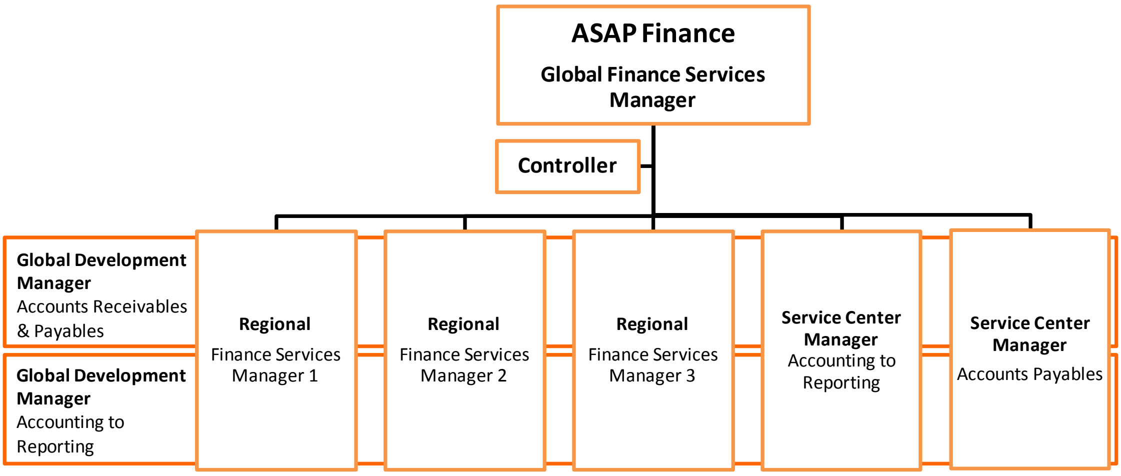


Figure 9. An illustration of the ASAP Finance matrix structure organization.

The physical distance and geographical spread create communication and coordination challenges, making standardization hard. The Acting Global Manager of ASAP Finance says that, "The greatest challenge is to keep in contact with the 300 people of my team. Dealing with the widespread geography and the different time zones to keep a good communication in place is my biggest challenge." The time-difference does not only imply communication challenges, it also creates different conditions for conducting certain tasks. The closing of the books is one area which has created frustration. Regional Services Manager 2 of ASAP Finance expresses this in the following way, "Decisions is always made from a European perspective and that is not always how the rest of the world works. We have a three-day standard for the closing, but in reality it means that in the US we only have two and a half days to close the books due to time-differences. Therefore we have to work overtime and there is no understanding for this."

By using technology and having phone meetings on a regular basis, the management team of ASAP Finance is trying to overcome the distance, but the Regional Service Manager 1 of ASAP Finance nevertheless says, "We try to meet one or two times a year, but this is not always enough. There are databases for knowledge sharing, so the structure is there, but it is dependent on people having input to these databases. Definitely, the knowledge sharing between the regions can be improved." The Controller of ASAP Finance emphasize the importance of relationships for integrating the geographically spread organization and says that, "I believe in the virtual organization if there are mature people that know each other. For example, I know my boss [the Global Manager of ASAP Finance] from when I started working here years back. We know what to expect from each other. If I would have had a boss in China which I had never met, that would be a problem." The importance of relationships is also highlighted by the Regional Service Manager 1 of ASAP Finance saying that, "Sharing experiences is based on relationships rather than formal structures. These relationships are built from the fact that we have worked together for a long time and know each other."

4.3.2 Mission

A mission for ASAP Finance is to be efficient, and to deliver qualitative services at a competitive price. Accordingly, ASAP Finance is not only supposed to drive standardization to reach efficiency they also have a goal, "…to build lasting business relationships resulting in satisfied customers who return and recommend us to new customers." (Internal document). The Global Development Manager of ASAP Finance underline that, to be able to fulfill ASAP's mission, "…you have to have centralization to drive standardization, but a certain level of decentralization is necessary if you want to be close to your customer." (Global Development Manager, ASAP Finance).

The goal of becoming a truly global service provider offering standardized solutions, which was the initial goal with creating the ASAP organization, has not fully been reached and one of the board members of the ASAP Finance Board instead argues that ASAP Finance is too decentralized and local. "ASAP is still very local compared to other service providers, which I think is a weakness and one of the reasons for why we have not achieved the synergies that we should have achieved. The Group has a very decentralized structure and that is the first structure that we think of when creating a new organization. This is why ASAP Finance still is a relatively decentralized organization." (VP Business Control 3 and ASAP Board Member).

An internal document states that, "It is ASAP's endeavor to deliver professional services at an agreed quality, and competitive price, and on time." ASAP also has a goal to increase the efficiency by 3 % per year. An indication of increased efficiency for ASAP is that the prices for the services provided are reduced while the cost level is held constant. "Since 2006, the efficiency has been around 2-3 %." (Global Controller ASAP).

The efficiency requirement has put pressure on ASAP to focus on costs. “Globally the pressure of the Group is cost. But we cannot just reduce costs, we have to do it in a smart way.” (Regional Service Manager 2, ASAP Finance). The VP Business Control 2 explains that the main focus when ASAP Finance was created was quality, but that this has changed throughout the years. “Cost focus was not the most important issue when ASAP Finance was created, rather it was a quality focus. But this has changed and become more of a cost issue.” (VP Business Control 2). Over the long term, Acting Global Manager of ASAP Finance sees a conflict between cost savings and quality. “If we want to save costs, it often means less people. But if we have less people or if we have people that are not qualified then the quality can suffer. This is a conflict we need to balance.” (Acting Global Manager ASAP Finance). The Global Development Manager of ASAP Finance argues that the operating units will complain if ASAP Finance only provide highly standardized services since they will think that they are too strict. But he also claims that the operating units will complain if ASAP Finance provides customized services. “If ASAP is not efficient because we say yes to conducting customized services and as a result become less standardized, then we must charge higher prices. Then the customer will complain anyway. It is always a tradeoff between quality and cost.” (Global Development Manager, ASAP Finance).

ASAP Finance has not formulated an official definition of quality for accounting processes. But general quality characteristics are timeliness and accuracy of the accounting and reporting. The Global Development Manager of ASAP Finance thinks that cost and quality are equally important and that there has to be a balance between the two. He also raises an issue regarding the appropriate level of quality and gives an example, “We have to bear in mind that we are doing administrative services. It is another thing with the production. There you want a Rolls Royce, since this is where the core business is and where you make a difference on the market. The way we book an invoice will not differentiate the Group from its competitors. With invoices you can be a Peugeot.”

4.3.3 Strategy - ‘As Global as possible and as Local as necessary’

One part of ASAP Finance’s strategy has been to be ‘as global as possible and as local as necessary’. Gradual initiatives towards centralization have been taken to increase standardization and efficiency of processes. For example, the handling of accounts payables for Europe was centralized to Prague in 2006. The goal was to increase standardization and efficiency of the accounts payables processes. Ambitious targets were set up by the ASAP Finance Board, to increase the transaction volumes from handling 10 000 to increase that number to 18 000 invoices per employee and year. This target has not been reached yet, and the Regional Accounts Payable Manager of ASAP Finance says that the main challenge with the consolidation of accounts payables project, “…was to get acceptance for the standardization. It is not like you go to the hairdresser where you can decide how you want your hair to be cut. Operations need to comply with our standards, otherwise we cannot be efficient, but it is not that easy to change the local procedures and what might be good for a local sales company is not always what is best for the Group.”

The Accounts Payables Team in Prague handles a significant part of all accounts payables for Europe, but not all countries use ASAP Finance’s services. The Regional Accounts Payable Manager of ASAP Finance thinks that it should be a long-term goal that all companies use ASAP, but that common and standardized processes is a prerequisite to make it work. “Standardization needs to come before centralization”. (Regional Accounts Payable Manager). The VP Divisional Control 1 agrees and says that, “Prague has done a great job, but the transformation to Prague was too fast. All companies had different processes for handling accounts payables and the transformation became messy. I think that standardization should have been implemented before the move to Prague.”

4.3.4 Is it optional to use ASAP Finance?

The perception of ASAP Finance's business model differs within the Group. The question of whether it is optional to use ASAP or not is an example of this. According to VP Business Control 3 it depends on the situation and explains that, "It is optional to start using ASAP Finance as a service provider, but once you are on board you are not allowed to get off. We have however, in extreme cases, allowed some units to stop using ASAP Finance because there have been a lot of conflicts where the operating unit claim that they can do the services at a lower cost. The operating unit is in these cases required to show us that this has also been the case. However, if the ASAP Finance Board decides to implement ASAP Finance in a couple of countries, then it is not optional." The Controller of ASAP Finance has a similar view and stresses that this vagueness has in some cases resulted in some 'out of the ordinary' solutions. "It is optional to use ASAP Finance, but there is a pressure from above to use their services and in some cases they can force the companies." General Manager 1 does not feel that they have a choice, but thinks that this is necessary and says, "There is no choice not to use ASAP Finance, but the problem with the Group is that we are so decentralized and independent. I think it is critical for the business to go towards standardization."

4.3.5 Formal PMS mechanisms in place for coordinating the accounting and reporting transactions

The PMS managing the accounting and reporting transactions conducted by ASAP Finance within the Group, consists of several formal mechanisms; the plan and the related reporting package, Service Level Agreements (SLAs), the internal pricing system, the customer survey and formal customer meetings. The results from the plan and the customer survey are linked to a Variable Compensations (VC) system. These different mechanisms will be described below.

The plan and the monthly reporting package

The overall financial and operational performance evaluation of ASAP Finance is based on a so called *plan*, set by the Global Manager and the Controller of ASAP Finance and this is approved by the ASAP Finance Board. From the global ASAP Finance plan, regional plans are developed. The plan has similarities to both an income statement and a budget and includes parameters such as revenues, costs and also different Key Performance Indicators (KPIs) related to for example certain volume targets and people management. Furthermore, a monthly reporting package is created every month to monitor the targets set up in the plan. For example a result bridge related to the plan's revenues and costs is included together with follow-up of the KPIs.

The VP Business Control 1 argues that it is important to have other targets and metrics than just financial ones and says that, "If you call it plan, budget or target does not matter. What is important is to have an ambition and the ambition for ASAP Finance is not to make profits, but to lower the administrative costs for the Group. Therefore you need to work with other metrics than just revenues and costs." The long term goal for ASAP Finance is to break even. This goal has however not been fulfilled and the Regional Finance Services Manager 1 of ASAP Finance explains that, "ASAP Finance has conducted projects and taken investments that have affected the result negatively. Important is that these have been decided and approved by the board beforehand and then added to the plan. This is okay as long as the result is according to the plan. If your result deviates from the plan, you must explain why to the ASAP Finance Board." The plan serves more as a guidance tool rather than as a strict budget or target that must be fulfilled which the opinion of the Regional Service Manager 2 of ASAP Finance reflects, "The advantage of the plan is that you can do pretty much what you want with it and it is also good for focusing on the costs."

The higher management levels of ASAP Finance argues that the plan is important and valuable to give a certain direction and a lot of effort is put into creating the plans. “I think the plan is a good guidance and we spend a lot of work creating and following up on the plan. The plan gives us a feeling of where we are.” (Controller, ASAP Finance). Furthermore, The Global General Manager of ASAP argues that it is important to connect the targets in the plan to the employees’ bonuses to make sure that the goals and targets are fulfilled.

Performance data quality and communication

In general the perception is that, the plan gives direction for the managers and that the monitoring of costs and revenues is under control. However, ASAP Finance still struggles with the other parameters and KPIs used to evaluate efficiency, such as volume metrics. “To monitor the ASAP Finance result is quite easy. What is more difficult is to control the efficiency of the business. We need to improve our KPIs and show how we perform in relation to the market.” (Global Manager ASAP Finance).The Global Development Manager of ASAP Finance has similar concerns and he also stresses the low quality of the data. He explains that, “Sometimes I have doubts in the numbers I see. We are not strong in the quality of our data. The cost data is good, but for volume type of data I have doubts.” VP Business Control 3, however, thinks that this should not be a problem and says that, “There are so many KPIs that ASAP Finance could use for measuring efficiency, but ASAP Finance has been slow in developing such metrics. Also, I miss clarification of certain KPIs. For example, I wonder why Sweden is able to process 18 000 invoices while Italy can only handle 10 000? Of course there are differences in legal requirements etc., but the difference should not be that big.”

Service Level Agreements

A SLA is a mutually agreed contract signed by both ASAP Finance and one operating unit. The aim of the SLA is to define service levels and it specifies which products and services that are offered. Also, the SLA defines procedures for monitoring the fulfillment of the obligations stated in the contract. The operating unit will set up one contract with one ASAP unit and is only charged from that ASAP unit, meaning that the different service areas (finance, purchasing, IT and HR) will charge and set up contracts individually with a specific operating unit.

From detailed to general format

The format of the SLAs for ASAP Finance has been changed from being very detailed to being more general. “I had a lot of discussions regarding the old SLA's since they were so detailed that no one bothered to read them, so the change has been well received. However, the new SLAs are not that detailed, and that is the drawback.” (Regional Service Manager 1 ASAP Finance). Business Controller 2 thinks that the SLAs today are too general and that there is room for interpretations of what services ASAP Finance is supposed to deliver. “I want to go down to a more detailed level. It has been a bit unclear regarding what the operating unit is supposed to do and what ASAP Finance is supposed to do. There have been opportunities for interpretations and it has not been the same over the world.” (Business Controller 2). But, some think that the SLAs should not be too detailed or followed too strictly. VP Business Control 2 thinks that, “The SLAs help to clarify what is supposed to be delivered, but a supplier should always delight the customer”. VP Business Control 1 further argues that ,“It should not matter if we do not comply with the SLA completely since we belong to the same family.” Moreover, this ambiguity is also reflected in the fact that there are sometimes deviations between what the SLAs state should be delivered and what ASAP Finance actually does deliver. The Controller of ASAP Finance exemplifies this, “Some follow the SLA completely, however in some cases it is depends on the relationship between ASAP Finance and the Business

Controller. We are still part of the same group and if I can help a colleague…" (Controller, ASAP Finance).

The SLAs in practice

With physical distance between ASAP and the operating unit, the function of the SLA becomes increasingly important. This is highlighted by General Manager 2, "If you are situated far away from ASAP Finance and do not have a personal relationship, then the SLA becomes much more important." Divisional Control 1 thinks that the SLAs are a good tool for specifying the terms and also consider them being an instrument to help solve conflicts. "They fill an important function since they state what ASAP is supposed to deliver, at what time and at what quality. When it does not work you should go back to the SLAs and look them through." (VP Divisional Control 1). Business Controller 2 however claims that, "The SLAs have no function. They are not discussed." ASAP Finance typically does not use the SLAs in their daily work and see it as a shortcoming if a dispute arises with an operating unit, which demands them to turn to the contract for settling the argument. "At ASAP we consider it being a failure if you have to turn to the SLA ex post. They are not important in the day-to-day work. The SLAs are more a way to set expectations." (Global Controller, ASAP). The Regional Accounts Payables Manager of ASAP Finance, however highlights a risk with not knowing the content of the SLAs, "I think that many conflicts are ongoing because people on both sides [i.e. ASAP Finance and the operating units] do not know what is included in the SLAs."

The internal pricing system

When ASAP Finance was created it was decided that they were to charge for their services. Hence, an internal pricing system was implemented. VP Business Control 2 explains that, "One alternative was to have very strict principles and not allow any deviations from the standard. But we chose to have a market-like approach for ASAP Finance and influence behavior and coordinate processes through prices." The Global Controller of ASAP says it is important to charge for the services provided, "Because we charge for our services, they have a value."

Starting off with local prices

The original pricing system used by ASAP Finance was based on historical administrative costs and involved local negotiations. Regional Managers from ASAP Finance and General Managers and Business Controllers from the operating units negotiated the local prices. Since the price negotiations were local it meant that the prices for the same service could differ between operating units. Hence, there was no regional or global alignment of the price levels. VP Divisional Control 1 thinks that the price negotiations were beneficial since there were possibilities for the operating units to affect the prices. However, the price negotiations were time-consuming and created inefficiencies since effort was spent on internal fights instead of focusing on the business. Regional Service Manager 1 of ASAP Finance exemplifies this, "I spent a great amount of my time preparing for the price discussions." The operating units also criticized the local prices. "The prices have not always reflected the real costs and sometimes they were unreasonably high." (VP Divisional Control 1). As a consequence, ASAP Finance as an organization was sometimes questioned within the Group. Moreover, due to these time-consuming negotiations, and the criticism of uncompetitive prices and lack of transparency, a new price system was introduced. "The prices were previously negotiated in absurdum. Therefore, global prices were introduced and that was important in order to justify ASAP's existence." (Global Controller, ASAP).

Introducing a global pricing system

In 2011 ASAP Finance's new global pricing system was introduced. The prices went from being locally negotiated to being set globally by the ASAP Finance Board. Both ASAP Finance and the operating units appreciate the global pricing system since the endless discussions have decreased. The new pricing system is described as a, "…dream compared to the old system, since the discussions have decreased." (Regional Service Manager 1, ASAP Finance) and Business Controller 2 says that, "It became much better when the global prices were introduced". Even though the change has been positive, there are still challenges related to the internal charges.

The objective of the global prices is to have a model where ASAP is challenged on efficiency, on a global instead of a local level. Further, the model aims at improving the transparency of the prices to show the real costs for the operating units, and also make benchmarking easier. Therefore international prices and price differentiation for different services is used. This price differentiation is also used to increase the efficiency in the accounting and reporting processes by influencing the operating units to choose standardized processes instead of customized ones (Internal document), i.e. to encourage certain behavior. As a consequence, the customized services are charged a higher price than the standardized ones. The global pricing system hence includes price differentiation to encourage a behavior that drives standardization and efficiency of accounting and reporting processes. The ASAP Finance Board gave ASAP Finance the task to implement prices that influence the operating units to decrease the costs of certain accounting processes and make them more efficient. Areas where cost drivers and inefficiencies have been identified is for example related to *accounts payables,* the *chart of accounts* and *accounting to reporting.*

For *account payables* the focus is to increase the number of invoices with matching purchase orders and to avoid setting up new suppliers. In order to fulfill this task ASAP Finance introduced higher prices to steer the operating units in the right direction. Firstly, an invoice with a purchase order costs 5 EUR, while an invoice without a purchase order is priced at 10 EUR. ASAP Finance has increased their amount of invoices with matching purchase orders from 31 % in 2010, to 36 % in 2011. However, ASAP Finance has a long road ahead, before they reach the goal of 100 %. The other example of price differentiation related to accounts payables is to avoid setting up new suppliers and hence keep down the total number of suppliers. The price of setting up a new supplier is therefore high and cost 100 EUR. The aim with increasing the number of matching purchase orders and reduce the number of suppliers is twofold; first, it should steer the operating units towards more efficient accounting and reporting processes. An invoice without a matching purchase order takes much time and effort for the ASAP accountant to process. When an invoice instead has a matching purchase order, ASAP Finance can process the invoice almost automatically and without any delay. Secondly, it aims to increase the control over the purchase process. By increasing the ratio of matching purchase orders, the Group makes sure that no false invoices are paid and by reducing the number of suppliers the Group ensures the usage of preferred suppliers and thereby the chance of getting the best prices.

For *the chart of accounts* the goal is to slim down the number of cost centers to increase standardization and make follow-up easier. The Global Controller of ASAP says that, "It is a balancing act to have the right number of cost centers. Too few cost centers is not good, because then you get a 'black hole' making it hard to extract and find information. Too many cost centers on the other hand, makes it hard to follow-up the costs on an aggregated level. We have shocking examples in Eastern Europe where they have cost centers for everything." The implementation of charging per cost center has had effect in some places. "In one of the most extreme cases the Business Controller in an operating unit reduced the number of cost centers from 120 to 18!" (Regional Service Manager 2, ASAP Finance).

For *accounting to reporting,* non-standardized reports have been identified as a cost driver for ASAP Finance. Therefore, the operating units are charged a higher price for each non-standard report.

Business Controller 1 addresses a dilemma emerging from this price differentiation. He argues that Business Controllers spend too much time on suboptimal activities because of the pricing system. “It takes a large amount of time for Business Controllers to create reports that are needed in their daily work. If the Business Controllers let ASAP Finance create these non-standard reports, the operating unit is charged a couple of hundred Euros. Because of these high prices, the Business Controllers spend a great amount of time on creating reports themselves rather than analyzing them.” (Business Controller 1). The Global Controller of ASAP also thinks that it is unreasonable and inefficient that the Business Controllers spend time on creating these reports. “We must find a better way to charge non-standard reports. It makes no sense that Business Controllers spend time creating these reports. It is not efficient.” (Global Controller, ASAP).

VP Divisional Control 2 is positive to the price differentiation method and thinks that it has an effect on behavior. However, not everyone shares his perception. The Controller of ASAP Finance argues that, “…the price level has some influence, but not a major impact.” Also, Regional Accounts Payable Manager ASAP Finance says that the services charged with a higher price with the aim to encourage a certain behavior, “…are too low for the operating units to focus on…” Global Controller ASAP thinks that the reason for why so few invoices have a matching purchase order is because the cost for not having a matching purchase order is such a small fraction of the operating units’ total costs. For example, VP Business Control 2 explains that, “The cost for accounting is marginal compared to other costs, like warehousing. Since those costs have a bigger impact on the profit and loss statement, the Business Controllers put a greater emphasis on reducing the warehousing costs rather than concentrating on increasing the number of matching purchase orders.”

Further, VP Divisional Control 4 expresses a concern whether the cost drivers in place really are the correct cost drivers. An example in line with this is given by Business Controller 2, who thinks that the cost of creating a matching purchase order to an invoice is higher than having to pay the higher price for not having a matching purchase order, “A service technician costs 650 SEK/h, and say that it takes 30 minutes to complete a purchase order. This means that it would cost 325 SEK/h for completing a purchase order, which is time that the technician could have spent on working and earning money to the Group. In that case the cost for the operating unit to complete a purchase order is higher than not doing it.”

From local to global pricing power

When the global prices were introduced, the negotiation of prices was moved from the operating units and ASAP Finance to the ASAP Finance Board, and new discussions emerged. Regional Service Manager 2 of ASAP Finance argues that ASAP Finance operated more as a supplier on a market before the global prices were introduced. General Manager 1 agrees with this statement and argues that the operating units stopped being customers of ASAP when the operating units no longer negotiated the prices, he reasons, “I am not the one that is buying the service, I am the one paying for the service. We are basically being charged.” General Manager 1 argues that this has created a frustration since people within the operating units cannot influence the prices and he also claims that focus is moved from pleasing the operating units to pleasing the ASAP Finance Board. There are also contrary opinions claiming that the operating units now have the possibility to influence their cost levels to a higher degree compared to the system with local prices. For example, VP Divisional Control 2 says, “There is a possibility to affect your costs by reducing cost centers and reducing the number of suppliers. You could not do that before.”

Competitive prices or not?

The transparency of prices is said to be an important factor for avoiding inefficient price discussion. Divisional Control 1 says that, "The transparency has increased since the global pricing system was introduced." However, VP Divisional Control 3 still does not think that the pricing system is transparent enough. For example, VP Divisional Control 1 wants a benchmark to be conducted for determining whether ASAP Finance is efficient or not. "I can find out if my company has received good service, but what I lack is a way to find out if I have got a good price." (VP Divisional Control 1). He continues by saying that, "I, as a customer, should not have to worry about the price. I should know that the prices are competitive." Others from the operating units have conducted benchmarking analyses themselves, trying to determine how competitive ASAP Finance's prices are compared to external service providers. General Manager 1 and Business Controller 2 claim that they could get services cheaper from an external provider rather than using ASAP Finance. However, Business Controller 2 makes a somewhat contradictory statement when he says that even if an external service provider is cheaper, "You have to do your part and use ASAP Finance so that it becomes cheaper for the Group as a whole."

Customer Survey

Once a year ASAP Finance sends out a customer survey to the operating units using their services. The survey is a tool for evaluating the customers' perception of the service level and the relationship between ASAP Finance and the operating units. The Acting Global Manager of ASAP Finance says that, "The customer survey shows what we are doing well and what we are less good at. It is a tool to communicate with our customers and to understand what they need and where we are heading."

One important parameter of this survey is called the Net Promoter Score and is used to investigate if ASAP Finance's current customers would recommend ASAP Finance's services to others. A scale from 0-10 is used and scores below five is regarded as an indication of underperformance and also an indication of that ASAP Finance has to improve the service quality in some respect. The Global Controller of ASAP explains that ASAP Finance has been able to improve their Net Promoter Score, "Three years ago we got low Net Promoter Scores, but this has improved a lot. Now we get positive scores, which shows that the general perception of ASAP Finance is positive." The Global Development Manager of ASAP Finance also stresses the improvement and says that, "ASAP Finance scored around +15% on the Net Promoter Score and that is quite good for an internal service provider providing not so sexy services." (See Figure 10). The Global Manager of ASAP Finance claims that one reason for this improvement is that the result from the customer survey is now related to the bonuses of the ASAP employees.

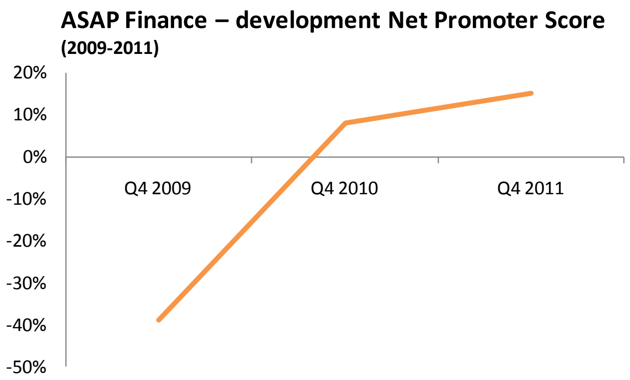


Figure 10. The diagram shows the development of ASAP Finance's Net Promoter Score, i.e. showing how large proportion of the customers that would recommend ASAP Finance's services to others.

The survey is thought to be a good performance evaluation tool, complementing the traditional financial evaluation parameters like revenues and costs. The VP Business Control 2 says that the customer survey helps in evaluating subjective aspects, like customer satisfaction in addition to the more objective evaluation parameters like for example cost. “The customer survey is an important tool to evaluate the subjective aspects. A low cost is not important if the customer is dissatisfied due to low quality.” (VP Business Control 2). The general view is that the customer survey has helped ASAP Finance to put light on areas of improvement. Also, it helps to prioritize and focus on areas where the need for improvement is the greatest. The Global General Manager of ASAP explains that, “We try to focus on those who gave us three or five to be able to improve.” Furthermore, action plans are set we up when someone gets low scores in the customer survey and the Global Manager of ASAP Finance says, “We sit down and discuss the problems with the persons involved to agree on how to improve.”

Although the customer survey has helped ASAP Finance improve their service level, there are some criticisms regarding how the survey is conducted and how the results are used. The Acting Global Manager of ASAP Finance argues that a weakness of the surveys is that they are conducted locally hence reflecting local preferences, and explains that, “Here we have a conflict of local customers wanting local customization and the Group wanting global standardization, which can create problems.” Another criticism related to how the survey is conducted is that the results only reflect a snapshot of what ASAP Finance delivers and performs during one year. “The customer survey is not truly representative of the work we do, since it is a snapshot. I think that the customer survey sometimes gets too much weight, but it should be taken seriously because ideally the snapshot should be getting better and better.” (Regional Services Manager 2, ASAP Finance).

VP Divisional Control 2 stresses that the results from the survey must be used and interpreted in the right way and says that cultural differences make the results from the customer survey hard to compare between countries. “In Australia you are very out-spoken and might tell someone to go to hell without offending them. That you cannot do in Africa.” (VP Divisional Control 2). Therefore, he argues that it is important to look at the trend of the results from the survey in one location instead of benchmarking the results between countries. The VP of Business Control 1 agrees and says that, “The customer survey gives an indication of the trend but not the service level. Depending on the culture of the country, the numbers mean different things. I think it is wrong to compare the numbers from the customer survey between countries.” The Regional Accounts Payables Manager of ASAP Finance also thinks that the cultural differences affecting the scores is a problem since it ultimately impacts the ASAP Finance employees’ bonuses. She argues that, “Five is just a number and it means different things in different countries. In the UK five is good, but we do not get any bonus if we get five as a score.” (Regional Accounts Payables Manager, ASAP Finance). It is also stressed that an important aspect is that ASAP Finance not only conducts the survey but that they also must *react* on the results to continually improve the service level. VP Divisional Control 1 thinks that ASAP Finance has reacted on the results from the survey and says that, “The first result I experienced was a disaster, but the second was better. This shows that ASAP Finance react and act on the results from the survey.”

Formal customer meetings

To ensure a good collaboration between ASAP Finance and the operating units, formal customer meetings are to be held regularly. “We have formal customer meetings three to four times a year, to make sure that the collaboration is working well between ASAP and the operating units. In these meetings we try to take one step back from the SLAs and get a broader scope to figure out if we deliver the right services.” (Global General Manager, ASAP). The Acting Global Manager of ASAP

Finance describes the customer meetings as, "…a qualitative control where we get qualitative feedback from our customers."

Variable Compensation

A majority of the employees within ASAP have a variable component in their salaries. This variable compensation (VC) is based on a few parameters. Examples of such parameters are the goal fulfillment of the targets in the plan and the result from the customer satisfaction survey. The Global General Manager of ASAP says that the VC is a simple and effective way to manage the organization and says that, "The tools behind the VC are primitive, but they are working. It is a clear way of monitoring and has clear targets." The VC for an employee is set up by a person on a higher hierarchical level and is designed to fit the work description of the specific individual. "I give the subordinates their goals when I have received my goals from my superior, hence we have a top down approach for implementing strategies." (Regional Service Manager 1, ASAP Finance).

The Global Controller of ASAP thinks that the VC is a good system to share the Group's strategy and to get, "…everyone involved…" The VC is also considered to be a way to set direction. "The VC steers you in your work since it gives focus for the year." (Controller, ASAP Finance). However, everyone is not positive to the VC. Regional Service Managers of ASAP Finance expresses the issue related to lack of time, making it hard to actively work with the targets in the VC. "I do not look at my VC every day. In the day-to-day activities there are too much things taking away attention from it." (Regional Service Manager 2, ASAP Finance). The ASAP Finance organization is continuously going through changes. "It is a very lively organization and people are used to organizational changes in ASAP Finance." (Global General Manager ASAP). These changes can create difficulties in reaching the goals in the VC. "Oftentimes we are going through restructurings that change our goals. This changes the targets in the VC, which sometimes is communicated too late." (Global Controller ASAP).

4.3.6 ASAP Finance's role within the Group

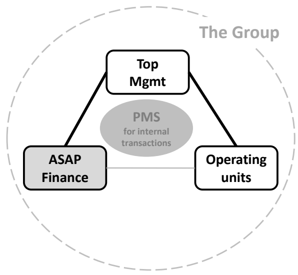
The Controller of ASAP Finance considers ASAP Finance being the ones that simply carries out what the business areas have decided. "As I see it, the business areas have the power and we are only the executing organ. We try to communicate and come in agreement on different issues, but in the end, they are still the ones that decide." VP Business Control 2, also thinks that ASAP Finance's role is to make sure that the guidelines of the Group are being followed. "The Group must give guidelines and then ASAP Finance should make sure that they are being followed. ASAP Finance should be a support to the Business Controllers."

There are some criticism regarding the ASAP Finance model, which to some extent is built on the principle that ASAP Finance is a supplier and the operating units using the services should be seen as customers. "For many years we called the users of ASAP Finance's services 'customers', but I see ASAP Finance as an integrated part of our business. I think it was a mistake to profile ASAP Finance as an independent unit and I think ASAP Finance would gain from profiling themselves together with the business areas, because the acceptance from the operating units would be much higher then." (VP Business Control 3). ASAP Finance themselves, are working on being viewed as an integrated part of the Group. The Global Development Manager of ASAP Finance for example expresses that, "We want to get away from ASAP Finance versus operations, since we are both part of the same group." The Global Controller of ASAP also argues that ASAP Finance is trying to be viewed as part of the business, "…but I am not sure that the other parts of the Group outside ASAP Finance have the same view on this." This concern is justified and some critics argue that ASAP Finance does not have enough knowledge of the core business. “ASAP Finance has grown away from the business a little bit. Confusion easily occurs when we want to have certain things solved by ASAP Finance, because they do not immediately see why we need something. It is a logical consequence of having an internal service provider. When you move out the accountants you get a higher degree of specialization, but they do not feel the heartbeat of the daily business.” (VP Divisional control 4). VP Divisional Control 2 has a similar view and thinks that ASAP Finance, “…in general should be a bit more involved in the operations and see themselves as a support function to operations and not just as a service provider.”

There is however also managers highlighting the potential of the ASAP Finance model to be a unifying link within the Group, connecting the operating units and Group accounting. For example, Business Controller 1 says that, “ASAP Finance help to unify and standardize. They find best practice and try to spread this within the Group, since they are global and have insight into the processes in different parts of the world. This is something that I as a Business Controller would never be able to do.” Regional Service Manager 1 of ASAP Finance also puts attention to this potential of the ASAP Finance organization, but thinks that it is not fully utilized and says, “I think that ASAP Finance could be more of a coordinating force, since we operate across all the business areas of the Group. We can have a more holistic view of the business compared to the General Managers which only operates within their unit. However, we could be more proactive than we are today.”

4.4 The vertical relationships - top management & ASAP Finance and top management & the operating units

The ASAP organization has had difficulties in getting support from all levels within the Group. The Regional Service Manager 1 of ASAP Finance however thinks that, at least, the higher management levels of the Group are aware of the importance of their work, “I think that we have a good connection and dialogue with the VP Business Controllers of the business areas. They support us and our strategy, but the communication stops there and does not reach the lower levels of the organization.”



The Regional Accounts Payable Manager of ASAP Finance highlights that conflicts arise between ASAP Finance and the operating units when ASAP Finance tries to introduce new processes, which the operating units are resistant to. “When you tell Business Controllers and the operating units what to do, they feel that they are losing power, authority and control, which becomes a problem.” (Regional Accounts Payable Manager, ASAP Finance). The operating units has sometimes mistrusted ASAP Finance because the communication from above has been weak, according to Regional Accounts Payable Manager of ASAP Finance who says that, “All things have not been going well because what has been agreed upon by the ASAP Finance Board should be communicated from top management of the business areas to the General Managers of the operating units, and from the General Managers to the Business Controllers, but this information has been weak and left over to ASAP Finance to handle. Operations think that we have invented what actually has been agreed upon on higher levels.” The Global Manager of ASAP Finance argues that, “It is important to get support from top management of the Group.”

Regional Service Manager 2 of ASAP Finance say that in order for ASAP Finance to implement standardization they must be given the power to do so. “If the Group wants everything standardized then ASAP Finance must be given mandate to do this.” VP Business Control 2 is also of the opinion that for ASAP Finance to be able to implement standardization and to make sure that everyone is on board, directives most come from top management of the Group. “Directives become important if you want to standardize. Certain principles must apply to everyone. It has to come from above.”

VP Divisional Control 3 claims that it is important that the whole group understands that ASAP Finance is just the carrier of decisions taken by top management of the Group. “One must be clear that ‘this is us together’ and that we all want this to work well.” (VP Business Control 3). Global Manager of ASAP Finance says that, “Some parts of operations do not consider ASAP Finance being part of the business”. He continues and says that it nevertheless has become much better. “We got great help from senior management of the business areas with empowerment.” Before, the companies did not understand that the operations also were standing behind decisions that ASAP Finance were to communicate. However, this changed when ASAP Finance and top management of operations started to communicate jointly. “Before, ASAP Finance had to communicate with the operations themselves and the operating units did not understand that the business areas stood behind the decisions. I think that we have succeeded in changing this the last two years. We now communicate messages jointly. Today, if information regarding new procedures is sent out to the operations, then the Global General Manager of ASAP, the VP Group Controller and I, together sign the message. But, I still think that we can become even better.” (VP Divisional Control 3). The Regional Service Manager 2 of ASAP Finance agrees that there has been a positive development with regards to the communication. “The Group has much stronger communication now in saying how things should be done.” (Regional Service Manager 2 ASAP Finance).

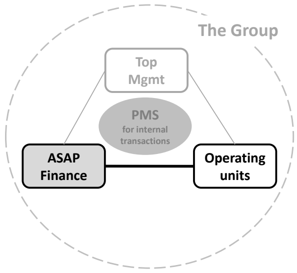
The ASAP Finance Board and the Finance Process Council

The Global Controller of ASAP thinks that the ASAP Finance Board plays an important role in the communication between ASAP Finance and the operating units. “The ASAP Finance Board now actively informs prices and other decisions taken to the operating units, and that makes our job easier.” (Global Controller ASAP). This is the right development according to the Global Development Manager of ASAP Finance who argues that, “The ASAP Finance Board should be communicating the ‘big things’.” The ASAP Finance Board tries to communicate that there are representatives from both the operations and from ASAP Finance in the board, so that no part feel left out. ”We have tried to make it clear that people from operations are a part of the board so that the operating units feel that they have influence.” (VP Business Control 3). The ASAP Finance Board plays an important role in communicating decisions so that conflicts between ASAP Finance and the operating units do not arise. The Global Development Manager of ASAP Finance says, “We had individual fights all the time before, but it has improved. More and more people are seeing ASAP Finance Board as the authority of how things should be done.”

The Finance Process Council is another important governing body of the accounting and reporting transactions. The purpose of the Finance Process Council is to increase standardization and work on process improvements by identifying strong accounting and reporting processes. “Today we have established, what we call, the Finance Process Council. This is a body that works on driving standardization and process improvements. This makes our work a little bit easier.” (Global General Manager, ASAP). Like in the ASAP Finance Board, the members of the Finance Process Council are representatives from top management, managers in operations and the Global Manager of ASAP Finance. Since ASAP Finance is a global player that are in contact with all the business areas of the Group, they are an important source of information for the Finance Process Council. ASAP Finance is also responsible for the global implementation of new processes decided by the council. “ASAP Finance has an important role in the Finance Process Council since they are in touch with all divisions and can see the whole picture and give consulting to the council.” (VP Divisional Control 4).

The ASAP Finance Board and the Finance Process Council have a close collaboration and are important players when it comes to aligning the Group regarding accounting and reporting matters. "The ASAP Finance Board works very close together with the Finance Process Council, they are almost the same body. They are monitoring and are setting rules for the Group. It is a fairly powerful body, which can overrule the local discussions if needed." (Global General Manager ASAP).

4.5 The relationship between ASAP Finance and the operating units



The Business Controllers of the operating units and the ASAP Finance accountants generally work very close to each other, especially in times of closing the books. Regional Service Manager 1 of ASAP Finance describes the interaction between ASAP and the Business Controllers as, "…very intense and ad-hoc." A good relationship and collaboration is seen as key to make the accounting and reporting processes run smoothly. The Global General Manager of ASAP says, "Trust and good collaboration with Business Controllers are very important success factors for ASAP Finance." Good and open communication is also an important success factor according to VP Business Control 2 and Global Development Manager of ASAP Finance. "I think that having good communication between ASAP Finance and operations is crucial. You have to inform each other about changes and decisions taken." (VP Business Control 2).

Even though it is argued that a good relationship between ASAP Finance and the operating units is important to ensure good quality and efficiency of accounting and reporting processes, there have historically been large problems with how the operating units treat ASAP Finance. "It has happened at many places that ASAP Finance people have been treated badly. Being a local ASAP Finance accountant can be though, since they are very exposed." (Global General Manager ASAP). The creation of ASAP Finance has sometimes been viewed as a loss of power over the accounting and reporting activities for the operating units to ASAP Finance. Regional Service Manager 1 of ASAP Finance says that, "In many local sales companies, the Business Controller is one of the most important managers and used to taking decisions. ASAP Finance is a global organization with its own structure and goals and sometimes there are conflicts between what the local Business Controller wants and what ASAP Finance needs to do. One good example being the standardization versus customization. I can take the fight with the Business Controller, but you have to be careful since the ASAP accountant is sitting locally next to the Business Controller and there is a risk that the ASAP accountant gets in between."

Furthermore, the status of ASAP Finance within the Group has been low and it has been easy to blame ASAP Finance if something is wrong. For example, Regional Service Manager 2 of ASAP Finance says, "Before, ASAP Finance was just rubbish. We were blame goats. When you wanted to punch someone you could always use ASAP Finance as a sandbag." VP Divisional Control 4 raises a similar concern, "In the Group the operating units are in charge over what services they want to get delivered, sometimes to their own disadvantage. ASAP Finance is not in the position to oppose. Therefore, ASAP Finance might be forced into sub optimization due to requirements from operations, even if these requirements are not optimal for the Group as a whole." This status problem still exists in some places, but has gradually decreased according to the Global Controller of ASAP saying that, "The global pricing system and the customer survey have helped in increasing the status of ASAP Finance within the Group."

Factors affecting the collaboration

In some places the collaboration between ASAP Finance and the operating units works well, but in some places there are still problems. The formal customer meetings are seen as one important factor for ensuring a good collaboration. “Where we have regular meetings with the Business Controllers to go through and solve issues, we have good collaboration and happy customers.” (Acting Global Manager ASAP Finance). VP Business Control 1 also argues that having regular meetings is very important, but thinks that there are too few meetings today. “Often the reason for having problems is lack of regular meetings between ASAP Finance and the operating units. You need to have these meetings every month after the closing to go through what have been good and bad, but that is a weakness today.”

Physical location is argued to be another important factor to create a good collaboration, but it also comes at the expense of standardization. “Where ASAP Finance is located next to the operations the relationship is good, but when they are located outside or far from the operating unit the relationship is not so good.” (VP Divisional Control 1). Business Controller 1 has a similar view, stressing that local knowledge is important to make things work and says that, “I have had several different ASAP Finance colleagues, one located in each country of which I am responsible for. In general the collaboration is good. The ASAP Finance people has been experienced and they have almost been like assisting Business Controllers. However, we have had some problems with ASAP Finance in Prague, since the local knowledge is not there.” The Acting Global Manager of ASAP Finance also argues that physical closeness helps making the collaboration better, but also sees a risk that the goal to drive standardization becomes harder to obtain and says, “We normally sit in the same building, which facilitates communication and collaboration. The negative side is that we often customize too much.”

A third factor highlighted as important for creating good collaboration is to have mutual understanding. “The problems occur on lower hierarchical levels within the Group, when there is lack of mutual understanding, expectations are different and it is unclear division of responsibilities.” (VP Business Control 1). Not surprisingly, ASAP Finance and the operating units has different views on, and explanations for, where the lack of knowledge and understanding lies. ASAP Finance’s view of this is reflected by the Regional Accounts Payables Manager of ASAP Finance who says that, “The relationship between ASAP Finance and the operating units is good where the Business Controllers have an understanding for what we are doing.” VP Divisional Control 4 instead highlights the operating units’ view and argues that, “Wherever it works well it is because the ASAP Finance people want to be close to the business and understand what is going on even though they are taken out of the organization.”

Interdependence between ASAP Finance and the Business Controllers

VP Business Control 3 stresses that it is not only up to ASAP Finance to make the collaboration efficient and effective and explains that, “UK was a country where we had troubles, but which now works fine. This case shows that it is not only up to ASAP Finance to make it work. The Business Controller must also do their part. The relationship must be good.” VP Business Control 2 has similar experiences and says, “The collaboration between ASAP Finance and the operating units must be strong. It is not a one man show. Operations often blame ASAP Finance when something goes wrong, but it is a two-way communication.” Regional Service Manager 2 of ASAP Finance says that ASAP Finance often has been too much of a market servant instead of explaining to the operating units that they are sometimes causing the problem. “A lot of the issues ASAP Finance have are derived from the fact that the operating units are working in inefficient ways. In those cases we must explain that they are causing the problems, for both sides to be able to solve the problem." (Regional Service Manager 2, ASAP Finance)

Although the Business Controllers are ultimately responsible for the numbers reported, they often do not see their part in improving the quality of the accounting and reporting processes. "There is a mutual need to share information between the operating units and ASAP Finance. Our companies must understand that we need to cooperate with ASAP Finance to stay competitive and efficient. Sometimes the operating units complain more than what is necessary, instead of finding solutions." (VP Divisional Control 1). Moreover, a good collaboration is dependent on both ASAP Finance and the operating units but several highlight the fact that it is only ASAP Finance which is evaluated on any cooperation parameter and not the operating units. For example, the Regional Service Manager 2 of ASAP Finance says that, "There are no incentives for the operating units to facilitate the activities where ASAP Finance is involved. Actually it is almost to the contrary, that the operating units' incentives make our life more complicated." Furthermore, the Global General Manager of ASAP thinks that it is a weakness that the Business Controllers not are evaluated on any collaboration parameter with regards to the activities related to ASAP Finance.

Nevertheless, the operating units' natural focus is on their core business and the ASAP Finance-activities are seen as a hygiene factor to make the business run smoothly. "Support is low priority for the General Managers, they just need it to work." (Global General Manager, ASAP Finance). General Manager 1 further illustrates this and says, "Ideally ASAP Finance should become invisible. They should operate so that you do not notice that they exist, but that is a dream state." VP Business Control 1 provides an illustrative metaphor of ASAP Finance, "ASAP Finance has a rather unappreciative function within the Group, but if they do not exist the company will not function. If they are working well, no one will notice them, very much like a football referee. However, a bad football referee is very visible and can impact the game being played negatively." VP Divisional Control 4 says that operations sometimes forget about ASAP, "We are not always aware of the fact that ASAP is a service provider that we must involve to make them part of the process."

4.6 Upcoming changes and plans for the future of the ASAP finance organization

At the end of 2011 the Group announced that parts of ASAP Finance's operations would be outsourced. In a press release the CFO explains that, "…leveraging the size and global presence of [the outsourcing partner] will make it possible to further improve the quality and efficiency of the processes, at a competitive cost." The outsourcing is at this point in time however only partial, and will mainly concern the countries considered as 'mature'. This for example includes Western Europe, North America and China. As a consequence the Accounts Payables department in Prague will be outsourced. For the countries served by the outsourcing partner, ASAP Finance will be responsible for the contracts with the external service provider, but not provide the services themselves. ASAP Finance will hence still provide financial services directly to some countries and indirectly to some countries. The Controller of ASAP Finance anticipated this development and says that, "I think that the Group's strategy is to use external service providers and that Prague was only a start. Outsourcing is simply the next step." Another upcoming change for the ASAP organization is that the Global ASAP Board and Global ASAP Management team is phased out. The Global Manager of ASAP Finance will then only report to ASAP Finance Board, since the Global ASAP Board is removed. The ASAP Finance Board will report directly to Group Controlling. Some management hierarchies for the administrative operations will hence be removed.

Chapter 5. Analysis

This section will present our analysis. The analysis will follow our theoretical model to explore why tensions evolve from the integration of the producing unit (ASAP Finance), the using units (operating units) and top management involved in the internal accounting and reporting transactions of a MNC (the Group) and how the design and use of a PMS can manage or create tensions (see Figure 11). Hence, there are four main sections in this chapter. The first three sections cover the tensions outlined by Busco et al (2008), vertical vs. lateral relations, standardization vs. differentiation of practices and centralization vs. decentralization of decision making. Finally, our proposed tension between market and hierarchical coordination is investigated. Each section will combine the tension with the different actors involved in the accounting and reporting transactions conducted by ASAP Finance and the PMS in place for coordinating these transactions, presented in chapter 4. Within each section, we will start by analyzing why tensions emerge from integrating the actors involved in the accounting and reporting transactions. Thereafter, the question of how the design and use of different mechanisms of the PMS, relevant for the specific tension, can manage or create tensions. As mentioned previously, PMSs are defined as sets of practices that support processes of strategic decision making, planning and control.

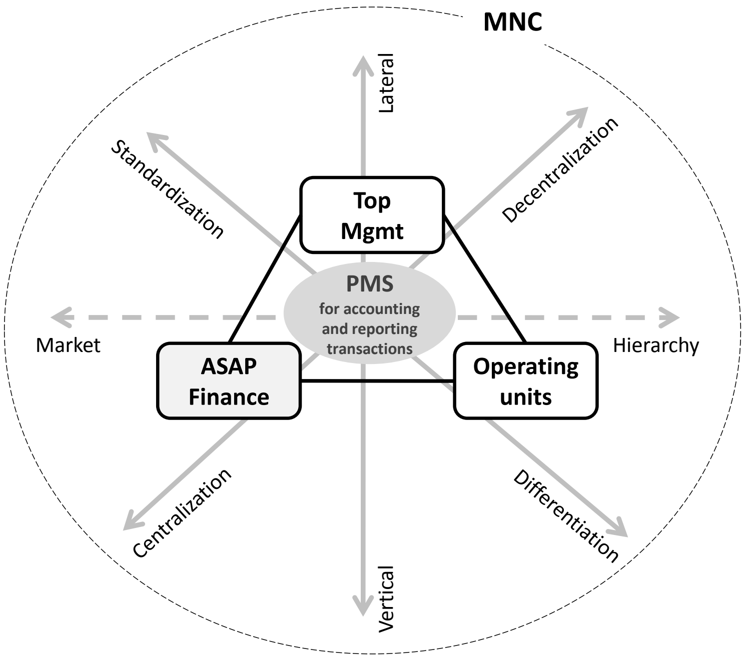


Figure 11. The theoretical framework departures from Busco et al's (2008) three tensions; vertical vs. lateral relations, standardization vs. differentiation of practices and centralization vs. decentralization of decision-making. We have added the different types of actors involved in internal transactions and the potential tensions of market vs. hierarchical coordination to explore how tensions evolve from the integration of the different types of business units, involved in internal transactions in a MNC and how the design and use of a PMS can manage or create tensions.

5.1 Vertical vs. Lateral relations

To fully understand the integration of separate units within MNCs, the whole relational context of the MNC in terms of *both* vertical and lateral relationships must be considered (Busco et al, 2008). In other words, they claim that one cannot just focus on managing the vertical relations, but the lateral relations must also be managed in order to integrate the separate units of a MNC. As the ASAP

Finance organization was created, new relations emerged, both *between* ASAP Finance and the other units of the Group and *within* the ASAP Finance organization.

Vertical, Lateral and 'Tilted' relations

The emergence of new relationships creates new coordination and control conditions to ensure effective collaboration between the different units. The vertical relations are concerned with the relationship and information flows between headquarters and subsidiaries (Busco et al 2008). Accordingly, new vertical relationships emerged from the creation of ASAP Finance, *between* top management of the Group and ASAP Finance. The lateral relations, Busco et al (2008) define as the relationship between different subsidiaries and Van der Meer-Kooistra & Scapens (2008) describe lateral relations as relations between hierarchically relatively equal parties which are highly interdependent. The relationship between ASAP Finance and the operating units could be viewed as an example of lateral relationships, in the sense that ASAP Finance and the operating units are subsidiaries collaborating. VP Business Control 2 emphasizes that it is not just up to ASAP Finance to make the accounting and reporting activities run smoothly and says that, "The collaboration between ASAP and operations must be strong. It is not a one man show. Operations often blame ASAP when something goes wrong, but it is a two-way communication." The formal mechanisms in place to manage the relations, nevertheless mainly focus on steering, controlling and evaluating ASAP Finance and not the operating units. For example, both the formal customer meetings and the customer survey evaluate ASAP Finance's performance. It could thus be questioned if ASAP Finance and the operating units are what Van der Meer-Kooistra & Scapens (2008) call 'hierarchically relatively equal parties'.

General Manager 1, illustrates the operating units view on ASAP Finance and says that, "Ideally ASAP Finance should become invisible. They should operate so that you do not notice that they exist, but that is a dream state." VP Business Control 1 has a similar opinion, "If they [ASAP Finance] are working well, no one will notice them, very much like a football referee. However, a bad football referee is very visible and can impact the game being played negatively." Moreover, Global Development Manager of ASAP Finance illustrates the perception that ASAP Finance is a non-core function by saying, "We have to bear in mind that we are doing administrative services. It is another thing with the production. There you want a Rolls Royce, since this is where the core business is and where you make a difference on the market. The way we book an invoice will not differentiate the Group from its competitors. With invoices you can be a Peugeot." These quotes reflect the fact that the relations between ASAP Finance and the operating units are relations between a non-core business unit and core business units. Moreover, Regional Service Manager 2 illustrates the historically low status of ASAP Finance within the Group and says that, "When you wanted to punch someone you could always use ASAP Finance as a sandbag." This could be interpreted as indications of 'invisible hierarchies' between ASAP Finance and the operating units, since the operating units has higher status than ASAP Finance but has no formal authority or power over ASAP Finance. We therefore argue that in addition to the vertical and lateral relations discussed by Busco et al (2008), there are also other types of relations, neither vertical nor lateral, but instead these relationships could be viewed as *tilted* relations. This shows that relations between core and non-core units can be characterized by 'invisible hierarchies' in the form of tilted relations. Due to this tilt an interrelated tension between the non-core and core units might emerge and this needs to be managed to be able to integrate the units involved in the internal transactions, to create efficient collaboration and thereby efficient coordination of the internal transactions. Hence, this aspect needs to be added to the relational context of a MNC presented by Busco et al (2008). (See Figure 12).

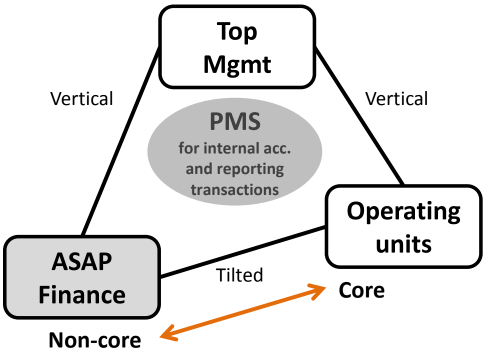


Figure 12. The relationship between ASAP Finance and the operating units is neither vertical nor lateral, but tilted, due to the fact that ASAP Finance has a lower status compared to the operating units within the Group. In these tilted relations an interrelated tension between core and non-core units can emerge, which needs to be managed to create efficient collaboration.

5.1.1 PMS mechanisms in place for managing the relations

Support from top management – help managing the tilted relations

When internal client-supplier relationships are created, the need for vertical control decreases and management control is 'horizontalised' (Vosselman, 2002). Nevertheless, the ASAP Finance case shows that although the need for vertical control might decrease as a SSO is created, communication and support from top management is still needed to some extent. This is to ensure integration, i.e. effective collaboration between the producing unit and the operating units. "All things have not been going well because what has been agreed upon by the ASAP Finance Board should be communicated from top management of the business areas to the General Managers of the operating units, and from the General Managers to the Business Controllers, but this information has been weak and left over to ASAP Finance to handle. Operations think that we have invented what actually has been agreed upon on higher levels." (Regional Accounts Payable Manager, ASAP Finance). The vertical communication to the operating units regarding accounting and reporting activities has however become stronger, which have made the interaction between ASAP Finance and the operating units more effective according to the Global Controller of ASAP who says that, "The ASAP Finance Board now actively communicate prices and other decisions taken, and that makes the communication with the operating units easier." VP Divisional Control 3 also stresses the importance of joint communication and support from top management and says, "Before, ASAP had to communicate with the operations themselves and the operating units did not understand that the business areas were behind the decisions. I think that we have succeeded in changing this the last two years. We now communicate messages jointly." This illustrates the interdependence between the different units within the Group and that the relations between ASAP Finance and the operating units (i.e. the tilted relations) are dependent on support from top management (i.e. vertical relations). Busco et al (2008) find that hierarchical control does not necessarily hamper lateral information exchange, but instead it can enable interaction among subsidiaries. We however argue that vertical control not only can help enable lateral interaction, but that it might be *necessary* for creating efficient relations between subsidiaries. Thus, we find that the different types of actors involved in the internal transactions, impact how the tension of vertical vs. lateral relations emerge and that the different types of relations related to the internal transactions are interdependent, rather than opposing. Also, this case shows that support from top management becomes increasingly important when the relationships between subsidiaries are tilted. We argue that, this is because in tilted relations the support from vertical relations in the form of hierarchical power, can help in managing the tension evolving from the unequal power distribution between the core and the non-core subsidiaries and hence make the tilted relations lateral.

Creation of the ASAP Finance organization – enabling knowledge-sharing

Before ASAP was created the accounting and reporting activities were completely decentralized and the lateral information exchange was non-existing for accounting and reporting activities in the Group. "Before ASAP you had one accountant in the sales company and she was there for 20 years. She had all the information to herself and there were no documentation, building up extreme one-person dependency." The Group's concentration of accounting and reporting activities, into the ASAP Finance organization did however increase the possibility for both lateral and vertical knowledge-sharing and information exchange. "ASAP helps to unify and standardize. They find best practice and try to spread this within the Group, since they are global and have insight into the processes in different parts of the world. This is something that I as a Business Controller would never be able to do." (Business Controller 1). In line with the findings of Busco et al (2008), this shows that decentralization as such does not facilitate lateral information exchange. Instead, the choice to coordinate part of the Group's accounting and reporting activities within a separate organization, i.e. ASAP Finance, can be regarded as a way to facilitate knowledge sharing concerning these activities. This is because the knowledge of accounting and reporting is concentrated into one unified organization creating links for enabling knowledge sharing and interaction.

Like the case in Busco et al (2008), the ASAP Finance case shows that informal mechanisms are important for integrating the different units *within* the ASAP Finance organization. "Sharing experiences is based on relationships rather than formal structures. These relationships are built from the fact that we have worked together for a long time and know each other." (Regional Service Manager 1, ASAP Finance). The Controller of ASAP Finance, nevertheless, also highlights that there are formal structures in place for sharing experiences within the ASAP Finance organization in the form of the global development teams. "We have the global development teams, where we have people coming together to discuss best practice and changes." Hence, the organizational structure, has some impact of strengthening the internal ASAP Finance relations, but the informal relations seem to play a crucial role as well. Nevertheless, there are still challenges related to the organizational structure and like discussed above, the information flows are not perfect. The Regional Service Manager 1 of ASAP Finance, for example says, "There are databases for knowledge sharing, so the structure is there, but it is dependent on people having input to these databases. Definitely, the knowledge sharing between the regions can be improved."

The plan – intended to manage the vertical relations

The predominant mechanism in place for managing the vertical relations related to ASAP Finance is the plan set by the Global Manager and Controller of ASAP Finance and approved by the ASAP Finance Board. The plan supports vertical information flows and the monthly follow up of the targets in the plan ensures that the vertical information flows are not just top-down, but also bottom-up. "If your results deviates from the plan, you must explain why to the ASAP Finance Board." (Regional Finance Service Manager 1, ASAP Finance).

Van der Meer-Kooistra & Vosselman (2000) state that trust is of high importance in situations with high levels of uncertainty and strong dependencies between cooperating parties. Busco et al's study from 2008 shows that the successful relationships between the different business units was created through knowledge sharing grounded in a feeling of trust for one another. The formal PMS is hence not enough to manage the tensions involved in the process of integration, as they have to rely on informal mechanisms, which requires a certain degree of trust between units (Busco et al, 2008). The

ASAP Finance case shows that there are strong dependencies between the different actors. Nevertheless, there is a lack of trust in ASAP Finance's efficiency levels within the Group. The function of the plan for communicating ASAP Finance's performance has not been successful and the Global Manager of ASAP Finance highlights that they have had a hard time communicating their actual performance, "We need to improve our KPIs and show how we perform in relation to the market." Top management of the Group also has some concerns regarding the performance data communicated in the monthly reporting packages. "There are so many KPIs that ASAP Finance could use for measuring efficiency, but ASAP Finance has been slow in developing such metrics. Also, I miss clarification of certain KPIs. For example, I wonder why Sweden is able to process 18 000 invoices while Italy can only handle 10 000? Of course there are differences in legal requirements etc., but the difference should not be that big." (VP Business Control 3). Hence, the lack of trust in ASAP Finance's ability to be an efficient internal service provider, might be explained by the unsatisfactory performance data communicated. This highlights that information flows as such is pointless, if the information distributed is not perceived as trustworthy and relevant for the receiver. This inability to communicate ASAP Finance's actual performance has made it challenging to justify their existence and might partly explain the historically low status of ASAP Finance within the Group.

Customer survey – strengthening the relations *between* ASAP Finance and the operating units through vertical control

The customer surveys serves as a tool for ensuring horizontal communication and it has created a new area for interaction between ASAP Finance and the operating units. "The customer survey shows what we are doing well and what we are less good at. It is a tool to communicate with our customers and to understand what they need and where we are heading." (Acting Global Manager, ASAP Finance). But the customer survey also has increased top management's control over the tilted relations between ASAP Finance and the operating units. This is because the survey results are communicated to top management and also linked to the ASAP Finance employees' VCs at the same time as it is intended to serve as a feedback-tool in the 'client-supplier' relations. Like mentioned, Busco et al (2008) find that strong vertical relations in the form of hierarchical or top management control can enable interaction among subsidiaries. The customer survey is one example of a coordination mechanism where vertical control help to ensure collaboration between subsidiaries, since the results are used by top management as a parameter of the VCs to incentivize ASAP Finance employees to create good collaboration with the operating units.

Global pricing system – another mechanism strengthening the relations *between* ASAP Finance and the operating units through vertical control

In addition to the customer survey, the global pricing system is another example of a mechanism helping in ensuring vertical control over the subsidiaries, while at the same time increasing the efficiency and effectiveness of the relations *between* the subsidiaries. This is in line with Helden et al's (2001) finding that transfer prices can be used to increase communication and cooperation between business units. The local pricing system created inefficient relations, "The prices were previously negotiated in absurdum. Therefore, global prices were introduced…" (Global Controller, ASAP). The change of the internal pricing system from global to local prices had the positive effect of decreasing the friction between ASAP Finance and the operating units by reducing the time spent on price negotiations. For example, Regional Service Manager 1 of ASAP Finance says, "…the discussions have decreased." This improvement of the relations between ASAP Finance and the operating units was gained through the use of more vertical direction and control over the prices, since the opportunity for the operating units to negotiate the prices charged is removed.

The global pricing system is hence an example of a mechanism that has helped increase the efficiency of the relations between ASAP Finance and the operating units, by reducing inefficient and non-value adding negotiations of prices through the use of more authority. Both the example of the customer survey and the global pricing system hence shows that certain coordination mechanisms can manage different types of relations at the same time and hence help in integrating the different units of a MNC.

Formal customer meetings – needed for strengthening the relations between ASAP Finance and their customers

When knowledge within an organization is decentralized, this knowledge needs to be drawn together to enable an optimal set of practices to emerge for an organization as a whole and such knowledge sharing can be facilitated not only by vertical information flows and relations, but also through lateral relationships (Dent, 1987). The customer meeting, is a formal mechanisms enabling such lateral knowledge sharing to take place. In the meetings, ASAP representatives together with Business Controllers and General Managers sit down and discuss their collaboration. The focus is on evaluating ASAP Finance's performance qualitatively. The Acting Global Manager of ASAP Finance describes the customer meetings as, "…a qualitative control where we get qualitative feedback from our customers." VP Business Control 1 argues that having regular meetings is very important, but thinks that there are too few meetings today. "Often the reason for having problems is lack of regular meetings between ASAP Finance and the operating units. You need to have these meetings every month after the closing to go through what have been good and bad, but that is a weakness today."

SLA – usefulness dependent on personal relations and physical distance

Like mentioned, a typical coordination mechanism in markets are formal contracts to secure that the contracting parties fulfill their promises. The *SLAs* are supposed to function as formal contracts, carrying information in the relations between ASAP Finance and their customers. They are hence intended to define what ASAP Finance is to deliver to the operating units. The SLAs are also thought to be a tool for avoiding conflicts between the operating units and ASAP Finance, "When there is a problem you should go back to the SLAs and look them through." (VP Divisional Control 1). All this shows that the SLAs are designed with the objective to ensure a good collaboration. Ferreria & Otley (2009) however argue that the use of different control mechanisms in a PMS can be more significant than the formal design. Business Controller 2, states that the SLAs are not discussed and Regional Accounts Payable Manager of ASAP Finance thinks that, "Many conflicts are ongoing because people on both sides [ASAP Finance and operating units] do not know what is included in the SLAs." This illustrates that the formal control mechanism in the form of SLAs are *designed* to ensure a good collaboration, but that these are not always *used* as intended.

Van der Meer-Kooistra & Scapens (2008) emphasize that lateral relationships involve more relational and informal control mechanisms compared to vertical relations. This is because the cooperating parties in lateral relations may have different interests and motives and since no direct hierarchical control can be exercised there is a risk associated with having to rely on each other (Busco et al, 2008). The SLAs is a typical formal coordination tool, but the usefulness and significance of the SLAs seem to be dependent on the extent of informal and relational control in place to coordinate the relations. The Controller of ASAP Finance explains that, "Some follow the SLA completely, however in some cases it depends on the relationship between ASAP Finance and the Business Controller." Moreover, when informal and ad-hoc collaboration is hard to achieve and maintain, due to physical distance, the function of the SLA becomes more important. "If you are situated far away from ASAP and do not have a personal relationship, then the SLA becomes much more important." (General

Manager 2). This indicates that the importance of the SLA as a formal coordinating mechanism increases as informal and relational mechanisms gets weaker and vice versa, i.e. the SLAs are less important in coordinating the relation when informal and relational coordination mechanisms are strong.

Table 1. Summary over how the PMS mechanisms in place for managing the relations are designed and used and their ability to manage the tension.

	Top management communication	**Organizational structure** *ASAP Finance*	**The plan** *& the monthly reporting package*	**SLA**	**The global pricing system**	**Customer survey**	**Customer meetings**
Vertical vs. Lateral relations *(Core vs. Non-core)*	• Support from top management help manage tilted relations between non-core and core units	• ASAP Finance org. structure enable knowledge sharing regarding accounting and reporting activities	• Gives direction and communicates strategies • Fail in communicating ASAP Finance's performance in a relevant and reliable manner	• Designed as a formal contract determining the rules for the transactions and the lateral relations • Not used as intended, when informal mechanisms and personal relations are strong	• Improve the lateral relations, by removing local price-discussions, because the prices are set vertically	• Enable lateral feedback from operating units to ASAP Finance • Vertical control through link to VC ensure that ASAP Finance react on the results and thereof create good lateral relations	• Enable lateral communication and knowledge sharing

5.2 Standardization vs. Differentiation of practices

The MNC context requires both standardization and differentiation of management practices to achieve both global unity effort and local adaptation, differentiation and flexibility (Busco et al, 2008). The spoken strategy for ASAP Finance to be 'as global as possible and as local as necessary' reflects this need. One of the main goals with having the ASAP Finance organization within the Group is to drive standardization of the transactions. Standardization is needed to be efficient and to create accurate accounting and reporting on time. However, the need for differentiation is also present for ASAP Finance. Differences in languages and legal requirements between countries are examples of conditions inherent in the MNC context of the Group creating a need for local adaptation. However, this need creates challenges for the managers within MNCs. Acting Global Manager of ASAP Finance illustrates this and says, "We have a conflict of customers wanting local customization and the Group wanting global standardization, which can create problems." Hence, being manager of ASAP Finance which is an organization with the goal to standardize processes, while at the same time, "…build lasting business relationships resulting in satisfied customers who return and recommend us to new customers." (internal document) creates goal conflicts for the managers of the ASAP Finance organization that must be managed.

The ASAP Finance case shows that it is difficult to balance the need for both standardization and differentiation. For example, the centralization of accounts payables to Prague with the aim to increase the level of standardization has encountered difficulties. "Prague has done a great job, but the transformation to Prague was too fast. All companies had different processes for handling accounts payables and the transformation became messy." (VP Divisional Control 1). Kilduff (1992) argues that conflicts regarding practices and routines between culturally diverse groups within a MNC are inevitable. Regional Service Manager 2 of ASAP Finance illustrates such a conflict related to the closing of the books and says, "Decisions is always made from a European perspective and that is not always how the rest of the world works. We have a three-day standard for the closing, but in reality it means that in the US we only have two and a half days to close the books due to time-differences. Therefore we have to work overtime and there is no understanding for this." Furthermore, like mentioned previously, the operating units have a higher status within the Group compared to ASAP Finance, creating tilted relations, which sometimes forces ASAP Finance into suboptimal customization. "In the Group the operating units are in charge over what services they want to get delivered, sometimes to their own disadvantage. ASAP Finance is not in the position to oppose. Therefore, ASAP Finance might be forced into sub optimization due to requirements from operations, even if these requirements are not optimal for the Group as a whole." (VP Divisional Control 4). There are however mechanisms in place intended for managing these challenges and the tension between standardization and differentiation of practices, which will be discussed below.

5.2.1 PMS mechanisms in place for managing the practices

Organizational structure – enabling both standardization and differentiation

Vance (2006) states that differentiation and standardization should be seen as interdependent forces that must work together to create global synergies. The creation of ASAP Finance has enabled the Group to partly handle the challenge of enabling both standardization and differentiation of accounting and reporting transactions. Like stated earlier, the Group has encountered some difficulties in driving the standardization of the accounting and reporting activities. The Global General Manager of ASAP explains that, "The need for driving standardization made us realize that it was not smart to make different kinds of standardizations in different regions." The service area structure was therefore implemented to, "…create unification of the different services, since there are certain synergies between the different service areas." (VP Business Control 3). Busco et al (2008) claim that to achieve coordination within a MNC, there has to be a certain degree of standardization to facilitate communication and knowledge transfer. VP Business Control 3 argues that the new organizational structure of ASAP with the service areas has helped in reaching such coordination and standardization of accounting and reporting processes and says that the, "Service area boards have helped in giving finance focus. Before, it was divided into small bits and pieces in the regional boards." In addition to the service area boards, the Finance Process Council has helped in driving standardization. "Today we have established, what we call, the Finance Process Council. This is a body that works on driving standardization and process improvements. This makes our work a little bit easier." (Global General Manager, ASAP). ASAP Finance has a key function in this council which VP Divisional Control 4 explains is because, "ASAP Finance […] are in touch with all business areas and can see the whole picture and give consulting to the council. Further, ones we decide to adopt a certain process globally, ASAP Finance can drive this implementation." The Controller of ASAP Finance also highlights that the global development teams within the ASAP Finance organization help in driving standardization and convergence of practices, since these teams make people come together to discuss best practice.

Although standardization is important to achieve global unity effort, differentiation is also needed to some extent. Newman & Nollen (1996) argue that differences in national cultures require management practices to be locally adapted. Since the ASAP Finance organization still has regional hubs and Regional Service Managers, some local flexibility and differentiation is kept. The Acting Global Manager of ASAP Finance argues that physical closeness challenges the goal to drive standardization and says, "We normally sit in the same building, which facilitates communication and collaboration. The negative side is that we often customize too much." This indicates that the organizational structure of ASAP Finance is a mechanism intended for managing the tension between standardization and differentiation of accounting and reporting activities, by driving standardization in a decentralized and diverse MNC where differentiation of practices is more a rule than an exception. It nevertheless also shows how hard it is to balance the different requirements.

The Global Pricing system – an attempt to indirectly drive standardization

Local negotiations were a dominant characteristic when the local pricing system was in use. This system did however not directly help in driving the desired standardization, but rather it created inefficiencies, due to time consuming price negotiations. With the new global pricing system an aim was to increase the global efficiency of the accounting and reporting activities by increasing standardization. The ASAP Finance Board indirectly attempts to steer towards standardized accounting and reporting processes through this global pricing system, by giving the operating units incentives to handle these activities in certain ways. The incentives are present in the form of price differentiation. For example, the system has lower prices for standard reports compared to non-standard reports. The system is however not forcing and as a consequence also leaves space for local flexibility, i.e. the operating units can choose to buy a customized service instead of a standardized one by paying a higher price.

Traditionally transfer pricing literature focus on finding the optimal transfer price to incentivize managers to take decisions beneficial for the whole corporation instead of just for the specific manager's business unit (Busco et al, 2008). The traditional view is hence that transfer pricing systems are intended to create goal alignment and convergence or standardization of management practices. Helden et al (2001) nevertheless find that the objective with using transfer prices to coordinate internal transactions is not always to find an 'optimal' transfer pricing system, but that transfer prices can be used to increase communication and cooperation between business units. In line with this finding, the ASAP Finance case shows that the global pricing system has helped creating more efficient communication between ASAP Finance and the operating units, since the time spent on inefficient price negotiations has decreased. Nevertheless, the new pricing system has not entirely achieved the desired standardization goals. For example, the introduction of a higher price for handling invoices *without* matching purchase orders compared to invoices *with* matching purchase orders, was intended to help increase standardization and the efficiency. But this price differentiation has only had a minor effect. "The price level has some influence, but not a major impact." (Controller, ASAP Finance). An explanation given for why the impact is not that big is that, "The prices are too low for the operating units to focus on." (Regional Accounts Payable Manager, ASAP Finance).

Moreover, Business Controller 1 addresses a suboptimal behavior emerging from the global pricing system which charges much higher prices for non-standard reports compared to standard reports and says that, "Because of these high prices, the Business Controllers spend a great amount of time on creating reports themselves rather than analyzing them." Although there has been positive effects in terms of more efficient communication between ASAP Finance and the operating units, the global pricing system as such, has not resulted in any significant standardization of the accounting and reporting practices. This illustrates how difficult it is to design and implement a transfer pricing system without creating any sub optimal differentiation of practices. Hence, the pricing system has not been as efficient as intended for managing the tension between standardization and differentiation of practices, but has been of great importance for managing the vertical and lateral relations, as discussed in the previous section.

Customer Survey – a tool encouraging local adaptation

Differences in national and business cultures require management practices to be adapted to the local culture (Newman & Nollen, 1996). This need for local adaptation due to cultural differences is illustrated in that the numbers from the customer survey must be handled with care, “Depending on the culture of the country, the numbers mean different things. I think it is wrong to compare the numbers from the customer survey between countries.” (VP Business Control 1).

Moreover, the need for both standardization and differentiation is highlighted by Newman & Nollen (1996) who say that, “Big Macs are the same around the world, but McDonald’s management practices should not be.” (p. 753). Like previously stated, the Group’s objective with creating ASAP Finance was to drive standardization to reach global unity effort regarding accounting and reporting activities, rather than to keep local flexibility and adaptation. The customer survey is however one of the few formal PMS mechanisms promoting local adaptation, and as a result differentiation of practices. The survey is used to locally evaluate ASAP Finance’s performance from a customer point of view and the results from the survey are linked to the bonuses of the ASAP Finance employees, encouraging them to act in the way that the local operating units desire. Since the customer survey was introduced, the customer satisfaction has improved significantly. This shows that the customer survey has helped in satisfying the need for differentiation, since ASAP Finance through the results from the survey can become aware of what they locally need to adjust in their service offering. “We sit down and discuss the problems with the persons involved to agree on how to improve this area of underperformance.” (Global Manager, ASAP Finance).

Table 2. Summary over how the PMS mechanisms in place for managing the accounting and reporting practices are designed and used and their ability to manage the tension.

	Organizational structure *ASAP Finance, ASAP Finance Board & Finance Process Council*	**The global pricing system**	**Customer survey**
Standardization vs. Differentiation of practices	• Service area structure with ASAP Finance Board and Finance Process Council drive standardization • Global development teams find best practice and try to spread it within the Group • Regional Managers and hubs safeguard local adaptation • Physical closeness encourage customization	• Price differentiation intended to incentivize operating units towards standardization • Leaves room for customization at the cost of a higher price for the operating unit • Not functioning as planned, because the cost is too low to make the operating units act in the desired way, or too high leading to sub optimal behavior	• Conducted locally, hence promoting local adaptation, since the survey results are linked to the VCs

5.3 Centralization vs. Decentralization of decision-making

The dilemma of global integration vs. local responsiveness is related to determining the level of centralization and decentralization within MNCs (Busco et al, 2008). Also, Quattrone & Hopper (2005) argue that the distribution of power must not be concentrated to one center, but multiple centers of power can emerge. The Group has by tradition a strong culture of decentralized decision-making power and the operating units have a high degree of autonomy. This indicates that there are not one, but several centers of power within the Group. ”The Group’s culture is very strong in that the subsidiaries have both freedom and responsibility. The Group gives recommendations, but does not give any directives.” (Regional Service Manager 1, ASAP Finance). When ASAP was created it affected the loci of decision-making and resulted in a redistribution of power and authority regarding the accounting and reporting transactions within the Group. The power shifted from the local Business Controllers in the operating units to regional ASAP hubs, creating more centralized decision-making (see Figure 7). Conflicts and resistance have arisen as a result of this redistribution of decision-making power because the operating units sometimes have a hard time accepting that their power over the accounting and reporting activities has decreased. “When you tell Business Controllers and the operations what to do they feel that they are losing power, authority and control, it becomes a problem.” (Regional Accounts Payable Manager, ASAP Finance).

Moreover, there are different views on how centralized the accounting and reporting processes conducted by ASAP Finance should be. Top management promotes increased centralization, “ASAP is still very local compared to other service providers, which I think is a weakness and one of the reasons for why we have not achieved the synergies that we should have achieved.” (VP Business Control 3). The users of the service, i.e. the operating units on the other hand, has the opposite view and emphasis the need for knowledge of the core business and local flexibility. “ASAP Finance has grown away a bit from the business. Confusion easily occurs when we want certain things solved by ASAP Finance, because they do not immediately see why we need something. It is a logical consequence of having an internal service provider. When you move out the accountants you get a higher degree of specialization, but they do not feel the heartbeat of the daily business.” (VP Divisional Control 4). These opposing opinions reflects why this tension of centralization vs. decentralization of decision-making power emerges.

Power distribution and overlapping accountability

Quattrone & Hopper (2005) highlight that the traditional hierarchical organizational structures with defined boundaries for where decision-making power lies are becoming out-of-date and that these boundaries are becoming increasingly blurred. Similarly, the ASAP Finance case shows that the boundaries for decision-making power over the accounting and reporting transactions has become unclear. The controllability principle says that managers should be accountable for activities within their formal authority, but Dent’s study from 1987 shows that this principle is not always applicable and that overlapping accountabilities exists. The formal power and accountability of the accounting and reporting activities’ efficiency now lies with the managers of ASAP Finance. However, even though the Business Controllers have lost their formal power over these processes they still have influence over the efficiency of the transactions. This is because, the efficiency of the transactions is dependent on the input quality from the operating units. Regional Service Manager 2 of ASAP Finance illustrates this challenge and says that, “A lot of the issues ASAP Finance have are derived from the fact that the operating units are working in inefficient ways. In those cases we must explain that they are causing the problems, for both sides to be able to solve the problem.” Hence, the power over the efficiency levels for the accounting and reporting transactions does not only lie in the governing bodies of ASAP Finance and the Finance Process Council, but is also dependent on the Business Controllers’ actions. As a result, overlapping accountability can be found in the accounting and reporting transactions conducted by ASAP Finance and the power distribution is somewhat blurred.

As discussed above, the relations between ASAP Finance and the operating units are tilted due to the existence of ‘invisible hierarchies’, which sometimes forces ASAP Finance into sub optimization because of requirements from operations. Regional Service Manager 1 of ASAP Finance says that, “In many local sales companies, the Business Controller is one of the most important managers and used to taking decisions. […] sometimes there are conflicts between what the local Business Controller wants and what ASAP Finance needs to do.[…] I can take the fight with the Business Controller, but you have to be careful since the ASAP accountant is sitting locally next to the Business Controller and there is a risk that the ASAP accountant gets in between.” Hence, the tilted relations also add to the blurred boundaries of decision-making power and makes it hard for ASAP Finance to reach the efficiency goals set up by top management.

5.3.1 PMS mechanisms in place for managing the distribution of decision-making power

Organizational structure of ASAP Finance – managing centralization and decentralization?

It has traditionally been assumed that the suitable level of centralization and decentralization can be deterministically planned and implemented (Busco et al, 2008). The creation of the ASAP Finance organization has nevertheless been emergent and gradually changed over time, rather than deterministically decided on and later implemented, which is in line with the findings of Quattrone & Hopper (2005). As the service areas was created when ASAP went through an organizational restructuring, the decision-making power for the certain service areas became more centralized. The decision-making power of the accounting and reporting transactions came into the hands of ASAP Finance, the ASAP Finance Board and the Finance Process Council. Hence, we see the creation of ASAP Finance, the ASAP Finance Board and Finance Process Council as new centers of power emerging for the accounting and reporting activities.

The conflict that arises between centralization and decentralization is grounded in that MNCs want to leverage their competitive advantage, and by this need to introduce a certain degree of centralization, at the same time as they want to be able to adapt to local conditions where decentralization and local autonomy is required (Busco et al, 2008). The creation of ASAP Finance has led to an increased centralization of decision-making power regarding accounting and reporting processes. Nevertheless, since ASAP Finance still wants to be close to the operating units several ASAP accountants sit by themselves at the local operating units, far away from their superiors in ASAP Finance. The centralization of accounts payables handling for Europe into the service center in Prague illustrates the challenge of managing the tension between centralization and decentralization of decision making. The goal with moving to Prague was to increase the standardization, but ASAP Finance was not given the authority to standardize. "Directives become important if you want to standardize. […] It has to come from above." (VP Business Control 2). The Group wants to steer towards standardization through centralization, but this has been problematic since the Group is highly decentralized. Like discussed above, when decision-making power is redistributed, resistance often arise and the Regional Accounts Payable Manager of ASAP Finance says that the main challenge with the consolidation of accounts payables project, "…was to get acceptance for the standardization. It is not like you go to the hairdresser where you can decide how you want your hair to be cut. Operations need to comply with our standards, otherwise we cannot be efficient, but it is not that easy to change the local procedures and what might be good for a local sales company is not always what is best for the Group." The Prague example thus shows that it has been difficult to centralize power and enforce the operating units, which have lost power, to accept that they have to comply to the standardized accounts payables practices set out by the ASAP Finance Board. The governing bodies of ASAP Finance however consist of representatives from, top management, operations and ASAP Finance, meaning that even though the Group has moved the decision-making power from the local Business Controllers, operations have not lost all their power since they have representatives within these bodies. Thus, there are still some level of decentralized power left over the accounting and reporting transactions. Also, since the operating units have a higher status within the Group, we argue that the formal redistribution of decision-making power is not completely implemented in practice, because of the 'invisible hierarchies'.

Global pricing system – increased centralization leaving space for decentralized decision-making

Like mentioned above, the tension between centralization and decentralization of decision-making power is an effect of corporations wanting to leverage on their competitive advantage and at the same time be able to adopt to local conditions (Busco et al, 2008). ASAP Finance's competitive advantage is to conduct accounting and reporting activities more efficient than the operating unit's would be able to do by themselves, by driving standardization and gain economies of scale. Business Controller 1 illustrates this advantage of the ASAP Finance model saying that, "…they are global and have insight into the processes in different parts of the world. This is something that I as a Business Controller would never be able to do." The global pricing system was implemented to help ASAP Finance leverage on this advantage, but at the same time leave space for local flexibility at the cost of higher prices for the operating units.

The decision-making power over the pricing system has gone from decentralized negotiations between the operating units and the local ASAP Finance office, to being centrally decided by the ASAP Finance Board. This was to increase the transparency of the prices and also increase the efficiency of the transactions. Even though the power has been centralized, the operating units' influence over their cost levels has also in some ways increased with the implementation of the global pricing system. "I think the pricing system is better today, because now we have the possibility to influence the costs by acting in certain ways." (Business Controller 2). This is because of the introduction of unit prices and the price differentiation for certain services. Examples of this price differentiation are the lower prices for processing invoices with matching purchase orders and that the operating unit has to pay for the number of cost centers used. The operating units' influence over their cost levels related to accounting and reporting processes have hence increased, since they can influence the price they pay by taking certain measures. This influence over their cost levels could be viewed as a form of decentralized decision-making power. Nevertheless, the operating units do not always see that they have this opportunity and General Manager 1 actually feels that he has lost influence over his costs, "I am not the one that is buying the service, I am the one paying for the service. We are basically being charged." The global pricing system, thus tries to accommodate the tension between centralization and decentralization, by being set centrally, but giving the local operating units the possibility to affect their cost levels through price differentiation. Nevertheless, a challenge remains related to making everybody aware of this opportunity.

Table 3. Summary over how the PMS mechanisms in place for managing the distribution of decision-making power over the accounting and reporting activities are designed and used and their ability to manage the tension.

	Organizational structure *ASAP Finance, ASAP Finance Board & Finance Process Council*	**The pricing system**
Centralization vs. Decentralization of decision-making power	• Placing the responsibility of the transactions within the ASAP Finance org. imply increased centralization of decision-making through the creation of governing bodies • Centralization of accounts payables intend to drive standardization, but loss of power for Business Controllers creates resistance • Local hubs safeguard decentralized power • The governing bodies consists of representatives from the different actors involved in the internal transactions, keeping some level of decentralized power	• Decision-making power over the price-levels has become centralized to increase transparency and avoid inefficient discussions • Decision-making power over the cost-levels is decentralized to the operating units through price differentiation, but everybody is not aware of this opportunity

5.4 Market vs. Hierarchical coordination

Busco et al (2008) implicitly assume that a PMS mainly help in managing tensions, but Dent (1987) argues that the design of formal PMS mechanisms, also might create tensions. The discussion of this section shows that the choice of management control structure or coordination mechanism design does not only help in managing tensions, but might also create tensions. We therefore argue that the tension between market and hierarchical coordination is important to consider when designing the PMS for coordinating different types of transactions.

5.4.1 Choosing the management control structure for ASAP

'Make or buy?' is the basic question to be answered by using transaction cost reasoning, to decide which activities that should be conducted in-house and which should be outsourced (Williamsson, 1981). The Group wanted to increase the efficiency of the administrative transactions and looked for a suitable way to coordinate these transactions to reach this goal. Before the decision to create ASAP was taken, the Group considered the alternative of outsourcing the administrative activities. Hence, the ASAP case shows that the Group concluded that the answer was to 'buy' the administrative activities. Nevertheless, due to market imperfections in the form of lack of suppliers due to an immature market for administrative services, 'make' was the only feasible alternative and the Group decided to allocate the administrative transactions to a separate organizational unit. The market-related transaction cost of finding a contract party was high and according to transaction cost reasoning it was therefore more efficient to coordinate the transactions within the boundaries of the Group, i.e. the hierarchy, instead of in the market.

According to Vosselman (2002), there are three transaction characteristics that should be considered when designing a management control structure. These are; the nature of the transactions involved, the volume and frequency of the transactions and the uncertainty and complexity of the transactions. In Minnaar & Vosselman's (2011) transaction cost economics approach to designing the management control structure for producing units, the transaction characteristics are given and the management control structure has to be adapted to these characteristics and not the other way around. One of the goals with concentrating the accounting and reporting activities into the ASAP Finance organization, was however to increase the standardization of these transactions. This shows that the management control structure design choice can be taken to try to *change the nature of the transactions* instead of viewing the nature of the transaction as given.

Vosselman (2002) highlights the trend of concentrating and centralizing the execution and control of administrative activities within organizations and that this leads to the creation of internal 'client-supplier' relations. The setting up of the ASAP organization is an example of this trend. ASAP were set up to be an internal service provider, i.e. an internal supplier, "…to ensure that Business Controllers and other customer center personnel can focus on their core business." (Internal document). Hence, the operating units became users of the services, i.e. clients. Vosselman (2002) argues that the creation of such internal 'client-supplier' relationship, decreases the need for vertical control and increases the need for horizontal management control. Moreover he believes that an important design element of horizontal management control systems is that the users of the services financially compensate the service provider. Hence, the creation of internal 'client-supplier' relations leads to a broader notion of management control, also including some degree of market-like coordination (Minnaar & Vosselman, 2011).

Like stated, the pure market-coordination alternative was a desired, but not a feasible option when ASAP was created. Nevertheless, the Group still tries to coordinate the transactions conducted by

ASAP Finance through market-like coordination mechanisms. VP Business Control 2 explains that, "One alternative was to have very strict principles and not allow any deviations from the standard. But we chose to have a market-like approach for ASAP Finance and influence behavior and coordinate processes through prices." In a pure market, prices contain all the information and incentives needed to create efficient transactions and use of resources, but when internal 'client-supplier' relations are created, weaker forms of market mechanisms might be used, creating a need for other types of information (Vosselman, 2002). In addition to the global pricing system, there are several PMS mechanisms in place for coordinating the relationships between ASAP Finance and the operating units, which could be seen as part of, what Vosselman (2002) calls, horizontal management control systems. The SLAs, the customer surveys and the formal customer meetings are all examples of this.
Minnaar & Vosselman (2011) argue that a market mechanism in the form of an exit threat puts pressure on the management of the unit producing certain service transactions and therefore can increase the efficiency of these transactions. The ASAP Finance organization has never been entirely exposed to such a threat. In exceptional cases, a few operating units have been allowed to stop using ASAP's service under the condition that they can show that their cost level decreases, either by conducting the accounting and reporting activities within their own specific unit, or by using an external supplier. In addition, some operating units are forced by the Group to use ASAP Finance, but the general principle is that, "It is optional to start using ASAP Finance as a service provider, but ones you are on board you are not allowed to get off." (VP Business Control 3). This principle shows that market coordination, in the form of competition, of the ASAP Finance organization today is weak. The ASAP Finance organization could hence be seen as, what Vosselman (2002) would call, a captive buying and selling management control structure i.e. that the operating units not are allowed to buy the services externally and ASAP Finance is not allowed to sell their services externally. This is because there is no real freedom in choosing service provider for the customers.

According to Dekker (2004) the hybrid coordination form encompasses all types of exchange mechanisms between the polarities of the market and the hierarchy. We argue that the coordination form in place for the transactions conducted by ASAP Finance is a hybrid. This is because top management as an authority, tries to manage and control these transactions by using artificial market-mechanisms, like the global pricing system and formal contracts such as the SLAs. This creation of artificial 'client-supplier' relations coordinated through the hybrid captive buying and selling management control structure creates tensions, which the discussion below will illustrate.

5.4.2 The captive buying and selling management control structure – creating a tension between the market and the hierarchy

Introducing an internal pricing system to coordinate the transactions between ASAP Finance and the operating units, weakened the hierarchical control over these transactions, since they now were coordinated through local negotiations rather than through direct control by top management. The local prices originally used to charge the customers of ASAP Finance were locally negotiated like on a competitive market. Nevertheless, they were not market-based prices, since they were based on the Group's historical administrative costs and not on market prices for such services. VP Divisional Control 1 illustrate that these prices were perceived as uncompetitive, saying that, "…sometimes they were unreasonably high." As mentioned previously, the local pricing system led to inefficient discussions and as a consequence, the global pricing system was introduced. These prices are not negotiable but set by the governing body of ASAP Finance. The transactions between ASAP Finance and the operating units have hence become increasingly coordinated by the authority of the Group with this pricing system. The global pricing system can hence be seen as a coordinating mechanism involving both market and hierarchical characteristics. Even though the new global pricing system is supposed to be more transparent and globally consistent, there are still concerns regarding the competitiveness of the prices. VP Divisional Control 1 wants a benchmark to be conducted for determining whether ASAP Finance is efficient or not. “I can find out if my company has received good service, but what I lack is a way to find out if I have got a fair price.” (VP Divisional Control 1). Like mentioned above, prices contain the necessary information and incentives needed to create efficient transactions in a perfect market, but when internal ‘client-supplier’ relations are created, weaker forms of market mechanisms is used, creating a need for other information like for example quality or punctuality (Vosselman, 2002). Like mentioned, the using units do not trust the competitiveness of the prices, making it a less efficient coordination mechanism. An explanation for this mistrust is most likely the fact that the operating units are not allowed to go externally. Also, the mistrust in the prices charged by ASAP Finance, we argue, is a consequence of having prices set by an authority instead of having the prices being set by the players on a competitive market. As result, a tension evolve from the creation of artificial market relations, in the captive buying and selling management control structure, where a combination of market and hierarchical coordination is present.

In the ASAP Finance case, the tension of market vs. hierarchical coordination expresses itself in the fact that the operating units get reason to mistrust the efficiency of ASAP Finance, since the prices charged cannot be trusted as being competitive. Nevertheless, the Group has tried to manage this tension by moving from local to global prices aiming at increasing the transparency, but as our case shows, this has proved to be a difficult task. In line with Vosselman (2002), we argue that in the captive buying and selling archetype, the market mechanisms do not play an important role in influencing the efficiency and effectiveness of producing unit's performance. The price as a coordinating mechanism hence becomes less efficient when the prices are not market-based and this creates a need for complementing the horizontal management control system with other types of coordination mechanisms and information carriers. Consequently, the need for typical hierarchical coordination mechanisms in the form of management control information, like accurate and trustworthy performance data becomes more important to create efficient internal transactions. ASAP Finance has had troubles with communicating their efficiency and performance, since there has been lack of reliable and relevant data. Global Development Manager of ASAP Finance for example says that, “We are not strong in the quality of our data. The cost data is good, but for volume type of data I have doubts.” This might partly explain the lack of trust in the efficiency of ASAP Finance as a producer of accounting and reporting activities within the Group. In addition to formal PMS mechanisms, trust is claimed to be an important coordination mechanism in hybrid coordination forms according to several authors (e.g. Vosselman & Van der Meer-Kooistra, 2000, 2006; Adler, 2001; Van der Meer-Kooistra & Scapens, 2008), like the captive buying and selling structure. According to this reasoning, by increasing the level of trust between ASAP Finance and the operating units, the tensions emerging from the combination of market and hierarchical coordination could possibly be managed. Our discussion however shows that the combination of market-like and hierarchical coordination mechanisms, actually might be a source for decreasing the level of trust between the cooperating parties.

The Group has now chosen to outsource part of ASAP Finance’s operations and this will lead to a higher degree of market coordination of the accounting and reporting transactions, since the transactions are moved outside the boundaries of the firm. This will most likely make the price as a coordination mechanism more efficient. As a consequence, the Group as a hierarchy will lose some control over the transactions, and this might create new coordination challenges. Hence the market-hierarchy perspective will probably be valuable to consider also for these inter-firm relations.

Chapter 6. Concluding remarks

In this section we will summarize and discuss our findings. First, we will present our conclusions connected to the purpose of this thesis. Secondly, managerial implications will be discussed. Finally, we will discuss our findings and provide suggestions for future research.

6.1 Conclusions

The purpose of this thesis was to explore why tensions evolve from the integration of a producing unit, using units and top management, involved in internal transactions, within a MNC and how the design and use of a PMS can manage or create tension. We built on the framework presented by Busco et al (2008) covering the tensions of vertical vs. lateral relations, standardization vs. differentiation of practices and centralization vs. decentralization of decision-making power. This framework does however not provide a complete understanding of why tensions evolve in the processes of integrating separate business units involved in internal transactions within MNCs and the role of a PMS in these processes. In this thesis we have therefore aimed to add to this understanding, by highlighting the different types of actors involved in internal transactions to explore why tensions evolve in these processes. We added three types of generic actors involved in internal transactions within MNCs; top management, producing units, and the using units. Also, we have added the perspective of market vs. hierarchical coordination to explore how the design and use of a PMS can manage or create tensions.

One of our main findings is that the relational context not only involve vertical and lateral relations, but also tilted relations involving a tension between the different types of actors. In this case core vs. the non-core units. Another main finding is that a PMS has a dual role, meaning that it does not only help in managing tensions, but that it also can create tensions, which is visible in market vs. hierarchical coordination. These two findings help extend the framework developed by Busco et al (2008). We claim that this extended framework can provide useful insights to the complexity and challenges related to integrating different actors involved in internal transactions within MNCs. (See Figure 13).

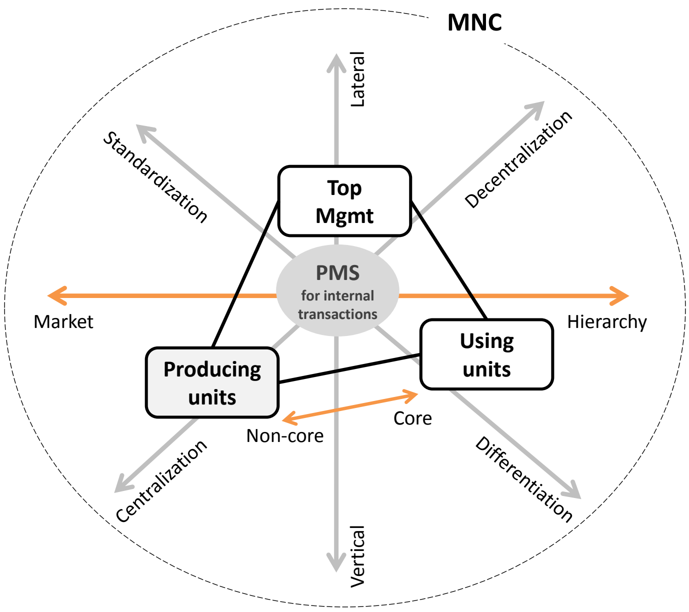


Figure 13. Extended framework illustrating the challenges of coordinating internal non-core transactions in a MNC.

Why tensions evolve from the integration of different actors, involved in internal transactions within a MNC

Busco et al (2008) does not explicitly discuss the role of the different types of actors involved in internal transactions. We argue that this is an important aspect to consider to understand why tensions might evolve, and we therefore included the perspective of the three generic actors in our theoretical framework. By adding this perspective of different types of actors, the ASAP Finance case shows that in addition to vertical and lateral relations, tilted relations exist within MNCs. We found that in addition to vertical and lateral relations, there are also tilted relations present, in the relations between a producing unit and using units. This is illustrated by the fact that the ASAP Finance organization, as a non-core unit, has a lower status compared to the operating units within the Group, creating 'invisible hierarchies' and an interrelated tension between the non-core and core units. Hence, we have identified an aspect in the relational context of an organization that needs to be added to the lateral relations presented by Busco et al (2008). The tilted relation can become lateral, by giving the non-core unit support from top management. This shows that the vertical and lateral/tilted relations and information flows are intertwined and the different types of relations are dependent on each other to become effective and efficient. Hence, this strengthens our argument that the role of the different types of actors involved in the internal transactions impact why tensions evolve. In addition to the tension of vertical vs. lateral relations, this impact is also visible in the tensions of standardization vs. differentiation of practices and centralization vs. decentralization of decision-making.

Top management's main goal with organizing the accounting and reporting activities into the ASAP Finance organization is to drive standardization, but MNC characteristics such as differences in languages, legal requirements and physical distance makes it challenging to reach this goal. Furthermore, since the operating units have a higher status within the Group compared to ASAP Finance, this sometimes forces ASAP Finance into suboptimal customization. Hence, these 'invisible hierarchies' makes it challenging to create the global unity effort, by driving standardization, which the Group desires to reach. The tension between standardization and differentiation of practices within the Group is grounded in the fact that top management wants to increase standardization, whilst the operating units want customization, preserving local differentiation. Hence, there is a need to keep some local flexibility to make the users satisfied. These contradictory desires create a juggling act for managers of producing units who might get in between.

When ASAP was created it affected the loci of decision-making and resulted in a redistribution of power and authority regarding the accounting and reporting transactions within the Group. The ASAP Finance case illustrates the difficulties related to such redistribution of power. For example, when centralizing the handling of accounts payables to Prague, the shift of power over the accounting and reporting activities created resistance among the operating units to standardize the accounts payables processes and conflicts arose. Thus, redistribution of power within an organization can create resistance from the units losing power and this is an aspect that needs to be taken into account when centralizing decision-making power. Furthermore, the level of centralization and decentralization has not been static and the boundaries for decision-making power over the accounting and reporting processes are blurred. The formal power and accountability of the accounting and reporting transactions' efficiency now lies with the governing bodies of ASAP Finance, but the local operating units still have influence over the transactions, creating overlapping accountabilities. An intention behind centralizing the decision-making power over accounting and reporting activities into ASAP Finance was to increase standardization of the transactions. We argue that the presence of tilted relations, however makes it hard to reach this goal of standardization, and that the intention of redistributing the formal power over the accounting and reporting transactions becomes less effective. This is because resistance to the change in power distribution emerges from the using units which have lost formal power, but still has informal power due to their higher status.

How the design and use of a PMS can manage or create tension

The study of Busco et al (2008) does not specifically consider the fact that a PMS in place for coordinating internal transactions might not only help in managing tensions, but might also create tensions. Our study shows that the PMS in place for the accounting and reporting transactions conducted by ASAP Finance, both manages and creates tensions. The trend of setting up internal 'client-supplier' relations implies an increasing use of market-like coordination for internal transactions. Due to this trend, we added the market-hierarchy perspective to explore how a PMS can manage or create tensions. ASAP Finance is coordinated with a captive buying and selling management control structure involving both market and hierarchical coordination, illustrating the tension emerging from combining market and hierarchical coordination. Thus, we have identified a tension *created* by the PMS design; *market vs. hierarchical coordination*. In the captive buying and selling management control structure, artificial market relations are created, in the form of internal 'client-supplier' relations. The global pricing system is a coordination mechanism where the tension of market vs. hierarchical coordination is visible within the ASAP Finance case. There is mistrust in the competitiveness of the prices as a consequence of having the prices set by an authority instead of having the prices set by the players on a competitive market. Also, the price as an information carrier becomes less useful in the captive buying and selling structure, since the using units get reason to question the prices, since they are not allowed to buy from an external supplier. Therefore, the need for other types of information, such as relevant and reliable performance data, becomes increasingly important to be able to manage this tension of market vs. hierarchical coordination. ASAP Finance has had difficulties with communicating other types of data to justify their efficiency, which might be one explanation for their low status within the Group and the related issues with creating effective collaboration between the different actors involved in the accounting and reporting transactions.

Like mentioned above, the PMS in place for coordinating the accounting and reporting transactions within the Group, does however not only create tensions, but also plays an important role for managing these tensions. The study shows that the PMS in place for coordinating the accounting and reporting transactions help in managing the tension of vertical vs. lateral relations, standardization vs. differentiation of practices and centralization vs. decentralization of decision-making. The choice to coordinate the accounting and reporting transactions within the separate organizational structure of ASAP Finance, is an example of a PMS mechanism which has helped in managing these tensions. The organizational structure has increased the knowledge sharing both vertically and horizontally. The structure has also to some extent helped in increasing the level of standardization and also left room for local adaptation. Moreover, the organizational structure has helped in creating the global unity effort desired regarding the accounting and reporting transactions, by centralizing the decision-making power over these internal transactions to the governing bodies of ASAP Finance. Since the governing bodies consist of representatives from the different types of actors involved in the accounting and reporting transactions, some degree of decentralization is kept. Nevertheless, since the operating units have a higher status within the Group, we argue that even though the formal decision-making power is centralized to the governing bodies of ASAP Finance, some informal power still remains with the local operating units.

Our study also shows that some of the PMS mechanisms in place for coordinating internal transactions, does not always work as intended. The price differentiation, as a feature of the global pricing system, is an example of this. It was intended to increase the level of standardization, but has not been able to fully incentivize the operating units to act in a standardized manner. Moreover, in line with the findings of Busco et al (2008), we find that in addition to the formal PMS mechanisms, informal mechanisms such as personal relations seems to play an important role for integrating the actors involved in the internal transactions. This is illustrated in the SLA-example. The SLAs are designed as a formal contract determining the rules for the transactions between ASAP Finance and the operating units. However, when personal relations are strong the SLAs are not used.

Another reflection derived from the findings of our case study, is that the PMS in place for the internal transactions is not static. Rather the configuration of the PMS has constantly changed, as problems have been identified. This continuous change reflects the need for managing the tensions emerging from the integration process of the different actors involved in the internal transactions within a MNC. For example, as the Group realized that standardization was made regionally instead of globally, the organizational structure changed from regional divisions to global service areas. Another example is the local pricing system, which led to inefficient information flows between the producing unit and the using units and the global pricing system was therefore introduced, creating more efficient information flows and thereby relations than before.

6.2 Managerial implications

The key to justify the existence of the producing unit is to communicate the performance with reliable and relevant data

As showed in our study, a problem related to the captive buying and selling structure is that there is no automatic way to determine if the producing unit is efficient, since the transactions are not conducted on a market. Hence, profitability cannot be used to evaluate the efficiency of the activities if the prices charged are not market prices and the customers are not free to choose supplier. Instead, other measures must be used to justify the existence of the producing unit. ASAP Finance has had difficulties in communicating the efficiency of the organization, and this has sparked criticism and created mistrust, which has led to inefficient internal discussions and conflicts. We argue that the monitoring of efficiency related to a captive buying and selling producing unit should not be too complicated, but that it is crucial to communicate performance in a transparent and trustworthy manner to the other parts of the MNC. The information communicated must be aligned with the mission of the producing unit. For example, if the main goal is to save costs, a suggestion of a way to show that this is achieved is to present the cost trend over time. If the central aim instead is to improve transaction-quality (e.g. timeliness and accuracy of accounting and reporting transactions), a selection of KPIs, highlighting reporting on time and alike would be suitable. Another way to communicate the competitiveness of the producing unit is to conduct benchmark analyses. However, finding representative and fair benchmark data can sometimes be a challenge, since the basic conditions for creating efficient internal transactions differ between firms. We argue that, what is important, is to communicate performance data in a consistent and understandable manner. It is thus not the quantity of measures or information that is important, it is rather the reliability and relevance of the information communicated. If this communication of performance data is trustworthy, the risk of having resources and efforts put into non-value-adding discussions regarding the efficiency of the internal transactions decreases.

Introduce an exit threat or remove the internal charging to avoid inefficient internal discussions

Like showed in our study, there is a tension between market vs. hierarchical coordination. Typical market-mechanisms like prices, become rather weak as coordinating mechanisms, when the transaction which the price is supposed to coordinate, is not carried out on a market. To avoid inefficient price discussions emerging from the creation of artificial internal market relations, there are two alternatives. The first alternative is to *introduce an exit threat* for the producing unit and make them a profit center. Then the prices and the service level must be competitive for the producing unit to stay in business, and the prices will as a result become a more efficient coordination mechanism. The second alternative is to *remove the market-like coordination*, in the form of internal prices, and coordinate the internal transactions solely by hierarchical coordination mechanisms. Hence, top management must use authority to coordinate the internal transactions. In this case, it is crucial to incentivize both the producing unit and the using units to act in the interest of the MNC as a whole. Also, using this type of coordination will eliminate the dilemma for the producing unit of achieving the goals set out by top management of the MNC, while at the same time pleasing the local using units. This is because the directives from top management becomes overriding the local desires.

6.3 Discussion and suggestions for future research

As our study focuses on a PMS coordinating accounting and reporting transactions conducted by the producing unit ASAP Finance, our findings might not be applicable to the coordination of other types of internal transactions. Also, in addition to the core vs. non-core unit and market vs. hierarchical coordination, there could possibly be other types of tensions and challenges relevant to consider related to the coordination of other types of internal transactions. A suggestion for future research would therefore be to investigate another type of internal transaction. An example could be the production of spare-parts to an internal assembling unit. Moreover it would be interesting to investigate if the problem of 'invisible hierarchies' also is present in other types of internal relations.

Moreover, the concept of a PMS involve both informal and formal coordination mechanisms. The informal mechanisms are however harder to identify compared to the formal mechanisms, therefore the PMS highlighted in this study might not be comprehensive. In future research, another research approach could be used, focusing more on informal mechanisms and their role for coordinating internal transactions. For example, more participation in meetings and alike could be sources of information for grasping these more ambiguous mechanism.

Furthermore, the transactions conducted by the ASAP Finance organization, which is the focus of this study, are now partially outsourced. This means that the accounting and reporting transactions has become divided into both internal and external transactions. As a consequence, new coordination challenges will most likely arise. Therefore, it would be relevant to explore not only intra-firm relations and internal transactions, but also if the tension between market vs. hierarchical control evolves in the process of integrating the actors involved in inter-firm relations and external transactions.

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Interviews

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Global General Manager, ASAP	Denmark	Video conference	27 Feb, 2012
Global Controller, ASAP	Sweden	Physical	6 Feb, 2012
Global Manager, ASAP Finance	Czech Republic	Physical	13 Feb, 2012
Acting Global Manager, ASAP Finance	Australia	Phone	1 Mar, 2012
Controller, ASAP Finance	Belgium	Physical	20 Feb, 2012
Global Development Manager, ASAP Finance	Belgium	Physical	20 Feb, 2012
Regional Service Manager 1, ASAP Finance	Sweden	Physical & Phone	9 & 23 Jan, 7 Feb, 2012
Regional Service Manager 2, ASAP Finance	USA	Phone	27 Feb, 2012
Regional Accounts Payables Manager, ASAP Finance	Czech Republic	Physical	14 Feb, 2012
VP Business Control 1	Sweden	Physical	9 Feb, 2012
VP Business Control 2	Sweden	Physical	9 Feb, 2012
VP Business Control 3	Belgium	Physical	22 Feb, 2012
VP Divisional Control 1	Sweden	Physical	9 Feb, 2012
VP Divisional Control 2	Sweden	Phone	8 Feb, 2012
VP Divisional Control 3	Belgium	Physical	20 Feb, 2012
VP Divisional Control 4	Belgium	Physical	20 Feb, 2012
General Manager 1	Sweden	Physical	7 Feb, 2012
General Manager 2	Sweden	Physical	10 Feb, 2012
Business Controller 1	Sweden	Physical	10 Feb, 2012
Business Controller 2	Sweden	Physical	7 Feb, 2012

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Appendix

12 questions framework used as base for interview templates to diagnose the PMS (Ferreria & Otley, 2009):

1. **Vision and mission:** What is the *vision and mission* of the organization and how is this brought to the attention of managers and employees? What mechanisms, processes, and networks are used to convey the organization's overarching purposes and objectives to its members?
2. **Key success factors:** What are the *key factors* that are believed to be central to the organization's overall future success and how are they brought to the attention of managers and employees?
3. **Organization structure:** What is the *organization structure* and what impact does it have on the design and use of performance management systems (PMSs)? How does it influence and how is it influenced by the strategic management process?
4. **Strategies and plans**: What *strategies and plans* has the organization adopted and what are the processes and activities that it has decided will be required for it to ensure its success? How are strategies and plans adapted, generated and communicated to managers and employees?
5. **Key performance measures:** What are the organization's *key performance measures* deriving from its objectives, key success factors, and strategies and plans? How are these specified and communicated and what role do they play in performance evaluation? Are there significant omissions?
6. **Target setting:** What *level of performance* does the organization need to achieve for each of its key performance measures (identified in the above question), how does it go about *setting* appropriate performance *targets* for them, and how challenging are those performance targets?
7. **Performance evaluation:** What processes, if any, does the organization follow for *evaluating* individual, group, and organizational *performance*? Are performance evaluations primarily objective, subjective or mixed and how important are formal and informal information and controls in these processes?
8. **Reward systems:** What *rewards* — financial and/or non-financial — will managers and other employees gain by achieving performance targets or other assessed aspects of performance (or, conversely, what penalties will they suffer by failing to achieve them)?
9. **Information flows, systems and networks:** What specific *information flows* — feedback and feedforward —, *systems* and *networks* has the organization in place to support the operation of its PMSs?
10. **PMSs use:** What type of *use* is made of information and of the various control mechanisms in place? Can these uses be characterized in terms of various typologies in the literature? How do controls and their uses differ at different hierarchical levels?
11. **PMSs change:** How have the PMSs altered in the light of the change dynamics of the organization and its environment? Have the *changes in PMSs* design or use been made in a proactive or reactive manner?
12. **Strength and coherence:** How *strong and coherent* are the *links* between the components of PMSs and the ways in which they are used (as denoted by the above 11 questions)?