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# **An exploration of a possible interaction between culture and management control systems- the case Scandinavia and China**

## **Abstract**

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As many companies today enter foreign markets in order to stay competitive, they face a challenge in if and how to adapt their management control system to the prevailing culture. Since Scandinavia is small market in economic terms, Scandinavian companies are attracted by great potential of the Chinese market. The purpose of this dissertation is to explore a possible interaction between culture and management control system practised – the case Scandinavia and China. The results are mainly based on a qualitative case study of six interviews with employees of Stora Enso. Three interviews were conducted at Kvarnsveden Mill in Sweden and three over the phone with employees from Dawang Mill in China. The main finding in the study is the *detailed description* of the interaction between culture and management control system. Due to cultural variables, the Chinese organisation emphasise personnel control while the Scandinavian organisation uses more action control. This case study provides information about the interaction between management control system and culture within one company. We believe it can be of interest for Scandinavian companies to consider our exploration when establishing on the Chinese market.

Key words: Culture, Management Control System, Scandinavia and China.

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## **Introduction**

### ***Background***

Since historic times, people have been trading with each other. In line with globalization, competition has increased and companies adjust to the circumstances. Scandinavia<sup>1</sup> is in economic terms a relatively small market. To be able to expand and stay competitive, companies tend to establish on the global market.

China is to the area the third largest country in the world, and with its population of 1.3 billion people it is also the most populated one (Nationalencyklopedin 1995). With an average annual growth of nine percent, China is today the fourth most powerful economy in the world. With its great market potential the Chinese market is attractive for Scandinavian companies to explore. Today the number of Scandinavian companies establishing on the Chinese market is constantly growing (Sweden Embassy 2009).

Management control systems aim to motivate and control the behaviour of the people within the organizations, in order to achieve goal congruence. The design of the management control system is of importance for the success of the company.

Virtually all people doing business face the same problems and challenges; yet, their responses most often vary widely due to cultural aspects (Warner and Joynt 2002). When having business established abroad, one also has to implement a management control system in the new country. Scandinavian companies planning to establish, or already established on the Chinese market, face a challenge in if and then how to adopt their existing management control system to the Chinese culture. Therefore, we consider it interesting and of high relevance to explore a possible interplay between culture and the management control systems practised in Scandinavia and China.

### ***Purpose***

The purpose of our dissertation is to explore a possible interaction between culture and the way management control systems are used – the case China and Scandinavia. Since the last century, it has become more common for Scandinavian companies to expand their organisation to the Chinese market. Since culture has a studied impact on people's values, norms and behaviour, it is of interest for Scandinavian companies, established and planning to establish in China, to be aware of the possible interaction between culture and management control systems, when implementing their own management control system.

### ***Clarifications***

The following clarifications are valid through out our dissertation:

- We will ignore the fact that national culture is a generalization of all the individuals in a country and thus take the stereotypes that culture brings us as given (Hofstede and Hofstede 2005).

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<sup>1</sup> *Scandinavia includes Denmark, Norway and Sweden.*

- We will not make an attempt to evaluate the efficiency or effectiveness of the management control systems practiced in each organization. Thus there is no intention to judge the management control systems being used. Instead we intend to describe our explorations and reason about possible culture-related explanations.
- In our dissertation we will disregard the likelihood that Scandinavian and Chinese people are at different levels of Maslow's hierarchy of needs (Nationalencyklopedin 2009).

## ***Disposition***

Our dissertation is structured in the following way: In section *Introduction* we clarify and motivate our purpose, state important clarifications and describe relevant previous research within the subject. Section *Theoretical Framework* describes the theory of management control system as well as Scandinavian and Chinese culture. The theories in combination with section *What can we expect?* will guide and help the reader to understand and interpret the sections *Empery* and *Analysis*. In *Methodology* we will clarify chosen method and strategy as well as discuss quality in terms of validity and reliability. In section *Results* we will describe the outcome from our interviews and observations, which will be analyzed in section *Analysis*. In section *Conclusions* we will declare our main conclusions. Thereafter we will discuss the relevance of our analysis and conclusions in section *Discussion*. Finally we will in section *Further Research* propose topics for further research.

## ***Previous Research***

In the 1970's Hofstede conducted his famous study at IBM Company from which he distinguished a relationship between organizational and national values. The study based upon data of answers and value scores from employees at IBM in 66 countries. From the study Hofstede concluded four dimensions of culture that explains national characteristics and differences: Power Distance, Individualism, Masculinity and Uncertainty Avoidance. In 1980 Hofstede published his theory in *Culture's Consequences*, which came out in an updated version in 2001 with an additional fifth dimension (Hofstede and Hofstede 2005).

Before Hofstede conducted his study, culture had been considered a "trash-can residual variable" without an explicit definition. Hofstede's research findings gave rise to an increasing interest within the subject. Thus there has been supplementary research on the subject of cross-cultural differences regarding managerial behaviour. Laurant and Hampden-Turner, and Trompenaars have further investigated this well-debated subject and in contrast to Hofstede they have conducted research with a sample of several companies rather than one (Warner and Joynt 2002).

From previous research we can conclude that the interplay between culture and managerial behaviour is a well-debated subject. Our intention is further to go deeply within one company to explore a possible interaction between Chinese and Scandinavian culture, and management control system used.

## **Theoretical Framework**

### ***Management Control System***

Most literature on the subject of management control has an unspoken value base characterized by the western world. In other words, values and norms are taken for granted and theories are based with these explicitly or implicitly in mind. Applying management

control as a theory on two different countries with dissimilar cultures makes our task a bit distorted, since the theory is based upon values more similar to the Scandinavian culture.

However, due to shortage of time and the fact that the theories existing are the ones known and widely used, we will disregard previous discussed statement (Alon 2003).

An organization often sets strategic goals, which it wants to attain. In order to reach these goals there must be a developed management control system that ensures that all employees of the company act in the best interest of the company as a whole. “In a goal congruent process, the actions people are led to take in accordance with their perceived self-interest are also in the best interest of the organization” (Anthony and Govindarajan 2007, p98). Both *formal* systems (strategic plans, budgets and reports) and *informal* processes influence human behaviour in an organization, thus they influence to what extent goal congruence can be achieved (Merchant and Van der Stede 2003).

Merchant argues that the control of an organization’s management control system can be divided into three different kinds of controls: *result control*, *action control* and *personnel control*.<sup>2</sup> Further the different type of controls can be characterized by *tightness* and *looseness*. A tight control will increase the likelihood that the employees will act in accordance with the organizations wishes. Merchant’s concept is broadly used in research similar to ours and thus we chose this theory approach. In order to fulfil the purpose of our dissertation we will investigate the management control systems practiced in each country with regard to Merchant’s three control categories. By looking closer into the three different control categories, we will get a structured view of the management control system and it will be both helpful and useful as a tool for our analysis (Merchant and Van der Stede 2003).

## Action Control

Action control is the most direct form of control and involves making sure that people act or do not act in a certain way. Here the actions themselves are the focus of control. In order for this type of control to be effective, the managers must know what a desirable action in every situation is and also being able to ensure that the desirable action has been taken. Action control can be divided into three major categories: *behaviour constraints*, *preaction reviews* and *action accountability* (Merchant and Van der Stede 2003).

## Behaviour constraints

The behavioural constraints are either applied *physically* or *administratively*. Many companies apply physical constraints such as locks on desks, computer passwords, limited access to areas where sensitive information is kept. Administrative constraints such as restriction on decision-making authority can also be applied (Merchant and Van der Stede 2003).

## Preaction reviews

Scrutiny of the action plans of the employees being controlled is referred to as preaction reviews. Reviewers can approve or disapprove the proposed action plans, require more detailed information or ask for modifications before a final approval is given. Preaction reviews can either be formal (i.e. budget process) or informal (i.e. a small chat in the hallway) (Merchant and Van der Stede 2003).

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<sup>2</sup> According to Merchant there is also a forth control: *cultural control*. In order not to confuse the reader by evaluating culture with culture, we exclude this control in our dissertation.

## Action accountability

Holding employees accountable for actions they take is referred to as action accountability. It is of importance that it is clearly communicated to the employees what actions are acceptable respectively unacceptable, and that there is an active verification (i.e. through direct observation) that the actions are followed. Finally, an organization should reward good actions and punish the ones taking unacceptable actions. How these actions are communicated can be either through formal channels (i.e. company code of conduct) or through an informal channel (Merchant and Van der Stede 2003)

## Result Control

Result control influences actions that employees take in an *indirect* way. Due to rewards and punishments linked to results the employees become concerned about the consequences of their actions. Employees are empowered to make decisions that they believe will contribute to achievement of certain goals. In other words, they are free to act and choose their own means to reach the specific goal, and are held responsible for the outcome. Result control works well in organizations consisting of skilled workers and in an environment where it is not clear what behaviours are most desirable.

Four steps are required in order to implement result control in an organization:

1. "Defining the dimensions on which results are desired (or not desired)
2. Measure performance on these dimensions
3. Setting performance targets for employees to strive for
4. Providing rewards (or punishment) to encourage (or discourage) the behaviours that will lead to desired results" (Merchant and Van der Stede 2003, p26).

In order for an organisation to use result control effectively, managers must receive clear communication regarding desirable results. It is also of importance that managers have significant influence of the desirable results, and that managers are able to measure the result effectively (Merchant and Van der Stede 2003).

## Personnel Control

Employees' natural tendencies to control and motivate themselves are referred to as personnel control. Personnel control is a so-called *soft* control with the aim to encourage self-monitoring amongst employees. "Self-monitoring is the naturally present force that pushes most employees to want to do a good job, to be naturally committed to the organization's goals" (Merchant and Van der Stede 2003, p75). Self-monitoring<sup>3</sup> is a very effective type of control since most people have a conscience that guides them to do what's right and enable them to derive positive feeling of self-respect and self-satisfaction when they do a good job and see the company perform well. Personnel control can be implemented in several ways: *selection and replacement of employees; training; job design and provision of necessary resources* (Merchant and Van der Stede 2003).

## Selection and replacement of employees

Recruiting right people is of high importance for most organizations. Providing the right people with necessary resources and a good work environment increase the probability that a specific job will be done properly. Consequently a lot of companies devote substantial time

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<sup>3</sup> "The phenomena underlying self-monitoring have been discussed in the management literature under a variety of labels, including self-control, intrinsic motivation, ethics and morality, trust, and loyalty" (Merchant and Van der Stede 2003, p75).

and effort to the selection and recruitment process. To successfully recruit right people, commonly used predictors are education, experience, past success, personality and social skills (Merchant and Van der Stede 2003).

## **Training**

Training, both formal and informal, is often used in order to improve employees' knowledge and skills, which increases the probability that they will do a good job. Training tend to have a positive motivational effect on the employees since they experience a greater sense of professionalism. Commonly they are more genuinely interested in performing well when they understand their tasks better (Merchant and Van der Stede 2003).

Intraorganizational transfers such as employee rotation tend to improve socialization amongst employees and thereby reduce the formation of incompatible goals and perspectives. Further, this gives the employees a better appreciation of, and insights about the problems faced by various parts of the organization (Merchant and Van der Stede 2003).

## **Job design and provision of necessary resources**

The final way to help motivated and qualified employees to act properly is to make sure that the job in itself is designed to provide a high probability of success. Furthermore, it is of importance that the employees are provided with enough resources, such as equipment, supplies, staff support, decision aids and freedom of interruption (Merchant and Van der Stede 2003).

## **Culture**

The word culture originates from the Latin word of *cultura*, which relates to the word *cultus*, cult or worship. The Latin meaning of the word *cult* is inhabit or worship, while *are* means the result of. From these two words, the broad meaning of culture is interpreted as "the result of human action" (Warner and Joynt 2002, p15). There are many different interpretations and definitions of the concept of culture. Still, culture today is generally described as "...shared values, understandings, assumptions, and goals that are learned from earlier generations, imposed by present members of a society, and passed on to succeeding generations" (Hofstede 1980, p25). The concept of culture can be found at different levels in society. Hofstede has divided up the cultural concept in six different levels: 1. National culture, 2. Region culture, 3. Gender culture, 4. Generation culture, 5. Social classes and 6. Corporate culture. In our dissertation, we will only use the concept of culture on the national level (Hofstede and Hofstede 2005).

Hofstede's most prominent work *Culture's Consequences* is based on the definition of culture as "the collective programming of the mind which distinguishes the member of a human group from another". Since it probably is the best-known work in its subject, we will base our study upon his definition of culture (Hofstede 1980, p21).

## **Scandinavian culture**

The Scandinavian countries are situated in Northern Europe and have a common history as well as culture. Today the countries are separated and independent states, even though they several times during history have been united to one union. Since the 10<sup>th</sup> century the Scandinavian countries have belonged to Christianity and since 16<sup>th</sup> century with alignment of Protestantism. Christianity is built upon two doctrines; the Old and New Testament (Nationalencyclopedin 1995). The Scandinavian countries' religion and geographical position

have naturally affected the Scandinavian culture in many ways, where the most prominent characteristics are norms of welfare, equality and democracy (Bjerke 1999).

The Scandinavian countries have a deep-rooted norm of equality that permeates whole society. Consequently there are no distinguishable social classes or other hierarchical order within the Scandinavian societies. The deep-rooted Scandinavian social norm called “Jante Law” refers strongly to the concept of equality. The norm clarifies that it is not socially accepted to think of oneself as being better than others (Bjerke 1999).

Egalitarianism has also engendered virtues within Scandinavian culture such as *patience*, *restraint*, *moderation* and *emotional control*. Evading conflicts and aggression are cultural norms: Scandinavians don’t like confrontation, but they do accept the fact that conflicts exist and try to solve them constructively. Scandinavians have a genuine interest in the learning process itself and they are typically driven from intrinsic motivation (Bjerke 1999).

The highly valued norm of equality has further resulted in a strong commitment to democratic values amongst the Scandinavian countries. Everyone is considered to have the right to express their own opinions, and generally Scandinavians seek compromise when solving problems.

Scandinavians have a deeply rooted respect for rules, which in example means that the determinant for Scandinavian to break the law is not the severity of legal punishment, instead cultural training is. Scandinavians are known to be honest, rational and practical. They describe themselves as being very reliable, ethical, loyal and correct (Bjerke 1999).

## **Chinese culture**

Confucianism, Taoism and Buddhism are considered being the three major religions in China. To be able to understand Chinese culture: it is of importance to have an understanding of these three religions. Still, if the culture should be described in one word, it would be Confucianism. Confucianism has for more than two thousand years been the dominant philosophical system in China (Hobbler and Hobbler 1993). Chinese don’t feel they have to follow one religion only. It is common for Chinese to be Confucian in their public careers, and practice Taoism in their private lives (Littleton 2003).

## **Confucianism**

Confucianism is an ethical, socially oriented philosophy based on the teachings of the Chinese philosopher Confucius who lived 551 to 479 B.C.E. his system of thought has affected the Chinese civilization profoundly for more than two thousands years. The system guides followers in different aspects of life such as moral, social, family, business life and politics (Littleton 2003).

Central aspects in the Confucian system of thought are striving for stability and order in society, which is achieved when people live in harmony with each other. To achieve the latter, Confucius advocated a system of interpersonal relationships and good government. Confucianism is based upon five relationships and five virtues. The five relationships are: the king is the master of the minister; the husband is the master of the wife; the father is the master of the son; the older brother is the master of the younger; the older friend is the master of the younger. These five relationships represent all relationships in society (Hobbler and Hobbler 1993). Vertical order in society is created and sustained through these hierarchical social relationships. Each position within the hierarchical system has ascribed responsibilities and duties, filial piety being the most important one. Filial piety states that superiors should be wise rulers and care for their subordinates while the subordinates should respect, be loyal and obey their superiors (Efferin and Hopper 2006).



The five virtues taught by Confucius are: goodness, rightness, ritual, wisdom, and credibility. Below, they will be explained one by one.

### **Ren, Goodness**

Goodness is the core of the five Confucian virtues. It is also the core of the ideal human relationship. The Chinese character *ren* (goodness) consists of two parts, one means “person” and the other means “two”. The virtue of goodness therefore symbolizes everything that is good when two people get along in a relationship, such as tolerance, forgiveness, filial piety, faithfulness, honesty, wisdom and so on. When one of Confucius followers asked him how to practice *ren*, he answered: “Love People” (Alon 2003).

### **Yi, Rightness**

Confucius emphasized the virtue of *yi* (rightness), by stating that people should do what is morally right and proper in any situation. This virtue should specially be taken into account within the five relationships, which creates social order and harmony in society. While *ren* is the goodness inside a man, *yi* is the goodness shown in ones actions (Littleton 2003).

### **Li, Rituals**

Confucius believed *li* (rituals), could make human behaviour more civilized as well as create a framework for order in society. He believed one should govern and keep order among people by using rituals and moral force. From doing so people understand what is morally right and keep their self-respect. Harmony is an important aspect in the use of ritual. Confucius believed that a harmonious relationship should be retained at any cost, since it is of immense value for the use of governance. (Littleton 2003).

### **Zhi, Wisdom/knowledge**

Confucius said “The enlightened are free from doubt, the virtuous from anxiety, and the brave from fear” (Confucius 1995, p52). Confucius believed that when one has knowledge one also have wisdom. There is an emphasis in Chinese society to acquire skills and education (Bjerke 1999).

### **Xin, Credibility**

The virtue of *xin* (credibility) implies that one always should do what one has said one will do. Linked to the norm of *xin* is the concept of trust, which is highly valued in China (Alon 2003).

In Confucianism, the individual is considered as a relational being. The important concepts of *guanxi* and face (*mianzi*), in combination with the Confucian virtues and system of relationships, create a social order even at the horizontal level in the Chinese society. *Guanxi* is a system of favours and favours done in return, based upon mutual trust within relationships. The extent of trust in *guanxi* depends on the existing mutual dependencies within the relationships (Efferin and Hopper 2006). *Guanxi* is of high importance and value for the Chinese since it secures resources and advantages when doing business as well as in the every day life. It is considered being of immense importance in the Chinese society: without *guanxi* nothing gets done (Alon 2003).

The concept of face has a different meaning and is considered far more important in China than in the West. Every person’s face and reputation is linked to belonging social group (Efferin and Hopper 2006). Face is seen a commodity which can be lost, gained, given or taken. By doing a favour for someone a person gains face, and it is of high importance not to

loose face. The concepts of face and guanxi are linked to each other. To be able to develop a *great* guanxi, one needs a good stock of face. (Alon 2003).

## **Taoism**

Taoism is in many ways a mystical antithesis to Confucianism: it emphasises the spiritual world and the nature of all creatures, in contrast to Confucianism, which teaches a philosophical system to keep order and harmony in society. While Confucianism *advocate* people to act morally correct and to become good members of society, Taoism urges them to act in harmony with nature (Littleton 2003).

Taoism was according to tradition founded by Lao Zi, the author of the *Taoteching*, in the 5<sup>th</sup> century BCE. Even though there are different schools of Taoism, they all share certain core beliefs, which are found in the *Taoteching*. Central concepts of Taoism are Tao, Te, Wuwei and Yin Yang (Littleton 2003).

## **Tao**

“There was something undefined and complete, existing before Heaven and Earth. How still it was, how formless, standing alone and undergoing no change, reaching everywhere with no danger of being exhausted. It may be regarded as the mother of all things. Truthfully it has no name, but I call it Tao” (Stenudd 2004, p56). Tao is the central principle in Taoism. Even though tao is indefinable, unnameable and unlimited, the character of tao most often translates as “way”. In the philosophical meaning, tao signifies the true nature of the world that motivates and guides the whole universe (Littleton 2003).

## **Te**

The character of Te translates into “power”, “virtue” and “integrity”. Te is the active expression of Tao. It is the living of the “way” and is apparent in the world of nature as well as human beings (Littleton 2003).

## **Wu wei**

There is no direct translation of the concept of wu wei, but it might be described as “without action”. Wu wei is the way to conform with/to nature and reach alignment with the Tao. In order to act in a way that doesn’t contradict nature one should avoid creating friction with the surrounding, one should respect others, give up on the ego, and exist without effort as the world atlas is doing (Cooper 1972).

## **Yin yang**

Even though Lao Tzu didn’t found the concept of yin yang, it is commonly used in Taoism. The yin yang symbol manifests how the two forces of nature – darkness and light, negativity and positivity, female and male- create a balanced and harmonious unit. The white embryo in the yin area and the black embryo in the yang area symbolise that there is nothing that doesn’t include a part of its opposite. The two forces are mutually dependent: nothing can exist by itself. Taoism is the only religion that allows contradictions (Cooper 1972). According to Taoist beliefs, nothing is fully black or white: everything is constantly changing from one shade of grey to another (Alon 2003).

## **Buddhism**

Chinese missionaries brought Buddhism into China from Northeast India during the third century BCE (Hewitt 1995). At first, the Chinese people felt resistant to the new religion since it much opposed the values and traditions of Confucianism. However, the Buddhism

teachings of mercy and salvation for all attracted the people that struggled with famine, floods and civil strife. That Buddhism was the only religion, able to bring the religious feeling with the peaceful temples and chanting monks into the everyday life did also contribute to the Chinese attraction to the religion (Littleton 2003).

Buddhism is a collection of beliefs and practices based on the teachings of Siddhartha Gautama. Gautama is also known as the Buddha, which is the Sanskrit word for “the awakened one”. His teachings offers a solution to what he considered being the problem of the human condition; that nothing is permanent (*duhkha*). The goal in Buddhism is to reach Nirvana, which is attained when every form of *duhkha* is eliminated (Littleton 2003).

### ***What can we expect?***

Based on the theory of management control and the cultures in Scandinavia and China, we have below made predictions regarding a possible interaction.

#### **Scandinavia**

Due to Scandinavian values of democracy and equality we expect a decentralised organizational structure with authority based upon competence. Since Scandinavians are loyal and honest we believe that trust will prevail amongst employees and thus we expect less action control to be used. Since Scandinavians have a rooted respect for rules and are loyal to their nature, we don't expect a large use of action control through behavioural constraints.

Furthermore, based on the cultural value of equality that everyone's opinion is of value, we predict action control in terms of preaction reviews to be used.

Based on Scandinavians rational behaviour we expect a widespread seeking of productivity and an emphasis of economic results. These expectations in combination with the expected decentralized organizational structure make us predict a strong use of result control.

We expect personnel control to be expressed through a standardized recruitment process based upon past experience and achievement. Since Scandinavians are genuinely interested in the learning process we expect there to be a lot of training that encourages self-monitoring.

#### **China**

Due to the Confucian hierarchical social order, we expect the structure of the Chinese organization to be hierarchical. In order to maintain a harmonious and stable hierarchical structure, we expect authority to be based upon position. The responsibility of filial piety can further be expected to contribute to stable hierarchical structure in the Chinese organization. Through this structure, we expect Chinese managers to govern the employees with moral force, which Confucius considered being the best way.

Due to the concept of filial piety, we expect the subordinates to obey orders of their superiors. We expect the superiors to clearly communicate to the subordinates what are acceptable and non-acceptable actions and use rewards and punishments to emphasize actions acceptance.

Due to Taoism's belief in contradictions, and the Confucian concept of face we don't expect the Chinese organization to emphasise on result control. Firstly, in accordance with the yin yang symbol, Chinese interpret all phenomena as constantly changing; nothing is completely right or wrong. Since they can never know or predict all the factors that might affect the outcome, we don't expect them to set up fixed financial goals. Furthermore, the risk of not reaching financial goals increases the probability of losing face, which Chinese always try to avoid.

Since Chinese are seen as relational beings that emphasize the virtues of *xin* (credibility) and *ren* (goodness), we expect hierarchical decisions as hiring/firing, evaluating employees and giving out rewards/punishments to be based on relationships, loyalty, emotional ties and trust. We don't expect much training or job rotation in the Chinese organization since that would destroy the stable Confucian hierarchical structure.

## **Methodology**

This section intends to provide the reader with an explanation for our choice of research method. We will describe how we will conduct the study, (data collection, choice of interview technique, company and participants). We will also discuss the quality of the dissertation in terms of validity and reliability.

### **Research Strategy**

Commonly used research strategies for social science are: experiment, survey, archival analysis, history and the case study. To be able to choose the most appropriate research strategy for the given situation, three criteria to consider: 1) the form of the research question, 2) if the research question control of behavioural events and 3) if the research focuses on contemporary events (Yin 2003). Since we have an exploratory research question, our thesis doesn't require control of behavioural events and as it focuses on a contemporary event, a case study is the most appropriate method to use.

Further we had to decide if we intended to do a single or multiple case study.<sup>4</sup> A single case study uses a single narrative to describe and analyze the case while a multiple case study contains multiple narratives (Yin 2003). Although a multiple case study may provide stronger empirical validity, we chose to make a single-case study. With the limited time available, we wouldn't be able to conduct a multiple case study as deep and complete as a single case study. We believe, that for the purpose of our dissertation, it is of importance to go deep for a better understanding of the subject.

### **Choice of Company**

To be able to conduct the case study, we need a relatively large company that is active in both Scandinavia and China, and that is willing to give us access. Stora Enso fulfilled these criteria, and gave us access to Kvarnsveden Mill in Sweden<sup>5</sup> and Dawang Mill in China.

Within the business area of fine paper Stora Enso has several producing units situated in different parts of the world (fine paper is the sort of paper that i.e. the IKEA catalogue is made of). Since both Kvarnsveden Mill and Dawang Mill produce fine paper and are run as separate units within Stora Enso, we consider them being comparable and well-suited objects for our case study. The fact that Kvarnsveden Mill and Dawang Mill are different in terms of number of employees and how long the mills have been running, are aspects we will disregard in our dissertation (Stora Enso 2009).

### **Data Collection**

When carrying out a case study, data can be collected from several different sources: 1) documentation, 2) archival records, 3) interviews, 4) direct observations, 5) participant

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<sup>4</sup> A single case study uses a single narrative to describe and analyze the case while a multiple case study contains multiple narratives.

<sup>5</sup> Kvarnsveden Mill in Sweden will throughout our dissertation represent a Scandinavian Mill.

observation, and finally 6) physical artefact (Yin 2003). To collect as complete empirical data as possible, we will try to use all sources mentioned.

To begin our dissertation, we searched among secondary data<sup>6</sup> to find theory about management control systems and explore the subjects of Scandinavian and Chinese culture. Thereafter we formulated predictions of a possible interaction between management control system and Scandinavian/Chinese culture.

There are several different ways to collect primary data; one may use questionnaires, experiments, case studies, observations and interviews (Saunders et al 2003). To collect the primary data<sup>7</sup> for our case study, we chose between using a qualitative approach<sup>8</sup> based upon interviews or quantitative approach<sup>9</sup> based upon questionnaires (Saunders et al 2003). We believe that the best way to find the main primary data needed in this case study is to conduct semi-structured interviews, and thereby base our analysis on qualitative data. Collecting primary data from interviews and not questionnaires provide us with deeper and more nuanced answers.

## Interviews

To create a diversified base of interviews, we intend to conduct six separate semi-structured interviews with employees at different levels within the organizations. Semi-structured interviews are effective to use when the researcher has a list of themes/questions to be covered. Since we chose to structure the theory of management control system according to Merchants three themes of control, using semi-structured interviews suits this case study well. For the semi-structured interviews, we will have the themes and main questions well prepared, and let the order vary with the flow of each conversation. This structure avoids that we control the direction of the answers given. This structure also gives each interview object the opportunity to freely add information (Saunders et al 2003). To gather as valid empirical data as possible, the interviews will be conducted semi-anonymously and without the use of recorders. We will not mention the names of the interview objects; instead we only mention which country they work in. When conducting interviews, one of us will lead the conversation while the other one will take notes. We believe that this way of conducting the interviews will bring us as honest and straightforward answers as possible (Yin 2003).

To collect the empirical data we will visit Kvarnsveden Mill to make interviews and conduct telephone interviews with the employees of Dawang Mill. We are aware of that conducting interviews face to face will give us more accurate information, than from interviews conducted over the telephone. Due to our limited financial situation we don't have the possibility to visit Dawang Mill in China.

The disadvantages we have to face while not conducting the interviews at place are: firstly, we won't be able to collect information from direct observations, physical artefacts and other sources; secondly, the risk for misinterpretations and less complete information increases when interviews are conducted over the phone. Furthermore, since English is neither the Chinese employees nor our first language, the weaker ability to express oneself might increase the risk of misunderstandings. In order to compensate for these disadvantages, we

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<sup>6</sup> *Secondary data is data already collected for certain purposes but that can be used for other studies as well (Yin 2003).*

<sup>7</sup> *Primary data is collected by the researcher himself for a specific study only (Yin 2003).*

<sup>8</sup> *Qualitative data can include anything that is not expressed in numbers and that gives a more in depth understanding of the subject.*

<sup>9</sup> *Quantitative data is based on quantitative judgements described in numbers.*

will ask the interview objects to describe Dawang Mill physically. Additionally, we will email the interview questions to the interview objects in advance, providing them the possibility to look up the words they don't understand. Each interview transcript will also be emailed to the interview object for potential comments or corrections.

## ***Research Quality***

To examine the quality of our dissertation, we look at the concepts of validity and reliability.

### **Validity**

Validity is the concept describing that one measures what one intended to measure. It can be divided into internal and external validity (Svenning 2003).

Since we are conducting a study focusing on explanatory relationships it is of high importance to have internal validity. Internal validity indicates how accurate the outcome of a study reflects the actual situation. The aim is to build the study upon clear, logical and causal relationships (Yin 2003). The challenge in our study is therefore to exclude other variables affecting the outcome of the study, to be able to explore if and how culture affects the management control system. In order to increase the level of internal validity, we conducted semi-anonymous interviews as well as sent interview transcript back for corrections.

A high degree of external validity occurs when the results of the study can be generalized, beyond the immediate case study. Since our thesis is based on a single case study, it is often a poor basis for generalization (Yin 2003).

### **Reliability**

If the study has a high level of reliability, a later investigator following the same procedures and conducting the same case study as an earlier investigator, would find the same conclusions. A reliable study lacks controllable and foreseeable errors (Yin 2003). To ensure that we will reach reliable conclusions, we will try to collect information from different sources such as interviews, direct observations and documents. The fact that we will always be two persons conducting the interviews will reduce the risk of misunderstanding and wrongly drawn conclusions. However, reliability is decreased since we won't be able to visit the Mill in China and communicate in a second language. In attempt to compensate, we will email interview questions ahead and send interview transcripts back for corrections.

## ***About the company: Stora Enso***

Stora Enso is a global paper, packaging and forest products company producing newsprint and book paper, magazine paper, fine paper, consumer board, industrial packaging and wood products. The company has approximately 32 000 employees and 85 production facilities situated in more than 35 countries around the world. Customers of Stora Enso are publishers, printing houses and paper merchants, but also the packaging, joinery and construction industries. The mission of the company is to use and further develop the existing expertise in wood in order to meet the needs of the company's customers and the challenges of today's global raw materials. Stora Enso is a publicly traded company listed in Helsinki and Stockholm (Stora Enso 2009).

Both Kvarnsveden Mill and Dawang Mill are producing units within the business area of fine paper. Kvarnsveden Mill is situated in Borlänge and was founded at the end of 19<sup>th</sup> century. The Mill has thus been running for more than 100 years and today the organization has 970 employees in total. Kvarnsveden Mill has an annual production capacity of 1 million tonnes, which makes the mill one of the largest within its product area (Stora Enso 2009).

Dawang Mill with its 250 employees, situated in the Shan Dong Province, started to run its business in 2007. The Mill is a joint venture with a Chinese company, where Stora Enso owns 50 percent. Even though it is a joint venture, Stora Enso entirely and independently manage the business. We believe the latter makes it justified to disregard the different forms of ownership (Stora Enso 2009).

When we in our dissertation refer to *employees* we include all people within each organization and when referring to *labour* we include the employees working in the mills. Management at each organization is divided into *middle management* and *top-management*.

## **Results**

### ***Action Control***

#### **Behaviour constraints**

##### **Physical**

To enter Kvarnsveden Mill area, as well as Dawang Mill area, the employees must pass a guard at the entrance gate and use their entrance card for access. Once the employees have entered Kvarnsveden Mill they have full access: there are no locked doors on the area. By using the entrance cards management always know who is in the area, which is important for safety aspects. At the Dawang Mill the entrance card also show number of working hours for each employee, which is linked to the individual salary. At both Mills, access to run machines and to view financial numbers requires passwords only given to particular employees. At Kvarnsveden Mill there is a feeling of trust and dedication between the employees and Kvarnsveden mill as an organization. In earlier years conducted surveys have all shown high numbers of trust. At the Dawang Mill, there is more trust in between the employees than between the employees and the Mill.

##### **Administrative**

There is a major difference between administrative behaviour constraints used at Kvarnsveden and Dawang Mill. Kvarnsveden Mill is a decentralised organization. Even though it is decentralized all employees clearly knows their restrictions, authorities and responsibilities, which are written down in formal work descriptions and routines. Employees at Kvarnsveden Mill tend to have larger authority than they make use of.

At Kvarnsveden Mill the person who has most experience and knowledge usually makes the decision. When the person with most competence doesn't have the authority to formally make it, he usually controls the decision indirectly since the person with authority most often base his decision upon the judgement given from the person with the most competence. Generally when decisions are to be made at Kvarnsveden Mill, the involved employees strive for achieving consensus. The involved persons in a decision making process are all expected to express their opinions.

"The boss is always right even when he is wrong" (Manager at Dawang Mill). Authority at Dawang Mill is based upon position: it is the managers that make the decisions. The managers don't want to lose power by involving their subordinates in the decision making process. Moreover, employees also want and expect their managers to make the decisions. Chinese workers aren't used to monitor themselves and take initiatives; they are used to and comfortable with getting orders. The manager is most often a middle aged male of Chinese

nationality. The organizational structure at Dawang Mill is clearly hierarchical. Responsibilities and duties of each work position are clear and regulated.

### **Preaction reviews**

Preaction reviews used at Kvarnsveden and Dawang Mill are both of formal and informal character. While informal meetings are more common at Kvarnsveden Mill, both Mills have plenty of formal meetings. The formal meetings do have a clear agenda, whereas current topics spontaneously are brought up during the informal meetings. Every Monday both Mills have so called “Monday-meetings” where the managers go through the past week’s results and the plans for the next. The information from these meetings is spread throughout the organization through different means of communication. Monthly and weekly both Mills have meetings where they go through a checklist: they measure costs, number of complaints and check how production is going. During the meetings they clarify and investigate current topics.

While both Mills use formal meetings as a mean of communication, the structure of the meetings differs largely. At Kvarnsveden Mill both during formal and informal meetings, all participating employees bring up their ideas and judgements. The meetings are characterized by discussions, in order to achieve consensus in decision-making. An “outsider” would seldom know what has been decided when the meeting ends, while the employees taking part of it knows the decisions made and what one is expected to do. The meetings at Dawang Mill have a more formal character: the manager leads the meeting without interaction. Even when the middle managers ask for the participants’ opinions, the response rate is low. To get the Chinese employees’ opinions and judgements, the manager generally has to pull out the answer. This way of communicating makes it difficult to discover problems and conflicts within the organization in an early stage. However, top-managers are expected to express their opinions and judgements of their own accord.

Informal means of preaction reviews used at both Kvarnsveden and Dawang Mill is a constant communication through email and phone. At Kvarnsveden Mill, top management sometimes also stroll around in the mill, talk and discuss with the labour to emphasise an open and clear communication.

### **Action accountability**

Kvarnsveden Mill and Dawang Mill communicate what is acceptable and non-acceptable actions using both similar and different means. Moreover, the link between rewards/punishments and actions is more evident at Dawang Mill.

In a formal way both Mills communicate actions’ acceptability through Stora Enso’s code of conduct. At Kvarnsveden Mill the employees are trained in the code of conduct once a year. Part of the training is an online test to find out how much they know about what are acceptable and non-acceptable actions. At Dawang Mill the employees receive information about the code of conduct, acceptable /non-acceptable actions and, rewards/punishments in the formal education they go through as newly employed. Dawang Mill requires that all employees recognize and follow the solid copy of formal safety rules consisting of 360 findings. Both Mills use formal descriptions of every work position to inform the employees of their duties and responsibilities.

Informally, what are acceptable and non-acceptable actions at the two Mills is communicated through daily activity. At Kvarnsveden, it can be small and informal meetings as well as just a talk in the hallway. When a conflict occurs at Kvarnsveden Mill, there will be a meeting to discuss the problem and possible solutions. The employees should learn actions’ acceptability



through these meeting. Even though the workers are aware of the existing rules, it is not always they follow them. If a conflict occurs at Dawang Mill, the management will first search in written documents to see if there is any available solution. If not, they will use their own judgement and push an order on how to solve the conflict.

Even though there is a system of warnings at Kvarnsveden Mill, there isn't a clear link between warnings and punishments. Neither is there a link between good actions and rewards. At Kvarnsveden Mill, warnings are only given out when breaking major rules, such as the zero-tolerance policy against alcohol and drugs. The employee appearing intoxicated at the Mill will get an oral warning. A written warning will be given out if it occurs again. All kind of severe misbehaviour and warnings are documented to later be used in a possible discussion with the Labour Union. Even if the employee gets a written warning for breaking a rule, the warning is not directly linked to punishments or reduction of bonus. The documentation of warnings is done in order to be able to fire an employee legally.

At Dawang Mill there is a clear reward- and punishment system linked to actions. The employee who has learnt more than what is expected will receive an increase in the monthly bonus. Actions that will lead to warnings are if someone acts in a way that endanger co-workers' safety, or don't follow the order of a superior. The employee that creates bad atmosphere among his co-workers or who learns less than what's expected from him will also receive a warning. The misbehaving employee firstly gets an oral warning secondly a written warning. If the behaviour isn't improving the employee will receive a yellow card and finally a red card. Receiving a red card will affect both the monthly and annual bonus as well as decrease promotion possibilities. In worst case, one might get dismissed.

## **Result Control**

In order to implement result control at Kvarnsveden as well as Dawang Mill, both organizations have fulfilled the requirements of:

1. "Defining the dimensions on which results are desired (or not desired).
2. Measure performance on these dimensions
3. Setting performance targets for employees to strive for
4. Providing rewards (or punishment) to encourage (or discourage) the behaviours that will lead to desired results." (Merchant and Van der Stede 2003, p26)

The dimensions for which results are desired at both Mills are primary profitability, and secondly safety. Other dimensions for which results are desired are the well being of the employees, quality of the produced paper as well as the satisfaction of customers.

To measure performance on these above-mentioned dimensions, both Mills need to find/define certain measures. For measuring the profitability they use ROCE and EBDA as measures, while measuring the safety they look at number of accidents occurred. An accident is defined as occurring when an employee stays at home due to an accident occurred during work time.

In order to motivate employees to achieve certain results both Mills actively measure the performance for the previous mentioned performance measures. Every new month, new target are set in the form of a 15 months rolling forecast. The rolling forecast is supposed to be the actual expectation of the future. In November each year a 15 months rolling forecast is made. These forecasts are frozen by the turn of the year and work as the targets that the coming year is going to be evaluated against. At Dawang Mill there is also a monthly evaluation of the efficiency of the Mill. It is the top management that sets the target to strive for. To get the control out of the result control it is of high value that the frozen forecasts are perceived as achievable.

At Kvarnsveden Mill meetings are held three to four times a year to follow up and discuss the actual outcomes compared to the frozen rolling forecast. Nevertheless, it is not until the turn of that year as top-management compares the outcome to the target and evaluate if rewards are to be given out. All employees except from top management can receive a bonus of maximum seven percent of their annual salary. Of those seven percent, four percent is linked to the goals of Stora Enso as a group and to the business area in which the Mill is active, while the three percent are related to the targets of Kvarnsveden Mill.

To encourage the behaviour of the labour at Dawang Mill, managers provide rewards and punishments both on a monthly and annual basis. By emphasising short-term rewards/punishments, they motivate the employees' daily actions more powerfully and thereby affect the results in a tighter way. There is a more direct link between reward/punishment and labour performance at Dawang Mill than at Kvarnsveden Mill, since their bonus only depend on the performance of the Dawang Mill and not on Stora Enso as a group. At the end of the year, the total amount that Dawang Mill will be able to give in bonus is divided on the different departments. Then each department manager manages the bonus of his department. Firstly he evaluates the overall performance of the labour and then the individual performance of each worker: whose bonus should be increased/reduced. In addition to this annual bonus, the workers at the Dawang Mill can receive a monthly bonus directly linked to the Mill's efficiency.

Top managers at both Mills receive between 7-20 percent of their annual salary as a bonus. The bonus is linked partly to financial numbers of their Mills, of Stora Enso as a group and to the business area in which they are active and partly to each manager's individual development plan. Their bonus will be paid out in cash or in company stocks that are locked for a number of years. Neither at Kvarnsveden nor at Dawang Mill there is no punishment directly linked to top-managers bonus.

The general feeling among the employees at Kvarnsveden Mill is that they don't care much about the bonus. The labours that at maximum can receive seven percent of their annual salary as bonus feel that they aren't able to affect it. In recent years, the bonus has always ended up around three percent. The general opinion among the top-managers appears to be that they are more motivated by the success of the Mill rather than reaching the goal linked to their personal bonus. Amongst the employees at Dawang Mill, we got the impression that their actions are encouraged by the rewards/punishments.

## ***Personnel Control***

### **Selection and replacement of employees**

When both Mills have a need to recruit, they start to look internally for competence. When there is no internal competence obtainable they recruit externally. Moreover the recruitment process at Kvarnsveden Mill is more standardized and objective compared to the process at Dawang Mill. At Kvarnsveden Mill the decision to recruit someone is taken by top management. It is furthermore top management that sets the criteria, which new employees must fulfil, such as level of education, experience and personality. However, interviews are made and the final decision of which specific person to recruit is taken by the closest manager further down in the organization. At Dawang Mill there are also some criteria to fulfil in terms of educational level when recruiting to higher positions in the organization. However, when recruiting employees at all organizational levels at Dawang Mill there is a predominantly emphasis on personal relationships and recommendations.

The above-mentioned recruitment criteria at Kvarnsveden Mill were modified approximately ten years ago. With more strict demands the applicants today are required to have at least three years of university education and a “suitable” personality. This is part of Kvarnsveden Mill’s strategy of making it possible for all employees to have a personal development plan. Top management at Kvarnsveden Mill wants labour to be able to advance within the organization. In accordance with the new strategy Kvarnsveden Mill mainly recruits two times per year. Approximately 20 employees are recruited around spring and 20 employees around autumn. These employees are *not* recruited to a specific job position, instead they are attached to the Mill as a whole and can thereby be relocated within the organization in accordance with occurring needs. Due to the new recruitment routine the organization avoids urgent and incautious recruitment. Furthermore, the new strategy of recruiting more skilled worker enables job rotation.

At Dawang Mill the recruitment process is more informal and based on recommendations and relationships. When the Mill began to recruit employees around two years ago, they began to recruit middle managers from the Partner Company. Thereafter, the middle managers recruited respectively subordinates. Due to the middle managers’ relations to the labour at the Partner Company, most Dawang Mill labour was also recruited from there. Dawang Mill labour generally lives in the local region and has an education corresponding to maximum nine years in school. Their families are most often occupied within agriculture.

When recruiting managers to Dawang Mill, a university degree and technical skills are required. It is important that middle managers are Chinese in order to be able to explain to the labour issues that appears odd to them. Top-managers are expected to express their own opinions and take initiatives. They are therefore required to have earlier work experience within western companies in order to be familiar with western culture, way of thinking and English language. Having long-term employed managers is vital to Dawang Mill since Chinese labour generally don’t feel an attachment to the company; instead they are committed to their person being superior to them.

## **Training**

At Kvarnsveden and Dawang Mill there are both formal and informal training, but the underlying purposes differentiate. Apart from common safety- and company value training, the existing training at the Mills is different.

Since the educational requirements of Kvarnsveden Mill employees have been raised in recent years, top-management considers that formal training to a large extent shouldn’t be necessary. They only have formal training in terms of learning how to manoeuvre trucks and similar equipment. With already skilled employees, Kvarnsveden Mill focuses on job rotation in order to increase and spread competence within the organization. Within each working team the employees rotate between different positions, get insight about different parts of the organization as well as obtaining career possibilities. Job rotation tends to have a motivational effect on the employees and encourage self-fulfilments. This is a probable explanation why many employees have stayed within the organization for a long period of time.

Dawang Mill has no routine of job rotation. Instead all employees have fixed positions and duties. Dawang Mill stresses the formal training significantly more than Kvarnsveden Mill does since it is mandatory for all employees. The training also includes, in addition to safety- and company value training, an English language course.

## **Job design and provision of necessary resources**

Both Mills provide their employees with the equipment they need in order to perform a good job, such as clothes, machines and computers. In contrast to Dawang Mill, Kvarnsveden Mill has its own health care centre with both a nurse and doctor, which all employees are encouraged to utilise. By providing the health care centre employees don't have to waste time at public hospitals.

Managers at both Mills regularly wander around amongst the labour. However, the reason for the managers' attendance differentiates. The Scandinavian managers want to be available to the labour, show them their support and discuss the daily business. The Chinese managers are on the contrary present in order to supervise labour and production.

## **Analysis**

### ***Action Control***

#### **Behaviour constraints**

##### **Physical**

Physical behaviour constraints are to some extent used in order to control the behaviour of the employees at both Mills. However, it is noticeable that the amount of physical behaviour constraints at both places, such as passwords and entrance cards is what we would consider a minimum for organizations in general. The difference between the Mills in terms of physical behaviour constraints is not in the use of them; it is in the explanation behind how the employees' behaviour is governed in the lack of the physical constraints.

The limited use of physical behaviour constraints at Kvarnsveden Mill, is motivated by Scandinavians correct, honest and loyal nature. The dedication and trust that prevails between Kvarnsveden Mill and its employees contributes to the fact that the employees, facing or not facing physical constraints, will act in the way they believe is in the best interest of Kvarnsveden Mill.

As long as the Chinese employees know what is the right thing to do in each situation, a broader use of physical constraints isn't motivated. Confucius believed that the best way to govern the people is by moral force. Thus in order to maintain a harmonious relationship with their superiors, and not to lose face, Chinese employees will act in the way they interpret as morally right, even when there are no physical constraints.

##### **Administrative**

There is a major difference between the Mills in Scandinavia and China is the way the employees' behaviour is controlled through organizational structure. The organizational structure at Kvarnsveden is clearly decentralised with authority based upon competence. This structure is explained by the Scandinavian values of democracy and equality. The values of equality and democracy are visible in the open communication within the organisation: everyone's idea and opinion are considered and valued. Since Scandinavians aim for consensus in decision-making, it is necessary to have an organisational structure corresponding to the one at Kvarnsveden where employees are able to communicate and discuss freely. Linked to Scandinavians' democratic values is the fact that they aren't comfortable in making decisions by themselves. By always aiming for consensus when taking decisions makes the process more democratic: everyone involved should agree to the decisions made. The latter also contributes to a rather slow and careful decision-making

process, which is in line with the Scandinavian virtue of patience. It is in the Scandinavian culture to be emotionally controlled and conflict-averse: by making decisions through consensus conflicts are to a certain extent avoided.

Having authority based upon competence instead of formal position is also linked to the Scandinavian values of democracy and equality. According to Scandinavian culture, authority by position is unjustified: if someone has more competence on a specific subject, it's democratically justified that that person has authority.

Confucian values are clearly visible in the hierarchical organizational structure at Dawang Mill where authority is based upon formal position. Confucius five hierarchical social relationships create vertical order in society as well as in Dawang Mill. In the organizational structure of the Mill, it is obvious that the superior is the master of the subordinate.

The Confucian virtues *yi* (rightness) is visible in the mutual understanding and commitment between superior and subordinate. Both as superior and subordinate, one should do what is morally right and proper in each situation. And what is morally correct in a relationship between a superior and a subordinate is communicated in the responsibility of *filial piety*: the superior should be a wise caring master and the subordinate should respect, obey and be loyal to the superior. The Taoist concept of *wu wei*, further encourages Chinese employees to avoid creating friction with their surroundings. By accepting the hierarchical order in Dawang Mill, less friction is created.

Each position in a Confucian society has certain ascribed responsibilities and duties. Consequently, some positions come with given authority. Having authority based on position sustain horizontal and vertical order in the Confucian society. Due to the responsibility of filial piety, authority based upon position is not questioned. In the decision making process, the Chinese employees don't strive for consensus as Scandinavians do. A plausible explanation is that if a decision made by a Chinese employee turns out to be wrong, it will be left unquestioned. Due to the fact that it is against Confucian values, and the risk of losing face, a Chinese subordinate doesn't question a superior.

## **Preaction reviews**

Formal meetings with a clear agenda are common both at Kvarnsveden and Dawang Mill. Informal meetings, where current topics and issues are discussed freely, are common at Kvarnsveden Mill. At Dawang Mill, corresponding informal meetings are rarely seen.

How employees communicate at the two Mills differentiate. Chinese employees, disregarding top-management, seldom share their opinions and judgements if they aren't "forced" to. This is in direct contrast to the Scandinavians who discuss freely in the belief that everyone's idea is of equal value. The behaviour among the Chinese employees is in line with Confucian values. Sharing opinions and judgments is against the Confucian value of filial piety: the subordinate should unquestionably obey the wise superior. Giving opinions and judgments might as well endanger the harmony of a relationship, and Confucius believed that a harmonious relationship should be kept at any cost (the virtue of *Li*). When making a judgment or giving an opinion in public, there is an obvious risk of expressing oneself in a way that is not appreciated and one risk to lose face. Chinese aren't willing to risk their faces since it is seen as a commodity itself and do affect their much valued *guanxi*.

## **Action accountability**

Acceptable and unacceptable actions are communicated formally and informally at both Mills. Still, the communication is more detailed and precise within the Chinese organization. Additionally there are punishments and rewards linked to the acceptable and unacceptable

actions at Dawang Mill. The action accountability practised in China is thus tighter in comparison with the Scandinavian organization.

The different levels of action accountability used at the two mills are partly due to the different degree of self-monitoring amongst Scandinavian and Chinese employees. The fact that Chinese employees don't monitor themselves to the same extent, is a consequence of the Confucian hierarchical relationships: the Chinese employees are used to and want to follow their superiors' orders. Therefore, Chinese employees are best monitored when superiors clearly communicates acceptable and unacceptable actions. This is further emphasized within the concept of *guanxi*; Chinese employees are loyal to persons and not to the company itself.

Rewards and punishments don't seem to control the behaviour of the employees at Kvarnsveden, since it challenges their values of democracy and equality. On the contrary, Chinese employees interpret rewards and punishments as an emphasis on what are and aren't acceptable actions.

## **Result Control**

The theoretical chapter of result control describes four requirements that needed to be fulfilled in order to encourage the behaviour of the employees in a certain direction. The first three requirements are fulfilled in a similar way at both Mills. The two mills have defined similar dimensions on which results are desired. They use the same performance measures and set standards in a comparable way. What is different in their implementation of result control is the way they provide rewards and punishments to encourage the behaviour that will lead to desired results.

Top-management behaviour is encouraged similarly at both mills: the bonus which is partly linked the development of Stora Enso as a group and the performance of the Mill, and partly to their own development plan, is given out once a year. While employees at Kvarnsveden Mill are rewarded annually, the employees (except top-management) at Dawang Mill are rewarded both annually and monthly. The monthly reward is directly linked to the efficiency of Dawang Mill. Thus the link between reward and behaviour is more direct at Dawang Mill than at Kvarnsveden Mill where the employees didn't feel they had the possibility to affect their bonus. By having more frequent rewards and a clear link, the behaviour of the employees at Dawang Mill is encouraged in a powerful way. Accordingly, Dawang Mill uses tighter result control than Kvarnsveden Mill.

Our findings about Kvarnsveden and Dawang Mill's use of result control disproved our hypothesis. Since it is in the Scandinavian rational culture to focus on efficiency and results, and to believe in the capacity of the employees, we expected tight result control at Kvarnsveden Mill. The disapproval of our hypothesis might be due to the perceived vague link between reward and behaviour. Kvarnsveden employees didn't perceive that their behaviour affected the bonus, which almost always ended at 3%. Top-managers at Kvarnsveden Mill appear motivated to reach set standards; however their dedication to the Mill was stronger. Thus they prioritise, in line with Scandinavian culture, in a rational way what they consider being in the best interest of the Kvarnsveden Mill.

Due to the Confucian virtue of *xin* (credibility) and concept of face, we didn't expect much result control at Dawang Mill. We expected the Mill to have a constant focus on improving its performance, but not striving for certain financial numbers. Due to the norm of *xin*, Chinese employees should always do what they say they will do. By failing to reach set standards, and thereby indirectly breaking a promise, the employees endanger the trust within the relationships to their superior and will loose face. Result control practised at Dawang Mill is similar to the control practised at Kvarnsveden Mill. That the result control isn't practised as

we expected out of Chinese cultural variables, is probably due to clear instructions from central units of Stora Enso on how to implement result control in the organization. We believe these instructions to be based on Scandinavian rationality, contributing to the focus on efficiency and results.

## ***Personnel Control***

### **Selection and replacement of employees**

The recruitment processes at the two mills differentiate to some extent. In line with the Scandinavian norms of democracy and equality, the recruitment process at Kvarnsveden Mill is standardized and objective. Through the process, all applicants face the same opportunities.

Kvarnsveden Mill builds their recruitment criteria upon the idea that it is rational and efficient to have educational level and technical skills as predictors of success.

The recruitment process at Dawang Mill is informal and subjective compared to the process at Kvarnsveden. The concept of guanxi explains why personal relationships and recommendations are taken into consideration to a large extent. Due to the interdependencies within guanxi, a recommendation guarantees that the recommended person will accomplish what is expected from him. If failing to accomplish what is expected, the person who gave a recommendation will lose face and trust within the guanxi.

Linked to the concept of guanxi, Chinese employees care about the relationships to their superiors more than they care about Dawang Mill as an organization. When facing a challenging situation, it is the person within the guanxi that will support, not the organization. Therefore, it is of importance to have managers employed for a long period of time. This enables the managers to build strong relationships to their subordinates, which indirectly creates loyalty towards Dawang Mill. Having long-term employed managers also contribute to sustain stability within the Confucian organizational structure within Dawang Mill.

Since the organizational structure of Dawang Mill is characterized by Confucian hierarchical social order, job rotation isn't practiced. Chinese employees are comfortable in having a clear hierarchical order where everyone knows their duties, restrictions and authorities. Practicing job rotation and having possibilities to advance would be challenging the Confucian structure and harmony.

Since Dawang Mill is part of Stora Enso, a certain amount of interruption from central units is unavoidable. In order to be able to interact and communicate with managers within Stora Enso worldwide, top-managers at Dawang Mill are required to be familiar with and understand Scandinavian culture.

### **Training**

Both Kvarnsveden Mill and Dawang Mill have training for their employees, but the purpose of the training differentiates. In Scandinavia training has motivational purposes, whereas the Chinese organization has training as a mean to communicate prevailing rules to the labour.

Scandinavians are generally driven by intrinsic motivation. Therefore, job rotation with its self-fulfilment opportunities motivates the employees. The concept of job rotation is also explained by the Scandinavian value of rationality, which leads to a focus on result and efficiency within organizations. Through job rotation competence is spread within the organization, and it ultimately improves the financial numbers.

The Confucian hierarchical organizational structure creates harmony and balance within Dawang Mill. All though in a different way, the Taoist symbol of yin yang also emphasizes

the importance of harmony and balance. If Dawang Mill would practice job rotation, the harmonious organizational structure would be challenged. Job rotation with possibilities to advance would create a sense of disorder and disharmony. Therefore Chinese employees don't derive motivational effects from the possibility to job rotate.

### **Job design and provision of necessary resources**

Both Mills provide their employees with resources necessary to perform their daily work. In contrast to Dawang Mill, Kvarnsveden Mill provides a health care centre to its employees.

The deep-rooted value of social welfare in the Scandinavian countries explains why it is natural for Kvarnsveden Mill to care about its employees and take responsibility for their wellbeing. Providing a health care centre is rational in the way it might increase the efficiency of the Mill: less time is wasted at local hospitals and can instead be productively used at the Mill.

In China there is no established welfare thinking, instead the concept of *guanxi* creates the corresponding safety system. The well being of the employees at Dawang Mill does not depend on the organization. Instead every employee is responsible for developing and nourishing his own *guanxi*.

Both organizations have managers being present at the mill, but the purpose of the attendance differentiates. Managers at Kvarnsveden Mill are present in order to motivate, support and get closer to the workers. This behaviour is in line with the norm of equality. In order for the managers to gain respect from his subordinates he must fulfil the Scandinavian norm of "Jante Law". In other words, the manager must actively show his co-workers that he genuinely doesn't feel that he is better than they are.

At Dawang Mill the managers are present in order to monitor and supervise the labour. Due to the Confucian organizational structure, Chinese employees are not used to take own initiatives and they request a superior supervising them. Thus, in Scandinavia the managers are present in order to increase the personnel control, whereas it is meant to improve the action control in China.

### **Conclusion**

Merchant's management control system, consisting of action control, result control and personnel control, aims to control and motivate the behaviour of the people within the organisations in order to create goal congruence. By exploring the controls used at Kvarnsveden Mill in Scandinavia and Dawang Mill in China, we found that the organizations emphasized the use of different controls. There was a stronger use of action control in China, while the Scandinavian organisation stressed the use of personnel control. This was in line with the hypothesis we made, and could be linked to cultural variables.

Studying the cultures of Scandinavia and China, in combination with investigating how the Mills emphasised different use of controls, we were able to explore interplay between the cultures and management control system.

Due to the Confucian values of hierarchical social order and the ascribed duties of all positions in society, the Chinese employees request direct monitoring and clear directions. Thus, action control is widely practised at the Dawang Mill in China. The Scandinavian norm of equality and belief in the capacity of individuals challenge the use of action control, and thereby less action control is used in Scandinavia.

The broad use of personnel control practised in Scandinavia is due to that Scandinavians are driven by self-fulfilment and intrinsic motivation. Self-fulfilment, linked to the values of



democracy and equality, is enabled through the Scandinavian decentralised organization. The Confucian value of xin (credibility) and concept of guanxi, imply some personnel control in the recruitment process. However, since Chinese employees, due to the Confucian hierarchical structure, aren't as self-monitored as Scandinavians, less personnel control is in general practised at Dawang Mill.

Result control practised at the two Mills contradicts what we expected based on the prevailing cultures. The Scandinavian value of rationality emphasizes the importance of result and efficiency within organizations. Thus, we expected a strong use of result control. On the contrary, the Confucian concept of face as well as the Taoist symbol of yin yang don't encourage striving for fixed financial goals, and we expected less result control to be used. We believe that the disproval of our expectations is due to factors unrelated to culture. Kvarnsveden Mill there is a vague link between reward and behaviour. The vague link between reward and behaviour at Kvarnsveden Mill, as well as the clear directives from central unit of Stora Enso regarding implementation of result control at Dawang Mill, are possible explanation.

We have throughout our thesis tried to explore, describe and explain the interaction between culture and how management control systems are used in China and Scandinavia. We believe that our conclusions will be useful as a complement to previous research for Scandinavian companies that are establishing their organisation and implementing their management control system in China.

## **Discussion**

We conclude in our dissertation that there is interaction between Scandinavian and Chinese culture and management controls system. However, the outcome of our case study can to some extent be questioned. The conclusions we have drawn are of interest for Scandinavian companies who intend to establish their business in China. However, in the following discussion we will evaluate if the conclusions are applicable to a broader sense.

The fact that the two Mills differentiates in terms number of employees, physical size and age are all internal variables that might have affected how each organization has their management control system. External variables that might have affected the management control system are institutional surroundings and the fact that employees' might be at different levels of Maslow's hierarchical order. Due to the fact that these variables and culture are linked to some extent, it is a hard to ensure that we only have considered the cultural variable in our analysis.

The fact that our interview objects were all selected by a Scandinavian manager might make the study biased. We believe that if we had collected more extensive data, the validity of our dissertation would be increased. The fact that we are Scandinavians might have contributed to a more biased dissertation. Even though we actively have tried to be as objective as possible throughout the study, there is a risk that our culture has influenced us.

Before conducting the interviews, in order to facilitate communicating with the Chinese employees, we decided to send the interview questions in advance. However, we now question our decision. It might have given them the opportunity to modify their answers.

## **Further Research**

We completing our dissertation, we are convinced that there is further research to be *done* within the subject of our dissertation. As the number of companies establishing in foreign

countries is constantly increasing, it is of interest to further explore the interaction between management control system and culture.

In relation to our purpose, we suggest the following areas of research being of further interest:

- Our study uses Chinese and Scandinavian cultures as explaining variables. We suggest that one might conduct a corresponding study using other cultures as explaining variables.
- We consider it of interest to conduct a study with the same purpose as ours, but using more number of companies to collect data. By conducting the study on a larger scale, one might be able to reach a level of generalization.
- Our case study is based upon interviews with employees from two separate, one in Sweden and one in China, within a Scandinavian company. We find it interesting to explore if a similar research made at a Chinese company would come up with the same conclusions/findings.
- Furthermore, we find it interesting to explore whether or not, adapting the management control system to the local culture, can be linked to efficiency. By using experiment as research method: one could build up two units in separate countries and adapt the management control system to prevailing cultural variables in order to see which units has superior results.

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# **Appendix**

## ***Interview Guide***

### **Introduction**

Who we are

Introduction

Your history within the company

Description of workplace

Position and duties

What is a typical day like?

Number of subordinates

Age and nationality

### **Result Control**

Do you have a budget or RFC? Can you describe the process?

Are there follow ups and discussions about the actual outcomes compared to the budget?

Are the performance follow-ups linked to rewards?

How are the employees motivated? How are you motivated?

Upon what are you/other rewarded?

Who evaluates who?

Is one reward on a group basis or individually?

### **Action Control**

Who has authority to make decisions?

What is authority based upon?

Is it a hierarchical or decentralized organization?

What kind of communication is there within the organization?

Is there a feeling of trust in the organisation, can you give examples?

Are there rewards for good actions/ punishments for bad actions?

What kind of formal/informal procedure is there in the every day work?

### **Personnel Control**

Describe the recruitment process?

Are there group events for the employees? What kind of?

What motivates the employees?

When a conflict occurs, how do you solve it?