# THE DESIGN AND USE OF MANAGEMENT CONTROL SYSTEMS IN A MULTINATIONAL ENTERPRISE – EVIDENCE FROM AN EMERGING MULTINATIONAL

By

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Abstract

The literature on management control systems (MCSs) in multinational enterprises (MNEs) suggests that controls are normally designed and transferred from the headquarters to the subsidiaries. This argument has been based on conventional MNEs with headquarters in developed countries with stronger institutional and operating environments, and as a result, it has been easier to design and transfer MCSs along with other business models and structures from headquarters to subsidiaries in developing countries with weaker institutional and operating environments. The structure of MNEs is, however, changing, with a growing number of these organisations having headquarters in developing countries and subsidiaries in developed countries. This new arrangement raises issues about the design and transferability of controls from headquarters to subsidiaries. This research examines how the subsidiary's operations are coordinated and controlled by the headquarters in the contexts of the weak institutional and operating environments of a headquarters in a developing country with a subsidiary in a stronger institutional and operating environment in a developed country.

A case study design was adopted in this research in order to understand how the differences in the institutional environments of an MNE shape the design and use of MCSs. Data was gathered by means of semi-structured interviews, document analysis and observation. Interviews were conducted at the Nigerian headquarters and United Kingdom (UK) subsidiary of the Nigerian service multinational enterprise (NSMNE). This study uses the new institutional sociology (NIS) and social capital theories to interpret and make sense of the results of the study. The NIS allows for an understanding of the impact of the MNE's external environments on the design and use of MCSs, and social capital theory complements

NIS by providing explanations for the role of social relations in the design and use of MCSs in the company. The findings show that, contrary to the widely reported view in the MNE literature, there was minimal transfer of MCS from HQ to the subsidiary, and the explanations for this lay in complex sets of institutional and social capital considerations. For example, the weaker institutional environment of the HQ relative to the subsidiary meant that the subsidiary is given autonomy in designing its controls and management systems. In the absence of formal controls from the HQ, social capital relationships play a significant role in how the subsidiary and HQ's relationship and activities are managed and integrated. Overall, these findings have implications for understanding how emerging forms of MNEs with HQs in developing countries and subsidiaries in developed countries could be managed and controlled. It demonstrates that the use of formal MCSs to coordinate and integrate the activities of the HQ and subsidiary of the MNE may be hampered by differences in environmental factors, and this is likely to give rise to other means of coordination and integration in the HQ-subsidiary relationship.

Dedication

I dedicate this work to all the children who wake up not knowing when their next meal will

come and to all the orphans who strive to make it despite all the odds.

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Contents

List of Figures

<center>**Chapter One**</center>

1.1 Background of the study

Multinational enterprises (MNEs) are business corporations that operate (have facilities and other assets) in more than one country (Chang and Taylor, 1999). An MNE "consists of a group of geographically dispersed and goal disparate organizations that include its headquarters and the different national subsidiaries" (Ghoshal and Bartlett, 1990, p.603). The dispersal of assets, however, comes with the critical tasks of the coordination, control and integration of the activities of geographically dispersed subunits (Roth and Kostova, 2003; Mathews, 2006; Kostova et al., 2008).

The complexity in operating an MNE increases because different cultural values, norms and ethnicities are intertwined (Buckley and Ghauri, 2004; Cantwell et al., 2010). The employees of an MNE bring into the organisation different attitudes, values, and goals, which create a complex relationship that may cause interpersonal conflicts (Tan and Mahoney, 2006; Harzing and Feely, 2008; Cantwell et al., 2010).

Chang and Taylor (1999) argued that uncertainty can be reduced if the headquarters (HQ) of the MNE makes an attempt to increase control over foreign subsidiaries. They noted that control "ensures that the behaviours originating in separate parts of the organisation are compatible and support common goals" (p.542). Hence, studies of MCSs in MNEs have focused largely on the rational/technical view of controls, with the assumption that controls are designed for the purpose of efficiency and coordination (Canonico, 2010; Woolcock, 1998; Gordon, 2008); that is, MCS are designed to provide managers with information for decision-making and control, in an effective and efficient way (Anthony and Govindarajan, 2001; Canonico, 2010). MCSs from this perspective are formalised bureaucratic systems such

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as budgets, performance evaluation systems, formal investments appraisals, and decision-making processes (Ferner, 2000).

However, scholars have also argued that MCS could be designed and used for purposes other than control (Davila et al., 2009; Gomez and Sanchez, 2005; Tsamenyi, 2008). Proponents of this perspective on MCSs posit that MCSs do not necessarily lead to efficiency and coordination (Efferin, 2007; Wickramasinghe, 2005; Hopper et al., 2009). This view of MCSs suggests that MCS are not necessarily objective or outside the influence of agents, but are rather socially constructed and context determined (Tsamenyi, 2008). Evidence from the literature on MCSs in MNEs suggest a broader scope of controls, including formal and informal controls (Chenhall, 2003; Malmi and Brown, 2008; Davila et al., 2009).

The extant literature suggests that for traditional MNEs with HQs in developed countries and subsidiaries in LDCs, controls are mostly designed and transferred from the HQ to the subsidiary (Norreklit and Schoenfeld, 2000; Elbashir, 2011; Hyvonen, 2008). This is justified on the grounds that the HQ operates in a much stronger institutional environment (Elbashir, 2011, Hyvonen, 2008). This is also justified as controls in LDCs are weak and politicised, so may not be appropriate coordinating mechanisms if the LDC subsidiaries are allowed to design their own control systems (Chang et al., 2009; Ferner, et. al., 2005).

The pressure on the subsidiary to conform to group norms while embracing the local contexts at the same time results in a complex iterative and interactive level of controls that may require an integration process to make them mutually supportive (Luo, 2005; Norreklit and Schoenfeld, 2000). As a result, a multinational subsidiary is likely to operate with two sets of controls: a set of formal control systems designed and transferred by the HQ, and a set of controls designed internally and shaped by factors at the subsidiary level (Rowley et al., 2000; Woolcock, 2001; Busco et al., 2008).

Kostova and Roth (2003) suggested "informal approaches" to the coordination of organisational activities where the capacity of formal structures such as the elements of the coordination and integration of the MNE is constrained by the institutional environment. Staber (2006) argued that social capital theory offers a useful foundation and "a process-oriented perspective" that enables the exploration of the interaction dynamics embedded in managerial practices (p.190). He contended that the theory does not only "seem ideally suited" to explore the issues involved in multinational operations but adds to the understanding of these issues and how they shape practices by emphasising the role of "agency and intentionality".

Social capital constitutes the resources that actors are able to access by reason of their being located in a network or structure of social relations (Adler and Kwon, 2002). It is the "benefits that social actors derive from their social structures" (Kostova and Roth, 2003, p.297). From a multinational perspective, Staber (2006, p.190) defined social capital as the "benefits that accrue to a collectivity as a result of maintaining cooperative relations between its members". It refers to the "social relational properties and processes of the organizational system" that enable coordination and support innovative practices.

Social capital is an attribute of successful organisations and is reflected in trust, reciprocity and norms of social behaviour that enable cooperation and integration of activities by regulating social behaviour (Kostova and Roth, 2003). From this perspective, social capital generates some benefits for the individuals involved and for the organisation as a whole, and such benefits are accessible to all individuals in the organisational network.

This study explores how MCSs are designed and used and whether there is transfer of MCSs from the HQ to the subsidiary. The factors (internal and external) that influence the transfer or separate design of MCS in the MNE setting is also examined. This is achieved through the

theoretical lens of the new institutional sociology (NIS) and social capital theory. It explores how MCSs are shaped by external environmental factors from the perspective of the NIS, a dynamic theory that has risen to prominence in accounting and organisational studies, where it has been popular in the explanation of individual and organisational actions (Dacin et al., 2002). The NIS suggests that organisations are shaped by factors from their operating environment and will adapt practices and operations to accommodate such factors.

However, the NIS has been criticised for being externally focused and for ignoring the self-interested behaviour of agents, and the role of active agency. Granovetter (1985) argued that institutions that shape organisations are themselves so "constrained by ongoing social relations that to construe them as independent is a grievous misunderstanding" (p.481-2). The social capital theory is also used in this research to explore how ongoing social relations combine with the institutional factors of the environment to shape the design and use of MCS. Understanding the above argument is becoming more pertinent as the structure of MNEs is changing, with a growing number of these organisations now having HQs in LDCs and subsidiaries in developed countries (Guillén and García-Canal 2009; Mathews, 2006; Luo and Huaichuan, 2009; Luo, 2005). The next section outlines the motivation for this study.

1.2 Motivation and problem statement

The literature on MCS in MNEs suggests that controls are normally designed and transferred from the headquarters to the subsidiaries (Elbashir, 2011; Hyvonen, 2008; Norreklit and Schoenfeld, 2000; Coates et al., 1992). This argument has been based on conventional MNEs with headquarters in developed countries with stronger institutional and operating environments, and as a result it has been easier to design and transfer MCSs along with other business models and structures from headquarters to subsidiaries in LDCs with weaker

institutional and operating environments (Norreklit and Schoenfeld, 2000; Elbashir, 2011). The headquarters may also have better expertise than their subsidiaries, which places them in a better position from which to develop and dispense controls to the subsidiaries (Luo and Huaichuan, 2009; Davila et al., 2009; Gomez and Sanchez, 2005).

Kotsova and Roth, (2002) argued that when foreign subsidiaries of MNEs are subjected to internal organisational pressure to adopt structures and controls that have been designed at the headquarters, they "act as active agents and may adopt the practices to varying degrees" (p.217). The subsidiary's response, they argued, is influenced by the external institutional environment as well as the internal environment of the enterprise. In addition, the strategic role of the foreign subsidiary in relation to the headquarters may also impact on the transfer of headquarters-designed controls to a subsidiary (Muralidharan and Hamilton, 1999).

The structure of MNEs is, however, changing, with a growing number of these organisations having headquarters in LDCs and subsidiaries in developed countries (Guillén and García-Canal 2009; Mathews, 2006; Luo and Huaichuan, 2009; Luo, 2005). This new arrangement raises issues about the design and transferability of controls from headquarters to subsidiaries. Thus, with the headquarters based in a weak institutional and operating environment, it will be interesting to understand how the subsidiary's operations are coordinated and controlled by the headquarters. In particular, it will be interesting to examine what kind of controls are designed and used at the headquarters and the extent to which these controls are transferred to the subsidiary. This issue is also critical because there is evidence to suggest that MCSs in organisations in LDCs are politicised, shaped by ethnicity and hardly used as control and coordinating mechanisms (Hopper et al., 2009; Tsamenyi, 2008; Efferin, 2007; Wickramasinghe, 2005).

Factors such as culture, religion and the socio-political attributes of a LDC's institutional environment have been suggested as having the potential to shape controls in these environments (Hopper et al. 2009; Tsamenyi et al., 2004; Hopper et al., 2003). Unfortunately, the design and use of MCS between developing country headquarters and developed country subsidiary has not been examined in the literature. This research is therefore designed to address this gap.

Therefore, the overarching research question is: How do HQ controls influence controls in the subsidiary? In order to answer the overarching research question, the following sub-questions have been derived, following the literature review presented in chapter 2.

i.   What controls are designed and used by the HQ and the subsidiary and to what extent are controls transferred between the HQ and the subsidiary?

ii.   What institutional forces account for how MCS is designed and used in the HQ and subsidiary?

iii.   What is the role of social capital in the coordination and control of the subsidiary by the HQ?

1.3 Research objectives and aims

This research work aims to provide empirical evidence on the extent to which controls are transferred from the HQ to the subsidiary of a MNE; that is, how the MCSs at the subsidiary are influenced by those at the HQ.

The main objectives of this research are to:

i.   Investigate the institutional differences between the HQ and subsidiary under study.

ii.   Compare and contrast the design and use of MCSs in the HQ and the subsidiary.

iii.   Examine how the MCSs in the HQ and subsidiary are shaped by the institutional environment and social capital.

1.4 Scope of study

The empirical settings of this research are Nigeria and the United Kingdom (UK). Nigeria is a country with diverse ethnic groups and cultures (Olotu and Ogunro, 2013). It has an estimated population of over 174 million, making it Africa's most populous country (CIA, 2013). It is also endowed with abundant natural resources. Nigeria is an LDC with many challenges from the institutional environment, such as poverty, high crime rates, corruption, and fraud. Nigeria was a colony of the UK and still maintains economic and diplomatic relationships with the UK.

The UK, on the other hand, is a developed country, which at the peak of its reign as an empire had control over more than 25% of the world's landmass, making it the largest empire in history (Halliday, 2011). The UK has a well-established and stable system of government dating back several centuries. It plays an important part in policy decisions and has political influence at international level (Risse-Kappen, 1997). The UK has held the position of a permanent member of the United Nations Security Council from its inception. It is also a key member of the European Union (EU), the World Trade Organization, the Commonwealth of Nations and the Organization for Economic Cooperation and Development (OECD), among others (Morrison, 2011).

There are contrasts between the Nigerian and UK institutional environments in terms of culture, norms and values and other practices. The contrasting nature of their institutional environments offers an ideal setting for exploring the impact of differences in institutional environment on the design and use of MCSs. Furthermore, the researcher understands the socio-cultural, political and economic environments of these countries and is able to

communicate with participants in their languages. The researcher also shares a background and experiences with most of the participants.

1.5 Structure of the thesis

This thesis is comprised of nine chapters. Chapter 1 is the introductory chapter. Chapter 2 is the review of prior literature on MNEs and MCSs. It discusses the emergence of new forms of MNEs that differ from the conventional forms. The challenges that MNEs face is detailed and suggestions of how such challenges may be mitigated is also discussed. The literature on MCSs includes the different views of MCS research, MCSs in LDCs, MCSs in MNEs and informal controls. These areas are reviewed in order to identify the gaps in the literature that the contribution made by this research will fill.

Chapter 3 presents the theoretical framework for the research. The chapter discusses the NIS and its underlying concepts. The three pillars of the NIS are also discussed from the perspective of Scott (2001). In addition, criticisms of the NIS and how the current research seeks to address some of these criticisms are also discussed. The social capital theory is incorporated into the framework and is discussed as a way of addressing some of the weaknesses of the NIS. The benefits of the social capital theory as well as the possible risks are also discussed.

Chapter 4 presents the research methodology that was used to gather empirical data for this research. The chapter discusses the different philosophical paradigms in social science research and how that informs what is considered appropriate research evidence. It also discusses the rationale for the qualitative research approach that was adopted, the research design and the case organisation. The case study research design is discussed, as is the research strategy adopted for data collection. The sources of the data, the research procedure, and ethical considerations are also discussed in this chapter.

Chapter 5 presents the NIS perspective on the case study contexts and discusses the Nigerian and UK institutional environments. The normative, regulatory and cultural-cognitive pressures of the institutional environments are examined. The chapter also explores how these pressures influence business operations and shape the behaviour of employees.

Chapter 6 presents the discussion of MCSs at the headquarters of the Nigerian service multinational enterprise (NSMNE). The chapter discusses the impact of the Nigerian institutional environment on the design and use of the MCSs found at the headquarters of the NSMNE. Budgets, the performance measurement and evaluation system, and the compensation and reward system are discussed as the formal control systems that were found. The chapter also discusses the informal control systems found at the headquarters, highlighting the benefits and risks of using them in the Nigerian institutional environment.

Chapter 7 presents a discussion of the MCSs at the subsidiary, their design and use and how the UK institutional environment has impacted the process. The key formal control systems found at the subsidiary, namely budgets, performance measurement and evaluation systems, and reward and compensation systems are deliberated, and informal means of control are also discussed from the subsidiary's perspective.

Chapter 8 presents the headquarters-subsidiary relationship, how this influences the management control systems and the use of MCSs in the headquarters-subsidiary relationship. It discusses the imposition of MCSs on the subsidiary from the HQ and the means of controlling and coordination that the HQ has adopted in relation to the subsidiary in this research. It also highlights the significance of the subsidiary to the HQ and explores how this has shaped the way in which the HQ relates to the subsidiary and the role of MCSs in the relationship.

Chapter 9 offers a summary of the findings and conclusion. It presents an overview of the thesis, a summary of the findings and the contribution and implications of this research. Finally, the limitations of the study and suggestions for further studies are also reflected on and discussed.

Chapter Two

Literature Review

2.0 Introduction

This chapter reviews the literature on management control systems and multinational enterprises (MNEs) in order to determine the existing knowledge and gaps in MCS (management control system) research in MNEs. The chapter aims to highlight gaps in previous research on MCS in MNEs and to provide context(s) for the study. It also seeks to provide background knowledge as to how differences in the environments where the MNE operates may shape the design and use of MCSs. In addition, it explores how this in turn shapes the role of MCSs in the headquarters-subsidiary relationship of the MNE. This is important because previous research on MCSs in MNEs has been based on MNEs in developed countries with stronger institutional and operating environments which make it easier to design and transfer MCSs. In contrast, the headquarters of the case MNE is in an LDC (less developed country) with a weaker institutional and operating environment and operates a subsidiary in a developed country.

In order to achieve the objectives of this chapter, the remaining part of the chapter is structured into four sections. The first section reviews the literature on multinational enterprises and traces the evolution of MNEs from conventional to emerging MNEs. The second section reviews the literature on management control systems in conventional MNEs and critiques the literature. The third section discusses the implications of emerging MNEs for the design and use of MCSs, drawing on institutional differences between the HQ and subsidiary environments. The fourth focuses on the gaps in the literature leading to the research question of this study. The chapter is concluded with a summary.

2.1 Overview of multinational enterprises and multinational operations

An MNE "consists of a group of geographically dispersed and goal disparate organizations, that include its headquarters and the different national subsidiaries" (Ghoshal and Bartlett, 1990, p.603). MNEs emerged to take advantages of proprietary opportunities and other economic advantages which enable them to engage in the production of goods and delivery of services in foreign countries (Guillén and García-Canal, 2009). Operating in more than one country, however, exposes the MNE to different external environments and the difficulties of responding to a range of complex issues, including diversity in the nationalities of employees (Chang and Taylor, 1999). In essence, an MNE is a business entity where different cultural values, norms and ethnicities are intertwined (Buckley and Ghauri, 2004; Cantwell et al., 2010). The employees of an MNE bring into the organisation different attitudes, values, and goals, which create a complex relationship that may cause interpersonal conflicts (Chang and Taylor, 1999).

The core task of the headquarters of MNEs is to ensure integration and control the activities and performance of the various subsidiaries of the MNE (Tan and Mahoney, 2006; Harzing and Feely, 2008; Cantwell et al., 2010). Chang and Taylor (1999) argued that it is indeed necessary for the headquarters to make an

> "attempt to increase control over foreign subsidiaries in order to reduce the uncertainty of their investment, since control ensures that the behaviours originating in separate parts of the organisation are compatible and support common goals" (p.542).

The process of integration requires the management of the MNE to create a balance between the priorities of responding to needs at national subsidiary levels, and the coordination of the headquarters' activities to support global competition (Kostova and Roth, 2002; Doz and Prahalad, 1991).

The need for national responsiveness may be informed by the social conditions, diversity in market conditions and the impact of the political environment where the headquarters and its subsidiaries are located (Chenhall et al., 2011; Cantwell et al., 2010; Coates et al., 1992). These needs make the coordination, integration and exchange of resources between geographically dispersed subunits the critical tasks in the management of MNEs (Kostova and Roth, 2003).

However, operating through a foreign subsidiary is not the only way in which an enterprise could become multinational. Research shows that the strategies that organisations adopt to become multinational is influenced by the nature of the environment (Birkinshaw and Hood, 2000; Chen and Hennart, 2002; Heidenreich, 2012). Depending on the environment, organisations may choose to become multinational through joint venture(s) and acquisitions. The next section discusses the entry strategies adopted by multinationals.

2.2   Approaches to the management of multinational enterprises

The transformations in the business environment over the last three decades have made businesses redefine their strategies and processes (Busco et al., 2007; Buckley and Ghauri, 2004). Business organisations have vied for competitive advantage by adopting and adapting their businesses to enable process standardisation and to become flexible and responsive to the needs of local markets (Rugman and Verbeke, 2001; Björkman et al., 2004). These transformations bring uncertainty to the business environment and expose the MNE to the challenges of aligning corporate strategies at the headquarters with local processes at the subsidiary level (Guillén and Garcia-Canal, 2009).

Managing the uncertainties associated with the risk of return on investments takes a central place in the relationship between the headquarters and subsidiaries, and forms the core of the control systems (Chang and Taylor, 1999). Headquarters of MNEs may also attempt to reduce the uncertainties of investing in different business environments by adopting different

strategic approaches (Björkman et al., 2004; Rugman and Verbeke, 2004; Forsgren and Holm, 2010).

Busco et al. (2007) summarised the different strategies adopted by MNEs to control their foreign operations by drawing them into three approaches; the globally oriented, transnational and multinational approaches. However, these strategies relate to traditional MNEs with headquarters in developed countries. New forms of multinationals are emerging with headquarters in LDCs and are discussed in the next section since this research is focused on such an MNE.

2.3   The changing pattern of multi-nationalism

The second phase of the industrial revolution, as was experienced towards the later part of the 19th century, saw the emergence of MNEs in the form in which we know them today (Meyer, 2004, Guillén and García-Canal, 2009). Technological expertise, managerial prowess, and brands have enabled British, Continental European, and North American business enterprises to extend their operations around the world (Meyer, 2004). Then in the mid 20th century the reduction of trade barriers around the world during the 1950s and the 1960s aided the internationalisation of MNEs (Guillén and García-canal, 2009).

MNEs originating from technological advancements, managerial expertise and brands were able to overcome the challenges associated with being foreign to take up full or part ownership of subsidiaries in foreign countries (Guillén and García-Canal, 2009; Luo and Huaichuan, 2009). Their unique abilities enabled the transfer of technological know-how, products, and expertise from the headquarters to geographically dispersed subsidiaries. The management of these subsidiaries depended on financial and elaborate bureaucratic controls set up at the headquarters (Luo and Tung, 2007).

The trend explained above is, however, changing with the emergence of MNEs from developing countries that have become increasingly active in foreign direct investment (Luo and Huaichuan, 2009). MNEs originating from countries which are not the most advanced in technological and managerial expertise are increasingly becoming prominent and occupying strategic places in the global business arena (Cuervo-Cazurra and Genc, 2008; Zahra et al., 2011). The result of the changing pattern is the emergence of MNEs "whose business attributes, dominant motivations, evolutionary trajectory, and strategic behaviours contrast with those of older (North America, European and Japanese) MNEs" (Luo and Huaichuan, 2009, p.49).

The literature has used various qualifying terms to describe these emerging MNEs. Terms such as "unconventional multinationals" (Li, 2003), "late comers" (Mathews, 2006) and "late-movers" (Luo and Tung, 2007), among others have been used to refer to MNEs from developing countries. Such MNEs have emerged across the globe, cutting across the "upper-middle-income" economies such as South Korea, Taiwan and Spain, to developing and emerging economies such as China, Brazil, South Africa, Thailand, Indonesia, Nigeria, and the United Arab Emirates (Luo and Tung, 2007; Guillén and García-Canal, 2009).

Coming from a position of being relatively unknown about a decade ago, MNEs from developing countries have become established in a wide range of products, services, and markets, and are major players in the global business landscape (Guillén and García-canal, 2009). Notwithstanding their seemingly disadvantaged position of having technological and managerial expertise that lags behind that of the developed countries, some of these multinationals have been able to overcome the challenges of operating at the global level, to become leaders in their various sectors (Mathews, 2006). Contrary to opinions by leading commentators that emerging multinationals will be short-lived as a result of marginalisation and tight competition from leading firms in their industries, some of these firms have been

described as "success stories" (Mathews, 2006). An emerging pattern in the multinationalisation of business enterprise is, therefore, one in which the headquarters of the enterprise is located in a developing or emerging economy, while the subsidiaries are located in the developed, as well as developing countries.

Emerging multinationals operate on a "dual path" (Guillén and García-Canal, 2009); that is, their presence is simultaneously found in the developed and developing countries. This is a different route to that of traditional internationalisation. Traditional multinationals, which started in developed countries, took up internationalisation by expanding into less distant countries and then into the more distant ones (Rui and Yip, 2008). Most emerging multinationals on the contrary, are expanding their operations to distant developed countries in order to build their reputation, gain external legitimacy and expertise (Chang et al., 2009; Ferner, et. al., 2005). The emerging multinationals also possess high organisational adaptability that has been encouraged by their sporadic international presence. This is contrary to the traditional multinationals, which have low organisational adaptability, fostered by their organisational culture and embedded structure (Guillén and García-canal, 2009).

Emerging MNEs from developing countries, therefore, offer an interesting opportunity to understand how the differences in the institutional environments in which the MNE operates shapes the design and use of MCSs, and the use of MCSs for the coordination and integration of foreign operations. While some of the emerging multinationals are large enough to compete with other established multinationals in their industries, some rely on the production of specific products or service delivery to carve out a niche for their operations in the global markets (Guillén and García-canal, 2009). The next section will discuss some of the entry strategies that emerging multinationals adopt to internationalise their business.

2.4   Entry strategies of multinationals from emerging and developing countries

It has been widely acknowledged by researchers that MNEs adopt a variety of strategies to gain entry into foreign markets (Beamish and Lupton, 2009; Polidoro et al., 2011). Some of these strategies include licensing, exports, contractual manufacturing, joint ventures, and wholly-owned subsidiaries.

Entry strategies may have a number of implications; for instance, they are found to have influence on the control and coordination systems, and other operational policies of the MNE (Chen and Hennart, 2002; Luo and Tung, 2007). The entry strategy may also have economic implications for the host country regarding the attainment of national economic goals (Chowdhury, 1992). Consequently, selection of a specific entry strategy is conducted following comparisons between the various options available to the MNE (Chowdhury, 1992).

While various strategies of entry into foreign markets have been studied from the perspective of traditional MNEs by many researchers, joint ventures and wholly-owned subsidiaries have attracted considerably greater attention as two competing strategies of entry into foreign markets by emerging MNEs (Chen and Hennart, 2002; Beamish and Lupton, 2009; Yu-Ching et al., 2010). For the purpose of this research, the discussion on the entry strategies will be focused on wholly-owned subsidiaries. The reason for this is that the MNE studied in this research has adopted the wholly-owned subsidiary approach to establish its subsidiary.

There has been a substantial increase in the number of research studies focusing on wholly-owned subsidiaries of MNEs. Scholars have argued that the attention given to research on the wholly-owned subsidiary as an entry strategy stems from the increasing awareness of the prime position that wholly-owned subsidiaries occupy in the MNE network (Chowdhury, 1992; Chen and Hennart, 2002; Yu-Ching et al., 2010). Academic models have traditionally

focused on the headquarters as the source of "ownership-specific advantages" (Birkinshaw and Hood, 2000, p.773), assuming that the subsidiaries are at the receiving end of advantages developed by their headquarters. Unique capabilities developed at the subsidiary level have, however, drawn attention to the subsidiary as a probable source of competitive advantage (Chen and Hennart, 2002). These unique capabilities, as found among subsidiaries, have led researchers to shift their focus to understanding the roles that subsidiaries play in the MNE's network (Birkinshaw and Hood, 2000). The various conceptualisations of MNEs (see Bartlett and Ghoshal, 1989; Hedlund, 1986), as mentioned earlier, are some of the efforts aimed at understanding the prime of place of the subsidiary in the MNE.

The capabilities of the subsidiary, or the role it plays in the MNE's network, may influence decision-making at the headquarters at the subsidiary level and even its place in the local environment (Birkinshaw and Hood, 2000). Subsidiaries have also been found to evolve over time (Chen and Hennnart, 2002). The evolution of a subsidiary follows the responsibilities assigned to the subsidiary by its headquarters, the role the subsidiary management chooses to play, and the impact the local environment may have on the subsidiary.

The use of wholly-owned subsidiaries as entry mode gives MNEs the advantage of protecting proprietary assets abroad, and safeguarding them from local partners (Anderson and Gatignon, 1986; Chen and Hennnart, 2002).Yu-Ching et al. (2010) suggested that wholly-owned subsidiaries will be adopted as entry strategies for MNEs that have the ability to increase the efficiency of resources allocated and utilised through intra-firm transfers. Firms may also adopt the wholly-owned subsidiary strategy if they consider it to be easier and appropriate to duplicate successful operational strategies that have been tried elsewhere (NyoNyo Aung and Hla, 2009). Wholly-owned subsidiaries may also be able to contain the issues of cultural distance better than joint ventures (Mathews, 2006). Padfteld (2004),

however, argued that wholly-owned subsidiaries may be vulnerable to manipulation as a result of the power distance.

Furthermore, the establishment of a wholly-owned subsidiary requires the commitment of the firm's resources at the highest level, which is associated with very high risk (Roth and Kostova, 2003; NyoNyo Aung and Hla, 2009). Being such a risky venture may lead to better performance, as the headquarters or parent company will seek to protect its investment by instituting tight control measures (Coates et al., 1992; Cantwell et al., 2010). Hence, a study involving a wholly-owned subsidiary of an MNE is important in understanding how the differences in the environment influence the design and use of the controls within the enterprise and whether the headquarters designs and imposes controls on the subsidiary. The next section reviews the literature on MCSs and their roles in the MNE.

2.6 Management Control Systems

Abernethy and Chua (1996) defined a management control system (MCS) as "a combination of control mechanisms designed and implemented by management to increase the probability that organisational actors will behave in ways consistent with the objectives of the dominant organisational coalition" (p. 573). Opinions differ in the literature regarding the meaning, function and importance of MCSs. The traditional view of MCSs from the extant literature assumes that controls are designed to provide managers with information that will help them to make effective and efficient decisions (Anthony and Govindarajan, 2007; Canonico and Soderlund, 2010). Thus, an MCS is perceived as having the capability to create the synergy necessary to bring together the efforts of individuals or groups of people and to ensure that a learning and follow-up process is spread across the organisation (Canonico and Soderlund, 2010). Management control, according to Nixon and Burns (2005), is "fundamentally about supporting the attainment of strategic objectives" (p.263). The alternative view of MCS

research argues that MCS is not necessarily objective and could be used in organisations for purposes other than control (Tsamenyi et al., 2008; Davila et al 2009). This suggests a broader conceptualisation of an MCS.

Chenhall and Euske (2007) advanced a broader conceptualisation of the MCS to "incorporate both financial and non-financial controls, formal and informal controls including subjective data, personal and clan type of controls" (p.602). They asserted that MCSs could be useful for the development of an empowered workforce and for building harmony in industrial relations. Empirical evidence also suggests an MCS may assist an organisation to change its strategic orientation, directing its focus to economically efficient approaches built on quality products and services and the satisfaction of customers' needs (Chenhall and Euske, 2007). Differences in the research findings investigating the usefulness of MCSs in change implementation among other MCS research has prompted an examination of the effect of social and political issues on MCSs following change.

Duh et al. (2009) found that a number of factors define or affect the way in which specific MCSs are used. Factors such as the size of the organisation, industry, corporate participants' activism, foreign ownership and competition were suggested to have some effects. They also found that the performance of a firm had some bearing on some of the MCSs examined.

This introduction to MCSs drawn from the extant literature is intended to give some understanding of what is meant by MCSs for the purpose of this research. The next section reviews the literature on MCSs in MNEs, which is the focus of this study. The review of MCSs in MNEs is intended to give an understanding of how MCSs are designed and used by the MNE in the coordination and control of subsidiary activities.

2.7 Management control systems in multinational enterprises

The core task of the headquarters of MNEs is the coordination and control of the activities of the various subsidiaries (Tan and Mahoney, 2006; Harzing and Feely, 2008; Cantwell et al., 2010). Chang and Taylor (1999) argued that it is indeed necessary for the headquarters to make an

"attempt to increase control over foreign subsidiaries in order to reduce the uncertainty of their investment, since control ensures that the behaviours originating in separate parts of the organisation are compatible and support common goals" (p.542).

Hence, most studies of MCSs in traditional MNEs have suggested a rational technical dimension driven by the notion that at the core of MCS is the design of strategic and operational actions that make objectives achievable (Davila et al., 2009; Nilsson, 2002; Henri and Journeault, 2010). This functionalist approach, which has been largely influenced by the contingency and agency theories, assumes that MCSs exist to help managers to achieve certain desired outcomes (Chenhall, 2003).

For example, Bisbe and Otley (2004) defined MCS as encompassing all of the processes and procedures that the management and other members of an enterprise employ to ensure that efforts are directed towards the achievement of individual and organisational goals. Flamholtz et al. (1985) defined MCSs as mechanisms put in place in the organisation so as to lower the probability of incongruent behaviour among the members of the organisation and increase the drive towards the attainment of organisational business and strategic goals. These definitions suggest that an MCS is necessary for directing the efforts of organisational members towards the execution of activities that would lead to the achievement of certain goals (Reyes, 2007).

Researchers expressing this view of MCSs have based their research largely on the study of control systems in traditional MNEs with headquarters in developed countries, such as the North American, European and Japanese MNEs (see Andersson et al., 2001; Cooper and Ezzamel, 2013; Cools et al., 2008). These traditional MNEs are involved in manufacturing or production, where accounting-based controls are considered particularly suitable (Abernethy and Brownell, 1997). Taking the dominant view in management control research, they assume a functionalist approach that focusses on output and behavioural controls where issues such as performance evaluation, budgets, quality measurements, profit targets, business policies, direct supervision, and operating procedures have been the central issues in MCS research (Alvesson and Karreman, 2004). Some of these are discussed in more detail in the next section on MCS in the headquarters-subsidiary relationship of MNEs.

2.8 Management control systems in the headquarters-subsidiary relationship of MNEs

Martinez and Jarillo (1989) suggested that there are no exclusive mechanisms of coordination and control of MNEs subsidiaries, but that all organisational forms have some degree of specialisation or differentiation among their parts that requires some form of coordination and control mechanism(s). Hence, the mechanisms for coordination and control used by MNEs to integrate and control their geographically dispersed subunits "are neither original to nor exclusive for MNEs: they are common to all large firms" (p.490).

They went on to identify and differentiate the most common control systems that are used by MNEs for the coordination and control of their subsidiaries as structural and formal control mechanisms, and other mechanisms described as more informal and subtle.

2.8.1 Formal control systems

Formal controls constitute an important part of MCSs, and are considered useful for developing effective and proficient work processes, as well as maintaining pecuniary viability

(Durden, 2008). Formal controls are "deliberately articulated practices" (Chenhall et al., 2010). They are documented systems which are initiated by management with the assumption that employees' individual goals differ from that of the organisation (Leatherwood and Spector, 1991), and that MCSs can help the two to align. The notion of management control is based on the premise that MCSs are necessary, important and possible to achieve (Alvesson and Karreman, 2004). Ford and Greer (2005) argued that these forms of controls are necessary for the effective implementation of change, especially when the change is strategic. Formal controls reduce uncertainty and may have a modest effect on the control of real work (Sandelin, 2008).

Formal controls form the visible part of the organisational control system, which sets out standard procedures of operation intended to achieve specific objectives (Langfield-Smith, 1997). They constitute deliberately designed information based structures, procedures, and processes that managers should use to enforce organisational policies and modify strategies (Bisbe and Otley, 2004). They give rise to structures that allow for routine activities that rarely change (Davila et al., 2009). These routine behaviours that are required of members of organisations make monitoring and the measurement of outputs possible (Baucus and Near, 1991). Martinez and Jarillo (1989) identified budgets and strategic planning, performance evaluation, and measurement and rewards systems as some of the formal control systems used by MNEs to coordinate and integrate their subsidiaries' activities with the headquarters. These systems are discussed further below.

Budgetary planning and control

Budgetary controls, according to Frow et al. (2005), form part of a wider control framework that the top management of MNEs uses to influence and support strategy formation and

implementation. Huang and Chen (2009) noted that budgets are critical tools that MNEs use for coordinating resource allocation, managing and controlling their operations and for evaluating performance. Rivera and Milani (2011) argued that budgetary planning and controls in MNEs will vary across the environment of operation.

Hassel and Cunningham (2004) asserted that budget control is important for foreign subsidiaries of MNEs because other information-intensive alternatives to budgets are cumbersome and less effective in coordinating and controlling foreign subsidiaries than they are in domestic subsidiaries that are close to the headquarters (see also Hassel, 1991). However, the benefits of shared expertise, knowledge of the operational environment and economic conditions that are present in domestic environments do not always exist in foreign subsidiaries (Hassel and Cunningham, 1993). As such, the clarity of senior management expectations in budget communications at the domestic level may not exist in the situation of foreign subsidiaries. Despite this, Simons (1987) suggested that headquarters of MNEs could reduce the environmental uncertainties associated with managing foreign subsidiaries by increasing the budgetary control of those foreign subsidiaries.

Hassel and Cunningham (2004) posited that the differences in environmental factors between the HQ and foreign subsidiaries of MNEs shape the use of budgetary control systems for coordinating and controlling the activities of the foreign subsidiaries. They termed this difference 'psychic distance', which they defined as: "geographic distance and the complex milieu of factors that make up culture" (p.81). They suggested that countries that have similar underlying business cultures and speak the same language, such as the US and Canada, often understand each other's culture and business practices. They argued that, "higher reliance on budget controls is more appropriate for foreign subsidiaries of multinational companies (with greater psychic distance) because of the inherent problems due to distance and culture, especially the difficulty in communicating rapidly over geographic distances" (p.89).

Budgets may be prepared by senior management and handed to the lower level management to be implemented. In some cases, the lower level management may also be involved in the design process (Dossi and Patelli, 2008; Elbashir et al., 2011). Chenhall (2003) described the budgeting process in which subordinates are involved in the design as 'participative budgeting'. Participative budgeting gives managers the chance to gather job-relevant information from staff members who are closer to the customers and the business environment (Chong et al., 2005; Li et al., 2005). This is important in an environment of high competition (Tucker et al., 2009).

Hassel and Cunningham (1996) noted that budgets may be more effective in coordinating and controlling foreign subsidiaries if subordinates are allowed to participate in their preparation. They argued that when lower level managers are given the chance to participate in budget preparation, they are motivated to perform. Budget participation may also vary between foreign and domestic business units (Frow et al., 2005).

Huang and Chen (2009) found that when a participative budgeting approach is adopted by top managers of MNEs, some top managers exhibit contingent reward behaviour to control the preparation process, while others exhibit contingent punishment approaches. Superiors who use contingent reward methods, they argued, use positive feedback such as complimenting managers who are outstanding in the preparation of their budgets. On the other hand, top managers who adopt a contingent punishment or negative feedback approach use reprimands and open criticism of poorly prepared budgets to encourage better performance (Huang and Chen, 2009).

Moilanen (2008) found that while the extant literature implies that MNEs need "accounting-based financial control to be able to steer the operations of their subsidiaries", the MNE studied did not "interfere with the practical development of the operations in its subsidiaries,

but calculates the financial targets to be achieved by them" (p.258). He, however, noted that, budgets were essential in the subsidiaries' internal reporting and in the preparation of the monthly reports which are compared with the budgetary targets. In preparing the budgets, targets are often linked to the performance evaluation system of the organisation, which is the subject of discussion in the next section.

Performance measurement and evaluation system

According to Hopwood (1990, p.9), a performance measurement and evaluation system (PMES) is an important tool for coordination and control because it could "influence perceptions, change language and infuse dialogue, thereby permeating the way in which priorities for action are expressed". This means that the PMES plays an important role, not only in organisational affairs, but also in the social affairs of actors in the bid to attain targets (Busco et al., 2008).

The literature on performance measurement in MNEs has focused on comparing foreign subsidiaries' performance to their domestic counterparts', comparing the performance of MNE subsidiaries based on entry modes and comparing the financial performance of different subsidiaries (see Cooper, and Ezzamel, 2013; Schuler et al., 1991). Studies that have studied foreign subsidiaries' performance against domestic firms have suggested that foreign subsidiaries performed better than their domestic counterparts because they possessed firm-specific advantages within the MNE network (Andersson et al., 2001). Others who have studied subsidiaries' performance from a purely financial perspective have tended to evaluate performance on the bases of profits and return on equity (see Globerman and Meredith, 1984). Research investigating the links between entry modes and performance has focused on ownership-based entry modes such as wholly-owned subsidiaries and joint ventures (see Nitsch et al., 1996).

In other instances, scholars, especially from the human resources perspective, have studied the factors impacting employees' performance in MNEs, with particular emphasis on expatriate managers (see Schuler et al., 1991; Ferner, 2000). Such studies have also evaluated the constraints on subsidiary level appraisal in MNEs as well as the criteria used for measuring and managing employees' performance. Schuler et al. (1991) noted that these studies have been carried out within the context of developed countries' MNEs which send expatriates to foreign subsidiaries in other developed and developing countries. They suggest that developed countries' MNEs export entire or specific practices "such as performance appraisal *en masse* to other parts of the world" (p.367). They argued that staffing MNE subsidiaries with host country nationals reduces the potential negative impact of environmental factors on subsidiary operations, but that irrespective of where staff members of a subsidiary are sourced from, performance variables "must be managed through appraisal and management" (p.367).

MNEs may evaluate the performance of the enterprise as a whole, including subsidiaries, individuals and groups (Lau and Moser, 2008; Swiercz et al., 2012). Lohman et al. (2004) argued that being able to measure the performance of an enterprise is an important prerequisite for evaluating its improvement. Chenhall and Euske (2007) suggested that the evaluation of an individual's performance, rather than that of a group, may lead to better results, as more effort is likely to be put into the performance of an assigned task.

Ferris et al. (2008) noted that organisations incorporate key performance indicators (KPIs) into the design of the performance evaluation process in order to direct the efforts of staff towards expected outcomes. KPIs may target individual performance requirements and work ethics, as well as requirements of the operational environment that individuals are supposed to meet. These may include both financial and non-financial variables (Hoque, 2005). Schuler et al. (1991) argued that certain considerations should be taken into account in developing

performance measurement systems for MNEs. For example, consideration should be made as to whether to evaluate the whole enterprise or individual subsidiaries, the volatility of a subsidiary environment, the comparability of data, the level of development of the operational and business environment and the fit between the long-term goal of the headquarters and the activities of its subsidiaries.

Some scholars have advocated a broad approach to performance measurement, arguing that performance measures focus mainly on financial measures, which are too historical to be used alone (Ittner and Larcker, 1998; Hartmann and Slapničar, 2009; Cravens et al., 2010; Cianci et al., 2013). For example, Hoque (2005) argued that traditional financial performance measures do not satisfactorily reflect a firm's performance, as a result of today's dynamic business environment. Financial measures lack predictive ability, are not timely, reward short-term efforts, and provide inadequate guidance for evaluating intangible assets (Neely et al., 1997; Henri, 2006; Lohman et al., 2004).

Non-financial measures, on the other hand, focus on the measurement of a firms' success factors like the measurement of customer satisfaction, innovation, employees' satisfaction and internal business processes (Dossi and Patelli, 2010; Hussain and Hoque, 2002). However, critics have argued that it is unclear and sometimes impossible to determine how non-financial performance measures impact on performance. Scholars have increasingly advocated a broad set of performance measures that incorporates both financial and non-financial measures (Ittner et al., 2003).

Lau and Sholihin (2005) posited that for there to be an effective PMES, there must be trust among members of the organisation. They suggest that actors' trust in members acting objectively and transparently make the outcome of the evaluation process more acceptable. Seddon (1987) argued that, besides the issues of trust in the evaluation system, the nature of

the environment where the PMES are to be implemented may lead to inherent mistrust, which will undermine the usefulness of the evaluation system. For instance, his study of PMES in Africa suggested that other criteria such as kinship may influence the functioning of the PMES, rather than the principles of honesty and transparency in the process. The linkage of the PMES to rewards and compensation and succession planning may also influence the extent to which factors such as kinship and tribalism impact on the use of PMES (Hussain, 2005; Lau and Moser, 2008); that is, the attachment of positive outcomes to the PMES could further lead to issues such as dishonesty and mistrust arising (Lau and Moser, 2008). This is more the case because PMES are in most cases linked to reward and compensation systems. The next section discusses the reward and compensation system in the MNE HQ-subsidiary relationship.

Reward and compensation systems

Merchant et al. (2003) identified compensation and reward systems as part of an organisational incentive system. They described an incentive system as comprising performance standards, the processes used to set standards or targets, performance measures, performance evaluations, and reward structures that "link the performance evaluations to the provision of various forms of organizational rewards" (p.252). Evidence from studies involving US, German and UK MNEs suggests that reward and compensation schemes may be the main control mechanism that MNEs use to persuade managers of foreign subsidiaries to achieve corporate objectives (Coates et al., 1995). Reward and compensation systems are used along with performance measurement systems by MNE headquarters to influence managerial behaviour (Bartol and Srivastava, 2002).

Coates et al. (1995) enumerated various effects that reward and compensation schemes could have in relation to the performance measures of MNE subsidiaries. They posited that reward and compensation schemes could be used in MNE subsidiaries to reinforce the PMES,

narrow the focus of the PMES, modify the PMES and/or broaden the focus of the PMES into other areas of managerial tasks. In their study involving US, German, and UK MNEs, they found that German firms used reward and compensation schemes to broaden the attention base of management. UK MNEs, on the other hand, tended to use reward and compensation schemes differently for foreign subsidiaries and at home. Foreign subsidiaries were compensated based on key performance indicators set by the HQ on a broader base than home country operations (Coates et al., 1995).

The use of performance indicators as the determinant of compensation in foreign subsidiaries may "reflect a perceived need to measure foreign subsidiary managers in relation to the culture of the countries in which they operate rather than that of the owning country" (Coates et al., 1995, p.130). This implies that the differences in the institutional environment of the foreign subsidiaries of the MNEs shape the design and use of the reward and compensation scheme used by the multinational HQ.

According to Gerhart and Milkovich (1990), the use of an incentive-based compensation scheme is suitable in instances when the perceived link between employees' behaviour and enterprise performance is strong. Du et al. (2013) examined the impact of HQ-subsidiaries interdependencies on the performance evaluation and reward systems in MNEs. They contended that HQ-subsidiary interdependencies make it difficult to reward subsidiary managers' performance. This is because interdependencies between the HQ and subsidiary distort subsidiary level accounting performance measures, instead of fulfilling the need to align the goals between headquarters and subsidiary managers. Likewise, Roth and O'Donnell (1996), who based their research in foreign subsidiary compensation strategy on managers' performance, argued that, "as an integrated system, compensation strategy was found to have a strong impact on perceived subsidiary effectiveness" (p.699).

Essentially, most studies of reward and compensation schemes in MNEs have focused on the reward of subsidiary managers rather than how reward and compensation schemes are designed and used by the HQ to coordinate and integrate their aspirations and those of their subsidiaries. This highlights the importance of managers in steering foreign subsidiary operations in the direction of the MNE HQ. There has also been an underlying assumption that rewards and compensations schemes are mechanisms that the HQ uses to align the subsidiary with its objectives and encourage better performance. For example, Du et al. (2013) found that when the interdependence between headquarters and subsidiary increases, the "headquarters use more participative performance evaluation and subjectivity to evaluate the subsidiaries' performance for the purpose of rewarding subsidiary managers" (p.392). Furthermore, the findings of these studies have suggested that reward and compensation systems and other control systems discussed are designed and used by the HQ to control and coordinate their foreign subsidiaries.

Roth and O'Donnell (1996) examined reward and compensation more broadly, and suggested that rewards and compensation schemes used by enterprises have significant impact on the behaviour of staff members. The objectives of reward and compensation systems are to ensure that there is goal congruence between employees and the organisation (Malmi and Brown, 2008). They focus on improving performance by motivating employees (Cravens et al., 2010). Reward and compensation systems rest on the notion that their availability in an organisation encourages organisational members to put in more effort towards the attainment of organisational goals (Chiang, 2005). Merchant et al. (2003), however, noted that reward and compensation systems may not necessarily focus on motivation, but may be aimed at attracting and retaining quality employees.

Chiang and Birtch (2011) argued that the culture of the local environment where reward and compensation systems are implemented shapes the way in which the system functions and

should be taken into consideration in the design of reward systems. They argued that compensation and reward systems that may function well in individualistic cultures may be constrained in a collective society and disrupt group harmony. The environment may also impact the choice of rewards that produces the desired effects in employees. For example, Oliver and Cravens (1999) found non-financial rewards were more effective in feminine cultures where high value was placed on work-life balance and quality of life.

Reward and compensation could assume both extrinsic and intrinsic forms (Malmi and Brown, 2008). Extrinsic rewards could be monetary incentives such as bonuses and non-monetary rewards such as vouchers and dinner certificates, public recognition and praise (Bartol and Srivastava, 2002). Intrinsic rewards, on the other hand, may include the pleasure derived from performing a task and the conduciveness of the working environment (Bartol and Srivastava, 2002). Understanding the various forms of rewards and what effect they may have on employees' motivation and performance is important in this research, since factors from the environment(s) where an enterprise operates may determine the effect of rewards (Chiang and Birtch, 2011).

Reward and compensation, budgetary planning and controls and performance evaluation systems are identified in the extant literature as formal controls used by MNEs. The literature portrays these MCSs as essential for the MNE HQ to coordinate, control and align its operations with its foreign subsidiaries. However, some MCS researchers have argued that the formal controls impose restrictions, which limit innovative practices (Quinn, 1978; Davila et al., 2009). For instance, Rockness and Shields (1984) contended that formal control elements such as budgets are useful for planning, but their relevance decreases in terms of monitoring and evaluation and reward purposes. In addition, accounting-based controls may not be a beneficial form of control in the case of high uncertainty (Chapman 1998). Davila et al. (2009) believed that innovation is possible in an environment where employees have the

relative freedom to work towards achieving goals, so formal controls associated with bureaucratic processes may not support the drive for innovation.

The arguments put forward by the scholars cited above are important in exploring the nature that MCS assume in the MNE used for this study, and in particular in understanding the reasons why certain forms of control may be engaged in the relationship between the headquarters and the subsidiary. Therefore, the next section will review the extant literature on informal control systems in MNEs.

2.8.2 Controls other than formally instituted structures

Various terminologies have been used to describe the controlling effects that could emanate from structures other than the formally instituted organisational control systems in the MCS literature on MNEs. Terms such as informal controls (Tucker et al., 2009; Gomez and Sanchez, 2005) and clan controls (Ouchi, 1980) have been used to label these forms of control systems. Alvesson and Karreman (2004) argued that the various labels which have been used to describe controls other than formal accounting controls like "normative" "concertive" and "cultural-ideological" controls are misleading and instead chose to call them "socio-ideological forms of control" (p.426). They defined socio-ideological controls as "efforts to persuade people to adapt to certain values, norms and ideas about what is good, important, praiseworthy, etc. in terms of work and organizational life" (p.426).

Socio-ideological controls may be expressed in two forms: one is when the agent of the ideological control reproduces ideas that are taken for granted by him/her and ends up being controlled by the same ideas. The other form is when the agent of the ideological control proposes ideals or values that are intended to influence others but he/she does not believe in them (Alvesson and Karreman, 2004). An understanding of socio-ideological control issues is necessary, as "managers do not only exercise control through prescribing behaviour or

desired outputs. Managers also often seek to enact a particular form of organisational experience for others" (Alvesson and Karreman, 2004; p.425); that is, they impose control structures on workers. For the purpose of this research, control systems other than formally instituted structures are referred to as informal control systems.

Informal control is described as unwritten mechanisms initiated by workers intended to model personnel behaviours in MNEs (Jaworski, 1993), and includes clan controls, which describes a group of individuals who share common goals and are dependent on one another (Ouchi, 1980). The appeal of the informal control measures is suggested to emanate from the need for MNEs to respond to demands for flexibility and innovative practices (Norris and O'Dwyer, 2004; Falkenberg and Herremans, 1995).

Gomez and Sanchez (2005) found that MNEs were increasingly using informal control mechanisms such as participation in committees, involvement in decision-making, team work, and controls that emanate from an organisational culture "of shared norms and values and the socialisation of employees to these values" to coordinate, integrate and control the operations of foreign subsidiaries (p.1848; see also Jaeger, 1983; Martinez and Jarillo, 1991). Informal control mechanisms like the ones listed above are argued to be more flexible and subtle, and this subtlety enables MNEs to cope with the different factors of the diverse institutional environments of their subsidiaries.

Informal controls in the MNE help the subsidiary to maintain the autonomy they need to operate in dynamic and uncertain environmental conditions (Gomez and Sanchez, 2005). While the subsidiary's operation is appropriately expected to align with that of the HQ to a certain degree, informal controls become necessary for the subsidiary to cope with the influences of the exogenous factors of the MNE's institutional environment such as national culture and industry characteristics (Becker et al., 2001; Gomez and Sanchez, 2005). The

institutional factors present at the place of location of a subsidiary combine with the MNE's strategic objective(s) to shape the MCSs used to coordinate and integrate the subsidiary's operations and determine the extent to which formal accounting controls will combine with the informal controls to drive the MNE to its goals (Gomez and Sanchez, 2005).

MNE subsidiaries engage in socio-ideological control efforts in order to handle the pressure to integrate operations that is exerted from headquarters by making employees conform to certain values and ideals (Gomez and Sanchez, 2005). The belief is that those values and ideals that are considered beneficial to the organisation if the employees adhere to them should be encouraged (Alvesson and Karreman, 2004). This approach to the coordination and integration of an MNE's operations recognises the social-cultural attributes of employees rather than constructing a work context where the use of discretion or initiative by employees is minimised or hindered (Alvesson and Karreman, 2004).

The challenges faced by MNEs arising from the geographical spread of their operation are further compounded at the subsidiary level by the pressure of structures and control transferred by the headquarters (Norreklit and Schoenfeld, 2000; Kostova and Zaheer, 1999). The pressure to conform to group norms, while embracing the local contexts at the same time, results in a complex iterative and interactive level of controls that may require an integration process to make them mutually supportive (Yadong, 2005; Norreklit and Schoenfeld, 2000). As a result, a multinational subsidiary is likely to operate with two sets of controls: a set of controls designed and transferred by the headquarters and a set of controls designed internally and shaped by factors at the subsidiary level (Rowley et al., 2000; Woolcock, 2001; Busco et al., 2008).

The process of integrating subsidiary-designed controls with those of the headquarters requires the management of the MNE to create a balance between the priorities of responding

to needs at subsidiary levels and the coordination of headquarters activities to support global competition (Kostova and Roth, 2002). The creation of such a balance, according to Masquefa (2008), may depend on the nature of the relationships among the management staff members involved in the coordination of HQ-subsidiary activities. Relationships and networks of contact developed among management staff are suggested to reduce mistrust and the conflicts that may result from the use of formal MCSs (Masquefa, 2008). Studies of MCS in MNEs have focused largely on the rational/technical view of controls, with the assumption that controls are designed for the purpose of efficiency and coordination (Canonico, 2010; Woolcock, 1998; Gordon, 2008).

These studies, as noted previously, have been largely based on MNEs from developed countries. The next section therefore reviews the literature on MCS in emerging MNEs in order to understand how MCSs are designed and used and how the differences in institutional environments may shape the process in the HQ-subsidiary relationship.

2.9 Management control systems from the perspective of emerging MNEs

Extant research on the design and use of control and coordination mechanisms in MNEs has recognised that control systems are shaped by the characteristics of the institutional environments of the HQ environment and the environment in which the subsidiary operations are situated (Ferner et. al., 2005; Kostova and Roth, 2002). Singh (2012) argued that organisational practices including controls may have a social meaning that is determined by the institutional environments in which the organisation is embedded.

Conversely, the management and employees at subsidiaries in developed countries may assume that they possess superior managerial and technical knowledge to that of people in firms from emerging countries. As a result, the management at subsidiaries in developed countries may question the legitimacy and viability of managerial practices originating from a

country which they perceive as less developed and economically inferior to their own (Chang et al., 2009). In addition, most MNEs from emerging economies operate foreign subsidiaries in developed countries not only to exploit their home grown core capabilities, but also to augment them by learning from developed economies (Chang et al., 2005; Ferner et. al., 2005).

Chang et al. (2009), however, argued that although considerable research efforts have been made to understand the processes through which headquarters of MNEs from developed countries exercise control over their network of subsidiaries in foreign countries, little is known about MNEs from LDCs operating in developed countries. They suggested that MNEs from LDCs will employ different approaches that are distinctive from the ways in which MNEs from developed countries manage their foreign subsidiaries. They argued that this is because MNEs from LDCs are subjected to two forms of liability: the "liability of foreignness and liability of country of origin". While both developed and LDC countries'; MNEs have to overcome the liability of foreignness, MNEs from LDCs are specifically disadvantaged "because of perceived weakness and lack of global dominance of the home country's economy" (p.76).

Thus, the constituents of the institutional environment of an emerging MNE from an LDC would have implications for the design and use of MCSs, as they are deeply ingrained in and reflect in the widespread understanding of the social reality of the institutional environment (Singh, 2012; Kostova and Roth, 2002). The next section reviews the literature on MCSs in organisations in LDCs in order to understand how the institutional environments may shape the design and use of MCSs in this research.

MCS in organisations in LDCs

In recent years there have been a growing number of studies examining how MCS functions in organisations in LDCs. These studies have largely argued that MCSs may be employed in the organisation for reasons other than the control of behaviours and output (Wickramasinghe and Hopper, 2005; Tsamenyi et al., 2008; Alawattage et al., 2007; Alawattage and Wickramasinghe, 2009; Davila et al., 2009).

These studies have suggested that an MCS is not necessarily objective or outside the influence of agents, but rather it is socially constructed and context determined (Tsamenyi et al., 2008; Davila et al., 2009; Ouchi, 1980; Wickramasinghe and Hopper, 2005; Alawattage and Wickramasinghe, 2009). This supports a broader definition of an MCS. Efferin and Hopper (2007) offered one such broad definition of the MCS as "a system within social, cultural, political, and economic environments used by management to align employees behaviour with organizational objectives and to manage internal interdependencies (such as management-worker and interdepartmental relations), and external relationships (with the state, society, customers and suppliers)" (p.225).

Wickramasinghe and Hopper (2005) argued that the organisational and social context within which accounting operates influences that accounting, and that the accounting may in turn influence the organisational and social context. This, they contended, is consistent with research on culture and "development research on modes of production" (Wickramasinghe and Hopper, 2005, p.474). Conflicting ideologies, the opportunistic attitude of institutions, negotiation, and the making of adjustments to accommodate negotiated terms generate actual outcomes that are different from the anticipated ideal models (Wickramasinghe and Hopper, 2005).

These studies broadly advocate an all-round study of MCSs, including the supposedly neglected aspects (Jayasinghe and Thomas, 2009). They give a voice to the aspirations of individuals and groups who are usually ignored or underrepresented within the dominant discourse and draw attention to developmental issues and issues surrounding poverty alleviation (Jayasinghe and Wickramasinghe, 2007; Jayasinghe and Thomas, 2009). Hopwood (1994) emphasised this, arguing that there is need for an understanding of accounting and accountability issues that embodies the culture of a people and their activities as they go about their daily everyday life. Since then, research efforts have been made towards the study of accounting as a "social and institutional practice, rather than a simple rational mechanism" (Jayasinghe and Thomas, 2009, p.353).

Extant research from developing countries has also argued that accounting practices, including those classified under MCSs such as planning and budgets, could be instituted in an organisation for legitimacy and not necessarily for the purpose of achieving predetermined objectives (Suchman, 1995). The important place which accounting assumes as a symbol of organisational competence suggest that the perception of adequacy in accounting practices enhances organisational legitimacy (Moll and Hoque, 2011). Goddard and Assad (2006), in their study of the role of accounting in navigating legitimacy in a non-governmental organisation in a developing country, found that accounting had no functional role in the process of navigating for legitimacy, although it played a predominant role in the process. The importance attached to it was rather symbolic, as little relevance was attached to its use in the internal management of the organisation.

Moreover, evidence from the review of management accounting systems literature in less developed countries (LDCs) suggests the existence of formal mechanisms which are largely "ritualistic", "rule-bound", "ceremonial" and irrelevant (Hopper et al., 2009, p.485). Accounting under these circumstances is nothing more than a legal rational platform for

securing legitimacy from the external interest groups and the locals. Those who benefit from having accounting operate in this manner are less concerned with the actual purpose for which accounting was instituted; rather they use accounting as a propaganda tool, "setting higher but unrealistic targets to demonstrate political prowess", and to project their organisation as a good place to invest (Hopper et al., 2009).

Research on non-governmental organisations in Tanzania revealed that accounting was symbolic and intended to gain legitimacy rather than to meet planning and control needs (Goddard and Assad, 2006). Similarly, Soobaroyen and Sannassee (2007) found that control systems were used to secure external legitimacy from funders of voluntary organisations in Mauritius who were concerned with developing informal relationships built on trust instead of engaging accounting data. Financial controls and other accounting-related activities assumed a symbolic role, as their existence did not reflect the reality or "actual instrument − of rationality" (p.274). Efforts to gain credibility and social acceptance formed the core of voluntary organisations' accounting as they sought for survival and influence in their environment.

Following an institutional approach to the study of accounting, Carruthers (1995) argued that accounting practices and procedures are instituted in certain organisations so as to portray a good image of the organisation to the public. This, they contended, confers legitimacy on the organisation, because "modern western society privileges a particular form of rationality, ... organizations operating within that cultural context will garner more legitimacy if they can emulate or symbolically reproduce that rationality" (p.315). Thus, the image an organisation wants to portray within the society in which it carries out its activities could be the main reason why some accounting practices are engaged in organisations; that is, to give the assumption or generalised perception that the activities of the organisation are appropriate

and desirable and in accordance with a social system or a system of beliefs, values, norms and definitions (Suchman, 1995, p.514).

The legitimacy sought by organisations could assume the form of pragmatic legitimacy, in which case schemes are designed and intended to attract a class of audience whose interest in the organisation is crucial to their success. It may also take the form of moral legitimacy, which is based on the notion of appropriateness of action; that is, whether an action is the right thing to do in the face of uncertainties (Carruthers, 1995). Legitimacy may also assume a cognitive status, in which case it has to do with being accepted into a class. This form of legitimacy looks beyond self-interest to seek affirmation that the activities or conduct of the organisation meets certain standards, or just mere acceptance (Suchman, 1995, p.578). The subject of legitimacy has attracted attention in the accounting literature not just because it has an effect on the way in which people view an organisation, but the understanding they may have of it; that is, the society's perception of a legitimate organisation is that of an institution or enterprise which is worthy and can be relied upon, can easily be predicted, makes meaning, and is trustworthy (Suchman, 1995).

Culture in some instances has been suggested as a replacement for structural forms or formal organisational control for the purpose of organising and coordinating activities, and it has been suggested that it could serve as a guide and as an appropriate explanation of why certain actions are taken (Alvesson, 2004). Structural forms of control from an anthropological perspective could, however, be argued to be an aspect of culture (Alvesson and Karreman, 2004). Thus, the meaning that management controls assume or express would be a reflection of, or may be dependent on, the cultural context (Alvesson and Karreman, 2004). Alvesson and Karreman (2004) argued that there would be no structural forms of control without culture; neither is the idea of structural forms of control attributed to a particular social form. Cultural ideas and values could support or complement structural forms of control designed

to tailor behaviour and/or measurable output. In other instances, they may even challenge and/or contradict structural forms (Alawattage and Wickramasinghe, 2009; Alvesson and Karreman, 2004). The next section presents the gaps identified from reviewing the extant literature in order to give direction to this study.

2.10 Gaps in the literature on MCSs in MNEs

The literature on MCS in MNEs suggests that controls are normally designed and transferred from the headquarters to the subsidiaries (Elbashir, 2011; Hyvonen, 2008; Norreklit and Schoenfeld, 2000; Coates et al., 1992). This argument has been based on conventional MNEs with headquarters in developed countries with stronger institutional and operating environments, where as a result it has been easier to design and transfer MCSs along with other business models and structures from headquarters to subsidiaries in LDCs with weaker institutional and operating environments (Norreklit and Schoenfeld, 2000; Elbashir, 2011). The headquarters may also have better expertise than their subsidiaries, which places them in a better position to develop and dispense controls to the subsidiaries (Chang et. al., 2009; Luo and Huaichuan, 2009; Davila et al., 2009).

Chang et al. (2009) argued that the transfer of controls and business models from the HQ to subsidiaries is also influenced by the economic dominance of where the HQ is located and the hierarchical order between national economies. Hence, there is a tendency for MNEs in developed economies to assume that their practices are superior and capable of transfer to less dominant hosts (Ferner et al., 2005).

Likewise, managers and employees at subsidiaries in developed countries may believe that they possess superior managerial and technical knowledge to that of people from firms from emerging countries. As such, they may question the legitimacy and viability of transferring

business models and controls from a country which they perceive as less developed and economically inferior to their own (Chang et al., 2009).

Furthermore, most research on MNEs' use of MCSs has focused largely on the rational/technical view of controls, with the assumption that controls are designed for the purpose of efficiency and coordination (Canonico, 2010; Woolcock, 1998; Gordon, 2008). The implication of this view is that it carries the connotation of MCSs which is supported by the functionalist perspective of MCSs dominant in developed countries. This view of MCSs in MNEs ignores the possibilities of MNEs emerging from LDCs, where the institutional environment may be weaker, yet have subsidiaries operating in more developed countries (Chang et al., 2009).

This study seeks to fill that gap and give a broader understanding of MCSs in MNEs as mechanisms that are not only used to shape the decisions and actions of subsidiaries, but may be employed for other purposes, as suggested by the alternative view of MCSs (Davila et al., 2009; Gomez and Sanchez, 2005; Tsamenyi, 2008). The study also assumes a different perspective that involves a service MNE instead of a manufacturing setting, where it is argued that it might be easier to transfer technical and operational controls from the HQ to the subsidiaries (Abernethy and Brownell, 1997).

Kostova and Roth (2003) drew attention to the need for an understanding of "informal approaches" to the coordination of organisational activities where the capacity of formal structures as the elements of the coordination and integration of an MNE is constrained by cultural and institutional factors. They contended that, although these informal approaches to the coordination and integration of MNE activities are embedded in the conceptualisation of the MNE as a differentiated network, transnational and heterarchy by scholars (Siti-Nabiha and Scapens, 2005; Busco, 2008), they need to be developed further. This study contributes

to understanding how informal systems could be used for coordination and control by introducing the concept of social capital; that is, in the absence of formal MCS from the HQ to the subsidiary, social capital could provide alternative control mechanism.

Staber (2006) argued that the social capital theory offers a useful foundation and "a process-oriented perspective" that enables the exploration of the interaction dynamics embedded in managerial practices (p.190). He contended that the theory does not only "seem ideally suited" for exploring the issues involved in multinational operations but also adds to the understanding of these issues and how they shape practices by emphasising the role of "agency and intentionality". From a multinational perspective, Staber (2006, p.190) defined social capital as the "benefits that accrue to a collectivity as a result of maintaining cooperative relations between its members". This refers to the "social relational properties and processes of the organizational system" that enable coordination and support innovative practices.

Social capital is an attribute of successful organisations and is reflected in trust, reciprocity and norms of social behaviour that enable cooperation and the integration of activities by regulating social behaviour (Kostova and Roth, 2003; Masquefa, 2008). Kostova and Roth (2003) argued that social capital should be explored as an informal mechanism for the coordination and integration of multinational HQ-subsidiary activities. This study contributes to the understanding of social capital as a useful informal mechanism for the coordination and control of foreign subsidiaries of MNEs.

2.11 Chapter summary

This chapter reviews the literature on multinational enterprises and management control systems. It presents a thematic review of historical, theoretical, and methodological issues relating to the design and use of MCSs. The objective of the chapter is to identify gaps in the

literature and as a consequence extract a set of research questions to which the research will provide answers in order to gain further insight into the design and use of MCSs in an emerging multinational setting.

The literature review revealed several interesting issues. Firstly, most studies of MNEs have focused on traditional MNEs with HQ in developed countries and subsidiaries in other developed and LDCs. Secondly, there is a growing trend of emerging MNEs from LDCs that have characteristics that are different from traditional MNEs of North America and Europe. This suggests that there is significant scope for a study of the design and use of MCSs from an emerging MNE perspective.

Thirdly, most studies on MCS have focused on specific elements of control in isolation. This study contributes to addressing this limitation by studying MCSs from a broader perspective of interrelated systems (see Malmi and Brown, 2008). In conclusion, this thesis addresses the gap in the literature by providing a detailed discussion of and insight into the nature and scope of the MCS systems (formal and informal) used in the NSMNE. Unlike the studies reported in this chapter, this study investigates the design and use of MCSs and the role of MCSs in the HQ-subsidiary relationship of the MNE, as the empirical study reveals.

The next chapter provides a discussion of the theoretical framework used in this study to guide the data collection and make sense of the research findings. This study combines both the NIS and social capital theory. The NIS is chosen in order to provide an explanation of the impact of the external environment on the design and use of MCSs, while the social capital theory is chosen to help to explain how informal mechanisms could be used as a means of coordination and control employed by the HQ of NSMNE in its relationship with the subsidiary.

Chapter Three
Theoretical Perspective and Framework

3.1 Introduction

This chapter presents the theoretical framework for this research. It demonstrates the theoretical reasoning that underlies the phenomenon being studied and forms the basis for data collection and analysis.

The chapter is structured into two broad sections. The first section focuses on the NIS and is broken down into the discussion of institutions and institutionalism, with the aim of understanding the theoretical arguments behind the new institutional sociology (NIS). It is followed by a discussion justifying the use of the NIS for this research. The underlying concepts of the NIS and the approach adopted are discussed in the next two sections. Following this, the relevance of the NIS to this study and the criticisms of the NIS are discussed. The second section outlines the social capital theory. The subsections under this section are the benefits and risk of social capital and social capital theory in accounting and organisational research.

3.2 Institutions and institutionalism

Institutions and institutionalism are key concepts of sociology (Scott, 2001). Institution connotes authority that requires conformance from agents; it is a constraint emanating from socially constructed realities (DiMaggio and Powell, 1983). Powell and DiMaggio (1991) argue that institution is a distinct "social property or state" that does not require specific identification to cultural and environmental elements, as is often the case. Institution thus, depicts a pattern or social order that has come to assume a certain form or property. The process through which the property is attained is described as institutionalisation. Institutional analysis presents a distinctive way of evaluating socio-economic and political phenomena. Institutional analysis, according to Powell and DiMaggio (1991), is as old as the

admonishment by Emile Durkheim, that "social facts" should be evaluated as "things" when seeking to understand them.

The focus on the study of institutions emerged as a reaction to the behavioural revolution, which suggests that the collective political and economic behaviour of an entity is an aggregation of individual collective choices (Powell and DiMaggio 1991). Proponents of the behavioural explanation for socio-economic phenomena perceive institutions as a sum of individual level attributes or properties (DiMaggio and Powell, 1983). The behavioural perception of socio-economic activities neglects the social context and the durability of social institutions in a world of growing socio-economic and political institutions that have come to assume a prominent place in collective life (Powell and DiMaggio, 1991; Scott, 1995). Interest in the study of institutions, and their influences in shaping behaviour, also aligns with older traditions of political economy concerned with the way social and economic actions come to be (DiMaggio and Powell, 1983).

3.3 Different branches of institutionalism

Empirical anomalies suggested by contemporary theorists, that there are differences between the way the world is portrayed in theory and actual observations of the way it functions, were germane to the development of institutional theory (Powell and DiMaggio, 1991). Institutional theory as known today has developed following two major lines of reasoning, the old and new institutionalism. The early conceptualisation of the concept of institution as espoused in the work of Emile Durkheim and Herbert Spencer and later scholars like Talcott Parsons and Niklas Luhmann followed a functionalist argument (Abrutyn and Turner, 2011). The old institutional theory referred to in most organisational studies is, however, attributed to the work of Selznick (1949). The old institutionalism gives credence to informal interactions, enabling the exploration of phenomena like cliques, coalitions, influence patterns and particularistic elements in recruitment or promotion. By evaluating the impact of

these phenomena, the old institutionalism illustrates deviations from the formal structures and shows how the informal structures constrained aspects of formal structures. By this means, it also allows for the understanding of the activities of parochial interest in the subverting of organisation's intended rational mission.

The new institutional theory on the other hand, seeks to provide answers to "old questions about how social choices are shaped, mediated, and channelled by institutional arrangements" (Powell and DiMaggio, 1991, p.2). The new institutional approach to organisational analysis offers a distinctive sociological sense and draws attention to the ways in which shared systems of rules structure and order actions (Meyer and Rowan, 1977, DiMaggio and Powell, 1983). It explores how these actions constrain or encourage the capacity optimisation abilities of actors and privilege others, securing their interests by prevailing rewards and sanctions (Powell and DiMaggio, 1991).

While most organisation theorists emphasised the differentiated and diverse world of organisations and tried to provide explanations of the variations in organisational behaviour and structure, the new institutional theory as espoused by DiMaggio and Powell (1983) emerged with a different agenda, to explain homogeneity among organisations rather than seek to explain the variations in patterns. In the next section, the underlying concepts of the new institutional sociology will be discussed to pave the way for the justification of it as the theory of choice for evaluating the various phenomena encountered in this research.

3.4 The underlying concepts of the new institutionalism

DiMaggio and Powell (1983), following evidence of dominant forms of the organisational model reported in other studies, argue that each of those models represents a structuration of an organisational field resulting from the diverse activities of organisations. They contend that there cannot be a priori definition of organisational fields, but rather, organisational

fields can be defined on the basis of empirical investigations. DiMaggio and Powell (1983) defined an organisational field as encompassing "those organizations that, in aggregate constitute a recognised area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organisations that produce similar services or products" (p.148).

Organisational fields exist only because they are institutionally defined, and once organisations become structured into an actual field by the powerful forces of competition, state and profession that shape them, they tend towards homogeneity, assuming similarities in practice (Scott, 1995; Selznick, 1996; DiMaggio and Powell, 1983). The desire to improve performance may be an early reason for the adoption of prevailing practices by organisations, but such practices may reach a point when they only offer legitimacy to the organisation, rather than innovation and performance improvement (Powell and DiMaggio, 1991). DiMaggio and Powell (1983) describe the homogenisation process as isomorphism.

Isomorphism can occur through the following mechanisms, as identified by DiMaggio and Powell (1983): coercion or coercive isomorphism, which emanates from political influence and issues of legitimacy; imitation or mimetic isomorphism, that stems from the standard response to uncertainties; and normative isomorphism, which results from professional influence or associations. Scott (2001), identified the potential mechanisms through which institutions may dominate other organisations as regulative, normative and cognitive pillars. While the three pillars of influence or mechanisms of isomorphism may appear different from those of DiMaggio and Powell (1983), they both agree on the power institutional forces have to shape organisations and their practices.

Scott (2001) argues that institutions are resilient social structures that are transmitted through various carriers such as "symbolic systems, relational systems, routines and artifacts". He

identified three elements (pillars of institutions); the cultural-cognitive, normative, and regulative pillars, which he argues combines with other resources and activities to give stability and meaning to social life (p.48). These pillars of institution, which represent the "unconscious" and the "conscious", legal enforcements and the taken-for-granted issues that were observed in the empirical process of this study and as espoused by Scott (2001) will be discussed below as the elements of institutionalism through which organisational phenomena are analysed.

3.5 Pillars of institutionalism

3.5.1 Regulative pillars

The regulatory process is the mechanisms (rule-setting, monitoring and sanctions) employed by the authority or institution to ensure compliance to standards of operation within a domain. The impact of the regulatory authority is embedded in the ability to define sets of rules that should be followed, to monitor them, review them for conformity, sanction failure to keep to agreed rules of behaviour and reward appropriate behaviour in order to encourage such behaviour in the future (DiMaggio and Powell, 1983; Carpenter and Feroz, 2001).

The regulative pillar is viewed by some institutional scholars as the main force behind institutionalisation. Such scholars argue that the regulatory process constrains and shapes behaviour and leads to institutionalisation. Scott (2001) argues that suggestions of the regulatory pillar as the main force behind institutionalisation is common among economists. Such perception, he argues, depends in part on the object of economic analyses. Economic activities occur in environments of competing interest that require rules to be explicitly stated as points of reference to maintain order. The analyses of such activities would more likely focus on the understanding of firms and individuals self-interested behaviours as well as situations of competition. Under economic circumstances, coercion becomes necessary as

mechanisms of control to ensure that individuals and organisations will conform to set standards and not self-interest (DiMaggio and Powell, 1983).

Scott's (2001) regulative pillar falls within the description of coercive isomorphism by DiMaggio and Powell (1983). Coercive isomorphism stems from formal and informal pressures that are exerted on an organisation by other organisations on which it is dependent. It could also emanate from a society's culturally motivated expectations of an organisation that operates within its domain (Powell and DiMaggio, 1991). The coercive process may be expressed through informal mechanisms like "shaming or shunning activities", or could be highly formalised and assigned to enforcement agents (Scott, 1995). As noted by Powell and DiMaggio (1991), in some circumstances, coercive isomorphism could be a direct response to government regulations. Government mandates, backed by the existence of a common legal framework, affect many aspects of organisational behaviour. DiMaggio and Powell (1983) for instance recount a "complex, rationalised system of contract law that requires the necessary organizational controls to honour legal commitments" (p.150).

Hence, as the legal and technical requirement of the state or governmental institutions and other large rational organisations (formal structures with explicitly defined relationships) extend their influence over a greater sphere of social life; organisational structures begin to reflect institutionalised rules that have been legitimated by and within the state (Meyer and Rowan, 1991; Powell and DiMaggio, 1991). As organisations within a given domain become coerced into conforming with wider institutions, the constraints that emanate from technical activities (core business issues of an organisation) decreases in their effects and so do the power of the formal control structures to hold organisations together (DiMaggio and Powell, 1983).

While the state may appear to be a powerful source of coercive isomorphism, Powell and DiMaggio (1991) note that the direct imposition of standards of operation, structures and legitimated rules could also occur outside the governmental domain. As organisations grow in size and expand their operations to other domains, it may no longer be feasible to impose standard performance criteria, but subsidiaries of such an organisation have to follow a standardised reporting mechanism. Such subsidiaries according to DiMaggio and Powell (1983) are obliged to adopt accounting practices including components of management control systems, like performance evaluation and budgets, that are compatible with their parent company policies.

Scott (2001) identified "force, fear and expedience" as the key constituents of the regulatory pillar noting that in most cases these ingredients are tempered by the existence of rules and laws (formal or informal), which the regulatory institution(s) employ to give legitimacy to their actions. Coercion may also be expressed in a more subtle manner than being mandated to assume a particular way of behaviour. Organisations may adopt certain practices or behaviour that conveys an image that gives a desired impression to those they have dealings with (Fernández-Alles and Valle-Cabrera, 2006). The need to be perceived as doing the right thing or in the words of DiMaggio and Powell (1983, p.151) "… the need to lodge responsibility and managerial authority at least ceremonially in a formally defined role to interact with hierarchical organizations" could be a strong coercive force.

Institutions are thus, able to impose their will on actors by threatening sanctions or by providing incentives to secure compliance. It is, however, more common for institutions to act from positions of authority where coercion is made legitimate by the existence of "normative framework that both supports and constrains the exercise of power" (Scott, 2001, p.53).

3.5.2 The normative pillar

The normative pillar is the second of Scott's (2001) three pillars of institutionalism. Normative systems act as constraints on social behaviour, while also empowering social action (Scott, 1995), and they embody values and norms. Values are ideas of the desirable, or what is preferred, and includes standards of reference for the evaluation of the desired behaviour (DiMaggio and Powell, 1983). Norms define the legitimate ways that things should be done, that is, norms define specific ways of doing things (Scott, 2001). The normative influence of professionalism bestows on members certain rights as well as responsibilities and privileges, norms of behaviour and values however, may apply selectively based on the actors and the positions they occupy (Scott, 2001).

Normative pressures originate from professional affiliations (DiMaggio and Powell, 1983). Professionalisation is the drive or collective efforts by members of a profession or occupation to press for fair conditions and methods of performing their professional duties (DiMaggio and Powell, 1983). It is the collective struggle to "establish a cognitive base and legitimation for their occupational autonomy" (Powell and DiMaggio, 1991, p.70). Like organisations, professions are subject to coercion, hence while there may be different professionals in an organisation; these professionals share similarities with their counterparts in other organisations (Powell and DiMaggio, 1991).

Powell and DiMaggio (1991) identified two avenues through which professionalisation could become a source of isomorphism, formal education and the expansion or growth of professional network. They suggest that places where professionals are trained, such as universities, are crucial for developing norms of behaviour among managers and staff. They argue that, these two aspects of professionalisation produce individuals of similar orientation, who end up occupying similar positions in their organisations and have the disposition to override forces that shape organisational behaviour. Professional associations also have the

capability to instil virtues of professionalism and organisational behaviour on members (DiMaggio and Powell, 1983).

Organisations, on the other hand, may encourage normative isomorphism by employing people who have been trained in particular institutions, and who are presumed to have had certain orientations and virtues instilled in them (DiMaggio and Powell, 1983). The process of encouraging normative isomorphism is described as filtering and could also occur by employing people from within the same industry (Powell and DiMaggio, 1991). Filtering encourages similar perception among members of an organisation and brings about similarities. To be perceived as similar to other successful organisations operating in the same industry gives legitimacy (credibility and acceptance) to the organisation seeking for similarity (Powell and DiMaggio, 1991). Legitimacy is required in addition to technical and material resources for organisations to survive (Scott, 2001; Kotsova and Roth, 2002). Suchman (1995 p.574) defines legitimacy as:

"a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions".

According to Scott (2001) legitimacy from an institutional perspective is not a commodity that could be possessed as the resource dependent perspective may make it seem, but rather a reflection of supposed consonance with pertinent rules and laws, normative support, or alignment with cultural-cognitive framework. It is a symbolic value that organisations desire to be seen in them by outsiders.

3.5.3 The cultural-cognitive pillar

The cultural-cognitive pillar is Scott's third pillar of institutionalism. The cognitive dimension argues that human behaviour is a function of how the ambiguities of the

environment are internalised. That is, the meaning attributed to objects and activities are a function of symbols (signs, words and gestures) that have shaped the meaning that is made of them (Scott, 2001). Meanings are conveyed through the process of interaction and become transformed or maintained as they are engaged to make sense of happenings. Taking into account the objective conditions as well as the subjective interpretation of actions is important to understanding them and giving explanations to them. Scott (2001) posits that the cultural-cognitive dimension of institutions forms the unique distinguishing factor between sociology and neoinstitutionalism.

Scott's conceptualisation of cultural-cognitive dimension is one that takes into cognizance the way things are conceived or internalised, and the meaning or interpretation given to them are a function of the external cultural framework. Scott (2001) argues that, compliance to the cultural-cognitive notion happens because that is the norm within the domain and has become taken for granted as the way things should be done. Other types of behaviour in such circumstances are untenable he argues. From an organisational perspective, such behaviours occur in the face of uncertainty or ambiguity, which could necessitate adopting or adapting to already existing templates of behaviour.

The drive towards similarity that is created by uncertainty is what Powell and DiMaggio (1991) describe as mimetic isomorphism. When environmental uncertainty prevails and goals become ambiguous, the uncertainty created becomes a powerful force that causes organisations to be modelled according to other organisations that are perceived to be more successful and are the standard bearers (Scott, 1995; Carpenter and Feroz, 2001). The pressure to copy the 'pace-setter' organisations becomes compelling when the staff or the volume of customers increases, and this forces organisations to deliver services and offer programmes that are being offered by other organisations (Powell and DiMaggio, 1991; Scott, 2001). The process of modelling may be such that the organisation that is imitated may

not be aware that it is being copied and may not even desire to be copied, but its standards of operation and practice become seen as ideal in the midst of the uncertainties that surround the copying organisation (Meyer and Rowan, 1977, DiMaggio and Powell, 1983).

Modelling an organisation after another and the homogeneity that results from the process of imitation are essentially driven by the few choices available for organisations to copy from (DiMaggio and Powell, 1983; Scott, 2001). Organisations are modelled on other successful organisations as there is relatively little variation available for them to select from (Powell and DiMaggio, 1991). Successful organisations that are perceived to be more legitimate, usually become the unannounced role-models of other organisations seeking to establish themselves in their industry (Meyer and Rowan, 1977). The need to imitate or comply with certain behaviour goes with the feeling that things have to be done in certain ways to achieve success (Powell and DiMaggio, 1991). The imitation of best practices, "common script and common beliefs" at intra-organisational level is evidence of the cultural-cognitive systems (Scott, 2001).

3.6 The new institutional sociology and accounting and organisational studies

The NIS is a dynamic theory that has risen to prominence in accounting and organisational studies, where it has been popular in the explanation of individual and organisational actions (Dacin et al., 2002). As noted earlier, the institutional perspective is based on the notion that organisations operating in the same environment will share similar practices and become homogeneous in the process (Powell and DiMaggio, 1991; Kostova and Roth, 2002). Various opinions and explanations have been proffered by scholars about the concepts of new institutionalism and the impact of institutional forces on organisations (Oliver, 1997; Tsamenyi et al., 2006; Delbridge and Edwards, 2007). Tsamenyi et al. (2006) examined how institutional forces combined with market forces to shape intra-organisational power relations in a Spanish electricity company. They posit that, besides the coercive pressure posed by the

regulatory environment, which organisations have to adjust to by designing appropriate structures, market forces emanating from competition also shaped the implementation of policies to promote efficiency.

Modell (2001) engaged the new institutional theory as an alternative explanation to the functionalist perspective in the study of performance evaluation systems in organisations. He argued that the functionalist approach is flawed by assumptions that improvement in information and measurement systems is essential for assisting managers in the public sector to balance conflicting stakeholders' interest, and to make better decisions. Basing his analysis on the institutional framework of Oliver (1991), he suggests the existence of "a certain element of proactive managerial manoeuvring is possible even in highly regulatory environments" (Modell, 2001, p.461). Brignall and Modell (2000) adopted a case study approach to the study impact of institutional environment on the performance measurement systems in the public sector. They argue that, the characteristics of the institutional environment make it difficult to define priori environmental variables, hence, the case study approach, which allows a closer empirical examination of institutional variables, was considered more appropriate.

In the study of the impact of institutional forces in relation to accounting practices, Carruthers (1995) suggested that accounting legitimates organisational practices by giving them an appearance of "rationality and efficiency" (,p.313). Through his study, he was poised to change the misleading representation of accounting as a "narrow" or "technical" topic. Carpenter and Feroz (2001) studied the influence of institutional factors on the decisions of some state governments in the US to adopt the generally accepted accounting principles (GAAP). They argued that, existing power relations and the inactivity of accounting bureaucrats in professional associations that promote GAAP adoption, resources dependence could act as a powerful form of coercive institutional pressure.

Greenwood and Hinings (1996) engaged the new institutionalism to evaluate the interaction of organisational context and the impact of the complex relationships between regulatory, technological and political forces on organisational practices. They conclude that, the new institutional theory has the potential to help in the understanding of organisational change, and that new directions can be found if theorists direct their research to the "interaction of organisational actors with institutionalised context" (p.1048). The NIS was also engaged by Siti-Nabiha and Scapens (2005) to evaluate management accounting change. They found that stability was created in the organisation they studied by the ceremonial implementation of a new system of value-based management, which had performance indicators that were decoupled from the daily activities of the organisation. They posit that, rather than the normal assumption that decoupling was a response to external forces, it could be the outcome of attempts to resolve disagreements that may lead to resistance.

Ribeiro and Scapens (2006) sought to give different research insight by evaluating management accounting change from the perspective of both the NIS and old institutional economics (OIE). They conclude that, while the NIS is suitable for "macro-level explanations of the adoption of specific structures and procedures in organisations that operate within institutionalised environments, OIE adopts a more intra-organisational stance that seeks to shed light on processes of resistance, or on the decoupling of the formal arrangements and the actual day-to-day practices in organisations" (p.107). They also point to the possibilities of combining the old and new institutional theories in accounting and organisational research. Such gestures they argue will not only be an extension to the NIS, but could allow deeper analyses of events which unfold from the pressure of institutional forces on organisations. It allows for the integration of the intra-organisational and processual type of analysis that is common to the OIE they argue.

Child and Tsai (2005) combined the new institutionalism and political perspectives with the aim of developing a framework that will aid the analysis of firms' strategies when faced with the pressure of environmental protection in emerging economies. They found institutions were more receptive to corporate strategic action and had consequences that were not necessarily detrimental to a host community's interests, as was portrayed by institutional studies. Claeye and Jackson (2012) posit that institutional forces were shaping non-profit organisations following their investigation of the tendency towards institutional isomorphism among non-profit organizations in South Africa. Having reviewed how the NIS has been used in accounting and organisational research in this section, the next section examines the relevance of the NIS to the current study.

3.7 Justification for the use of the NIS

The NIS's perspective on the study of organisational phenomena underscores the importance of trans-organisational processes in the functioning of organisations and allows the exploration of the effects of power relations on organisations (Tsamenyi et al., 2006; Collier, 2001). The NIS also enables the understanding of the role of institutional actors (organisational members) in reconciling the pressures from institutional forces and demands from the technical activities involved in managing an organisation (Kostova and Zaheer, 1999). Engaging the NIS enables an understanding of how the environment could influence the way in which organisational actors view the world.

The NIS's conceptualisation of the environment focuses on the wider (national societies, professions and industries), rather than the immediate environment of organisations (Powell and DiMaggio, 1991). This allows for the exploration of the environment's influence on organisational outcomes. Collier (2001) suggested that organisations rely on the environment in which they are located for support and survival; that is, organisations need support from governmental institutions that regulate their operations and from other sources through which

the required resources for survival are harnessed (Burns and Scapens, 2000). These elements through which support for organisational activities is harnessed shape the way in which organisational systems function.

Formal organisational systems and practices (rule-based and routines) and other elements that influence the way in which organisations function can also be understood from an NIS perspective (Nobel and Birkinshaw, 1998). The NIS also allows for an understanding of the potential effects of 'powerful groups' within the organisation that have the ability to influence behaviour and processes (Burns and Scapens, 2000). These powerful groups could be individuals or sub-units whose strategic importance to the organisation provides "a raison d'etre or justification for being, as well as an external legitimacy for the organization" (Collier, 2001, p.467).

While the celebrated work of DiMaggio and Powell (1983) had the clear agenda of investigating the homogeneity of organisational forms and has been supported by various finding that point to the power of institutional forces in shaping organisations, scholars have also associated institutional forces with heterogeneous organisational practices (Scott, 2005; Greenwood and Meyer, 2008; Dacin et al., 2002; Lounsbury, 2008). The heterogeneous or practice variation perspective of the influence of institutional forces among organisations suggests that variation in practices originates from the need for organisational actors to act strategically in resistance to institutional forces (Lounsbury, 2008). Heterogeneous practices have also been associated with organisations' ceremonial efforts to appear to be conforming to institutional demands while following their own agendas (Lounsbury, 2008; Oliver, 1991).

Research focusing on the heterogeneous effect of institutional forces is not entirely new. Meyer and Rowan (1977) drew attention to the qualities of the NIS that enable the study of both homogeneous and heterogeneous practices among organisations. However, the

emergence of the concept of competing logic in institutional research has served as the motivation for scholars to begin developing the area of practice variation in organisational research (Lounsbury, 2007; Pache and Santo, 2010; Souitaris et al., 2012).

The possibility of evaluating organisational phenomena and practices for homogeneity or heterogeneity that the NIS offers, among other reasons as noted above, makes it an appropriate choice of theory for the exploration of contextual elements encountered in this study. The qualities of the NIS that allow for a qualitative approach to evaluating phenomena that shape organisational practices fit with the researcher's paradigm and the methodology employed in data collection for the purpose of this study. The NIS perspective also enables the understanding of issues of culture and the level of institutional development and their influence on organisational practices. This is important, because the NIS perspective enables an understanding of the influence of the cultural elements identified in chapter 5.

The NIS perspective also helps to account for the influence of the institutions that regulate the conduct of business within the domains in which the organisation operates. It offers an opportunity to gain insight into how rules and policies from these regulatory institutions shape the MCSs that are employed in the organisation. The NIS also allows for explanations to be given on the subject of the imposition of MCSs on the subsidiary by the headquarters; that is, from the NIS perspective, explanation could be given as to why the imposition of systems and controls may or not be the appropriate choice for the headquarters in its relationship with the subsidiary. This is because the NIS argues that external influences distract organisational functions from their original intended objectives.

3.8 The new institutional theory and its application to research on multinational enterprises

The literature on multinational companies' headquarters-subsidiary relationship suggests that, business models, structures and controls from the headquarters are transferred to subsidiaries. However, differences in the institutional environments and the complexities arising from there have raised questions about the concept of controls transfer, and the argument that business models and structures are transplanted from the headquarters to subsidiaries in a bid to achieve similarity and compatibility. Engaging the NIS in this research allows for an exploration of how these institutional forces impact on or shape the design and use of MCS and the transfer of MCSs to the subsidiary by the headquarters. This includes circumstances where controls may not be transferred, the alternative approaches to ensuring conformity, and the inclination towards the same strategic objectives where controls are not imposed.

Scholars have reported various findings from studies engaging the NIS to understand the activities of multinational operations. Birkinshaw and Morrison (1995) argue that the role of the subsidiary in the group is related to the structural context it assumes. Structural context encompasses all forms of "formal and informal management systems that determine the relationship of the subsidiary to its parent or affiliates" (Birkinshaw and Morrison 1995; p.730), and implies that, certain forms of structural arrangements may be more appropriate than others depending on the strategic objectives intended to be achieved by establishing the subsidiary. The objectives for establishing the subsidiary and, consequently, the responsibilities assigned to it by the parent, are influenced by the local environment where the subsidiary is located (Birkinshaw and Hood, 2000). The NIS, especially from the perspective of Scott (2001), which this research adopts, enables an understanding of how forces from the regulatory environment, normative forces and cultural-cognitive forces shape the design and use of MCS, whether formally or informally.

Multinational subsidiaries increasingly assume specialised roles over time (Kostova et al., 2008). In order that a subsidiary's specialised functions are properly managed, the coordination and control mechanisms are crafted to suit the specific situation of the subsidiary (Nobel and Birkinshaw, 1998). This is because the assumption of specialised roles by the subsidiary causes a break down in the traditional control and coordination mechanisms imposed by the headquarters, resulting in the emergence of new forms of coordination processes (Nobel and Birkinshaw, 1998).

Important to the idea of specialised roles or functions being assigned to the subsidiary and the impact created on the coordination and controls system is the concept of institutional distance (Kostova and Zaheer, 1999; Phillips et al, 2009). Institutional distance refers to the similarities or differences between the two countries involved in terms of all forms of institutional forces, the regulative, normative and cultural-cognitive forces from Scott's (2001) perspective. Acknowledging the concept of institutional distance, Phillips et al. (2009) argue that the concept of organisational field should be taken into consideration in the evaluation of the institutional distance between two countries. They argue that, there are degrees in the level of institutionalisation, and that, low levels of institutionalisation increases institutional distance. The NIS enables an explanation of issues of institutional distance which may be encountered in the course of this research.

Multinational companies have to contend with a host of different and perhaps conflicting institutional pressures (Ghoshal et al., 1994). The NIS thus, becomes essential for research on multinationals as it enables theorising at multiple levels of analyses, and also offers a rich theoretical platform for scholars to extensively examine critical issues surrounding multinational operations (Kostova et al., 2008). According to Kostova and Roth (2002), the application of the new institutional theory to the study of multinational corporations brings to

bear the unique institutional complexity that multinationals face, and presents good opportunities for researchers to further develop the theory of neoinstitutionalism.

Kostova and Roth (2002) examined the complexity of the institutional environment of multinationals and how they respond to these complexities. Their research differed from previous research by focusing on institutional complexities at the subsidiaries level, rather than at the level of parent company. Taking a keen interest in the matter of context of a particular task, and particularly in circumstances where the parent company transfers or imposes organisational practices on its subsidiaries, Kostova and Roth found low implementation of headquarters practices among the subsidiaries studied. They explain that the reasons for such low response to implementation of headquarters' practices, assuming the practices are efficient, could be a show of resistance by the agents (subsidiaries) that have to cope with external pressures from regulatory environments, while also depending on the headquarters.

Another reason suggested for the low implementation of headquarters' practices by Kostova and Roth (2002) is that such practices may be inefficient. Where the headquarters seek to impose inefficient practices on the subsidiary, the reason could be attributed to the motivation to maintain legitimacy or create the perception that it is innovative. Dacin et al. (2007) point to the legitimating function of alliance relationships between firms, suggesting that the legitimating function arbitrated by the alliance governance structure, and the choices of partner selection, impact on the firms' performance in alliances. They argue that, "[t]he type of legitimacy needed by a firm and in turn, the specific targets or constituents to which a firm must appear legitimate, will be driven by the firm's objectives in a particular context, the characteristics of that environment, and the firm's characteristics" (p.172).

Besides the complexities from the external environments, which have been the subject of most institutional studies, multinationals also have to contend with complexities emanating from their internal environment (Ribeiro and Scapens, 2006; Souitaris et. al., 2012). Internal complexities result from cultural differences, language barriers, inter-unit power struggles, conflicts of interest, different and inconsistent practices, values, and routines that are used in various part of the organisation (Ribeiro and Scapens, 2006; Kostova et al., 2008). Hence, in order to achieve the objectives of going multinational in their operations and to be perceived as legitimate in all the environments of their operation, multinational companies are subjected to two sets of pressure: to become isomorphic with other organizations in the industry by adopting local practices from their new environment; or to maintain competitive advantage by sticking to practices developed within the multinational itself, and thus be able to utilise the organisational capabilities worldwide (Kostova and Roth, 2002; Souitaris et al., 2012).

Locating sub-units in different environments is an important part in the evolution of an organisations' strategy. Sub-units enable the implementation of change, building of new capabilities and, more importantly, profits (Narayanan et al., 2009; Souitaris et al., 2012). However, dealing with organisational sub-units in a different environment is usually problematic, as they are "simultaneously part of two worlds" with different institutional environments and norms (Souitaris et al., 2012, p.447). But because the subsidiaries are subjected to different "home-country" pressures from the parent, Kostova and Roth (2002) contend that there should be differences in organisational practices among organisations operating in different institutional environments, and with differences in specific institutional elements such as culture and legal systems. Resolving these competing institutional forces, that is institutional forces stemming from the parent company and those from the environment where the sub-unit is located, is a problems that the new institutional theory has failed to address (Scott, 2005; Narayanan et al., 2009; Souitaris et al., 2012).

3.9 Criticisms of the NIS

3.9.1 The agency critique of the new institutional theory

The new institutional theory has been variously criticised for ignoring the self-interest behaviour of agents, and also for ignoring the role of active agency in the bid for organisations to respond to the pressures exerted by institutional forces and the expectations that follow such pressures (Oliver, 1991; Dacin et al., 2002; Battilana et al., 2009). Burch (2007) argues that, while the social and cultural beliefs of an environment may be connected to policy designs and the behaviour of organisations, the activities of the people who are engaged in implementing policy decisions and plans could result in changes as they go about their work. She suggests that, through interactions, individuals as well as organisations are able to transform the meaning that is conveyed in policy such that they are able to create new tools for addressing social problems. The new tools and frames that result from individuals and organisational interactions are "then incorporated into new policies and the institutions created to support them" (Burch, 2007, p.84).

While the old institutional theory of Sleznick (1949) did account for agency as noted earlier, the new institutional theory rather overlooked the role of actors within an organisation and focused on the influence of external factors that exert pressure on organisations (Battilana et al., 2009). In an attempt to introduce the notion of agency into neoinstitutional studies, DiMaggio (1988) introduced the concept of institutional entrepreneurship, which explains how actors are able contribute to changing institutions irrespective of the assumptions of pressure towards stability. Hence, the concept of institutional entrepreneurship emerged as a means through which researchers could evaluate the endogenous perspective of institutional change (Battilana et al., 2009).

The institutional entrepreneur perspective heeds the call by Powell and DiMaggio (1991) for an articulate theory of action, which has been a major weakness of the new institutional

theory. Rather than focus on the constraints under which organisational actors have to operate and the effects of institutional forces on actors, proponents of the institutional entrepreneur perspective aimed to build a theory of action that is focused on actors' contributions to institutional change. Thus, the institutional entrepreneur perspective rebuffs the notion of "individuals as over-socialized and slavishly devoted to the reproduction of habits" (Battilana et al., 2009, p.69).

Although the institutional entrepreneur perspective to the study of institutionalism seems a good call for the agency criticism of the new institutional theory, it has also been criticised for over simplification. Critics argue that, ignoring the impact of institutional forces on actors' behaviour leaves out the whole essence and basic tenets of the new institutional theory itself. Meyer (2006) criticises the institutional entrepreneur perspective arguing that the portrayal by certain proponents of the perspective to institutional research that elaborates on how "social structures and institutions emerge from subjectively meaningful social interactions and come to condition these interactions" is flawed and that,

"understanding of social action and interaction could contribute to a more institutional grounding of the institutional entrepreneur who, in the current discussion, appears to get increasingly endorsed with specific qualities 'normal' actors do not possess and, what is more, that are not accounted for endogenously" (Meyer, 2006, p.732). He concedes, however, that societies do institutionalise, but only important forms of actions.

3.9.2 Criticism of the new institutional theory from the perspective of multinational enterprises as research setting

The complexities associated with the multinational corporation has been a motivating factor for researchers seeking to draw on the uniqueness it presents to validate or extend existing theories (Roth and Kostova, 2003). Kostova et al. (2008), however, acknowledge that

multinationals are subjected to institutional pressures., They contend that the attributes of multinational corporations "limits the applicability of neoinstitutionalism" to studies involving multinational corporations, and that the multinational organisation presents a different story of "equivocality, ambiguity and complexity" (p.997). They raised certain "provocations" arguing that, the notion of organisational field, ceremoniality, isomorphism, decoupling and legitimacy, which have emerged as various lines of argument in the literature investigating the effects of institutional forces on organisations, are not supported by the multinational perspective. These provocations, along with the neoinstitutional assertions that have provoked them, will be discussed below.

The environment in the new institutional theory perspective is conceptualised as an organisational field. Organisational fields comprise competing organisations and those involved in various forms of inter-organisational relationships (Powell and DiMaggio, 1991). Fields structure organisations by defining the practices and actions that are socially acceptable. From the new institutional perspective, "organizations function in organizational fields where distinct patterns of organizational action emerge and become institutionalized, institutional pressures are exercised, and legitimacy granted" (Kostova et al., 2008, p.997). The concept of organisational fields is, however, not supported by the multinational perspective because of the discrepancies between the different environments in which the multinational operates (Kostova et al., 2008). These discrepancies limit the emergence of the necessary patterns of shared interactions that define an organisational field in the sense of the new institutional theory.

The first line of argument in relation to the concept of organisational field in the multinational setting is that, while the multinational setting may not support the concept of organisational fields in the ways suggested by the new institutional theory, organisational fields may exist among multinationals in forms other than the logical arguments presented by

the new institutional theory (Kostova et al., 2008). For instance, on the basis of analysis and generalisation at a high level, it could be argued that multinational organisations develop their own organisational fields (Kilduff and Dougherty, 2000; Kostova et al., 2009). Following this line of argument, the multinational could be conceptualised as belonging to an institutional field that operates within a set of rules and norms that could attract sanctions for violation. Kotsova et al. (2008) suggest that this line of argument is in alignment with reported trends in the practice of global management, where expected behaviours are outlined and guidelines put in place to check acceptable behaviour worldwide.

A second line of argument that may support the concept of organisational fields in multinationals is the evaluation of the concept from the headquarters-sub-units perspective. In this case, Kostova et al. (2008) argue that, because of the absence of clearly defined organisational fields with external institutional environments to which the sub-units could be associated, there is the tendency for sub-units to refocus internally, generating intra-organisational fields instead. The intra-organisational fields generated are subjected to similar institutional forces, such as external institutional environments, and are characterised by similar forms of norms, cognitive and regulation structures including the organisational culture, which defines actions and practices that are acceptable (Kostova and Zaheer, 1999).

The intra-organisational field perspectives views all the multinational sub-units as part of the same intra-organisational institutional environment, and these are subjected to intra-organisational institutional forces, which may exert stronger influence on the sub-units than forces from the external environments of their location (Kostova and Zaheer, 1999). Kostova et al. (2008) argue that this view of organisational fields is likely to occur when sub-units depend largely on the parent for resources. The formal organisational structure from this perspective thus, has an enhanced influence on the sub-units and paves the way for the transfer of core capabilities and competencies. Transferring competencies reduces ambiguity

by reinforcing the sharing of the same business model and practices, giving the organisation a clear direction of operation.

Furthermore, in relation to the concept of isomorphism in the traditional neoinstitutional theory perspective, Kostova et al. (2008) also argue that this is not supported by the multinational setting. They contend that, the absence of well-defined fields in the multinational setting, as noted earlier, means isomorphism cannot occur as it manifests only in a field. Moreover, they argue that isomorphism is not necessary at the external organisational environment level, but may be exhibited at the intra-organisational level as stated earlier. Also, because all the resources needed by the sub-units of a multinational cannot be obtained from the local environment where they are located, sub-units have to turn to other alternatives, possibly inwards. So, while the regulatory power of the local institutional environment may have some coercive influence on the sub-units, they are limited in their influence from a cognitive and normative effects perspective (Kostova et al., 2008; Kilduff and Dougherty, 2000). Foreign companies, therefore, have the choice of deciding the level of responsiveness to the external institutional factors that is appropriate for them. Thus, the similarities that may be observed among organisations are the result of choices organisations have chosen to make, rather than a compelling force from external institutional pressures. This condition, according to Kostova et al. (2008, p.999) points to the "critical importance of agency in [multinationals]".

Ceremoniality and decoupling are other areas where it is argued that the multinational setting fails to support the new institutional theory logic. The idea from the neoinstitutional theorist is that, "organisations engage in ceremonial adoption of institutionalised structures and practices, while at the same time decoupling themselves from the environment by actually using others that they view to be more economically efficient" (Kostova et al., 2008, p.1000). Ceremonial adoption of practices and decoupling will not occur in the multinational setting

following the argument presented earlier, that there will be less pressure towards isomorphism at the external organisational level (Kostova et al., 2008). Actors within the organisation and from the external environment of the multinational subunit may come to the realisation and acceptance that the subunit is part of a different field. Thus, they expect that different institutionalised standards will be adopted instead of the neoinstitutional idea of decoupling stemming from the assertion, that multinationals resort to decoupling and ceremoniality as a way of reconciling the influence of different legitimating actors (Kostova and Roth, 2002).

On the concept of legitimacy, the neoinstitutional theory suggests that, legitimacy or the approval of the organisation by external elements is essential for organisational survival, and that legitimacy is achieved by becoming similar or isomorphic to other organisations within the organisational field (Powell and DiMaggio, 1991; Suchman, 1995; Scott, 2001). Kostova et al. (2008, p.1000), however, argue that, multinationals "engage in actor-specific manipulation and negotiation of their status aimed at social construction of their acceptance and approval. Achieving legitimacy in this context makes companies less, not more similar" they maintain. Rather than pose a challenge to the need for legitimacy, the multinational context makes it even more crucial to be recognised and approved by the various legitimating actors because of the liability of foreignness. Thus, "it is impossible to achieve legitimacy through isomorphism. Conforming to the myriad regulatory, cognitive, and normative institutional expectations coming from multiple and conflicting sources is not feasible" (Kostova et al., 2008, p.1001). In other words, to achieve legitimacy from the multinational perspective, emphasis is directed at other legitimating mechanisms and particularly through negotiation of status with the various actors.

Burns and Scapens (2000) argue that the NIS in accounting and organisational studies has focused on the influence of external forces on organisational practices, ignoring the internal

variables within the organisation that shape accounting practices, and it also plays a part in how the external elements are absorbed. Quattrone and Hopper (2001) point to problems of the institutional perspective. They argue that the depiction of institutions as distinct from those who have to comply with the pressures from institutional forces, and especially to the process of compliance itself, is problematic. The problems, they argue, stem from the presumption that, "people perceive (or are unconsciously affected by) institutions similarly and conform to its rules, norms and routines" (p.405).

Furthermore, while the concept of institutional distance may be an appropriate explanation for heterogeneous rather than homogeneous practices among organisational sub-units, the conceptualisation of elements of the local society, including culture as fixed exogenous forces that influence organisational behaviour and performance has been criticised. Critics argue that the conceptualisation of these forces as being responsible for isomorphism or heterogeneity offers a broad summary of micro-events, but lacks the ability to elaborate on these events empirically as it fails to capture the social processes embedded in them (Soderberg and Holden, 2002; Staber, 2006). Rather than dwell on the institutional and cultural distance, they argue for a perspective that shifts the focus to understanding the dynamics of interactions that are embedded in organisational practices, namely the processes that encourage interaction and goal achievements despite the differences that may exist. This is important because lack of understanding of the dynamics of social interaction and how they shape organisational processes makes the prediction of the possible effects of managerial actions cumbersome (Staber, 2006).

Kostova and Roth (2003) draw attention to the understanding of "informal approaches" to the coordination of organisational activities, where the capacity of formal structures as the elements of the coordination and integration of multinational corporations is constrained by cultural and institutional distance. They contend that, although these informal approaches to

the coordination and integration of multinational activities are embedded in the conceptualisation of the multinational corporation as differentiated network, transnational and heterarchy by scholars (Bartlett and Ghoshal, 1989; Busco et al., 2008); these need to be developed further. In the next section, the social capital theory will be presented in an attempt to address some of the criticism of the NIS, namely that it ignores the role of the individual in the functioning of organisations and active agency.

3.10 The social capital theory

The social capital theory is suggested as offering a useful foundation and "a process-oriented perspective" for examining the forms and creation of informal coordination approaches (Kostova and Roth, 2003; Staber, 2006). Broadly speaking, social capital constitutes the resources that actors are able to access by reason of their being located in a network or structure of social relations (Adler and Kwon, 2002). It is the "benefits that social actors derive from their social structures" (Kostova and Roth, 2003, p.297) From a multinational perspective, Staber (2006, p.190) defines social capital as the "benefits that accrue to a collectivity as a result of maintaining cooperative relations between its members". It refers to the "social relational properties and processes of the organisational system(s) that enable coordination and support innovative practices".

Social capital is an attribute of successful organisations and is reflected in trust, reciprocity and norms of social behaviour that enable cooperation and integration of activities by regulating social behaviour (Kostova and Roth, 2003). From this perspective, social capital generates some benefits for the individuals involved and for the organisation as a whole and such benefit is accessible to all individuals in the network or organisation. Hence, Kostova and Roth (2003) highlighted the importance of evaluating social capital as both a private and a public good, arguing that, both forms of social capital can be useful informal mechanisms for coordination and integration of multinational activities.

Scholars have, however, shared different opinions on the sources of social capital and have evaluated the concept from different perspectives. One perspective evaluates social capital from the point of the sources from where it is derived, the effects of social capital or its substance (Robison et al., 2002). While another perspective looks at social capital from the point of the structure of relationships among actors (bridging structural holes), the nature of relationship that actors maintain (strong or weak) or a combination of both elements of structure and nature of relationships (Portes, 1998; Adler and Kwon, 2002).

Focusing on the broader perspective which captures the nature of relationships actors maintain as well as the structure of the relationships, social capital has been evaluated in three ways; firstly, as a property of a dense network of frequent interactions between actors (Fukuyama, 1995; Putnam, 1995) secondly, from the point of external network ties that bridge other networks as in the case of the bridges of structural holes or weak ties serving as bridges in the strength of weak ties (Burt, 1992, Aarstad et al., 2010); and thirdly from the point of view of those who feel both forms of ties are important between nodes in a dense network of frequent interactions and bridges spanning structural holes or weak ties (Nahapiet and Ghoshal, 1998; Woolcock, 2001).

Those who view social capital as being generated from collective interactions and shared interest of those within a dense network of strong ties, argue that social capital is a property of close ties or cohesiveness and can be accessed by being able to mobilise resources within a network to achieve set goals (Adler and Kwon, 2002, Coleman, 1990). The position of these proponents of social capital is reflected in the definitions of the concept. For instance, Putnam (1995) defines social capital as "features of social organisation such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit" (p.67). Fukuyama (1995), expressing a similar view, defines social capital as "the ability of people to work together for common purposes in groups and organizations" (p.10). The proponents of this

approach to evaluating social capital in a network have taken to evaluation of the frequency of the interactions between nodes, the number of exchanges and other forms of sociocentric exchanges.

Their approach contrasts that of the advocates of social capital as a property that comes from being able to access information or ideas that are not readily available in a dense network of nodes that are involved in frequent interactions (Burt, 1992; Burt, 2004). Those who hold this view of social capital as an attribute of bridging relationships assert that social capital is a resource that is inherent in an actor's bridging of ties with other actors in other networks (Adler and Kwon, 2002; Bowey and Easton, 2007). This position is reflected in the definition of social capital by Portes (1998) as "the ability of actors to secure benefits by virtue of membership in social networks or other social structures" (p.6). Burt's (1992) definition of social capital as "friends, colleagues, and more general contacts through whom you receive opportunities to use your financial and human capital" (p.9) also signifies this view. Hence, social capital is facilitated by interactions with other groups which an actor has direct or indirect contacts with, and it shapes the actions and outcomes of groups or sets an individual, unit or firm apart from competitors (Adler and Kwon, 2002).

Other proponents believe that both kinds of relationships are relevant and generate social capital appropriately and have reflected their position in the definitions of social capital. Nahapiet and Ghoshal (1998) for instance defined social capital as "the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit (p. 243). Woolcock (1998) defines it as "the information, trust, and norms of reciprocity inhering in one's social networks" (p.153). This later view is supported by Adler and Kwon (2002), who argue that it is more appropriate to take this more encompassing view of social capital that includes bridging and bonding relationships and remains neutral to the one-sided views of social capital. They suggest that

taking a neutral view of social capital, rather than as a property of external or internal relationships is advantageous. According to them, social capital as an internal or external property of relationships depends on the perspective taken to evaluate it, and is not "mutually exclusive". They argue that the way a collective actor, such as a firm, behaves or functions is the result of influence from both the relationships within its fabrics and external relationships with institutions and other firms with which it shares relationships.

The differences in the conceptualisation of social capital, though, seemed resolved by the proposition of Adler and Kwon (2002) that a more encompassing conceptualisation incorporating an evaluation of bridging and bonding elements of social capital is more appropriate, however recent studies have raised more questions. Studies have questioned whether social capital constitutes a resources in itself or whether it constitutes "the method of unlocking resources", and whether it is an individual or collective "asset" (Anderson et al., 2007, p.247). These questions follow the assertion by Dakhli and De Clercq (2004) that network of relationships constitute a sort of resources that could be of benefit to individuals and groups. The next section discusses the dimensions of social capital in order to shed some light on what constitutes social capital.

3.11 Dimensions of social capital

3.11.1 Structural dimension of social capital

Nahapiet and Ghoshal (1998) identified three dimensions of social capital: the structural, cognitive, and relational dimensions. Structural social capital affects access to other actors, whether individuals or corporate (Hazleton and Kennan, 2000). It derives from the various channels for exchanging knowledge and participation in knowing activities (Koka and Prescott, 2002; Liao and Welsch, 2005). These channels could be a network of ties, network configuration or appropriable organisation (Nahapiet and Ghoshal, 1998).

Networks of ties and network structures provide the channels for information exchanges and constitute important facets of social capital that may impact organisational activities (Liao and Welsch, 2005). Appropriable organisations also enable social capital which is developed in one context (in the form of trust, norms and ties) to be transferred to other contexts. For example, trust from religious affiliation and family could be transferred to work situations (Nahapiet and Ghoshal, 1998). Similarly, personal relationships could develop into business exchanges and the aggregate of the social capital of individuals could be transferred into that of organisations (see Fukuyama, 1995; Burt, 1992).

3.11.2 The cognitive dimension of social capital

The cognitive dimension of social capital assumes that knowledge and meaning are always embedded in a social context and are created and sustained through ongoing relationships (Hazleton and Kennan, 2000; Nahapiet and Ghoshal 1998). Meaningful communication is an essential part of social exchange and the combination process and involves the sharing of contexts between the parties involved in exchanges (Boland and Tenkasi, 1995; Nahapiet and Ghoshal, 1998; Hazleton and Kennan, 2000). Nahapiet and Ghoshal (1998) noted that myths, stories and metaphors provide powerful means for creating, exchanging and preserving rich sets of meaning in societies. They suggested that metaphors cut across different contexts, thus enabling the combining of both imaginative and literal observations and cognitions. Elements of culture such as shared language and shared narratives are important in advancing the cognitive dimension of social capital.

3.11.3 The relational dimension of social capital

The relational dimension of social capital, on the other hand, centres on the expectations and obligations which are central features of social capital. The relational dimension of social capital influences three essential conditions for exchange and combination: the motivation for

parties to engage in knowledge creation, access to parties for exchange and the anticipation of value through exchange combination (Nahapiet and Ghoshal, 1998).

Szulanski (1996) considered the relational dimension of social capital to be very important. He argued that where the relational dimension of social capital is lacking in organisations, it results in arduous relations between source and recipient and constitutes one of the major barriers to the transfer of best practices within organisations. Hazleton and Kennan (2000, p.83) noted that both the amount and nature of expectations and obligations embedded in relational social capital are central in understanding "organizations' relations with publics…"

A key element of the relational dimension of social capital is trust. Trust is essential for cooperative relationships between actors. There is a two-way relationship between trust and cooperation: trust enhances cooperation, and cooperation itself leads to further trust (Nahapiet and Ghoshal, 1998; Ling and Dale, 2013). As a result, over time, generalised norms of cooperation develop, and further increase the willingness to engage in social exchanges. Nahapiet and Ghoshal (1998) described collective trust as an asset that members of an organisation may rely upon to help solve the problems of coordination and cooperation (see also Kramer et al., 1996).

Norms are another element of the relational dimension. According to Coleman (1998, p.104), "where a norm exists and is effective, it constitutes a powerful though sometimes fragile form of social capital". A norm exists when socially defined rights to control actions are held by others rather than an actor. Social norms of teamwork and openness help to build cooperation rather than competition, but may also inhibit innovation and acting on one's own initiative (Coleman, 1998).

Barbieri (2003) argues that, although differences in meaning and conceptualisation of social capital have been expressed by researchers, there seems to be agreement that there is a

connection between social capital and relationships or social belonging. That agreement that social capital reduces the "moral hazards of interaction" and may support market transactions should be explored. Adler and Kwon (2002) criticise the "one-sided" conceptualisation of social capital as having only positive outcomes and advocate for a more balanced view of the impact of social capital. They assert that relying too much on social capital could become a constraint and that although, social capital could benefit a focal actor, the larger network might bear the negative consequences of social capital. This might be particularly when analyses are carried out from a multilevel perspective of complex organisations.

3.12 Benefits and risks of social capital

Social capital has been portrayed by researchers as having potential benefits (Burt 1992; Uzzi, 1997; Anderson and Jack, 2002; Kadushin, 2004). For instance, Aarstad et al. (2010) found that social capital helps to improve performance at individual and firm level. Similarly, Podolny and Page (1998) found that firms that network with other organisations acquire new knowledge and skills from the process. Organisations are said to be able to leverage on social capital resources that are made available from collaborations and relationships with external agents (Anderson et al., 2007; Aarstad et al., 2010). Ahuja (2000) found a link between indirect relationships (spanning of structural holes or weak ties) and effects on innovation. Interconnectedness and relationships between firm managers have also been linked to increment in returns on assets and higher revenue respectively (Rowley et al., 2000).

A key benefit of social capital, according to Adler and Kwon (2002), is the provision of information. Benefits of information at focal group level (within a network of dense interconnected ties) have been found to permeate to the larger groups (Aarstad et al., 2010). Information transfer between a network of firms was found useful in forecasting customers' preferences and future demands (Uzzi, 1997). Burt (1997) suggests that the brokering opportunities created by social relations allows the flow of information from other actors to a

focal actor. This flow of information, he asserts, benefits the entire network because of the gesture of reciprocation that it promotes. Weak and strong ties were both found to be useful in the search for new information and transfer of complex information by product development teams (Hansen, 1999). Likewise, information sharing was facilitated by social capital between independent units of a multinational corporation (Shaner and Maznevski, 2011).

Other benefits of social capital include power, influence, control and solidarity. Coleman (1988) asserts that power benefits from network connections enabled the achievement of goals and allowed things to be done faster. Burt (1997) posits that the positions of managers who bridge structural holes give them more control over projects that are undertaken with other groups, making them more powerful in the process. Strong networks of relationships involving shared beliefs and norms of behaviour, such as that of Ouchi (1980) clan control, resulted in a sort of solidarity that eased the need for strict formal controls and encouraged compliance to group norms and customs. Solidarity was found to encourage faster dispute resolution in a dense network of actors involved in frequent interactions. Such interactions built up trust and allowed more sensitive information to be shared among actors (Nelson, 1989; Krackhardt and Stern, 1998).

While possible benefits of social capital have been emphasised by most researchers as discussed above, they could also be used manipulatively, for opportunism and inefficiency (Mitchell, 2005). The literature on the negative effects of social capital though scanty, has indicated that social capital risks could outweigh the benefits in certain circumstances. For instance, there are indications that considerable investment in time and resources may be required to establish relationships and maintain them. The cost of establishing and keeping a relationship (strong tie) in some instances outweigh the potential benefits of keeping the

relationship, and in other cases, an actor could create risk that may become problematic to the entire network (Adler and Kwon, 2002).

Strong relationship ties evidenced among project team members resulted in longer time of completion of task as against weak ties that took shorter time (Hansen, 2002) Weak ties in this instance were not just better than strong ties in that they gave access to non-redundant information, but because they were not as expensive to maintain as strong ties (Hansen, 1999). The benefits of solidarity offered by social capital may stifle innovation in certain circumstances, such that an actor is hindered from the flow of new ideas as a result of being "over-embedded" in a network of shared beliefs and norms of behaviour resulting in parochialism (Adler and Kwon, 2000).

3.13 Social capital in accounting and organisational research

It is argued in this research that the NIS overlooks the role of actors and how they shape processes within organisations, instead focusing on the influence of external factors on organisational activities (Battilana et al., 2009). Granovetter (1985) argued that "the behaviour and institutions to be analysed are constrained by ongoing social relations that to construe them as independent is a grievous misunderstanding" (p.481-2).

Accounting researchers have highlighted the importance of social capital in managing intra and inter-organisational relationships (Mahama 2006; Ahrens and Chapman 2007). Chenhall et al. (2010) studied the relationship between MCS and social capital within and between organisations. They examined how different MCSs affect the bridging and bonding forms of social capital. They developed three taxonomies of MCS based on a framework of formal and informal MCS developed by Chenhall and Morris (1995).

From the perspective of formal and informal MCS they suggest three possibilities through which the effect of social capital on MCS may be expressed. Firstly, they argue that formal

controls may have a positive effect on bridging social capital through reputation to external parties and the demonstration of capabilities. Secondly, they propose that formal controls may damage informal controls and may have a negative effect on bonding social capital; and thirdly, that informal controls enable the bonding form of social capital as they allow the building of relationships through frequent interactions based on interpersonal connections.

Exploring the links between social capital and MCS from the perspective of the framework of Simons' (1995) levers of control, Chenhall et al. (2010) argued that, belief, boundary, diagnostic, and interactive control systems may enable the bonding form of social capital because of the shared values and norms that can be facilitated by these systems. Furthermore, diagnostic control systems, and interactive control systems may have positive effects on bridging social capital and enable the extension of external networks of relationship. However, the combination of the different levers of control may result in contradictory effects of MCS on social capital.

Following Adler and Borys' (1996) concept of enabling and coercive controls to understand the relationship between MCS and social capital, Chenhall et al. (2010) argue that enabling controls enhance the bonding form of social capital by encouraging identification with goals whereas coercive controls inhibit the bonding form of social capital. This is because coercive controls are inconsistent with the sharing of ideas and values that are central to the building of social capital.

Much attention has been given to the study of Chenhall et al. (2010) in this discussion because their work is among the first to highlight the relationship between MCS and social capital in and between organisations. Furthermore, their work provides an understanding of the relationship between social capital and MCS by exploring the links between the different

perspectives on the study of MCS in the literature. Their work demonstrates that MCS could either enhance or inhibit social capital.

However, Chenhall et al. (2010) have treated bridging and bonding social capital in their study as two different dimensions of social capital, and they have explored the links between MCS and each of these two dimensions of social capital separately. Anderson et al. (2007) highlight the importance of both bonding and bridging forms of social capital in achieving the full benefits. They argued that, both bonding and bridging forms of social capital should be examined in organisational studies.

Masquefa (2008) found social capital important in the adoption of locally driven performance measurement and evaluation system by top managers. He argues that, the nature of interpersonal relationships that exists between top managers is important in the introduction of performance measurement and evaluation systems. Similarly, Cobb et al. (1995) found that continuing dialogue and informal contacts between managers and financial controllers of an enterprise were instrumental in the implementation of a change process.

Moran (2005) suggests that social capital contributes to resource exchanges within firms and is germane to the creation of behaviours in productive exchanges. He found that social capital offers considerable advantages to managerial performance and suggests, that "in uncertain and potentially risky contexts, being able to draw on well-established and faithful relationships is a highly valuable asset" (p.1149). Having discussed social capital and its application in accounting and organisational research, the next section highlights agency in social capital.

3.14 Addressing the agency criticism of the NIS from a Social capital perspective

Ling and Dale (2013) identified two understandings of agency – agency as a noun and agency as a verb. Agency as a noun describes a structure of people or team performing specific tasks

83

for specific purposes. As a verb, agency describes an action or process that results in a state of affairs. From this perspective, agency refers to an individual, an organisation or networks that can sanction a process that drives change.

Agency, therefore, is "the ability to affect events outside of one's immediate sphere of influence. It is the intentional causality and process that brings about a novel state of affairs which would not have occurred otherwise" (Ling and Dale, 2013, p.3). Agency is the force behind social action (Ling and Dale, 2013). Agency can manifest at both the individual and collective levels; however, the impact of an individual acting alone limits the influence they may have (Hazleton and Kennan, 2000).

Agency is needed at the individual and group levels to mobilise social capital (Dale and Sparkes, 2011). Ling and Dale (2013) suggested that if agency is manifested in the actions of individuals and their networks of relations, then such individuals are sufficiently connected to other individuals to stimulate a response and/or influence decision-making, affecting a process which they are part of. The element of an individual's network of relationships that enables the individual to influence decisions within the network is described as social capital (Newman and Dale, 2005). An individual needs social capital to facilitate collective action; a group or unit also needs social capital to have a voice at the locus of power and decision-making (Collier, 2002; Paavola and Adger, 2005).

The formation of networks of relationships through bridging and bonding ties facilitate access to further social capital and increase collective agency (Newman and Dale, 2005); that is, social capital and agency combine to generate further social capital, creating a virtuous cycle. Krishna (2001) described social capital as a potential which is activated by agency. Agency at a group level is enacted when a network of relationships exists from which social capital develops, there is openness to new actors and ideas, and the capacity to resolve power and

conflict issues. Agency can negatively impact bonding social capital such that dense networks of interpersonal relations that are lacking in bridging social capital develop.

Meyer (2010) analysed agency in institutional theories and argued that "[i]f the old institutionalisms are about exogenous patterns (e.g., cultures) in which persons, groups, and societies are embedded, the new institutionalisms are about patterns that constrain and empower very agentic, autonomous, bounded, and purposive actors" (p.3). Heidenreich (2012) used the social capital concept of embeddedness to explain the links between agency and the institutional environment of MNEs. He argued for a micro-level analysis that takes into account "how the social institutions and relationships in which companies are embedded are simultaneously shaped and dynamically reproduced by skilled social actors" (p.553).

Heidenreich (2012) differentiated between social and corporate embeddedness and argued that these forms of embeddedness are not caused by the mimetic, coercive or normative pressure to which individual and/or corporate actors have to conform in order to gain legitimacy. Rather, they are the outcome of strategic choices that are made by MNEs and other companies in order to influence or shape their institutional environments. Kostova et al. (2008) noted that MNEs have an important agency role which is reflected in how they comply with institutional pressures and "make sense of, manipulate, negotiate, and partially construct their institutional environments" (p.1001).

The heterogeneous social institutions and the multiple national environments that MNEs have to deal with shape their perception of the challenges they face, the strategy that would be most appropriate, and how to best use the available resources (Kostova et al., 2008; Cantwell et al., 2010). The uncertainties arising from the institutional environments coupled with different coordination and integration problems associated with multinational operation lead

MNEs to turn to elements of social capital for guidance and orientation (Cantwell et al., 2010).

From an NIS perspective, Heidenreich (2012) suggested that the broader conceptualisation of institutions as comprising the regulatory, normative and cognitive-cultural dimensions is important for understanding that institutions do not only constrain but are helpful to understand how social actors make sense of social situations. The definition of institutions by Zucker (1977, p.728) as "the process by which individual actors transmit what is socially defined as real and, at the same time, at any point in the process the meaning of an act" also reflects the cultural-cognitive dimension of institutions. Scott's (2001) normative pillar of institutionalisation that refers to social obligations and binding expectations also indicates that institutions shape actors through rules, coercion and sanctions. Actors are shaped by binding social norms, shared conceptions and taken-for-granted meanings that have their legitimacy based on sanctions and cultural standards or moral obligations.

Thus, social capital has the ability to shape actors' perceptions and actions towards organisational procedures and processes and enable an understanding of the internal environment of the enterprise (Coleman, 1990; Staber, 2006; Anderson et al., 2007; Aarstad et al., 2010). Combining the social capital theory with the NIS allows for a wider scope for understanding the factors within and external to an MNE that may influence the design and use of MCS in the NSMNE. Following the discussion presented in this chapter, a theoretical framework is developed as shown below.

3.15 Proposed theoretical framework

The objective of this research as noted previously is to understand how differences in the institutional environments of the multinational enterprises shape the design and use of management control systems. From the review of the literature in chapter 2 and the discussion presented in this chapter, in order to understand the differences in the institutional environments, and how that may impact the relationship between the headquarters and subsidiary of the multinational enterprise, a framework is proposed in this section.
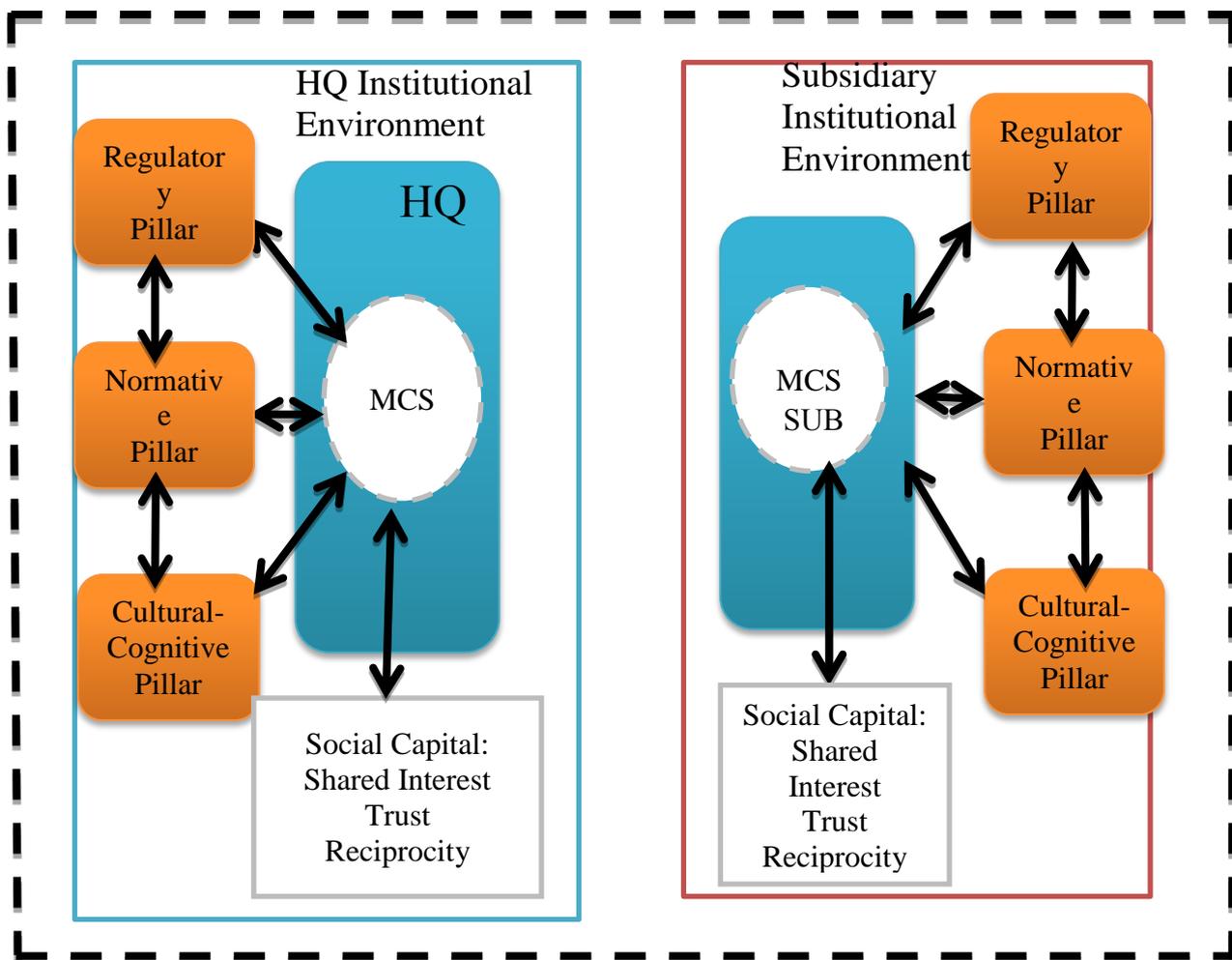
Figure 3.1 Proposed framework.

The proposed framework shows that the external institutional environments of the HQ and Subsidiary depicted by the block rectangles. The environments impact on the organisational environments, and shape the design and use of the MCS through the regulatory pillar, the normative pillar and the cultural-cognitive pillars of Scott (1995). Because the multinational organisation operates in these two distinct environments, a new (artificial) environment is created as a result of the enterprise's cross-border activities. This new environment is demarcated by the broken lines.

The social capital theory is suggested in this research, as discussed above, as offering a means for coordination and control of the activities of the enterprise within the national boundaries and across international boundaries. In the words of Staber (2006), social capital does not only "seem ideally suited" as a coordination and control mechanism in multinational operation, but also enables an understanding of the role of "agency and intentionality" in an MNE. Kostova and Roth (2003) suggested that social capital is an informal approach to the coordination of MNEs which is particularly useful where the capacity of formal structures as the elements of the coordination and integration of an MNE is constrained by cultural and institutional distance. Social capital is captured in this study by the shared interest, trust and reciprocity that is shared within and external to the enterprise.

The arrow linking social capital and MCS in the diagram above suggests a two-way relationship. This implies that MCSs impact on social capital formation and vice versa. This suggestion stems from findings by Adler and Kwon (2002) that MCSs (bureaucracy) define the limits on social relations. That is, MCSs ensure that social relational risks are limited by setting standards and limits of privileges within an organisation. Moreover, by specifying work and decision flows, MCSs can influence the search for opportunities since "many ties come with formal positions and are not voluntarily chosen" (Adler and Kwon 2002; p.27). Furthermore, contrary to ideological positions that have tended to encourage the perception

that bureaucracy is destructive to social capital and often stifles informal controls, Adler and Kwon (2002) argue that a more objective evaluation indicates the possibility of both positive and negative effects.

Adler and Borys (1996) distinguished between enabling and coercive forms of controls in organisations. They identified differences in the formal structures and procedures governing how the two forms are designed and implemented and argued that the two forms have contrasting effects on informal cooperation among employees and their commitment. Chenhall et al. (2010) suggest that informal controls "enhance bonding by developing close interactions based on interpersonal connections", whereas bridging is enhanced by formal control systems. However, there may be a clash between formal and informal control processes when informal systems have been the customary mode of control before the introduction of formalised MCSs. In such a case, there is the potential damage to bonding among actors.

In discussing the links between institutions and social capital, Adler and Borys (1996) noted that institutions such as government and legal rules may facilitate or impede the emergence and maintenance of social capital. This is because institutions establish the structure for interaction and the building of relationships between social actors. As a result, institutions structure incentives in social exchanges (North, 1990). Woolcock and Narayan (2000) argue that formal institutions provide social groups with the capacity to act in their collective interest. The performance of firms also depends both on the firms' competency and the impact of their external environments.

3.16 Chapter summary

This chapter discussed the theoretical framework of the study. The framework draws on the NIS and social capital theory to explore the design and use of MCS in the NSMNE. The NIS

argues that organisational systems are influenced by factors from the institutional environment; hence, organisations may adopt certain processes and procedures as a response to the environment in order to appear legitimate. The NIS from the perspective of Scott (1995, 2001) that is adopted in this study does not only focus on how and why organisations become similar or express isomorphism, as is the case with the seminal work of DiMaggio and Powell (1983). Rather, it suggests that organisations, when impacted upon by external environmental factors, may respond in different ways to the influence being exerted on them. This is relevant in this research, since institutional theorists suggest that the external factors impacting on organisations are able to shape the behaviour of organisational actors and the design and use of systems within the organisation. The NIS in this framework provides the medium for analysing the influence of what Powell and DiMaggio (1991) described as exogenous factors.

However, a major criticism of the NIS, as indicated in the discussion above, is that it is too externally focused and ignores the internal (endogenous) factors that shape organisational characteristics. Critics of the NIS have argued that it fails to recognise that organisations and their systems are shaped by the values, norms of behaviours and beliefs that are held by the organisation and actors that work in the organisation. It therefore becomes imperative to broaden the scope of the framework used in this study to capture both the internal and external factors that impact on the organisation.

Furthermore, Kostova et al. (2008) argued that the attributes of the MNE limit the extent to which the NIS could be applied to studies involving MNEs. They contended that discrepancies between the different environments of the MNE limit the emergence of shared patterns of interactions that define organisational fields under the NIS. These shared patterns of interaction are important in this study to understand how informal approaches may become an important part of coordination and control processes.

For that purpose, social capital theory is engaged. Social capital is facilitated by interactions with and between networks of actors (Adler and Kwon, 2002). This offers a platform to analyse the internal environment of the MNE in order to gain an understanding of the factors that impact the design and use of MCS as well as the coordination and integration of enterprise-wide activities. This approach is necessary for the understanding of the complexities of MCS design and use in an emerging MNE setting. The framework developed by combining the NIS and social capital theory is drawn upon in later chapters of this thesis to analyse the design and use of MCS.

Having presented the theoretical framework in this chapter, the next chapter presents the research methodology. The chapter gives insight into the methodological issues likely to be faced in the course of this study and how a methodological approach that is suitable for the context and that enables the collection of appropriate data was chosen and followed.

<center>**Chapter Four**</center>

<center>**Research Methodology**</center>

4.1 Introduction

This chapter discusses the research methodology. It presents the philosophical assumptions, methodologies and methods that have guided the empirical data collection process and the choice of data that was collected for this research. Saunders et al. (2009) noted that it is important to understand the different philosophical positions that researchers assume because that understanding enable researchers to present the analyses of social phenomenon from different perspectives.

The chapter is structured as follows: first, the philosophical paradigms are presented, followed by the research methodology, the rationale for a qualitative approach, the research design and the case organisation. Data sources, the research procedure, research evaluation and ethical considerations make up the remaining sections of the chapter.

4.2 Philosophical paradigms

Burrell and Morgan (1979) noted that all theories of organisation are based upon a philosophical assumption. Philosophical assumptions provide the foundation for a research study and are crucial for establishing links between theory, findings and the conclusions reached (Myers, 2013). Lukka (2010, p.111) noted that philosophical assumptions "bring to the fore the normally silenced, implicit or even hidden, but fundamental values underlying the research". The philosophical assumption of a researcher highlights the researcher's view of the social world and how it should be investigated (Saunders et al., 2009). The nature of

<center>92</center>

reality and how knowledge is constructed in the social world are discussed further in the next section.

4.2.1 Ontology and epistemology

The notion of what constitutes reality is the ontological position of the researcher. Ontology is concerned with the "very essence of the phenomena under investigation" (Burrell and Morgan 1979, p.1). Scholars have identified two aspects of ontology – objectivism and subjectivism (Bryman, 2008).

Objectivism portrays social entities as existing in a reality that is outside the social actors involved. Whereas, subjectivism suggests that the perceptions of social actors and consequent actions they take create social phenomena (Saunders et al., 2009). That is, the reality that social actors investigate imposes itself on the actors' consciousness from within rather than existing externally (Burrell and Morgan 1979). This means that social phenomena are taken to be what social actors perceive them to be (Cresswell, 2014). The ontological position a researcher assumes influences their view of what constitutes knowledge (epistemology) (De Vaus, 2001).

Epistemology is assumptions about how knowledge of the social world is constructed by a social actor and communicated to other social actors (Burrell and Morgan 1979). Delanty and Strydom (2003) describe epistemology as the nature of reality that may be most valuable to the attainment of knowledge. Reality could be conceived from the point of common sense, a thing, a perceptual entity or an observable social fact (De Vaus, 2001). A key epistemological question would be whether knowledge is something that has to be experienced personally by actors or something that can be acquired (Burrell and Morgan 1979). The understanding a researcher has of what constitutes reality defines the researcher's view of the connection between knowledge and the development of knowledge (Hollis, 1994).

This understanding has impact on the perception of what constitutes appropriate evidence when gathering data for research (Bryman, 2008).

Ontologically, accounting research is dominated by the world view of an objective reality which exists independent of the social actors (Macintosh and Hopper 2005). This is "reflected in accounting research as diverse as the contingency theory of management accounting" (Macintosh and Hopper 2005 p.57). Johnson and Clark (2006) argue that the philosophical position assumed by a researcher should not be the main issue of concern, but the researcher's ability to defend the choice of the perception of reality with respect to other alternatives. Broadly, scholars have distinguished between the epistemological positions of positivism and interpretivism. The next section discusses the positivist paradigm.

4.2.2 Positivism

Positivism is a type of epistemological position "which seeks to explain and predict what happens in the social world by searching for regularities and causal relationships between constituent elements" (Burrell and Morgan 1979, p.5). The basic assumption is that credible data can only be generated from phenomena that can be observed (De Vaus, 2001). It involves the construction of concepts, measurement of variables and a structured approach to data collection. The process involved ensures strong links are established between variables following the development of detailed research question(s) (Punch, 2005).

The positivist assumes that knowledge is quantifiable and objective and that human behaviour is a function of the external environment (Guba and Lincoln, 1994). The approach is common to the natural sciences and relies on the development of causal inferences which may lead to generalisation of results (Saunders et al., 2009). For that to happen, the research approach will likely involve using existing theory to develop hypotheses, which are tested to confirm, refute or develop other hypotheses (Guba and Lincoln, 1994).

4.2.3 Realism

Realism is a form of positivism (Saunders et al., 2009). The realist philosophical position argues that the reality that the social actor's senses portray is the truth (Saunders et al., 2009). Being a positivist approach, realism assumes a scientific dimension to the development of knowledge; that objects exist independent of the human mind. It is distinguished from idealism, which is a theory that argues that there exists only the mind and its contents (Myers, 2013).

There are two types of realist arguments - the direct realist and the critical realist. The direct realist position argues that the experiences that our senses present to us are accurate (Bryman, 2008). Saunders et al. (2009) describe direct realism as "… what you see is what you get" (p.114). It contrasts this with critical realism, which argues that human experiences are sensations (Matthews and Ross, 2010). Critical realists believe that objects around us are not directly what they are, but rather a creation of our senses or the way we make sense of them. The critical realist argument suggests two steps to experiencing the world (Robson, 2002). The first is that experience is gained from the existence of a thing itself and the sensation that gets conveyed to the actor. Second is the sensation or mental process that occurs when a social actor gets in contact with a thing. The realist, therefore, argues that researchers are only able to understand the social world if they have an understanding of the social structures that give rise to the phenomena they are investigating (Saunders et al., 2009).

Social science scholars have criticised the positivist's natural science approach to the understanding of the social world (Robson, 2002, Guba and Lincoln, 1994). They argued that social science research should give understanding and explanation of phenomena that may not be observable by the senses (Matthews and Ross, 2010), in other words, the social researcher should be able to provide the interpretation of the social phenomena being observed. The epistemological position that supports this argument is called interpretivism

(Bryman, 2008, Robson, 2002). The next section discusses the interpretive epistemological approach.

4.2.4 Interpretivism

The interpretive paradigm prioritises the subjective interpretation of the researcher in a bid to understand social phenomena (Matthews and Ross, 2010). That is, social phenomena assume the nature of the understanding and meaning that the social actor ascribes to them (Matthews and Ross, 2010). The ontological basis of the interpretive position is subjectivism (Robson, 2002). An interpretivist believes knowledge and meanings are interpretations of the social actor and there is no objective knowledge outside the social actor's thinking and sense of reasoning (Reeves and Hedberg, 2003).

The interpretive paradigm advocates the need to understand the differences between humans in their roles as social actors (Robson, 2002). As social actors, we interpret our everyday roles according to the meanings that we give to the roles. In addition, the roles of others with whom we interact as social actors are interpreted in accordance with our own set of meanings (Saunders et al., 2009).

The central point of the interpretivist paradigm is that the researcher has to adopt an empathetic stance. This requires the researcher entering into the social world of the research subjects in order to understand their world from their point of view (Saunders et al., 2009). Having discussed the popular research paradigms in social science research in this section, the next section discusses the research approaches.

4.3 Research approaches

Saunders et al. (2007) distinguished between the deductive and inductive research approaches. They noted that, "insofar as it is important to attach these approaches to the different research philosophies, deductive owes more to positivism and inductive to interpretivism" (p.117). However, such distinctions are in their opinion unimportant.

4.3.1 Deductive approach

Bryman (2008) described the process of developing a theory and testing hypotheses as the deductive approach. The deductive approach aims to explain causal relationships between variables. Establishing causal relationships between variables requires the researcher to collect quantitative data (Cresswell, 2014). This implies that concepts have to be operationalised to enable them to be measured quantitatively (Saunders et al., 2009). It also requires controlling for other factors that may influence the outcome of the research. A structured methodology that allows replication also needs to be implemented (Robson, 2002). Furthermore, the researcher is required to be independent of what is being researched in order to observe the principle of rigour (Cresswell and Plano Clark, 2011). Since the results from the deductive approach are aimed at generalisation, deductive research may require the selection of a large sample size (Cresswell, 2009, Bryman, 2008). It is, however, important to note that the deductive approach may also involve the use of qualitative data, usually associated with the inductive approach (Punch, 2005).

4.3.2 The inductive approach

The inductive approach takes into cognisance detailed subjective factors, as well as the circumstantial events that determine a particular action (Hollis, 1994). The inductive approach places priority on the context, where observed social phenomena occur and may prefer a smaller sample in comparison to the deductive approach (Easterby-Smith et al., 2008).

Inductive research is described as qualitative (Punch, 2005). Qualitative research may not engage pre-organised data, but rely on empirical work to advance the research structure (Matthews and Ross, 2010). Inductive research engages multiple sources, methods and strategies of data collection (Punch, 2005). However, the deductive and inductive approaches share some common features. For example, they both could study phenomena in their natural setting.

In this research, the inductive approach is adopted so as to understand better the nature of the problem from the point of view of the research subjects; that is, getting directly involved in the research process so as to get a feel of what is happening to the subject of the research. The next section discusses the research methodology that goes with the deductive and inductive approaches.

4.4 Methodology

Research methodology is concerned with the principles, rationale and procedures that give direction to a study, and provide the basis or the underlying assumptions upon which the research proceeds (Delanty and Strydom, 2003). Research methodologies are often broadly classified into quantitative and qualitative approaches (Matthews and Ross, 2010). It is also common to find researchers combining more than one research method (mixed-method approach) to collect data (Bryman, 2008). The next section discusses the quantitative research methodology.

4.4.1 Quantitative research methodology

Quantitative research method is a research strategy that involves the collection of numerical data (Cresswell, 2014). It has the predilection for a natural science approach and exhibits an objective conceptualisation of social reality (Bryman, 2008). Researchers engaging the quantitative methodology normally have their minds set on what to look for in a study

(Matthews and Ross, 2010). The quantitative approach uses questionnaires, surveys and experimentation to gather data which is analysed using statistical methods (Saunders et al., 2009).

Quantitative methods are a deductive approach and start the research process with a theory from which hypotheses to be tested are deduced (Bryman, 2008). In order to test the hypotheses deduced, concepts are operationalised and deployed in a manner that allows them to be quantified (Johnson and Clark, 2006). Operationalising concepts requires setting them out in the variable forms (Matthews and Ross, 2010). Setting out variables in some cases requires information to be coded in order to make them quantifiable (Robson, 2002). Variables are set as dependent and independent variables for them to be measured. Eventually, relationships between the variables are analysed and established using statistics regarding relative frequency, correlation and mean (Bryman, 2012).

The quantitative research approach is criticised for failing to distinguish the natural world from people and social institutions (Matthews and Ross, 2010). This criticism is based on the quantitative approach inclination to the principles of scientific methods to study phenomena (Bryman, 2008). It is also argued that in analysing the relationships between variables, a sense of a static social life that is independent of people is assumed (Saunders et al., 2009). That is, the process of interpretation and sense making that characterises human nature is omitted as the research seeks to establish relationships between variables. Furthermore, relying on procedures and instruments, the quantitative method fails to establish the connection(s) between the research and everyday life (Bryman, 2008). In the next section, the qualitative approach is discussed as a different approach that addresses some of the criticisms of the quantitative method.

4.4.2   Qualitative Research Methodology

Qualitative research methods are based on the constructionist ontological paradigm and interpretive epistemological approaches (Cresswell, 2009). Qualitative methods allow the researcher to explore the social world and to understand how social processes, discourse, institutions and relationships work to shape the subject matter of a research (Mason, 2002). Through this processes, the qualitative researcher attempts to understand the significance of the meanings that are generated by social entities (Denzin and Lincoln, 2003).

The qualitative approach aims to give insight and depth to phenomena that little is known about (Denzin and Lincoln, 2003). In other words, it seeks to give clarity to social phenomena that is characterised by uncertainty. Myers (2013) argues that the qualitative research approach helps the researcher to understand people, as well as the social and cultural contexts in which they live. For that purpose, it seeks rich data to be collected by engaging a multi-dimensional approach to understand the various elements that constitute the social world (Mason, 2002). This makes the approach essential in understanding how things work in a particular context.

The qualitative approach engages a method of gathering data that is flexible and sensitive to the social context (Cresswell, 2009). Sources of data for qualitative research include ethnography/ participant observation, interviews, document analyses, questionnaires and focus groups (Myers, 2013).

According to Bryman (2008), the qualitative approach starts with general research question(s). An appropriate research site relevant to the subject matter of the study is then selected. The different data sources, as outlined above, may then be used to collect data to answer the research question(s). Depending on the researcher's approach, a conceptual and theoretical framework may be developed to guide the research process and create a link with

the literature (Punch, 2005). Also, there may be the need to collect more data depending on the researcher's interpretation of data available to him/her (Saunders et al., 2009).

Critics of the qualitative approach argue that it is too subjective (Bryman, 2008). They suggest that the approach is too reliant on the researcher's views, which are often unsystematic (Bryman, 2008). The researcher is also said to have too much influence on what is significant and important, and may develop too close a relationship with the subject matter being studied (Mason, 2002). The other shortcomings of the qualitative approach is that it is difficult to replicate, and even more difficult to generalise the findings of a research (Robson, 2002). For this reasons, some scholars prefer a mixed method that combines the qualities of both the quantitative and qualitative methods (Saunders et al., 2009). The research onion diagram presented below was developed by Saunders et al. (2009) in order to describe the linkages between the research philosophy, research approaches, strategies, methodical choices and techniques of data collection.

Saunders et al., 2009
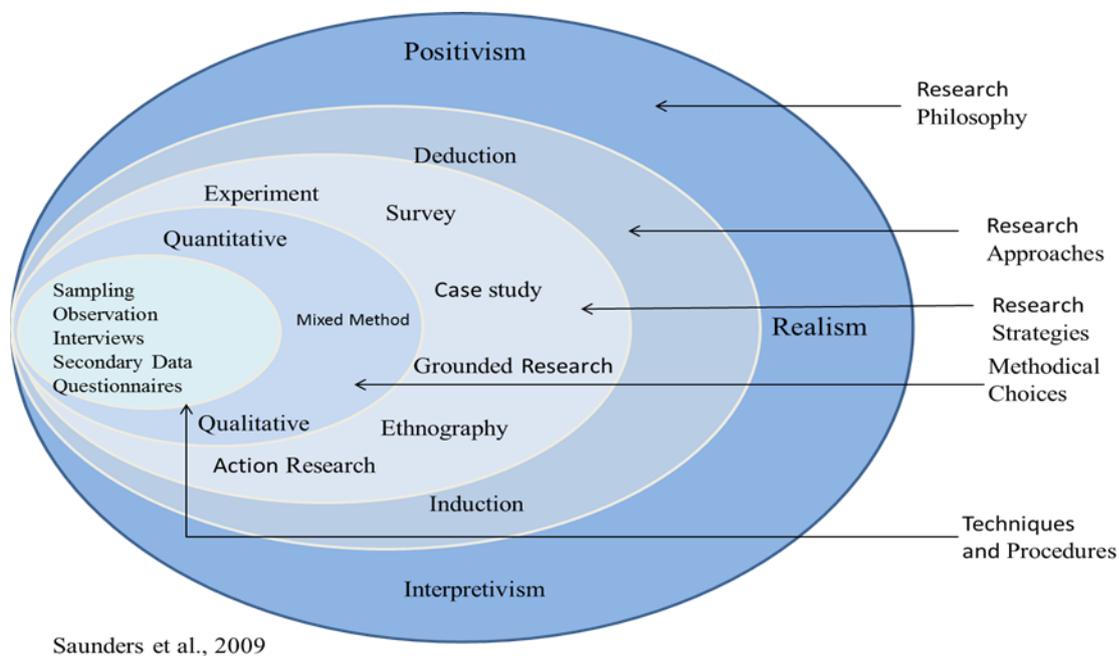
Figure 4.1

4.5 Rationale for a qualitative methodology in this research

This research adopts the interpretivist philosophical paradigm, which takes the view of the world as a social construction (Matthews and Ross, 2010). The philosophical position assumes data has to be spoken for, as they cannot speak for themselves. That is, the presentation of data cannot be separated from interpretation (Kärreman and Alvesson, 2004). Sutton (1993) argued that in addition to understanding the data, qualitative methods also enable an understanding of the context(s) from where the data is collected. This emphasis on the context(s) from where data is collected in a qualitative approach is important in this research because the study focuses on understanding how differences in institutional environments shape the design and use of management control systems (MCSs).

Another point relating to the contexts that supports the use of qualitative methods in this research is that the multinational enterprise used as the case for this study is located in a less developed country (LDC). Alawattage et al. (2007), referring to the situation in LDCs, argued that it is sensible to rely on qualitative methods, in sites where getting reliable data from quantitative methods may prove difficult. For example, where the research actively engages local participants in settings where the issues of culture are predominant, qualitative methods were found more suitable (Alawattage et al., 2007). They also noted that where the subject matter of the research is not well articulated in the literature or there are issues not well understood as with the current research, qualitative methods are more appropriate.

Van Triest and Elshahat (2007) reported having difficulties with their initial approach of making use of quantitative methods in understanding management accounting and control issues in Egyptian companies. They argued that a change in methods, to a qualitative approach proved more useful; as it allowed personal contact with the respondents. This, they

state, was needed to have them participate more in the research. They also noted that respondents were often unfamiliar with the terminologies used in the research instrument, and qualitative methods give the researcher the opportunity to explain the meaning to respondents by engaging with them in person.

Another rationale for the use of qualitative method for this study is that part of the objective is to understand the relationship between the headquarters and the subsidiary of the multinational enterprise. The qualitative methods enable an understanding of interrelationships between individuals and groups and how their interactions shape relationships (Bryman, 2012). Through the researchers' observations, interactions and involvements in the activities of the enterprise, insights, which may not be observed through quantitative methods, are gained. On this basis, a case study research design, as a qualitative approach, was employed to conduct this research. The next section discusses the research design.

4.6 Research design

The design of a research gives the researcher a place in the empirical world (Punch, 2005). Research design gives structure to the research and serves as the plan that allows the researcher to methodically conduct the empirical process of finding answers to research question(s) (Cresswell, 2014). Where the research is intended to answer pre-specified question(s), the design is positioned between the question(s) the researcher seeks to answer, and the data required to provide the answers, serving as a connection between them (Saunders et al., 2009). Where there are no pre-specified questions and questions have to emerge as the research progresses, the design still serves as a connection between the questions and the data (Saunders et al., 2009).

The research design moves the research from the "nature of data that would be required to answer the research questions", to the "how the data will be collected and the sources from which the data should be collected" (Matthews and Ross, 2010; Bryman, 2012). Following this understanding, the case study research design adopted for the research will be discussed in the next section.

Case Study Research Design

Robson (2002) defined case study as 'a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context, using multiple sources of evidence' (p.178). The choice of case study as a research design for this study is to allow the gathering of relevant data, and to enable thorough probing of various sources of evidence. It is expected that these will provide information required to gain insights into how differences in the institutional environments may shape the design and use of management control systems in the organisation. The idea is to develop an understanding of the case in as much depth as possible, as described by Punch (2005).

Another advantage of a case study research design is that it increases the likelihood of understanding organisational practices (Robson, 2002). Hakim (2000) also suggests that the case study approach to conducting research has the advantage of allowing the researcher(s) to gather evidence from multiple sources. The process of evaluating multiple sources of evidence gives a broader perspective and a more comprehensive account of social phenomena (Cresswell and Plano Clark, 2011).

Cooper and Morgan (2008) noted that the relevance to practice of accounting research has often been questioned. However, they argued that the adoption of a case study research design is important if research in accounting is to make meaningful contributions to practice and knowledge. They suggest that the case study research design is appropriate for

investigating "complex and dynamic phenomena where many variables (including variables that are not quantifiable) are involved" (p.160).

The case study design is useful in this particular research since elements such as beliefs, norms, and culture are part of the context and are encountered in the course of the research. These elements of the institutional environments have been recognised in the literature as either constituting some form of control or possessing the ability to shape the operations of controls (Jaworski, 1993; Ouchi, 1980). It is also argued that these elements of the institutional environment are dynamic and may not be easily quantified (Jaworski, 1993), hence the need for probing which is associated with case studies. The case study research design produce answers to the "how" and "why" questions which allow for a more detailed understanding of phenomena (Bryman, 2008; Saunders et al., 2009).

Cooper and Morgan (2008) outlined certain conditions under which a case study research design would be most appropriate for conducting a study. They suggested that the case study research design is suitable when examining multifaceted and dynamic phenomena, actual practices and the evaluation of phenomena where context is important. This is the case for this study. In the next section, the case study multinational enterprise used for this research is described.

4.7 The case: the Nigerian Service Multinational Enterprise

For the purpose of this study the organisation that has been engaged in the empirical research will be referred to as the Nigerian Service Multinational Enterprise (NSMNE). The NSMNE is one of the key players in the Nigerian financial services industry. It has a primary listing on the Nigerian Stock Exchange with about 25.6 billion issued shares, making it one of the highest shareholders' funds in the Nigerian business landscape. The NSMNE is owned by over 1 million shareholders across the world and has an unlisted Global Depositary Receipt

(GDR) programme. It has strong ratings from Standard & Poor's and Fitch. The NSMNE attained Information Security Management Systems (ISMS) certification from the British Standards Institution (BSI), which is indicative of strict adherence to the security and protection of the information of customers.

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██

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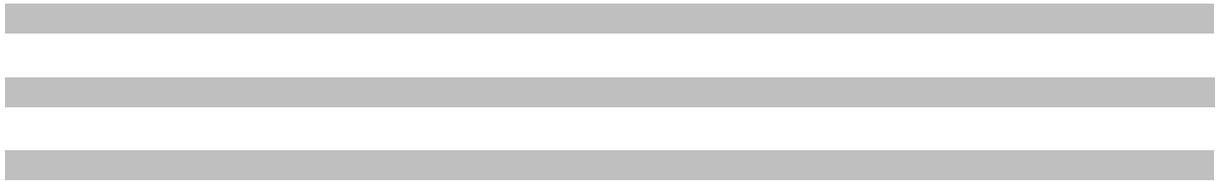
████████████. It has now become international; with a wholly-owned subsidiary in the UK. The NSMNE started its operation in the UK as a branch under the full supervision of the Nigerian office. The UK branch was later transformed to a UK subsidiary to comply with regulatory requirements from the Financial Services Authority (FSA), which was the UK main regulator of the financial services industry. In the 2000s, the FSA ordered all foreign branches of financial services enterprises operating in the UK to be converted to subsidiaries for proper monitoring by the FSA, paving the way for a UK subsidiary of the NSMNE rather than a branch.

At the national level, the NSMNE is well diversified and has made notable contributions to the economic development of Nigeria. It is listed in the Nigerian Stock Exchange (NSE) and operates subsidiaries at the national level. These are engaged in various activities including assets management, insurance services, capital market operations pension fund management, trusteeship, microfinance banking and private equity, and venture capital. Within its core business, the enterprise engages in retail businesses, private, institutional and corporate business activities. Through the diverse nature of its business engagements, it has been able to derive product penetration and to develop expertise in customer relationship management, suitable for its operational environments.

The NSMNE is a "full-spectrum" financial services provider, a conglomerate whose operations rank among the most diversified in the African continent. As mentioned above, besides it core business, it has other finance-related businesses that are operated by several home based subsidiaries. It also has international subsidiaries. For the purpose of this study, the focus is on the core business of the enterprise, which is the provision of financial services. The focus is further narrowed to the headquarters in Nigeria and the UK subsidiary. The organisational structure that is described and presented in this study has also been limited to the focus of this study.

The organisational structure starts with the board of directors at the head. In line with the Central Bank of Nigeria (CBN) requirements for organisations in the Nigerian financial services industry, the board of the NSMNE is composed of not more than twenty executive and non-executive members. Non-executive directors of the NSMNE are appointed for an initial term of three years. They can be re-elected for a maximum of two subsequent terms of three years each. Their re-election is subject to satisfactory performance and approval of the shareholders. Thus, the maximum tenure a non-executive director can serve is nine years and is subject to a retirement age of 70 years. However, a person may be appointed notwithstanding that s/he is 70 years or more of age. This is subject to special notice requiring a resolution appointing or approving the appointment of such a director. The notice to be given to the group shall state the age and the director(s) that it relates to.

The CBN criteria for the appointment of non-executive directors also ensure that two-thirds of the directors are non-executive members. This requirement is aimed at creating a platform for deliberation and to ensure that adequate consideration is given to decision-making. The situation creates a balance of power within the board and ensures that members do not wield such powers that will influence the balance of decisions made. The board also chooses its

members based on a recommendation from the Nigerian Security and Exchange Commission (SEC), that consideration should be given to diversity and gender in the appointment of members.

Executive directors, on the other hand, are appointed for an initial term of three years. Their contracts can be renewed for another three years based on their performance as reflected in their annual performance evaluation results. Executive directors whose performance is deemed exceptional may, however, be granted a waiver of the tenure limit by the board. Such events require formal justification and unanimous approval of the board.

The Board sets the direction of policy and controls. Its primary responsibility is to ensure that appropriate practices, systems and controls are put in place to manage the NSMNE. It also ensures that decision-making is tailored towards the creation of value for shareholders and to protect the assets of the enterprise. On a quarterly basis, the board monitors the performance of the enterprise, and is responsible for planning succession.

The Board delegates its powers of control to the Group Managing Director (GMD)/Chief Executive Officer (CEO), and Executive Committee of the enterprise for management purposes. The Executive Committee is chaired by the GMD, who, along with the committees' members, is charged with the management of the organisation's activities on a daily basis. The GMD may also sub-delegate the powers bestowed on him/her to other members of the executive management team, as deemed necessary. The GMD, the Executive Directors and Executive Vice Presidents comprise the Management Committee, which oversees the management of the daily affairs of the enterprise. The Executive Vice Presidents have equal responsibilities as the Executive directors, except for Board functions.

The GMD and other executives, who could have responsibilities sub-delegated to them for management purposes, are referred to as operational managers. They execute rules and controls that have been agreed and approved by the Board. Thus, the organisation operates a hierarchical structure that flows down from the Executive Committee members to the Group heads, Regional Managers, Area Managers and Branch Managers.

4.8 Challenges of exploring the institutional environment

MNEs face multiple institutional environments, each of which presents unique challenges (Kostova, 1996; Kogut, 1991). Institutional theorists have suggested that MNEs are shaped by the characteristics of their institutional environment, among other factors. According to Kostova and Zaheer (1999), the institutional environment comprises the regulatory, normative and cognitive domains. These domains of the institutional environment, their composition and requirements vary across national environments.

Most countries, for example, have specific rules and regulations guiding business operations which are unique to the country, since rules and regulations are often the outcome of local political processes created by governments and their agencies. Likewise, the cognitive and normative institutions, that is, the shared social norms, beliefs, social knowledge and values, are typically held within national borders. These elements of the institutional environment are shaped through educational systems and the process of social interaction.

The Nigerian institutional environment presents various research challenges. Significant among them is access. Access to data remains a major challenge. While this may be common to LDCs, there are specific challenges common to the Nigerian environment. Nweze (2001) argued that the Nigerian institutional environment possess various challenges to sourcing data. He argued that improper record keeping, a lack of, or ineffective, legislation governing

data protection and accessibility and misconceptions about research are some of the challenges posed by the institutional environment.

Where data is available, there is the issue of correctness of information. This is important, because correctness of information increases its accuracy; however, most people are apathetic about giving away personal information about themselves and their businesses to government officials or institutions that may hold this sort of information for the purposes of research. While some of the reasons for this may be cultural, there is also a trust dimension.

The long struggle with corruption has created an atmosphere where there is a lack of trust within the polity. The activities of the Nigerian government and government agencies have created a negative perception and suspicion of most policies and programmes developed by government among the citizens. Regulations and policies guiding business operation are in most cases perceived to be in favour of the political class and not in the interests of the populace. The capacity of government to effectively formulate and implement sound policies is also questioned by most Nigerians. This makes it important to understand the way in which the actors involved in this research make sense of the various elements of the institutional environment. Hence, interviewees' view of the institutional environment is an important element of the research methodology of this research, and is taken into cognisance in discussing the context of the study in the next chapter.

Understanding the context of the research from the perspective of the interviewees sets the background and helps to explore, analyse and interpret the data collected for this research. It helps to gain insight and make sense of key issues discussed by interviewees in the course of the data collection. This is important, since it is argued that reality in qualitative research is constructed based on the meanings that social actors make of their social contexts (Saunders

et al., 2008; Smith and Ragan, 2005). In the next section, the data sources used for this study are discussed.

4.9 Data collection techniques

Data sources refer to the various sources from which data representing the opinions and experience(s) of research participants are derived (Cresswell, 2009). For the purpose of this research, data were collected by means of interviews, observation, documents analysis and informal discussions.

4.9.1 Interviews

Interviews are a means of eliciting information through verbal communication between an interviewer and interviewee(s) (Bryman, 2012). The aim of interview in social science research is to engage productively in discussion or dialogue in order to gain insights from interviewees, about a social phenomenon (Guba and Lincoln, 1994; Burrell and Morgan,1995). Interviewers have the advantage of direct contact with the interviewee(s), which may encourage probing into constructive suggestions made by interviewee(s) (Saunders et al., 2009). This leads to detailed information (rich data) being obtained, and fewer participants involved in the data collection process (Guba and Lincoln, 1994).

Social science scholars have identified three types of interviews: structured interviews, unstructured interviews and semi-structured interviews (Bryman, 2008). Structured interviews are usually associated with quantitative methods and are the primary instruments in administering surveys (De Vaus, 2001). Structured interviews are effective when the research goals are clearly identified and questions predetermined (De Vaus, 2001). Questions are usually framed as short and closed-ended, requiring precise answers. Critics of the structured approach of interviews, however, argue that there is the tendency for acquiescence

among interviewees, such that the responses may become irrelevant to the concept being measured (Bryman, 2012).

Unstructured interviews are sometimes described as qualitative interviews (Robson, 2002), and a key characteristic of unstructured interviews is flexibility (Robson, 2002). The interviewee(s) is allowed the freedom of deviating from the point of discussion, as more insights may be gained from such unplanned deviations (Cresswell, 2009). The emphasis is on the interviewees' point of view rather than on the researcher's concerns. Hence, there is the tendency to depart significantly from the originally planned schedule (Cresswell, 2014).

Semi-structured interviews combine both the attributes of the structured and unstructured interviews. That is, both closed and open-ended questions could be used in the course of the interview (Bryman, 2012). The interviewer prepares an interview guide with a set of specific topics to be covered in the interview, but the interviewee has a choice of how to reply to the questions (Saunders et al., 2009). The interviewer is not bound to administer the questions to the interviewee in the order that questions appear on the interview guide.

The semi-structured interview is the technique employed in this research. The semi-structured interview method gives flexibility to the interview process (Bryman, 2008). It keeps the interviewer focused and is useful in ensuring that the interviewee(s) stays within the bounds of the issues that are considered pertinent to the research without necessarily restricting them. The technique of data collection enables the researcher to collect rich data through the process of probing to gain a comprehensive understanding of the phenomenon being studied (Saunders et al., 2009

Focus group is a kind of interview, which, as the name implies, is focused on engaging a group of interviewees in group discussion rather than engaging them on individual basis (Matthews and Ross, 2010). Questions could be structured, semi-structured or unstructured.

The emphasis here is on having the different views of members of a group on the subject matter of the research investigation, at the same time (Robson, 2002). However, focus group discussion has not been used as a technique to gather data for this research. This is because the operating environment and the arrangements made with participants that ensured their duties were being performed by colleagues while they took part in the research. In the next section, observation is discussed as another technique of data collection used in this research.

4.9.2 Observation

Observation is another source of rich data and enlightenment on social phenomena for the qualitative researcher (Cresswell, 2014). Saunders et al. (2009) suggest that observation is useful to gain insight into social phenomena when the research question(s) and objectives are concerned with people and what they do. Observation involves "the systematic observation, recording, description, analysis and interpretation of people's behaviour" (Saunders et al., 2009, p.288).

There are two types of observation: structured observation and participant observation. Structured observation is associated with quantitative research and involves observing the frequency of actions or events (Myers, 2013). On the other hand, participant observation is qualitative in approach, and involves the researcher discovering the meanings that social actors attach to events and actions (Saunders et al., 2009). In some instances, the research question(s) may require the combination of both structured and participant observations.

4.9.3 Documentary Sources of Data

The analysis of documentary sources of evidence constitutes primary sources of data for qualitative research (Patton, 2005). They are also secondary sources of data in their own right (Bryman, 2008). Sources of documentary evidence include: minutes of meetings, transcripts of speeches, journal and magazine articles, newspaper publications, diaries, notices and

correspondence and reports to shareholders (Saunders et al., 2009). Non-written materials could also constitute documentary sources of evidence (Bryman, 2008).

Robson (2002) identified films and television programmes, databases of organisations, voice and video recordings, drawings, and pictures among non-written sources of qualitative data. Bryman (2008) suggests these sources of data augment other sources of evidence, and may explain with more clarity the reason(s) why certain actions were taken. While Cresswell (2014) suggests that documentary sources of data are more stable and could be reviewed repeatedly, online sources of documentary evidence may be unstable, as they may be updated, modified or removed.

4.10 Research procedure

To carry out this research, a period of about 4 months was spent sourcing for evidence at the Nigerian headquarters and UK subsidiary of the NSMNE. Data was collected from branches, areas and regional management levels, and head offices at the headquarters (in Nigeria) and the UK subsidiary office in London. Consultations were made through contacts in the NSMNE and by formally writing to the management of the NSMNE to inform them of the desire to study the organisation as a case study on understanding how the differences in institutional environments can shape the headquarter-subsidiary relationship of the MNE. The letter to management contained explanations of the purposes for the conduct of the research, and the key facets of organisational activities that were involved in the research. The nature of organisational personnel that would be involved, documents that may be required from the organisation for the purpose of analysis and how access could be obtained to such documents were corresponded in writing. Issues about documentation of research findings and means of data collection (including permission to tape record interviews) were negotiated. Prior meetings were arranged with the management of the organisation to explain

the benefits of the research. Agreements were also reached on the appropriate timing for data collection so as not to disrupt or interfere unduly with organisational activities. Consultations were also made regarding publishing names or if anonymous positions were to be assumed.

The time spent in the organisation(s) was used to engage in the conduct of interviews, document analysis, as well as observations. NSMNE staff members working at various levels were approached for interviews and possible access to documentary evidence. An understanding of the role of staff, and an observation of reporting activities, were crucial in the selection of staff for interviews, since the interview process targeted the key decision-makers in the NSMNE. Access was requested from managers of different departments in the organisation, the directors they reported to, and any superior officer in the hierarchy that the directors may also report to. Negotiations for access to personnel were aimed at gathering relevant primary data that would give an understanding of how MCSs are designed and used, and whether they impact the headquarter-subsidiary relationship.

In some cases, staff members were put forward by their colleagues as being in a more appropriate position to answer certain interview questions. Staff position in the organisational hierarchical structure and the relevance of the subject of the interview to their job functions, were reasons for such suggestions. All participating staff members were informed in clear terms that they have a choice in deciding to participate or withdraw from the research. Reason for withdrawal varied, examples of which include: where participants in the course of the research feel pressured, uncomfortable, threatened or consider their participation a risk to their jobs. Agreements were also reached with participants about the appropriate time(s) and location(s) for meetings, discussions and interviews.

The semi-structured interview technique and informal discussion were used to collect interview data. Staff that were not occupying managerial positions were also interviewed. A similar set of questions that were employed in the interviews with directors and the managers

115

were asked, but with variations to the structure of questions, in other words, to fit their job descriptions. This gave an understanding of staff's impact on the organisation, and how that shapes the design and use of MCSs. It also helps in understanding the relationship between the headquarters and subsidiary of the NSMNE.

Observations and document analysis were also part of the data collection. These were collected to support interview evidence. Budgets, annual reports, performance evaluation forms, and minutes of meetings were among the documents that are considered as sources of evidence for this research. A total of 35 participants were involved in the research. Out of the 35 participants, 5 were from the subsidiary, while the remaining 30 were interviewed at the headquarters. Data collection took place for 4months; 3 months were spent at the headquarters, while 1 month was spent conducting the research at the subsidiary.

4.11 Research evaluation: credibility of research findings

Credibility is concerned with reducing the possibility of getting the wrong answers or drawing the wrong conclusions from a study (Saunders et al., 2009). Smith and Ragan (2005) argued that credibility relates to the philosophical underpinning of the research, and the perception of what constitutes reality. While it is argued that reality in qualitative research is constructed based on the meanings that social actors make of their social contexts, Saunders et al. (2009) argued that to reduce the possibility of reaching a wrong conclusion in a study, attention must be paid to the validity and reliability of the research design.

Validity and reliability are key attributes of quantitative research that must be given adequate consideration in the design and conduct of research (Cresswell, 2009). Validity is the extent to which the data collection method(s) accurately measure the phenomena they were intended to measure. Reliability, on the other hand, is the extent to which the techniques used for data collection will produce consistent results (Saunders et al., 2009). Validity and reliability are

important to the standardised approach that the quantitative researcher seeks when designing research instruments.

Cresswell (2014), however, noted that the terms validity and reliability do not carry the same connotation in qualitative research. He explains validity in qualitative research as the accuracy of the findings that are reported in a study, while reliability refers to transparency in the way the researcher makes sense of the raw data that was collected (Saunders et al., 2009). Generalisation is an aspect of validity that is external. It is concerned with whether the results of the research could be generalised or replicated with similar results in other organisations (Bryman, 2012).

Robson (2002) suggested that there could be some threats to validity and reliability. One threat to the validity of a study could be participants dropping out of the research. Another threat is the possibility of events and happenings that may result in changes in management style, and subsequently lead to different results (Saunders et al., 2009). Furthermore, organisational policies may become operationalised in a way that affects the phenomena being studied and the resulting conclusions that can be drawn (Bryman, 2012). Participant bias, errors in observation and participant error are other threats to the reliability of research findings (Cresswell, 2009).

In this research, reliability and validity have been checked through the triangulation of data. The qualitative approach that is adopted in this research helps to facilitate triangulation, in terms of the sources of data, the methods of data collection and the types of data collected.

The use of interviews as a data collection method in this research means that the likelihood of questions being misunderstood by interviewees is greatly reduced. This is because the interviewer is able to rephrase a question, explain it or repeat it in such a way that the interviewee is able to understand, where this may be a problem with other methods such as

the use of questionnaires. Specifically in this research, interview evidence was validated by documentary sources and verified using the responses (on similar topics) of other participants, thereby providing stronger evidence for the conclusions reached. Interview responses were compared against analysis from archival sources such as minutes of meetings, employee handbooks and performance evaluation reports to provide evidence and corroborate the findings from the interview process and address the issue of the validity and reliability of data. Another way in which reliability and validity have been checked is by having participants check the findings, interpretations and conclusions that have been reached by the researcher.

This has been done based on a suggestion by Cresswell (2009). In doing this, along with the other parts of the research process, the researcher ensured that ethics and ethical considerations were at the heart of the research. In the next section, ethical considerations that were made prior to and in the course of this research are discussed.

4.12 Ethical considerations

Ethics are concerned with the appropriateness of the researcher's behaviour regarding the rights of the subject(s) of the research, and other people who may be affected by it (Saunders et al., 2009). Ethics in research relate to the design of the research, negotiation of access, collection, processing and analysis of data (Saunders et al., 2009). They are also concerned about how data is stored and for how long (Robson, 2002).

General ethical issues in qualitative research are issues of privacy of potential and actual participants, and whether participation will be voluntary, with the participants having the right to withdraw from the research at any point during the course of the research, with no obligation to give reasons for withdrawal (Cooper and Schindler, 2008). Ethical considerations are also made to ensure that participants are not deceived into participating

(Bryman, 2012). Whether participants will be identified in the research is another ethical issue that has to be considered in the research (Robson, 2002).

The ethical standing of the research was agreed with the University ethics committee before any interviews were conducted. In this research anonymity has been agreed with participants. Care has also been taken to ensure that the participants are not harmed nor caused any pain and discomfort by the research (Cresswell, 2014).

All the ethical considerations mentioned above were taken into perspective during the design of this research. Cooper and Schindler (2008) argued that giving due consideration to ethical issues at the design stage of a research study is crucial to the appropriateness of the research design. Efforts were made to ensure that there was informed consent on the part of participants, especially from the gatekeepers (Saunders et al., 2009). This required formally writing to the NSMNE explaining the research, its objectives, potential participants to be involved and the likely risks that participants may face.

At the data collection stage, participants were informed of their rights to participate voluntarily and to withdraw at any point where they felt threatened or perceived participation would cause them harm. They were also informed that they had the right to ask for the 'just-conducted' interviews to be excluded from the research, in case of a change in the decision to participate. Before the start of any interview sessions, information about the study and ethical issues were read out to participants. Those who chose not to participate after their rights were read out to them, were not coerced to take part in the research, neither were they treated unfairly as a result of exercising their rights. All data used for the purpose of this research were obtained through informed consent and voluntary participation of participants.

4.13 Data analysis

Interviews were tape-recorded, in cases where participants gave their consent for recording to take place. Where participants objected to being tape-recorded, notes were taken down during interviews. Partial analysis of the data collected early in the empirical stage was started while more data was being collected. This was done to enable an understanding of the key issues arising from the process that may not have been put into consideration in the initial design of the data collection instruments. Analysis at the initial stage was focused on the notes taken and not recorded interviews.

The actual analysis of data was a five stage process. The first stage involved transcribing the tape-recorded data from the empirical process study. The second stage involved reading through the data and making notes to aid easier coding. The third stage was the coding of data. The NVivo software was used for this process. Data coding followed an open coding process, that is, key themes upon which the interview guide was design were used to form the structure (parent nodes) for the NVivo codes.

Nodes in NVivo refer to the collection of references about key themes of the research, like the institutional environments and management control systems (Cresswell, 2014). Nodes are germane to understanding the working of the NVivo software. They let the researcher group related material in order to look for emerging patterns and ideas. During the coding process, emerging themes that did not fit into the initial classification of nodes were set up either as sub-nodes of existing nodes or as parent nodes in their own right. However, not all the data collected during the empirical study could be fitted into nodes. Cresswell (2014) argued that qualitative data are "so dense and rich, not all of the information can be used in a qualitative study" (p.195). Hence, only information relevant to the subject of the research was coded. Figure 4.1 illustrates the nodes and sub-nodes used for the coding process.

The fourth stage involved interrelating the themes that emerged to generate a "picture" of what the empirical data was revealing about the case study. The analysis at this stage was crucial to the narrative of this research. The fifth and final stage involves extracting meanings out of the findings. This required making notes of what the research was revealing that is different from previous studies in the area of research. Following the process outlined above, the writing-up stage of the research commenced.

4.14 Chapter summary

This chapter discusses the research methodology and methodological issues that formed part of the empirical data collection process of this research. The discussion explains the different philosophical paradigms from which a research might proceed. The intention is to demonstrate the awareness of the differences in paradigms and to support the choice of the techniques adopted in this research.

The chapter suggested that choice of a particular methodology is dependent on the philosophical assumptions underpinning the research questions and research objectives. With this in mind, the chapter argued that the study of MCS requires an in-depth case study approach capable of capturing the complex relations between MCS and the environments of the MNE. Cooper and Morgan (2008) noted that the case study research design is suitable when examining phenomena where context is important. Furthermore, Van Triest and Elshahat (2007) reported having initial difficulties with a survey approach in the study of management accounting and control issues in Egyptian companies. They suggested that the case study approach is more suitable for studies in LDCs where respondents are often unfamiliar with the terminologies used in research instruments.

Although the case study approach adopted in this research is limited in its ability to generalise findings, it was argued in this chapter that this was not the intention of this study.

Based on suggestions in the literature, it is expected that the NSMNE which started its operation in an LDC and expanded to a developed country would provide rich and interesting data suitable for an interesting case study. The research methods suggested that the data triangulation method should be used to improve the validity and reliability of the research findin

Chapter Five

The Institutional Contexts of the Case Study

5.1   Introduction

This chapter discusses the institutional contexts of the case study, from the perspective of the interviewees. It examines the institutional pressures posed by the contexts and the various ways they exert pressure on the case study. Pressure is exerted through the coercive force of regulatory institutions, normative forces that guide action and from the cognitive forces that influence the way actors make sense of social reality and interpret their world (Kostova et al., 2008, Phillips et al., 2009).

The chapter is structured into two sections. The first section discusses the Nigerian context including the Nigerian local cultures and their influence on organisational practice, religion and religious beliefs, corruption and fraud and lack of security. The second section discusses the United Kingdom along the lines of culture, religion, corruption and security to allow for comparison. The last section is the Chapter summary.

5.2   Nigeria

What constitutes present day Nigeria started with the creation of a consulate for the Bights of Benin and Biafra (present eastern Nigeria) in 1849 by the British for trade purposes. It spread further towards the Lagos lagoon area and its environs (present day western Nigeria), in 1861 (Falola and Heaton, 2008). The influence and control of Britain over Nigeria grew over the nineteenth and part of the twentieth century. The Northern Protectorate was established in 1903 and became amalgamated with the Sothern Protectorate (colony of Lagos and the Bight

of Benin and Biafra) in 1914 (Federal Republic of Nigeria, 2013a). Nigeria became independent from colonial rule in 1960 and a republic in 1963, but the influence from Britain remains quite strong.

Nigeria inherited a Westminster style of government when it gained independence from Britain in 1960. However, this was replaced during the "second republic" of 1979 to 1983 with the American system of government, which has remained in place since the return of democratic rule in 1999 (Ijeoma, 2002). The existing presidential system of government adopts a bi-cameral legislature that comprises an upper and lower house (the Senate and House of Representatives) at the federal level. These two houses are intended to create a balance of power in the system at the federal level. There is a state level for which governors are elected for each of the 36 states. A state house of assembly comprising elected members from the various constituencies has the responsibility of ensuring a balance of powers at the state level (Idugoe, 2012).

The lowest level of government in Nigeria is the Local Government Council. Executive power at this level rests with the chairman, assisted by a vice-chairman, and supervisory councillors, while legislative functions are meant to be performed by the councillors, who represent the wards which make up the Local Government Area (Awotokun, 2005, Idugoe, 2012, Innocent, 2011). The chairman and councillors are normally elected by popular vote; however, under special circumstances the chairman may be appointed. Nigerians also respect the traditional institutions that existed prior to colonisation. Various traditional and religious leaders are included and/or consulted in the political circle (Innocent, 2011).

Following independence, Nigeria was ruled by the military for 38 years between 1960 and 1998, interspersed with short periods of civilian rule. Independence came with the challenge of managing the differences between the diverse ethnicities that have been brought together

as a nation (Ijeoma, 2002; Falola and Heaton, 2008). It was further complicated by the fact that there was an uneven balance in the level of education and exposure to western culture prior to independence (Falola and Heaton, 2008). The young democratic government after independence was undermined by ethnic tension, agitation and vested interests, which resulted in a military coup that ushered in the first military rule in 1966 (Falola and Heaton, 2008). This quickly deteriorated into the Nigerian civil war between 1967 and 1970.

Nigeria was under military rule during the oil boom of the 1970s. The military administration did little to improve the standard of living of the people or invest in infrastructural development (Ijeoma, 2002, Innocent, 2011). A brief period of civilian administration (1979-83) was interrupted again by a military takeover, which was followed by many more years of military rule (Olotu and Ogunro, 2013). An outcome of the leadership instability was a culture of impunity, where bribery and corruption flourished while the people suffered (Innocent, 2011).

Nigeria is a country with diverse ethnic groups and cultures (Olotu and Ogunro, 2013). The predominant ethnic groups are the Hausa-Fulani, Igbo and Yoruba (Innocent, 2011). These major ethnic groups make up about 70% of the population of Nigeria, which is estimated at over 174 million (Central Intelligence Agency, 2013). There are 50 languages and over 250 dialects spoken in Nigeria. The English language is the official language of Nigeria and the most commonly spoken language, but most Nigerians speak more than one of the major languages, which include Hausa, Igbo and Yoruba (Federal Republic of Nigeria, 2013b). The next section discusses how the diverse culture impact organisational practices.

5.2.1 The Nigerian local cultures and organisational practices

Scholars have attributed differences in systems of management between developed and developing countries to differences in national cultures (Hofstede, 2001, Kogut and Singh,

1988). Culture is a peoples' way of life. Culture is defined as "a set of cognitions shared by members of a social unit" (O'Reilly et al., 1991, p.491). It encompasses the values and norms that are shared by a people.

Cultural issues are taken seriously in Nigeria and interviewees noted that observing the requirements of the local cultures are important to properly perform their jobs. From Nigerian traditional perspective, older people have the responsibility of care for the younger one(s), and the younger are expected to show respect to older people (Adeyinka and Ndwapi, 2002). This creates situations where some older customers expect staff to not only be part of a business relationship, but to also show concern for their wellbeing. An interviewee shared an experience as noted below:

> *"It is such that, they expects you to give her a call to find out how she is faring, and if the call is not made to her she will call complaining. I have become so used to prostrating or going on my knees whenever I visit her, that even when she calls on the phone, I find myself acting it out in her absence. It has become a reflex action. Even when she is overseas, she calls, asking why you have not inquired how she is faring over there. So she leaves her contacts whenever she is away and you just have to keep her happy by calling and showing her that you are not only interested in getting her money. You are inevitably co-opted into a relationship with her" (*BOM6).

Similar experiences were shared by interviewee (CS2) who noted that: *"… it is common among the elderly and rich customers. They assume that they deserve the same respect you accord your parents and could command it, it is the culture. It comes natural and I consider relating with them beyond the business circle a privilege for me. Some of them are very influential; a phone call from one of them may be all you may need to change a difficult situation. You know the way it works here (Nigeria)"*.

126

The notion of "kinship" is dominant in the Nigerian society. The family unit remains an important aspect of the cultures (Toyin, 2001), however, the practice of kinship is also prominent. Kinship is the extension of the responsibility of care to extended family members, a situation described as Nigeria's form of social security by Limbs and Fort (2000). In many cases the "responsibility of care" extends beyond family members to tribe and ethnic identities (Limbs and Fort, 2000). The responsibility to protect kinsmen poses a challenge to the formal systems and structures of controls in the organisation as discussed in Chapter 6.

Besides, the cultural diversity, customs and values of the Nigerian people make it challenging for organisations to operate in ways that support organisational objectives and also accommodate the diversity. In some instances, staff have to ignore established systems in order to satisfy the clients. A staff member noted that: *"Many of our clients still hold dearly to the traditional values of the local cultures and in dealing with them, you break whatever formal protocols or ways of behaviour that the organisation has outlined"* (BOM3). A sensitive part of the Nigerian culture is religion. Religion impacts not only on the behaviour of employees, but also on the design and implementation of MCS. The next section discusses religion and religious beliefs in Nigeria.

5.2.2   Religion and religious beliefs

Religion is an important aspect of Nigerian cultures. Two main religions are predominant across Nigeria; Christianity and Islam. Statistics suggest 45% of Nigerians are Christians, 45% Muslims and the remaining 10% comprise a mixture of indigenous religions (Olu-Adeyemi, 2012). The place of religion in the Nigerian society is such that it has been at the centre of ethnic and regional divide mainly between the largely Muslim north and Christian south (Olu-Adeyemi, 2012). In other cases, religion has been blamed as the main source of sectarian conflicts in Nigeria (ibid).

It is a common assumption among Nigerians that an individual should have religious affiliations (Innocent, 2011). Religious beliefs and affiliations have implications for the practices of the financial services industry. For instance, some religious practices forbid the payment of interest and engaging in other forms of transactions common to the financial service industry (Ijeoma, 2002).

In order to prepare staff for the challenges that may be encountered from religious issues, the organisation runs various staff training programmes and they are frequently reminded to be on watch for these issues as noted below: *"In order to ensure that issues relating to culture are respected and handled appropriately, we do series of trainings. Even within the branch, every morning, we have briefings where we remind ourselves of these issues. That is, issues on customer service, products, attitude, etc."* (BOM1). The next section discusses illiteracy and poverty which also impact the operation of the NSMNE.

5.2.3 Illiteracy and poverty issues in Nigeria

As a developing country, Nigeria is faced with many of the problems common to such countries. Prominent among these is the level of literacy. The United Nations Education, Scientific and Cultural Organisation (UNESCO, 2012) put the current literacy rate in Nigeria at 56.9%. This is supported by statistics from the National Bureau of Statistics following a National Survey on Literacy that was conducted in 2010. The level of literacy also varies across the six geopolitical zones and states in Nigeria. Lagos state, Nigeria's largest commercial city, for instance, had a 92% rate of literacy, while some states, such as Borno in the North-western part of the country, had a literacy rate as low as 14.5% (ibid). The literacy rate also varies according to level of development. Urban areas have an average rate of 74.6% while the rural areas averaged 48.7%. The male dominance in the Nigerian society is reflected in the relative average of male to female who are literate; 65.1% to 48.6%.

Interviewees argued that the low level of literacy was affecting the implementation of policies that the enterprise is required to follow. An interviewee noted that *"Customers' orientation and inability to come to terms with the changing trend in the industry is a big challenge. Because it is not making us implement the Central Bank of Nigeria* (CBN, main regulator) *policies effectively. As it is, we have no choice, but to just follow things slowly. Because you are dealing with people whose level of education is quite low. It is like you are operating at a higher level and the people you are dealing with are very low down there"* (AOM3).

Another interviewee cited a recent policy of the CBN, which was due to come into effect, and the challenges they encounter trying to get their customers come to terms with the policy. While the educated ones could understand the changes and the need for them, the less-literate/illiterate ones still could not come to terms with the policy changes and felt the organisation was being unnecessarily difficult by introducing those policies.

> *"For example, this cashless policy which has been on since the beginning of last year, I wouldn't imagine someone in Victoria Island who is not aware. But I still see people in my area who in spite of the jingles, and everything that is being done including sending out leaflets indicating when the policy will come into effect and the requirements from customers. Somebody will still come and say I want to transact a business of the nature that the policy is against. So it is one of the challenges, you might see someone looking smart and bright facially but not really"* (BOM4).

The issue of literacy among the customers does not only make policy implementation difficult, but also affects their understanding of "simple" practices that are normal to the business environment. For instance, courtesy demands that staff be polite to their customers and welcome them with a smile. However, an interviewee recounted an incident with a

customer where that gesture was misinterpreted. While this may be related to the personality or mood of the individual that was involved, interviewees noted that it is common for less-literate customers to misinterpret such actions. In another instance, a customer was reported to have wept bitterly because *"she felt that the staff who was counting her cash pull on the mask to cover her nose and mouth because she stank, whereas it is a requirement by the internal policy of the organization"* (AOM2). It took the manager inviting the customer to her office to explain that it was a normal practice and a requirement by the enterprise before the customer could be pacified.

Besides the effect that illiteracy has on the implementation of policies, it also impacts directly on the MCS as elaborated in Chapter 6. Illiteracy is closely related to poverty. A World Bank report on the assessment of poverty in Nigeria (1996), noted that "apart from regional characteristics, poverty is strongly influenced by education, age and nature of employment" (The World Bank, 1996, p.ix). It gave the statistics of the extremely poor urban and rural dwellers that only had primary or no education as 79% and 95% respectively (ibid). The World Bank linked the level of poverty to institutional, economic and socio-political factors and the ineffectiveness of poverty reduction programs. Amongst all these, corruption and mismanagement of oil revenue is ranked highest in the list of factors that are responsible for the high level of poverty in Nigeria (Aluko, 2002, Olu-Adeyemi, 2012).

The poverty rate in Nigeria influences the perception of wealth and the regard for the wealthy. An interviewee argued that the poor ethical values in Nigerian society are sustained by wrong attitudes and perceptions of wealth. That is why *"somebody may commit fraud and get away with it; they get celebrated. So our ethical value is an issue. Whereas in some environments it is an aberration to think fraud, here if you do fraud, you will be celebrated because money is the measure of everything. So the societal values are key issues"* (HIC).

5.2.4 Corruption and fraud

Corruption is one of Nigeria's biggest challenges (Olu-Adeyemi, 2012, Olotu and Ogunro, 2013). Corruption in the Nigerian public service is traced to the inception of modern public administration during the colonial era, but the discovery of oil and gas has been blamed for it becoming endemic (Innocent, 2011). According to KPMG's Africa Fraud Barometer (2012), Nigeria, Kenya, Zimbabwe and South Africa are responsible for 74% of fraud cases in the continent. It also noted that, government officials and top management staff of private enterprises were among the worst perpetrators of fraudulent activities in Nigeria. The statistical breakdown of those who commit these offences put the government officials at 18%, business people at 15%, employees at 14% and remaining 53% by other perpetrators (KPMG's Africa Fraud Barometer 2012, p.2). It further identified fraud in industries and sectors as follows: Government at 55%, Financial Services at 18% and Consumer Markets at 7%. (p.2).

The report also attributed the persistence of fraud in the Nigerian society to a weak legal system. A Punch Newspaper report, quoting the Head of Risk Consulting of KPMG Nigeria, suggests that, while there have been several prosecutions, the cases end up with a plea bargain or are closed without conviction (Randle, 2012). This suggests the non-existence of punishment for those caught.

Interviewees lamented that the issue of corruption and fraud is a major challenge to business operation in Nigeria. They argued that there is no way the issue of corruption, especially in the Nigerian public sector, can be ignored because it has a direct effect on their operations as reported below:

> *"Take for instance, January 1ˢᵗ 2012, the federal government announced that they*
> *are going to remove subsidy from oil, and they listed what they will do with the*

money and why they feel removing it is necessary. People went on strike for some days and it was reversed from an initial 146 naira per litre to 93 Naira. Do you know the money that the government has been able to save between that January and now [April, 2012], *which they claim is over a trillion Naira has now been spent by some people (government officials), that is the money that they claimed was meant for infrastructural development. So if you look at it from top, down, it is the same thing everywhere. So you begin to wonder, how are we going to get out of this mess? And there is no way that the performance of those in government or public sector will not affect the performance of the private sector. We can't rule it out as we cannot work in isolation*" (BOM1).

An interviewee recounted a story as an example of the failure of the Nigerian systems to protect private enterprise from fraud. The case involved a customer who was issuing cheques to her creditors when she had no money in the account they were supposed to be drawing their money from.

"It happened a number of times so we called her for a chat to say that we have seen that cheques are being used against our terms and conditions, we asked her, what is the problem? And there is no money in your account. We ordered her arrest and she was taken to the police station, but, do you know that she came back here that same afternoon to meet with my head of customer service to say that, did you people think I am going to sleep there? So what is wrong with issuing dud cheques? Meanwhile, it is a criminal offence to do that. What I am trying to say is that there are some things that we do that we think is a norm, people do it and they get away with it because the law is not there to hold them. That is why I say, is it the culture, or the leadership or the combination of the two? And it's been going on for long" (BOM2).

132

The common occurrence of fraudulent activities was witnessed during one of the appointments with an interviewee. It happened that a customer had invited a business partner to a branch of the NSMNE to effect a transaction. The transaction involved the exchange of US dollars for naira (the local currency), but the customer became suspicious when the business partner suddenly had a change of mind after agreeing the exchange rate and receiving the US dollars from her.

The story, as was later related, was to swap the real US dollar bills, that the lady had given to the business partner, with counterfeit US dollars, that the business partner brought with him when he was invited. That was despite the fact that the lady had invited him to the organisation thinking it would be safer for her to do business within the confines of the enterprise. The interviewee noted that "*such experiences are not unusual occurrences* and that *similar pranks have been used to defraud customers under our nose*" (AOM3).

While it could be argued that no country is completely free from the issues of corruption and fraud, the prevalence of these events varies. More sophisticated techniques and schemes or disguises may be used in the UK especially with the use of technology. However, they are actively investigated and culprits are punished appropriately, unlike the Nigerian system, as noted by an interviewee:

"*in advanced countries (UK, USA etc.), if you commit fraud, even if you steal a coin, the system will so stigmatise you that you will not think of doing it. You see the Ibori's case (Nigerian ex-governor convicted in the UK for fraud and money laundering), this man was acquitted of 151 count charge by a court in Nigeria, the person went to the UK, he is imprisoned*" (HIC).

The position of interviewee HIC was supported by another interviewee, who argued that the experiences they encounter, and the risk posed to business operations, would most

probably not be the case in the UK and other developed countries. The interviewee noted that:

"*The risk is very high, particularly for Nigeria, because of our kind of setting. You know our own people; I will say Nigerians are peculiar people, peculiar in the sense that where money is involved, a lot of negative things do happen. And on this job, we have seen a lot of things that you wouldn't see happen in other parts of the world like in developed countries. I am not saying there are no crimes in these developed countries, or that there are no fraud cases, but the kind of things we see on a daily basis is really scary. You really have to be on top of your job and have to follow strictly what the policy* (internal policies) *says otherwise you fall prey*" (AOM1).

The next section discusses the lack of security and crime as other environmental factors that impact on the NSMNE.

5.2.5   Lack of security and crime

In addition to the challenge of corruption and fraud, Nigeria is also plagued with the issue of insecurity. Aluko (2002) linked the lack of security in the Nigerian polity to corruption, fraud, poverty and illiteracy. He condemned what he described as "the institutionalization of corruption" in Nigeria arguing that it has led "to an overall change in the value-system and norms of behaviour in a society" (p.393). He advocates a new social order that promotes the tradition of integrity and moral virtues and challenges the Nigerian government to take responsibility for educating and sensitising the citizens in this direction.

Besides the lack of security that threatens the Nigerian polity, enterprises within the Nigerian financial services industry are targets for criminal activities. Crimes perpetrated against these establishments and their staff vary from armed robbery, to kidnapping and to activities of non-conformists (Area Boys). Area Boys are jobless individuals who organise themselves

into gangs and are involved in acts of extortion and other crimes, including pretending to be police officers on the roads. Staff of the enterprise, who are perceived as well-off, are usually targeted by these groups. The female staff feel particularly vulnerable, as noted by an interviewee.

"We are in a state of insecurity in this nation and the government of the day cannot curtail this. Even though there are no bombings in Lagos, still the security threats are very high. You see people on the road wearing police uniforms and they are not really police officers. Somebody will flag you down in your car and point you to park, but they are robbers in police uniforms. We ladies are even more vulnerable to these criminal acts" (BOM7).

The gangs also engage in other forms of criminal activities that target the business of the enterprise. Some of them, rather than use their skills to better their fortunes in a positive way, use such skills to engage in internet and other electronic crime aimed at stealing from businesses. An interviewee explained their activities in the following words:

"Let me give you a scenario, we have some young chaps around this vicinity, they don't work, they just idle about during the day and at midnight, they sit with their laptops and begin to check for information, and they come around here and pick money, go to outlets and do a lot of things, we call them YAHOO BOYS, even when you get them arrested and take them to the police station, the police release them, and they even come back to challenge you.... It is in the system and it runs through the cadre" (BOM5).

Staff reported that they make personal efforts to develop some sort of relationship with the *gangs* that control the areas in which the branches are located. Staff, mostly managers of

branches, pay them some fees for protection and to dissuade members of their group from attacking them and the business. This act suggests that rather than fighting against the activities of these groups, they have been accepted as a norm in the Nigerian society, such that they even play key roles in deciding the outcomes of elections, especially at the local government and state levels of government.

5.2.6   The influences of Nigerian institutional environment on perception and attitude

Subtle features of the environments which are often "taken-for-granted" are powerful elements that define the society (Delbridge and Edwards, 2007, Lounsbury, 2007). Observations indicate that superstitious beliefs associated with African traditions are elements of the environment that affect business operations in Nigeria. They are culturally supported but vary across the cultures. They become problematic when different cultures clash and produce "culture shock". This was the case during the data collection for this research, when a member of staff refused to take some bitter kola (Garcinia Kola) from a colleague, who wanted them taken into the office while he attended to a customer outside.

Bitter kola is the seed of a flowering plant in the guttiferae family. It is common in West Africa, where it is considered to be of medicinal value and used in some cultures to perform traditional religious rituals. On this occasion, the staff member that had brought the kola had been unaware of the cultural orientation of his other colleague. Bitter kola to the staff that had brought them was nothing more than a fruit, but was vehemently objected to by another colleague because in his traditional beliefs, handling bitter kola in the morning brings misfortunes. He accused his colleague of wanting to "spoil" his day by bringing that to him in the morning. However, the staff member who had asked for help was dismayed at his behaviour and was displeased by his reaction; noting that he had no understanding that "*simple bitter kola could cause that kind of reaction*" (RM3).

The perception of wealth is another cultural-cognitive element in Nigerian society. While wealth could be displayed in various ways, the display of wealth in cash is appealing to Nigerians (Oluwabamide, 2003, Toyin, 2001). It is common practice among Nigerian cultures for the social status of people to be measured by how much wealth in cash they possess. Among these cultures, such individuals have a special place in society and are often honoured with titles. They show-off their wealth during celebrations by throwing wads of notes (Naira notes and dollar bills) on celebrants and are highly revered for these acts. Ifedigbo (2012) argues that *"misplaced priorities and the worship of wealth are twin evils exhibited in our elaborate ceremonies which have caged us as a people and are responsible for the erosion of morals; as evidenced by corruption, armed robbery, kidnapping, ritual killings and other related vices"*. The cultural acceptance of this way of life is argued to have influence on the "*get rich quickly and by all means attitude*" that is common to the Nigerian society, according to AOM6.

This perception of wealth according to an interviewee is a major issue that affects their business operation: *"The cultural orientation of wealth display also hampers our activities, because their perception of how a business should operate is a cash and carry thing. An average business man believes in the cash, no matter how you do it, they want to have the cash and show it off, it is not just those in Lagos, it is a tradition. They believe much in cash, they can afford to do business in large volume but they are ready to do it with cash; so that cultural background is an issue"* (BOM6).

The influence of wealth is so powerful that cultural norms could be disregarded when the situation relates to a wealthy individual. For example, Nigerian cultures generally frown on calling an older person by her/his first name. However, it is condoned or completely ignored where wealth is involved. It is not unusual to find a reversed cultural practice, where an older person addresses the younger by whatever name or title that the wealthier prefers. Praise

singers (entertainers) take special cognizance of those who are wealthy, singing praises and pouring accolades on them without minding the source of the wealth. In Nigeria, money influences attitudes and behaviours of people.

Another element of the Nigerian society that is accepted culturally is the perception that people could plead their way out of situations, or that there is an inherent obligation to forgive (Egbe et al., 2012). This places staff that have to make decisions regarding subordinates in difficult positions. Nigerian society condones the act of pleading for offences, and those who dare to differ are "*seen as being stringent or tough*" (BOM3). However, in order to safeguard their jobs, staff stand their ground against societal beliefs and prefer to be seen as the odd ones. This was the situation an interviewee found herself in when she had to prepare a letter for a staff member who had committed an offence:

> *"I am trying to prepare his letter, but I don't know what to write, we had an issue. A staff in one of the branches was trying to be fast on the organisation (defraud), but we noticed it in time and adverted the damages that would have been caused; now they are all over me begging. You know the system. But we have to stand our ground here, because if we don't, it will affect other people"* (AOM3).

In addition to the institutional environment influence on the perception and norms, environmental factors also shape policies and laws. How environmental factors influence policy decisions and impact organisational practices is discussed in the next section.

5.2.7   Nigerian government policies and law

Government and governmental institutions make policies that shape business operations within the environment. The rules and policies of government are thought to be in the interest of the people - the electorate. However, the Nigerian electorates feel the governments never

have their interest at heart when rolling out policy reforms, but are only there to satisfy their interest (Iroghama, 2012). An interviewee supports the assertion noting that: *"There is no trust for the leadership, so anything they bring out, any policy becomes suspicious. You won't blame people though; it is like the government has an ulterior motive for introducing any policy at any time. Not until when we have a leader that can convince people that she/he is there to fight for their rights then trust will return"* (BOM5).

Gradual reforms are being implemented to establish the Nigerian economy as a market-based economy. Such efforts have resulted in privatisation of the only government-owned petrochemical company and the selling of government stakes in eight other companies to make them more efficient (FGN, 2013). Nigeria also implements the common external tariff agreed by the Economic Community of West African States (ECOWAS). Efforts have also been made towards better accountability, with Nigeria signing-up to the International Advisory Group of the Extractive Industries Transparency Initiative (EITI). An Economic and Financial Crimes Commission (EFCC) was also established to tackle corruption and other financial crimes in the country. These reforms are shaping the Nigerian business environment in various ways, including boosting investors' confidence and increasing the place of Nigerian businesses in the global arena (The World Bank, 2013; Okonjo-Iweala and Osafo-Kwaako, 2007).

Enterprises have to contend with policies and rules such as state laws and local government laws, but these are general laws that affect almost all businesses. However, policies and the reform agenda of government are accepted with scepticism. This is because, in many cases, the reforms are made too fast and without adequate consultation with stakeholders. This brings with it challenges for the enterprises that have to implement them as reported by an interviewee: *"other challenges could be attributed to government policies - regulatory body, people are not getting in tune with some of the policies they are rolling out. The recent*

policies from the regulatory authority have been met with a lot of scepticism, but the regulators are not bothered. They are coming too fast on it and before even rolling out the full policy, businesses are already being affected. That begs the question, are these policies actually in the interest of businesses?" (BOM3).

The mistrust for policy makers, and whether the policies are in the interest of businesses, is partly due to the corruption reported earlier. The public has often been made to believe policies made are in their interest, but come to discover with time that the intentions are not genuine (Iroghama, 2012).

Furthermore, interviewees suggest financial services enterprises are wary of the policies of the main industry regulator – the Central Bank of Nigeria (CBN). They cited political interference as a major concern. The next sections discuss the CBN as the main regulator of the financial services industry in Nigeria.

5.2.8   The Central Bank of Nigeria (CBN)

The CBN, according to information placed on its website, was the outcome of a colonial era enquiry that investigated banking practices in Nigeria between 1892 and 1952. The enquiry, which was led by G.D. Paton, produced the report that resulted in the first banking ordinance (Chibuike Uche, 2010, Chibuike Ugochukwu Uche, 1997). The aim was to ensure orderly conduct of commercial banking activities and to prevent the setting up of unsustainable banks. The Central Bank Act of 1958, and later the Banking Decree 1969, provided the legal framework for the CBN operations. In order to strengthen and extend the powers of the CBN, the Banks and Financial Institutions (BOFI) Decrees 24 and 25 of 1991 repealed the 1969 Banking Decree. The current legal framework upon which the CBN functions is the CBN Act of 2007, which repealed the BOFI of 1991 and accompanying amendments (Central Bank of Nigeria, 2013).

The CBN Act 2007 charged the CBN, with the responsibility "*of ensuring high standards of banking practice and financial stability through its surveillance activities, as well as the promotion of an efficient payment system*"(Central Bank of Nigeria, 2013)). The CBN is also charged with the responsibility of overseeing the development functions of the Federal Government of Nigeria in key sectors of the economy.

Monetary and international operation policies tailored in line with the core mandate of the CBN are used to exercise control over enterprises operating in the Nigerian financial services industry. The CBN make efforts to ensure that business is conducted according to the standards issued in its guidelines. The core mandate of the CBN allows it to perform the function of lender of last resort and financial adviser to the Federal government of Nigeria. It acts to maintain a stable and efficient financial system and safeguard the value of the naira. While the CBN mandate states its responsibilities clearly, interviewees argued that policies that are made by the CBN in most cases are not clearly defined. This leaves enterprises with the dilemma of applying the right interpretations of such policies, while implementing their own policies, as noted by an interviewee below:

> "*Many of the policies of the organisation have direct links with the policies of the regulatory body. At times you are to contend with some policies that are not too defined. Defined in the sense that you are expected to use your discretion to manage such policies, because the position of the organisation might differ a bit with the position of the regulators, so you are to balance the two to make sure that you do not contravene the policies of the regulators and at the same time, you do not incur penalties for the organisation you work for*" (ROM).

Added to the lack of clearly defined policy guidelines, is the risk of default. While sanctions are a way that regulatory institutions ensure that organisations being regulated by them

comply with the requirements, punishment could be applied selectively or unevenly. Rather than being a deterrent to organisations, they are sometimes politically motivated or intended to pursue other objectives of interest for some highly placed people. In the words of an interviewee *"there are laws for the rich and there are laws for the common man, there are also laws that apply to friends and those that apply to those not considered to be friends" (BOM1).* Hence, regulatory compliance risk is high if the enterprise and/or ownership are at odds with those who make the regulations.

5.2.9 The level of development of the policy-making bodies

Some of the issues and activities of the CBN could be linked to the level of development of the regulatory environment. The state of regulatory environment, and the effectiveness of policy-making bodies, is important to this study because it shapes the policy-making activities of the regulators (Child and Tsai, 2005). It does not only influence the kind of policies that are made by them, but also shapes the activities of the enterprises that implement the regulations.

The policy-making efforts of the CBN are directed towards Nigeria's development agenda and, as a result, are exposed to the developmental challenges of the environment. Significant efforts have been made to strengthen the financial services industry in Nigeria. This started in 2006 with a major overhaul of the banking sector; a reform process that saw the number of banks in Nigeria reduced from 89 to 24 (Adegbaju, 2008). Among the transformations that followed the downsizing of the number of banks was the minimum capital requirement of $190 million by banks and to have 40% of bank deposits as liquid assets (Iganiga, 2010). This was further reinforced when the CBN, on completing the audit of the 24 banks in 2009, discovered that ten of the banks were undercapitalised (Babeji, 2013).

To safeguard investors, the CBN replaced the management of the susceptible banks and injected more liquidity worth about $6 billion dollars into the sector. To further discourage the activities that were found to be responsible for the conditions of the failed banks, the names of loan defaulters (such as prominent politicians and business figures) were published by the CBN. This was an open confrontation with wealthy people who wield political power and influence, a move that won the CBN governor an international recognition as the best Central Bank governor of the year in 2011 (Emerging Markets, 2011). The policy efforts of the CBN with regards to the financial services industry have been focused on restructuring the system and closing loopholes that have been previously exploited by the management of enterprises. Policies aimed at cleaning up the financial industry and instituting systems that aim to fight the corruption prevalent in Nigeria are key to the CBN policy reforms (Babeji, 2013).

However, the CBN still lags behind when compared to regulators in more developed countries like the UK. The lag in development of the CBN policies and the Nigerian financial services industry are reflected in the "cash-light" policy of the CBN. While it is normal practice for transactions to be effected using electronic means in the UK and other developed countries, this is only being tried by the CBN, to the displeasure of many who are used to carrying their cash about. Like other schemes tried by previous administrations of the CBN, Nigerians are negative about the policy. An interviewee noted that: *"The belief is that it can't work. Most customers do not have an open mind to it. As soon as the decision to introduce a policy is made public, they started saying it can't work. So somehow, they have a biased mind towards the CBN" (BOM2).*

Besides the negative attitude of Nigerians to the CBN policies, interviewees also identified genuine reasons for people's scepticism over "cash-light" policy. For example, the policy is intended to ensure that transactions are traceable in order to deter inappropriate activities. But

very few Nigerians have access to the internet or are computer literate, and there is also the issue of power outage, which is a major factor that impacts the policy implementation.

The other concern raised is the regard for wealth, where those who are wealthy seem to be above the law. Previous experiences according to an interviewee indicate that:

> *"those formalities do not apply to some people, there are ways of going around these policies and those who make the policies even aid the process. So these policies in most cases are for the ordinary man. And in this case, the ordinary man may not be literate enough or have access to the internet that will make this policy effective, there is even no steady power supply in the country"* (BOM7).

However, the CBN efforts are intended to align its policies with international standards. It collaborates with other partners that share its developmental interest, such as the FSA, to drive its objectives with regard to policies that affect the international operation of Nigerian enterprises operating overseas. These understandings ensure that policies being made by the CBN incorporate not only international requirements, but requirements specific to countries like the UK where Nigerian financial services enterprises operate.

While the CBN is the key institution that makes policies that shape the activities of the NSMNE in Nigeria, the expansion of business across national boundaries also exerts international pressure on it. For example, regulations from the UK, where the NSMNE operate a subsidiary, also impact on its operation. This is discussed below.

5.3 The United Kingdom (UK)

The United Kingdom has had significant influence around the world. At the peak of the British Empire between the late 19th and 20th century, Britain had control over more than 25% of the world's landmass, making it the largest empire in history (Halliday, 2011). The

remnants of that influence are evident in several countries that were once under the colonial governance of the British Empire, like Nigeria.

The UK practices a constitutional monarchy, with the Queen as the head of state, and the Prime Minister as the head of government (Morrison, 2011). It founded and practices the Westminster system of government (Halliday, 2011). The Westminster system operates two houses at the legislative level, the House of Commons comprising elected Members of Parliament (MPs), and the House of Lords that is made up of appointed members. The Prime Minister emerges as the leader of the party that has the majority of seats in the House of Commons (Morrison, 2011).

With a well-established and stable system of government, British politics and policies at home and at the international level are still very important in promoting democracy and democratic values across the world (Risse-Kappen, 1997). The UK has held the position of a permanent member of the United Nations Security Council, from its inception. It is also a key member of the European Union (EU), the World Trade Organisation, the Commonwealth of Nations and the Organisation for Economic Cooperation and Development (OECD), among others (Morrison, 2011).

Furthermore, the British common law principles have become the applicable standard of legal practice in most of its former colonies and a point of reference in other countries, where democratic ideals of the nature promoted by the UK are lacking (Huntington, 1984, Lijphart, 1991). The separation of power between the judiciary, legislative and executive arms of government is important for the effectiveness of the system (Halliday, 2011). This system, which seems devoid of the interference of elected officials and public office holders, helps to curb inappropriate behaviours among people. While crimes and other unwholesome

behaviours like corruption cannot be totally eradicated, the structure of the UK systems helps to limit the rate at which they may occur (Oliver, 1997, Pinto-Duschinsky, 1977).

The presentation of the institutional profile of the two countries which are the contexts of this research reflects a contradiction. Understanding the institutional contexts of the research is important because institutional contexts shape social meaning and become reflected on how people make sense of social reality (Meyer and Rowan, 1977). As noted in Chapter 4, Scott's (2001) perspective on how institutions shape social meaning and exert influence on organizations is adopted for this study. Scott's perspective is suitable because the "institutional characteristics of a country reflect that country's environment in a relatively encompassing way, as they capture various aspects of the national environment including cultural norms, social knowledge, rules and regulations and others" (Kostova, 1997, p.180). The next section discusses the differences between the institutional environments of the research contexts.

5.3.1 Cultural influence from the UK subsidiary perspective

Modern Britain is very different to Nigeria. For example, while Britain is also a multicultural society, it is not formed around tribes in the same way as Nigeria. Rather, multiculturalism in modern Britain focuses on different races and minority ethnic groups (Koopmans and Statham, 1999, Kymlicka, 2003) The 2010 Ethnic Minority British Election Survey identified five main minority groups [Indian (Hindu, Sikh and Muslim), Pakistani, Bangladeshi, black Caribbean and black African (Muslim and Christian)] dwelling among majority White populations (Heath et al., 2011, Sobolewska, 2013). The position of modern Britain as a liberal democracy, and its leading role in the entrenchment of democratic values, has partly been responsible for the diversity of its ethnic representation (Bermeo, 2011, Huntington, 1984). An interviewee noted as follows with regards to the effect of the multicultural nature of Britain on the NSMNE: "*our society is multicultural, and that is reflected in our staffing.*

146

Here you have people from different countries and religions and even those who do not share the view of religious beliefs are all represented" (UK2).

However, there remains an ongoing debate about how well Britain functions as a multicultural society. For example, Palmer (2012) argues that multiculturalism has left a "toxic legacy" of division rather than integration. He suggests that values that should constitute the essential elements of the British society like tolerance, and the recognition of elections as the means of deciding those who should govern, have not been fully accepted by majority of immigrants.

Despite that, the British society encourages tolerance of different cultures and beliefs. That is, *"While people could express various beliefs and religious practices, it is the expectation of the society that these practices have to be done in a civilised way and where they fail to, the law is there to address them"* (UK1). There are acceptable behaviours encouraged in Britain, and people of all social status are expected to abide by them. To that effect, the flagrant display of exceptional treatment that the Nigerian wealthy or "Big men" receive may not be very common in Britain. The slogan *the "customer is king"* is highlighted by an interviewee as the basis for dealing with every customer (UK2).

Most customers who have lived in Britain and/or understand the British culture accept and operate under the norms of the society and do not demand more. This process of "acculturation" was recounted by an interviewee: "*One of our big clients from Nigeria came into my office, because I was raised in Nigeria and understand the culture, I greeted him as I would in Nigeria, but he stopped me saying: 'this is Britain, you don't do that here' with a smile on his face"* (UK4). Exchange of pleasantries and handshakes, where necessary, is a polite enough way to welcome a customer noted another interviewee, stating that "*there is obviously mutual respect that is expressed when we deal with our customers. We treat them*

with dignity and we do not expect less from them. I think it is not so dignifying that I have to get on my knees or prostrate to serve a customer, it is not a normal thing to do here (Britain)" (UK3).

Furthermore, family life in Britain differs from the Nigerian kinship system. Professional relationships are encouraged among businesses in Britain. The Financial Services Authority (FSA) discussed later defines ethical standards that should be observed among corporate entities in the UK. These regulations are binding on the NSMNE, and compromises could be costly for the enterprise's aspirations and reputation. The next section discusses illiteracy and poverty which are other environmental factors that impact on the activities of the NSMNE, particularly in the Nigerian context.

5.3.2 Illiteracy and poverty issues in Britain

While many interviewees from the Nigerian headquarters had various experiences to share about the impact of illiteracy and the challenges it presents in performing their jobs, interviewees from the UK suggest it is rarely a problem. The UK has a very high literacy rate which ranks among the best in the world (Central Intelligence Agency, 2013). In contrast to Nigeria, the high level of literacy and people being aware of events around them was a challenge in the UK. An interviewee noted that: *"you have to be very careful in dealing with customers because a lot of times, they know their rights and understand how to enforce them against you and the organisation if they are not happy"* (UK4).

Interviewees further pointed out that, where referrals are made to them from the Nigerian headquarters (which is a common practice), the clients involved are usually literate enough to transact their businesses with less assistance than most of those in Nigeria. In other cases, employees or representatives of the clients who understand the procedures required are used to effect necessary transactions, and that solves any problems that might have risen because

of a lack of understanding of operational procedures. This suggests that the UK subsidiary customer base is comprised of more educated people, who are able to understand the activities of the NSMNE than those in the Nigerian environment.

Furthermore, the moral standard and ethical values that are maintained in the UK are considered ideal for the business of the NSMNE by most Nigerians. An interviewee argued that ethical values which may be considered unacceptable in the UK may be tolerated in Nigeria: "*what is an acceptable way of behaviour vary based on location. The ethical value issue I mentioned is tied to the cultural orientation of the people. Things that are considered deviant behaviour in certain environments might not be considered deviant behaviour in others – like the celebration of ill-gotten wealth in Nigeria*" (HIC).

Interviewees at the UK subsidiary suggest the UK systems (institutions of government) have the capability to regulate the environment. This was expressed in the simple words that "*the system speaks for itself*" (UK1). While poverty was suggested as having effects on the business and the behaviours reported in the Nigerian environment, those at the UK had no experience to share with regards to the effects of poverty on their business operations. The next section discusses corruption and fraud, which are major challenges in the Nigerian environment.

The level of lawlessness in the Nigeria business environment would be unlikely to be accepted in the UK. Although, interviewees noted that the potential for more serious criminal activities against the organisation is higher in the UK, they argued that, cybercrime in the UK is far more sophisticated than that of Nigeria. However, measures are put in place to control these activities in the UK. An interviewee suggested that in the UK, significant efforts are put into protecting the enterprise from intrusion by hackers. This involves a lot of expertise and

staff training. Experts are also involved to ensure that there is adequate security (firewalls) in place that will make penetration more difficult.

The British environment is antagonistic to corruption and criminal activities of the nature common in Nigeria. In Britain, the enforcement agencies are much more effective than in Nigeria. Furthermore in Nigeria, religious affiliations are grounds upon which criminal activities are supported or ignored by enforcement agencies, in contrast to the UK, where the rule of law is intended to apply equally to all ethnic and religious groups.

5.3.3 The influence of the UK institutional environment on the subsidiary business

The UK culture sometimes influences the activities of the subsidiary of the NSMNE in the pursuit of its mission and objectives. An interviewee noted that: *"...when our customers come through our doors, if they are Nigerian guys would most probably think they are walking into the same situation as they do at the headquarters, but they don't. Because we will apply UK rules, there is that wonderful saying that when you are in Rome, you behave like the Romans, what we try to do, desperately try to do is to be in the middle" (UK2).*

Furthermore, although the organisation represents the multiculturalism of the UK, the standard way of behaviour that is encouraged at the subsidiary, as emphasised by interviewee (UK2) below, is the UK way that embraces a wider diversity of people from different racial backgrounds:

"Again, this is London, it is a multicultural society. I appreciate where you are coming from because when you get to Nigeria, the majority is Nigerian. Over here, it is multicultural. We have Chinese, we have Irish, we have Polish, we have Greek, we have Nigerian guys, it is a multicultural set up here really, but because we have the UK guideline, and we abide by the UK rules and regulations and the majority of the people

that work for us have come from UK institutions. Regardless of their nationality, they

will be coming in and they know how we work with UK rules" (UK2).

In the UK, the focus is on the customer and how to impress them and make them want to come to the organisation again. An interviewee noted that:

"We will not compromise the UK requirements, however, we also appreciate that when

these guys walk in they might think, oh, this is the same like when I am back at home,

whatever, and unfortunately, it isn't. So what we have to do is we take exceptions to the

way we deal with that situation and that is then down to the skills set of our staff to

make sure that we have a good comprehension of the cultural issues of our customers,

because we have to impress them" (UK3).

Staff may have experiences of different cultures, values and norms from environments where they have worked previously. However, working for the UK subsidiary means they have to conform to UK culture.

"Everybody has a different set of ways of doing things but for anybody that comes in

the way it is done in the UK that is the way it applies. And that goes along with the

procedures, we have strict procedures here, with UK rules or regulations, we will never

break the UK rules or regulations. So that is the mainstay of these guidelines, and you

use those and you build your procedures on top. Anybody comes in, wherever they come

from, has to fit in, you put the culture on top of it and you mix it, you have to" reports

(UK1). Rules and regulations as noted have impact on organizational cultures, policies and rules. In the next section, the regulatory pressures that impact on the NSMNE are discussed.

5.3.4   The UK regulator of the financial services industry

The Financial Services Authority (FSA) was the UK regulator of the financial services industry until April 2013, when a restructuring exercise came into effect. The restructuring of the FSA followed the perceived failure in its regulatory duties during the financial crises of 2007-2008 (House of Commons, 2009). Until its abolition, the FSA was charged by the Financial Services and Markets Acts (FSMA) 2000 with the statutory duties of ensuring market confidence (FSA, 2000). It also had the duties of ensuring financial stability, consumer protection and reduction of financial crime.

Further responsibility was placed on the FSA by the Financial Services Act of 2010, that charged it with "contributing to the protection and enhancement of the stability of the UK financial system" (Financial Services Act 2010). The FSA was relieved of its functions and its responsibilities as the UK regulator of the financial services industry in April 2013. Its responsibilities were transferred to two newly formed bodies - The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA Authority, 2013).

Despite the failure of the FSA, as noted by the House of Commons (2009), interviewees at the headquarters considered the FSA more advanced and more thorough in its policy-making, in comparison to regulation in Nigeria. They argued that "*such issues are unavoidable when you operate in an advanced system with highly skilled professionals who find their ways around legislations*" (AOM3). In the opinion of some interviewees at the headquarters, the FSA was a standard bearer as far as policies regarding the regulation of financial industry across the world was concerned. They argued that the FSA *"encountered first-hand, the most complex issues at the height of financial services enterprises' regulation"* (HCS). More importantly, the response of the UK government to the issues, processes and procedures put in place to handle the perceived failure of the FSA were lauded by interviewees at the headquarters.

The FSA as the UK financial services regulator plays a key role in international regulation (Briault, 2002, Dale and Wolfe, 2003). This reputation, according to an interviewee, was important to the enterprise *"because being regulated by UK authority, the FSA sometimes gives more confidence for the companies to deal with the UK based organisation than an overseas one"* (UK4). The FSA made rules regarding the systems and controls that are put in place by organisations within the UK financial industry. Firms were charged to establish systems and controls that are appropriate to their business. Such systems and controls should be dependent on factors such as the nature, scale and complexity of its business and the diversity of its operations, including geographic diversity (FSA, 2001).

Organisations were also expected to ensure compliance with these obligations by conducting regular reviews of their systems and controls in accordance with the relevant FSA regulatory framework. In addition to using factors highlighted above to establish systems and controls, they also had to cover various areas of operation including the customers, channels of distribution, the volume, complexity and nature of transaction, processes and systems, and the operating environment of the firm. Firms were also expected to plan their business in ways that allow them to identify and manage/control risks of regulatory concern (FSA, 2001).

The policies and rules of the UK FSA were more customer-oriented than the CBN's, which were focused on furthering the government development agenda. The FSA regulation aimed to protect consumers and ensure that their interests were central in the firms' activities. They also formed the fundamentals upon which the FSA enforced criminal, civil and regulatory charges against defaulting enterprises to protect consumers. This contrasts with the CBN where the mistrust for the government leaves the impression that the enforcement of criminal charges against enterprises is tainted by political interest.

For instance, the CBN Governor attributed the reform efforts of the CBN to the need to protect public interest. He noted that although Nigeria is a society where the ordinary man or the poor do not matter, reform was necessary because of the hardship the situation of failed financial institutions was causing (Sanusi, 2010, p.3). However, he conceded that the reform efforts were being:

"...confronted by a multi-vocal opportunism determined to subvert history through the fabrication of false narratives. Among these, is the assertion that the actions taken by the Central Bank are part of a grandiose northern agenda against southern Nigeria. Or that perhaps it is an "Islamic" agenda being pushed by a Muslim fundamentalist. There are also other subtler and more sophisticated-albeit just as opportunistic-narratives. For example the new claim by public officers and politicians that there is really no corruption in the public service, that politicians are not corrupt, and that the real corruption is only in banks" *(Sanusi, 2010, p.2).*

The UK regulator, on the other hand, is perceived to be more independent of interferences from the government and other wealthy individuals. Rather, the influence of enterprises on the regulations that are made and poor compliance are the major concern (Wilson et al., 2012). This is different from the case in Nigeria, where polices made by the regulatory body may be circumvented without consequences if there are influential people with interest in an enterprise. Furthermore, while the UK judiciary system is largely able to prosecute offenders despite their status in society, justice in Nigeria according to interviewees is for "the highest bidder" (Ifedigbo, 2012, Ijeoma, 2002).

While there have been recent failures relating to financial services enterprises in the UK, the UK regulatory environment is more developed than that of Nigeria. Moreover, the Nigerian regulatory environment is developing, but faces among others, the challenge of politically

motivated policies that foster the interest of political office holders and influential individuals (Ifedigbo, 2012, Iroghama, 2012). The next section discusses the cultural-cognitive pressures that also affect the activities of the NSMNE.

5.4   Chapter summary

This chapter presented the institutional environments and the environmental factors that may potentially impact on the organisational activities and MCS of the NSMNE. The historical, socio-political and economic issues of the contexts have been discussed, taking into consideration the views of interviewees. This is important for understanding how the issues discussed are likely to affect members of the NSMNE and the design and use of MCS. Giving consideration to the interviewees' perspective is also important because the alternative view of MCS argues that MCS are not outside the influence of agents, but are socially constructed, and context-determined.

The chapter discussed the historical development of Nigeria as one of the contexts of this study. Nigeria is described as a creation of the UK, which operated it as a colony until independence was attained in 1960. Ties between the two countries have remained cordial since the relationship was established. Discussing the historical relationship between Nigeria and the UK is necessary to understand how the relationship has influenced the choice of establishing a subsidiary in the UK and the operational considerations that informed the choice.

Nigeria has a rich cultural heritage that is expressed by the numerous ethnic groups and tribes that constitute it. These groups express various norms and values that define the society. Normative values placed on wealth, age, traditional and religious beliefs are very influential in the Nigerian society. These elements of Nigerian society were discussed in this chapter in order to understand how they may shape the design and use of MCS and other organisational

processes and outcomes. These give a background for the contexts which are later linked to the discussion in chapters 6, 7 and 8 in order to understand why certain policies and practices are adopted by the NSMNE in its design and use of MCS and to integrate the headquarters-subsidiary operation.

The international operation of the NSMNE brings with it regulatory, normative and cultural-cognitive pressures from the environment of the country where the operation is being carried out. The UK regulator, the Financial Services Authority, makes regulations regarding operations of enterprises within the UK financial services industry that would influence the activities of the NSMNE. The regulations which must be followed to operate in the UK means the Nigerian headquarters of the enterprise has to devise a means of accommodating its objectives for the subsidiary, alongside regulatory bodies and other external factors that impact on the organisation. For these reasons, the UK institutional environment is discussed in order to understand how the various elements of the environment apply and shape MCS design and the headquarters' relationship with the UK subsidiary.

The next chapter presents the management control systems that were found at the HQ of the NSMNE, and how the different institutional factors of the Nigerian environment that have been discussed in this chapter shape the design and use of MCS at the HQ of the NSMNE. The discussion in the next sections offers insight into the nature of MCS at the HQ and helps in answering part of sub-question (i) in section 1.2 which seeks answers to the MCS that are designed and used by the HQ and the subsidiary and to what extent are controls transferred between the HQ and the subsidiary.

Chapter Six

Management Control Systems at the Headquarters of the NSMNE

6.1   Introduction

This chapter presents the management control systems (MCSs) that were found at the headquarters of the NSMNE during the empirical part of this study. It progresses from the previous chapter, which described the institutional environments within which the NSMNE operates. The objective of this chapter is to understand how the institutional environment shapes the design and use of MCSs at the HQ of the NSMNE.

Evidence from the thematic analysis of the empirical data shows that the NSMNE uses what Frow et al. (2005) described as traditional MCSs such as budgets, a performance evaluation system and a compensation and reward system (also see Chenhall, 2003 and Davila, 2000). These systems are formal and are consciously applied by management to control the actions and behaviours of employees (Mundy, 2010, Langfield-Smith, 1997). Informal systems are also found at the HQ. These are not documented, as they are not applied consciously, but exert subtle influences that shape behaviour and performance within the NSMNE (Mundy, 2010, Sitkins and George, 2005, Gomez and Sanchez, 2005).

The chapter is structured along these major themes. The first section discusses the formal MCS, and explores how they are designed and used in the order of budgetary controls, performance measurement and the evaluation system and reward and compensation system respectively. The second section discusses the informal systems. The chapter ends with a chapter summary.

6.2   The Nigerian institutional environment and the budgetary system in the NSMNE

Budgets form an important part of the controls in the NSMNE. Tucker et al. (2009) suggest budgets are designed to give direction to an organisation. Budgets are strongly linked to the strategic objectives of the NSMNE. The NSMNE, as noted in chapter 3, engaged in a strategic re-organisation that involved segmenting its activities into two broad divisions. Hansen and Van der Stede (2004) suggests organisations may re-organise with the aim of supporting commercial principles of efficiency and customer orientation. The strategic move of the NSMNE is also an attempt to redirect the orientation of the organisation from values rooted in its history as a successful enterprise to more economically focused approaches that allow it to remain competitive. An interviewee noted that:

> *"Before now, our stability and assets base was our strong point. It gave investors the assurance that we could survive better than competitors. Earning (dividend) was important, but the stability was our main selling point. But following the failure of some big firms in the industry that prompted the CBN call for recapitalisation, higher returns have taken priority over stability. The budget is now geared towards activities that will bring higher returns to investors"* (HBPM).

The quotation from interviewee HBPM above indicates that the objective of higher returns stems from the regulatory pressure of the CBN which introduced certain reforms to bring stability to the industry. According to the NIS, regulatory pressures employed by the authority or institution to ensure compliance to standards of operation within a domain (Carpenter and Feroz, 2001, DiMaggio and Powell, 1983). The pressure from the CBN impacted on the strategic objective of the NSMNE and the design of the budgetary process.

Budgetary projections are made following various parameters that constitute the building blocks of the wider strategic platform. The strategy requires management at various levels to use the least possible amount of organisational resources, while seeking to improve performance. Budgets were to be designed to give priority to activities that will lead to better performance and customers' satisfaction in order to remain competitive. Rather than a centrally prepared budget, the new strategic approach involves an iterative process in which lower level managements prepare budgets based on guidelines from the senior management. The budgets are reviewed and approval made if they follow the guidelines, which have been set to support the strategic objectives. The next section discusses in more detail the process of developing and approving the budget.

6.2.1 Budgets preparation and regulator pressure

Budgets preparations have been the norm of NSMNE. However, assuming this normative approach to budgeting according interview (HBS) means "*the essence of budgeting was lost; that is budgets became routine activities that lacked the power to motivate staff members towards better output*". DiMaggio and Powell (1983) described this situation as normative. Norms according to (Scott, 2001) define the specific ways things should be done which may leave little room for innovation. However, following the introduction of new regulations by the CBN, a new approach to budgeting was introduced.

Among the various factors that are considered during the budgetary process, the need for compliance with regulatory requirements was of great importance. Regulatory authorities define the rules of engagement within an industry and are according to Scott (2001) the most influential forces that impact on organisational activities and shape the way they operate. He argues that most scholars imply the regulatory aspect of institutions when the issue of institutional pressure is being discussed.

The new budgeting process that was introduced at the HQ of the NSMNE follows what Chenhall (2003) described as participative budgeting. It adopts a bottom-up approach (Quattrone and Hopper, 2005, Chenhall, 2003), where the administrative control structures (BOMs and AOMs) coordinate various units within their control to formulate the budget for the branch and area respectively. This approach, according to an interviewee, helps the NSMNE to achieve its strategic objectives because it allows input from those who have direct contact with customers and the environment. This agrees with Davila and Foster (2007) and Chong et al. (2005) who argued that subordinates' participation in the budgeting process gives managers the opportunity to collect job-relevant information, which improves the quality of decisions they make. An interviewee shared the role of subordinates in budget setting as follows:

"*When we are preparing budgets, because each branch prepares its own budgets, all heads of units will come together to look at the whole budget and make their inputs, so we all play a part. The branch manager can speak for the branch as a whole, but s/he has subordinates who speak for the units. The reason is because the subordinates in most cases are the ones who deal directly with customers and understand better their needs and the challenges of the environment*" (CS1).

In designing the budgets at the branch level, budgetary resources are mobilised to manage risk, human resources and environmental influences. For instance, an interviewee noted that *"provisions have to be made to cater for miscellaneous like settling the gangs (area boys) that control our area. If we consider the cost compared to the problems it saves us from, I think it is reasonable to set some amount aside for them."* (BOM5). "Settling" is a slang used by the gangs to describe money they extort from people and organisations. The word is also used to describe payments that are made voluntarily to win the support of gangs; as mentioned in chapter 5.

The inclusion of miscellaneous-activities to cater for gangs is an indication of the normative influence of the environment on the design of budgets. That is, because of the acceptance of the activities of the gangs, especially in the political circle (as discussed in chapter 5), there is an assumed public compliance to their activities, which means that commercial enterprises like the NSMNE have to condone them in order to be accepted and allowed to operate their business without interference from gang members. Hence, the behaviour became a norm of the society, defining what is legitimate and reflecting supposed consonance with pertinent rules (Scott, 2001). While participatory budgeting allowed managers the flexibility to include specific items of the operating environments that impact their business, as is the case with the gangs, Davila and Wouters (2005) argued that participatory budgeting may give managers the opportunity to intentionally influence budgetary targets and build budgetary slack.

Furthermore, subordinates may use the advantage to use information that managers are not able to access to misrepresent the information and negotiate for easier targets (Yuen, 2004). The bottom-up approach to budget design at the NSMNE means budgetary estimates are made in accordance with guidelines that are set by the budget department at the head office. Guidelines from the budget department are necessary to give direction to staff at lower levels of the NSMNE and ensure that appropriate consideration is given to both the externally oriented demands on the enterprise as well as the internal needs that shape the activities of the enterprise (Gordon et al., 2008, Li et al., 2005). The guidelines also specified a fixed range within which estimates made by lower level managers are acceptable taking into consideration inflation and other economic factors. An interviewee explained how the process works as follows:

"… if the branch used a certain quantity of diesel to run generator last year, this year, we look at about 10% increase gap to make a budget for the coming financial year. If the estimate is about 20% of the previous year estimate and they are supposed to use

10%, you know that the budget is fishy, that they are supposed to use 10% and that the

budget is not appropriate" (AOM3).

Another interviewee noted that the budget department sets fixed limits of expenditure but no maximum limit of revenue. Staff are expected to achieve more than the minimum requirement and are rewarded for achieving beyond the minimum required revenue target.

"…There are no maximum targets for revenue, only minimum expectation, but for

expenditure, there are strictly limits of expenditures" (BOM4).

The budgets prepared at the branch level go through a series of vetting and approval, starting from the Area Managers (AOMs), who have responsibility over the branches operating within their area. AOMs have a supervisory role over fifteen to twenty branches that constitute an area. The performance of the branches is analysed by various means, one of which is to establish whether the branches are operating within approved budgets. How well the branches perform, and whether they operate within the limits of approved budgets constitute an element of an AOM performance evaluation report.

When budgets from the branches are submitted to the AOM, a retreat is organised where the BOMs are made to defend the items on their budgets. The retreat according to BOM5 *"creates a relaxed atmosphere for interactions and rubbing of minds"* on broader goals of the area. Through this socialisation process, BOMs are able to influence the decisions made by the AOM with regards to their budgets. At the retreat, the AOM presents the goals of the area and defines the role(s) each branch has to play in achieving them. An interviewee explained the process as follows:

"At the area level, retreats are organised where targets are set for the area and

individual branches. At the retreat, the BOM presents to the AOM the plans for the

coming year and how such plans will be achieved. The roles of the different units within a branch towards the achievement of the plans are spelt out in the layout of the coming year. The AOM collates the budget for the area and forwards them to the head office" (BOM1).

During the retreat, budgets of branches with relatively similar sizes (number of staff and volume of transactions) are compared. Differences which might warrant variations, such as location, are taken into consideration.

Budgets of other departments (like the general services department) that operate only at the head office, and not at the branch or area levels, are prepared by the departments and sent to the budget department at the head office. The budget department is responsible for evaluating all budgets for appropriateness. It also ensures the implementation and monitoring of approved budgets at all levels. An interviewee shared the role of the budget department below:

"When we make proposals, there is a department at the head office that compares our indices at the branch with their own indices at the head office for variations and then gives an approval position that we have to operate within. If for any reason we have to go beyond the approved budget, we have to seek approval for that extra expenditure, if that is considered, then we can spend beyond the initially approved limit, else it will affect our scorecard. The branch is expected to operate within the approved budget" (BOM4).

Operating within the approved limits of expenditure is a major challenge of the budgetary system which could create unhealthy tension if not properly managed. In the next section, the challenges of the budget system, including the handling of extra-budgetary items are discussed.

6.2.2 Challenges of the budgetary system: the impact of CBN regulation

The effects of the decisions made at the preparation stage of the budget are felt during the implementation stage. While the aim during the preparation period *"is to control the behaviour of staff in ways that signal the appropriate level of risks or organisational resources that the enterprise is willing to commit to operational activities"* (AOM5), issues may arise when the approved limits of budgetary spending constrains the activities of units and departments.

Another challenge is the ability to stay within budget. Apart from the approval of budgets, the budget department also monitors the implementation of budgets within the organisation, including at branch and area levels. The ability to limit the number of requests for extra-budgetary expenditure is a key element of performance evaluations of BOMs and AOMs. At the branch level, BOMs have the responsibility of ensuring that units or departments under their supervision work within approved limits of expenditure, while striving to meet budgetary targets for inflows (Abernethy and Brownell, 1999, Hansen and Van der Stede, 2004). AOMs also monitor their branches' implementation of budgets. This reflects the importance of budgets in the control system and supports the assertion of Chenhall (2003), who noted the importance of controlling role of budgets in organisations.

A conversation between AOM1 and one of the BOMs under her supervision reflects the tension that could arise from budget implementation. During the telephone conversation, which was about an expenditure that had exceeded the budgeted amount, the AOM was furious that a renovation job at the branch was going to affect the area's scorecard because of the extra expenditure incurred. While the AOM agreed that the project was justified, the disagreement was on the amount being invested in the project and the impact it was going to have on the performance evaluation of the area. This made the AOM to suggest in annoyance that the BOM would need to make up for the extra cost of executing the project from his own

pocket if the project went ahead. The narration of the telephone conversation above does not only reflect the possible tensions in the budgeting system, but also reflects the AOM ability to control through the budget. It also reflects how the regulatory pressure emanating from the CBN was influencing the budgetary processes of the NSMNE. DiMaggio and Powell (1983) suggest that regulatory pressure in form of coercion becomes necessary as mechanisms of control to ensure that individuals and organisations will conform to set standards and not self-interest. In the next section, staff perception of the budgeting system is discussed.

6.2.3   Cultural-cognition and staff perceptions of the budgetary system

Perception is a cognitive attribute. The cognitive dimension argues that human behaviour is a function of how the ambiguities of the environment is internalised. That is, the meaning attributed to objects and activities are a function of the meaning that is made of them (Scott, 2001).

The perception of budgets, as well as the effects that they have on staff of the organisation varies across job functions and these differences can be related to their exposure to the external environment. The market-facing staff members spend most of their time outside the NSMNE and are more exposed to the issues of the environment that were discussed in chapter 5. While their budgets are designed to meet marketing targets, a traditional function identified by O'Connor et al. (2011) states that budgets for the operational subdivision are focused on limiting the amount of resources used for service delivery to customers. The perception of budgets from the marketing perspective is conveyed in this quotation by (BM2)

> *"Another challenge we face here is target, let me use the word budgets. I wouldn't say budgets are not reasonable, it drives you, actually saps you, just like this last weekend, I couldn't sleep, sapped with so many things in mind. Business is not coming as expected, going to the end of the month and at the same time end of the quarter, you will be*

appraised and things are not getting shaped up, you will be worried".

Staff of the marketing subdivision are wary of budget targets that are tied to performance because of the difficulties they encounter while trying to convince members of the public that money invested in the NSMNE will be safe. This is because of the growing mistrust for the Nigerian institutional environment (Iroghama, 2012). For instance, regulatory requirements limiting the amount of cash that people are able to use in business transactions raise concerns among potential customers about the intentions of policy makers. For this reason, and due to the uncertainties of the Nigerian business environment as discussed in chapter 5, *"wealthy people prefer converting their cash from the local currency into hard currency and saving them at home rather than invest them in financial services enterprises. They simply do not trust the system, and this cuts across educational background"* (BM1).

The internal policies of NSMNE regarding the setting of targets were also highlighted as a problem. Gordon et al. (2008) and Li et al. (2005) noted that the internal environments of organisations impact on MCSs. Among the issues of contention in this case is the policy that requires new branches to operate similar budgets, such as more established branches, without extra incentives to attract customers as noted below:

"You know budget is normal, but in this our case where it is a new branch and they still expect us to run at the same rate that other established branches are running, gives me headache thinking of it. Away from that, look at our own internal policy that is the organisation itself. They ask you to go after a customer, competitors are offering better services, they know that, but tell you to go after the same customer offering something not as good as what competitors around are offering"(BOM5).

Chenhall (2003) suggest that for organisations to operate successfully in uncertain environments, they need to have formal budgets to assist in planning and to curb

excessive cost accumulation. However, "they are systematically combined with open and flexible informal communications between managers" (Chenhall, 2003, p.131). These informal communications, and how they combine with the formal systems to give the needed flexibility to operate in the Nigerian institutional environment, are discussed in chapter 8. As this chapter is focused on the key MCSs found at the HQ, the next section discusses the performance measurement and evaluation system, which is another key MCS that was found at the HQ.

6.3 Performance measurement and evaluation system

The performance measurement and evaluation system (PMES) is another important MCSs identified at the HQ of the NSMNE. The approach to the design of the PMES at the HQ involves setting objectives for units or groups, and measuring individuals' contributions towards the achievement of the objectives. Waggoner et al. (1999) describe this approach as the systems approach. However, the scope of the systems approach adopted by the NSMNE is broader than the description given by Waggoner et al. (1999). The PMES is designed to incorporate both financial and non-financial measures, like conformance to internal policies of the NSMNE and the external policies of regulators. Customer satisfaction also has an important role as a non-financial measure of performance, as the NSMNE seeks to influence employees' behaviour to handle the uncertainties of the environment and increasing competition.

Researchers identify the functions of the PMES to include performance monitoring, strengthening of accountability and supporting strategic decision-making (Busco et al., 2008, Ukko et al., 2007). Beyond these technical functions of PMES (Busco et al., 2008), PMES also has an influence on the perceptions of individuals and is helpful in creating order within an organisation (Henri, 2006). Observation and interaction with employees indicated that

they were always conscious of the effect their actions or inaction will have on their scorecard, and this had a strong influence on the way many of them behaved.

For instance, while there is the tendency to override some rules and policies as a result of familiarity or friendship, employees constantly remind one another of the consequences should things go wrong. An interviewee noted that

> "…we constantly remind ourselves of the consequences should things go wrong. For example, a friend may want me to make certain approvals without the proper documentation because we have this rapport, but I often draw their attention to the policy and what will happen to us... We may then talk about it and agree on when those documents will be brought to me if I go ahead with the process before it is dictated by a superior" (CS1).

Another interviewee noted that: "sometimes, close friends may ask you to assist because they need some help from your unit to get around some procedures. When that happens, so as not to spoil our friendship, I remind them of the company policy and may discuss how to go about it without causing each other any harm" (BOM1).

This supports the assertion of Hopwood (1990, p.9), that PMES could "influence perceptions, change language and infuse dialogue, thereby permeating the way in which priorities for action are expressed". By this means, the PMES play an important role, not only in organisational affairs but also in the social affairs of actors (Hopwood, 1990). In the next section, the Nigerian institutional environment and the need for a system to measure employees' performance is discussed.

6.3.1 The Nigerian institutional environment and the need for performance measurement and evaluation system

The increasing attention of the CBN on the performance of enterprises to prevent events of underperforming firms failing suddenly due to poor monitoring (Babeji, 2013, Iganiga, 2010) is among the reasons the NSMNE has stepped up its performance evaluation activities. Lohman et al. (2004) argue that an enterprise's ability to measure the performance of its operation is an important prerequisite for evaluating its improvement. Documents analysed during the empirical study show consistent improvements averaging about 3.7% in NSMNE's performance for the years following the CBN reforms.

Apart from the direct impact of regulatory pressures, competition spurred by threats from the CBN, that control underperforming private firms will be transferred to government control, has made it imperative for the NSMNE to ensure that its resources are properly mobilised to achieve the desired output. Moreover, the newer firms (in comparison to the NSMNE) that have adopted a performance-oriented approach have become more attractive to customers as noted by an interviewee:

> *"...the organisation started a mission which we call transformation process because some other "new generation" firms that came on board not quite 15-20yrs ago are in a way doing things differently and we are losing customers to them. Their performance-oriented approach is getting them market share. So the NSMNE said, we have been here longer, we shouldn't let the newcomers displace us. So as to remain relevant, a lot of transformation has occurred whereby we have the market-facing people and the operations people and the performance evaluation system is being designed to ensure the essence of this transformation – which is performance results is achieved"(BOM1).*

It could, therefore, be argued that the performance-oriented approach that the NSMNE has adopted is as a result of mimetic pressure, stemming from the activities of the newer enterprises that have become more competitive because of their performance-oriented approach (Powell and DiMaggio, 1991).

Furthermore, through the PMES the NSMNE is able to monitor the implementation of management policies across its hundreds of branches, spread across different cultures and beliefs. Therefore, PMES provides standard requirements of performance amidst the institutional environmental issues that may arise in operations. PMES signal the direction in which management expects the employees to focus their efforts (Long et al., 2002, Ford and Greer, 2005). In this way, management is able to handle the complexities of the diverse environments of its operation in ways that reduce uncertainty (Sandelin, 2008). In other words, the PMES helps in establishing the approved norm of behaviour by the management of the NSMNE and creates an organisational culture that is different from the individual cultures of employees. In the next section, the development of the PMES is discussed.

6.3.2 How the changes in regulation lead to changes in the performance measurement and evaluation system

Kloot (1997) noted that organisations find ways to survive when there are transformations in their operational environment, and MCSs may help or hinder the changes that organisations implement. According to Burns and Scapens (2000) the role of MCSs in organisational transformation will depend on changes made to MCSs in response to institutional environment factors. The PMES at the HQ has been undergoing a series of transformation and experimentation. Specific efforts to improve the PMES are associated with the transformation agenda of the NSMNE as noted by BOM1 below:

"The performance evaluation system that is used in the organisation is still developing. There have been modifications to the system for the past 3 years. We are almost there, but we are not there yet. Before the transformation started, we were doing paper evaluation, but with the transformation, it became computerised, and since then it has been one modification to another and we are almost getting there. This year we have done something close to where we are getting to, and I believe by the next we would have improved more. In terms of getting the actual individual evaluation, that is what I mean. I think by next year we will get to that".

One of the aims of the newest system, among others, according to the analysis of the performance manifesto and indications in evaluation reports is to shape the behaviour of employees in ways that support the objectives of the enterprise. This is particularly important given the reported lack of motivation among employees as noted in chapter 5.

The redesign of the PMES has shifted in focus from the evaluation of group performance to individual performance (Coates et al., 1992; Gibson et al., 2003). Units, branches, areas and departments were evaluated rather than individuals. However, with the increased pressure on staff to perform, some staff (lower and middle level) that deal directly with customers questioned the rationale behind the group PMES. They argued that the system was unfair because it lacked the ability to evaluate individuals' contribution towards the overall performance of a group. Such a system, they contend, allows some staff to benefit unfairly from the efforts of their hard working colleagues.

"In terms of evaluation, people will have to take what they get because it is white and black. It is either you have done well or not. That is why I say we are not there yet. People that have not done well are still hiding under team achievements, but

individually, once you have done well you know you have done well and when you are

appraised you know that truly, this is what I have done" (BOM5).

The comments from BOM5 above, as supported by other interviewees, suggest staff welcome recent improvements directed at measuring individual performance rather than groups. Another interviewee argued that:

"*an evaluation process that enables the assessment of individuals' contributions will not only produce better results, but will ensure that team members are contributing appropriately to the overall team success*" (CS1).

The acceptance of the transformation to the PMES by staff members, as supported by the quotations above, contradict Taylor et al. (1995), who argued that "…new (and presumably improved) appraisal systems are often met with substantial resistance" (p.495). In the next section, the role of key performance indicators in integrating environmental factors with the PMES at the HQ of the NSMNE is discussed.

6.3.3 Integrating environmental constraints into the PMES: the role of KPIs

The new PMES focuses on individual's contribution to the objectives of the NSMNE noted earlier. In order to achieve this focus on individuals, efforts are being made to adapt KPIs to individual roles in efficient service delivery and the creation of value for the organisation. For this purpose, KPIs varied according to job functions and key attributes that management considers necessary for the proper performance of the assigned role. Management decides elements of the scorecard based on job requirement(s), feedback from customers and consideration of the environmental factors that might impact the NSMNE activities. Measures or weights are then attached as conveyed in the quotation below from an interviewee:

"For every activity in their (management) yearning, they make sure that there is a structure. And their belief as well is that what is measured is assessable. For them to have an effective monitoring of everybody's contribution, they put in place a certain measure parameters. These parameters are chosen based on considerations for the environment, the objective of the organisation and the role an employee has to play towards the attainment of the objectives" (AOM3).

By considerations for the environment, interviewee (AOM3) means the local cultures, religion and other elements of the environment which have to be observed. These elements are integrated into the evaluation system to ensure that staff pay adequate attention to them in relating to customers. To integrate these elements into the evaluation system, both quantitative and qualitative performance indicators are included in the evaluation sheet. The qualitative elements of the evaluation process are necessary to achieve the quantitative measures. According to (BOM1),

"it is assumed that if a staff member is courteous, sensitive to customers' religious beliefs and observes other cultural practices, there will be less complaints from customers against the staff member and s/he will successfully meet measurable targets – given that the appropriate effort is being put to achieve targets".

For example, for a customer service staff member importance is given to customer satisfaction and service delivery time, among other elements. Customer feedback forms and customer feedback registers help to keep records for the assessment of these elements that are germane to this job function. The number of errors made in the course of service delivery is also of priority in evaluating customer service staff. Fewer errors attract high score in the scorecard. An interviewee had this to say about the evaluation parameters or KPIs.

"The elements upon which you are evaluated vary according to your core functions. They are not the same for every staff but are all targeted towards results. What we sell primarily is service, and for all these services, we have products, and for all the products, set targets to be met. So at the end of the day, your target centres around how well you sold these products, both tangible and intangible ones, how well you have sold them would determine how well you performed" (RM3).

By "tangible" and "intangible" products, the interviewee meant to draw attention to NSMNE's interest in employees meeting both the financial (quantifiable) and non-financial (qualitative elements) of the PMES. Hoque (2005) suggests that non-financial elements in the PMES are important for enterprises to address uncertainties of the environment; by monitoring the core competencies needed by employees to achieve set objectives.

While researchers recognise that developing the right performance measurement indices (especially for the non-financial elements) is a major challenge that enterprises face (Neely et al., 1997, Broadbent and Laughlin, 2009), in the case of the NSMNE HQ, there is also the challenge of objectively measuring performance based on established KPIs. The next section discusses the issue of objectivity and transparency in the evaluation process.

6.3.4 Cultural-cognition, objectivity and transparency in the performance evaluation process

Lau and Sholihin (2005) suggest that "successful performance evaluation is likely to occur in an environment where trust among members can develop" (p.391). As trust develops and becomes a norm within the domain and become taken for granted as the way things should be done, compliance to the cultural-cognitive notion happens (Scott 2001). Alexander (2012)

174

noted that the behaviour of members of an organisation is "a manifestation of deeply held cultural values that affect the motives of individuals with regard to a variety of cooperation mechanisms… such mechanisms include trust, accountability and goal relationship" (p.8).

Lau and Sholihin (2005) contend that trust in the evaluation process is important because it leads to openness and improves interpersonal relationships between subordinates and superiors. Trust that the assessment being performed will be objective and fair, also influences behaviours and attitude to work.

The issue of objectivity is a major challenge that faces the PMES at the HQ of the NSMNE. Interviewees suggest that close relationships between appraisers and appraisees may relegate to the background the importance of objectivity in the appraisal process. They argue that because evaluations are done by immediate bosses, those in close relationships with these bosses do get rewarded unfairly. This assertion is supported below:

> "*Relationship does play a part in the appraisal process, those days it didn't, but for now, it does. So for who do not share close relationships with the appraiser, you just pray. It is not supposed to be because it demoralises; especially when you know that you have put in more efforts than those who are scored higher in the appraisal*" (CS1).

Transparency in the evaluation process is particularly important to employees who suggest some staff in senior management positions use the system to place their kinsmen in strategic positions in the NSMNE, since the PMES is also used for personnel planning. This is consistent with the findings of Seddon (1987), that cultural elements of the institutional environment are often inadvertently imported to organisations' PMES in developing countries. He contends that the non-individualistic cultures of such environments make the application of PMES which have individualistic connotation produce unintended results. This

is consistent with the alternative view of MCSs, which argues that MCSs is not necessarily objective or outside the influence of agents, rather it is socially constructed and context determined (Davila et al., 2009, Tsamenyi et al., 2008).

Taylor et al. (1995, p.497) argue that "evaluations should reflect the organization's efforts to use principles of honesty and fairness, and employees should be given an explanation of performance ratings and of reward allocations, and be provided with an opportunity for discussion". However, interviews suggest that even when it could be said that a fair process has been followed in the evaluation of employees, the application of reports, e.g. allocation of rewards, may not be fair.

The PMES at the HQ of the NSMNE is intended for use to ensure compliance with policies and rules. It is designed to shape behaviour and work ethics and direct efforts towards the delivery of quality services, which creates value for the NSMNE. The PMES as part of the MCSs is intended to create an organisational culture, which although it is influenced by the institutional environment, defines the acceptable standard of performance and behaviour in the NSMNE. The Employees' Handbook outlines incentives that can accrue to staff based on their performance. However, interviewees noted that management in many cases fails to honour its part of the "deal", even when the evaluation reports are favourable for staff. An interviewee noted that:

> "The appraisal process to me is okay, but the utilisation of that appraisal is what I
> can't now say whether it is fair or not. Because we have instances where people will
> do well in the appraisal but things that should accrue to them still don't get accrued
> to them in terms of promotion and other benefits (RM2).

Lau and Sholihin (2005) argue that the link of the evaluation system to reward and compensation systems makes it likely that employees will be concerned not only about the

evaluation process but the reward and compensation system as well. Hartmann and Slapničar (2009) argued that the use of the PMES will either create trust in superiors (management) and reinforce subordinates' belief in the system, or it can erode trust and create tensions.

Trust in the relationship between management and employees is an important element which if properly managed and employees are able to attribute the trustworthiness of the PMES to superiors' acting rightly, they are motivated to perform their duties (Hartmann and Slapničar, 2009). Such employees may also be obliged to reciprocate to management by behaving in the prescribed way and may be more motivated (Hartmann and Slapničar, 2009, Cravens et al., 2010).

Trust in the behaviour of superiors, rather than the PMES itself, is of concern to staff at various levels of the NSMNE. In addition to suggestions of lack of transparency in the evaluation system, there are also concerns about the use of the evaluation reports. There are even suggestions from interviewees that the concerns about the use of evaluation reports is a common problem stemming from the institutional and economic environment (industry-wide), where staff are exploited because the options for better jobs are limited. An interviewee said that:

"When they make policies or take a stand on issues, they should just learn to stick by it… Even the one that I am going to mention is not peculiar to NSMNE. You know you are hardworking and you are putting in your best and you know at a certain time I should be rewarded in this way; I should get a promotion and when it is not coming at that time due to some change, not change in the policy per se, but some people that are making that policy work, in a way, some people are being left out and they don't feel happy about it. When I know with my performance this year, having spent this length of time on grade, it is expected that I should have my promotion and you are

not getting a clue as to what is happening and why you are left out of the pack, and even when you tell your line supervisor they tell you another year is around the corner" (BOM5).

The issue of proper enforcement of the PMES reports may be related to the reported poor attitude to work that was found common among staff in the NSMNE. The perceived injustice of the PMES may also be a reason some middle level managers, such as the AOMs, have made personal efforts to initiate their own reward and compensation schemes to encourage better performance among staff directly under their supervision. In the next section, the compensation and reward system, as a MCS is discussed.

6.4   Compensation and reward system

Roth and O'Donnell (1996) argued that there is a link between employees' behaviour, their output and the compensation and reward system. Management at the HQ of NSMNE seem aware of this relationship and have instituted various reward and compensation schemes to reward staff performance. The performance-driven reward system as stated in the Employee handbook is an effort by the NSMNE to "*enthrone a culture of merit*".

Along with the transformation agenda of the NSMNE, the Nigerian service multinational annual merit award (NAMA) was instituted by senior management. This reward is prestigious to staff who covet it, because those who get it are included in a talent bureau in addition to receiving a monetary reward. Nominations are made for all job functions and all departments, and those who receive the award are the best three in every job function. The nomination and award is described by an interviewee below:

"There is an aspect of the reward we call NAMA. The nominations are done according to job titles. So you will be nominated along with some others in your peer group. A committee will sit and weigh all those nominated, screening them out at

various stages until eventually only 3 of the nominees will be left. At the event, they

will call the 3 out to the podium, out of which one of the 3 nominees will emerge as the

winner. We do nominations at all levels" (BOM1).

Another highly valued reward that employees receive for outstanding performance is the Chief Executive Annual Merit Award (CEAMA). This award comes before the NAMA, which comes at the end of every year. It also covers all job functions and similar procedures to the NAMA award are followed.

There is also the area manager's award, which is different from the other two mentioned. It is an incentive designed to reward branches under the supervision of a particular area manager. AOMs are not obliged to set up their own reward systems. However, some provide extra incentives to motivate staff because they are evaluated based on how well the branches under their supervision perform.

Apart from these rewards, which are given to few staff in the NSMNE, the basic salary and welfare packages which cover family members and travelling allowances are the remuneration for everyone. In addition to these, there is also pay for performance (PFP) which is another monetary reward that staff receive for their efforts. An interviewee explained as follows:

"Apart from remuneration, you get letters of commendation. For instance, if a staff is

brilliant, sharp and shows courtesy, he/she might receive a letter from the head office,

from the MD. The commendation letter is something that can take you up from among

the crowd any day" (AOM5).

Other non-monetary rewards that are given to incentivise performance in the organisation are plaques. Plaques are given to distinguish exceptional qualities displayed by staff. Even praise

for doing something exceptional according to interviewees have a motivating effect on employees, as recounted below:

"When people do well I praise them. If I need to acknowledge what they have done well I do. When you do very well, I tell everybody when we go for meetings I let everybody know, I give you a memo and it will be documented and if the final appraisal comes and I score you more than others they will know why. I can't do this work without my team and when I single out somebody that is doing excellently, I don't hide it, and if you are doing poorly, I do the same thing" (BOM7).

By acknowledging the efforts of staff through praise in front of other staff, BOM7 encourages an atmosphere of fairness and transparency. This also helps in easing the tension that may arise when a final evaluation of staff is made. However, rewards are not only given to individuals, but to teams and departments that have been outstanding in certain areas.

6.4.1 Institutional environment influence on the design of the compensation system

Both the monetary rewards and non-monetary rewards are important incentives for the extra effort that is needed to drive performance. Interviewees suggest neither of the two is considered more valuable than the other, but that together they produce a high sense of satisfaction for the recipient.

"Because of our environment, our people like to see the rewards they are getting. They want to feel what they have. There is no point going to school when you do not see that you are being promoted from one class to another. They like seeing that they are being promoted and they like seeing that they have financial rewards. Praises boost their egos and help them work and it also motivates those who are not being praised to do the job. I am just categorising them according to the level of impact I

feel they have on the staff, but I think actually, the promotion and the financial rewards and then the praises" (BOM4).

The environment, as cited by the interviewee (BOM4) above, relates to Nigeria and the perception of wealth. Perception of wealth has been blamed for corruption and issues in the Nigerian environment such as crime, which have been discussed in chapter 5. A key motivating factor for most employees, therefore, becomes the amount of money they receive, which reflects in their appearance, status in society and respect they are given. Despite some reservations, overall, employees displayed a sense of satisfaction with the nature of compensation and reward system at the HQ of NSMNE describing it as one of the best in the industry, as noted below:

> *"Reward is very lovely now, I am saying very lovely because I was here when it was barely anything. Because when I started here I was earning 16,500 naira ($102) monthly, that was about 9 years ago, so if you look at where we are coming from and where we are right now, we are doing very ok. If you look at the industry right now, we are among the first three highest paying firms. That being said, whether there is inflation or not, it is a good one"* (RM1).

This is supported by CS1 who noted that *"what I use as a parameter to judge my compensation are my peers in the same industry. Among people of my grade in other firms in the industry and by comparison, our organisation if am not mistaken is number two in the ranking"*.

Compensation and reward is linked to the PMES, which forms the basis for rewards. However, positive reward and compensation is not the only outcome linked to PMES. The Employees' Handbook also states that a poor performance score may lead to punishment. In the next section, punishment as an outcome of the evaluation process is discussed.

6.4.2 Punishment as an element of control: the impact of cultural cognition

Scholars have drawn attention to the importance of compensation and reward in directing efforts and controlling behaviour towards the achievement of corporate objectives (Eisenhardt, 1985; Ferner, 2000; Busco et al., 2008). However, punishment as a way of influencing behaviour and output is barely mentioned in organisational settings (Arvey and Ivancevich, 1980; Furnham et al., 1999).

Kohn (1993) argued that punishment and rewards are two sides of the same coin. He contends that, stating to employees that if they act in a particular way they would get certain benefits is not different from telling them what would happen to them if they acted against the prescribed way. Findings suggest that the fear of punishment could also shape behaviour and impact on output. In other words, it may "motivate" performance depending on the nature of the institutional environment. The high rate of unemployment and poverty are among the issues of the Nigerian institutional environment that was discussed in chapter 5. Therefore, dread of being punished (sacked, suspended etc.) is a potent motivator, as employees will seek to avoid the loss of their means of livelihood.

The controlling effects of punishment could be attributed to cultural-cognition or the internationalisation of the Nigerian institutional environment by employees of the NSMNE. Cultural-cognition according to Alexander (2012) is about how knowledge is created or shared and may differ significantly between countries. He contends that "the taken-for-granted beliefs surrounding how individuals in a society understand and deal with risk, uncertainty or ambiguity guides behaviour in organisations and affects orientations" (p.7).With so many unemployed graduates in search of jobs, employees who are classed as underperforming by their supervisors are always reminded of the importance of keeping their jobs. The shame (damage to reputation and family name) which follows some of the sacking

processes – such as having pictures of staff that have behaved inappropriately displayed in every branch of the organisation, may also discourage inappropriate behaviours.

Furthermore, behaviours like "eye service", and other activities of employees that may not be in favour of organisational objectives, also need to be curbed by the application of a stringent regime of punishment. An interviewee argued that punishment as a way of shaping employees' behaviour is important because "*you need strong hands to manage people in this environment (Nigeria) for many reasons – like poor attitude to work, poor work ethics and other cultural issues like the culture of begging your way out of situations you intentionally caused. Punishment must be part of the system to deter people from engaging in activities that are not in the interest of the organisation*" (AOM5).

In the Employee Handbook, it is made clear to members of the organisation that, "*management reserves the prerogative to discipline erring staff, in accordance with the NSMNE's laid down rules and regulations*". It is stated that disciplinary action will be taken against employees who fail to perform their duties satisfactorily or commit acts of misconduct and negligence. In such cases, a query is issued to the erring staff and further investigation may be carried out if deemed necessary.

However, punishment may become a de-motivator when it is applied selectively, intended as a "witch hunt" or when those involved are not given the opportunity for fair a hearing. Interviewees argued that the guidelines upon which business operations are based are too broad in scope to handle the challenges that they face engaging with customers on a daily basis. They argue that this lack of in-depth guidelines makes punishing employees, without proper investigation and/or the opportunity for fair hearing, unacceptable. Interviewees also suggest that the Nigerian institutional environment gives employers unfair advantage over their employees. Labour laws are weak, and the rate of corruption does not encourage

employees to take any grievances against employers to court, which according to an interviewee, *"is an absolute waste of time and resources, because nothing meaningful will come out of it and you may never be employed anywhere again because justice is for the highest bidder."* (AOM2).

Apart from the controls that stems from formal structures established by the NSMNE (which may result in rewards or punishment), other forms of controls that are not expressly stated, but exert subtle influence on employees were also found. In the next section, these controls are discussed.

6.5 Informal controls at the HQ of the NSMNE

Informal controls at the HQ of the NSMNE are not separated from the traditional controls discussed above. Rather, they support the functioning of the traditional systems of controls; adding the flexibility needed to give the NSMNE the competitive edge it desires to consolidate its leading position in the industry. These forms of control were found by Malmi and Brown (2008) and Masquefa (2008) to enable cohesion between teams. They allow the NSMNE to be more responsive to the challenges of the institutional environment of its operation, as discussed in chapter 5. Informal controls at the HQ of the NSMNE are discussed below.

6.5.1 Organisational culture: strong beliefs system

The NSMNE has a strong organisational culture with a clear mission and purpose that every employee must abide with. Slogans, visions and the mission statement of the NSMNE are cut out and placed on the walls in strategic places. There is free communication among staff at all levels, while respect among staff is also encouraged. The culture of the NSMNE develops four key principles of leadership, safety and security, enterprise and service excellence. Leadership implies taking responsibility, maintaining a positive attitude and leading by

example. Managers as team leaders are trained to motivate and set the tone among those they work with in order to boost morale. Safety and security are emphasised formally and informally among organisational members. This pillar is the most distinctive in the culture of the NSMNE. An interviewee maintained that:

"*we (NSMNE) are still in business because we are very security and safety conscious. We put safety first in our business. As a matter of fact, we could have easily gone down the line of other failed firms but not for the culture of security and safety that we uphold. But a lot of times customers do not understand that, so they say our problems are too many when we try to follow the procedures laid down for us by management*" (BOM6).

Another interviewee maintained that "*they (management) are always sending mails to us, like the one I received now. They send fraud alerts to us which we also use to equip ourselves. This is from internal audit. These are things we see from time to time*" (BOM2).

The third pillar is enterprise. The culture of enterprise encourages employees to be imaginative and creative while being conscious of the level of risk that is acceptable. To achieve this, employees are given access to share their ideas and solutions directly with senior management and even the CEO through emails. The fourth pillar is service excellence. However, interview evidence and observation of incidents during the empirical study suggest that the culture of service excellence is an area that NSMNE is weak on.

An interviewee noted that "*For example, there is one thing of note when you hear people talking the organisation (NSMNE) outside. Our services are slow; people spend a lot of time when they come to our organisation before being attended to…*"

However, several interviewees shared instances where people associated their positive behaviours and attitude (attention to details especially security consciousness) with the NSMNE, even when they had no prior knowledge of them working there. This supports the findings of Kärreman and Alvesson (2004), who noted that strong organisational culture reflects in the behaviour of members of an organisation, and can be helpful in facilitating coordination and cooperation.

The culture of the NSMNE is "*built around fundamental principles that are disseminated across the organisation with the aim of creating an environment distinct from what employees may be used to*"-noted interviewee (HHC). Evidence indicates that the NSMNE, in addition to the traditional control systems, tries to inculcate in staff the required culture through strong beliefs and values. At strategic places such as at the training centre and in offices, the NSMNE's values and visions, credos and slogans are displayed for staff in bold and colourful pictures. By this means, the NSMNE aims to influence the way staff make sense and draw meaning from the environment (Scott, 2005).

Staff recruitment and training is an important process where the culture of the NSMNE is developed. The NSMNE has in principle a recruitment strategy that is intended to help it recruit staff that uphold high ethical values. To achieve this, the NSMNE engages in what is described as "creative recruitment strategy". The creative recruitment strategy involves "*searching for people who are not only suitable for the job in their technical abilities but those who are keen and display the right character traits*" (HHC). Ahrens and Chapman (2004), and Kärreman and Alvesson (2004) found that the recruitment of staff could be used as a means of developing and maintaining a sound organisational culture.

Once recruited, newly employed staff are educated in the values of the organisation, while staff already on the job are expected to attend training. This training is part of performance

assessment, for which a minimum number of hours is expected. Abernethy and Brownell (1997), note that training helps to regulate behaviour through self and peer group control processes (p.235). Staff are required to have "*at least 5 hours of training a month and at the end of the year accumulated training hours of at least 60 hours*" noted an interviewee (BOM1). While the training may focus largely on the technical aspects of the job, it is also intended to develop in staff the abilities for discretionary decision-making and the skills of dealing with cultural issues.

An interviewee noted that the training on handling cultural issues and discretionary decision-making was necessary for flexibility and subsequent improvement in customer service because "*somewhere along the line, the organisation realised that the stringent nature of implementing control was not helping business. When customers come to make dealings with us, we are just not able to attend to their demands. Common sense wise, some of the services are things that could easily be done for the customers, but because the controls were very stringent, you were given no room to bend. Along the line the organisation started seeing the impact of this very stringent control policy, we were losing out to competitors, so they started relaxing, relaxing doesn't mean the controls are overlooked, but have been restructured* (AOM3).

6.5.2 Kinship and Shared Interest and its effects on Traditional MCS

Chenhall et al. (2010) argued that informal controls may be helpful in maintaining commitment among employees and for encouraging innovative practices. Informal control in the NSMNE was encouraged through bonding and bridging ties described as social capital (Adler and Kwon, 2002, Chenhall et al., 2010). Social capital ties were found in various forms at the headquarters of the NSMNE.

The normative influence of the Nigerian kinship culture as explained in chapter 5 encourages the development of social capital among staff. Through reciprocation and the cultural inclination to look after the welfare of others, staff are able to work around formal structures to achieve goals. These activities of staff produced the controlling effects that fit the description of clan controls by Ouchi (1980). As with traditional Nigerian families, staff were quite involved in the private lives of one another; up to the point of ensuring that there was domestic peace in their homes, as noted by an interviewee: "*And in terms of welfare, you have to make sure that your staff, at least to a very great extent have domestic peace because that translate to their best at the office* (AOM6).

The shared interest among staff is helpful in controlling their behaviour at work. There is a strong show of solidarity among staff, but of importance also are the personal qualities of the team leader (manager). The team leader can mobilise colleagues in support of any member of staff in difficulty and to honour them in social events. This means the charisma of the manager has a controlling effect, because the onus is on him/her to preside over various activities that staff may engage in, ensuring that they are performed in ways that generate the desired social capital through bonding (Vera and Crossan, 2004, Walumbwa and Lawler, 2003). An interviewee noted that:

> "*no matter how tight my schedules are; if anyone of them is celebrating or mourning I make sure I attend. I even travel out of Lagos to attend their social activities. I also coordinate other members of staff to come along and make our physical presence felt, because, I believe that we spend the greater part of the day here in the office, so even the family members at home cannot not be more family than those of us here*" (BOM1).

Bonding among staff is also encouraged through a process described as "village meeting". "*The village meeting is just a kind of localised meeting whereby the African village setting is*

replicated to discuss pressing issues; it is even targeted at junior staff. A junior staff is appointed the Chairperson of the meeting. It is an atmosphere that is created for all of us to be able to air our views and nobody gets penalised for whatever he or she says at that forum" noted (BOM3).

During a village meeting, the village head moderates the meeting and points out areas where they have fared well and areas that need to be improved upon. Those who are perceived as not doing enough are criticised by "naming and shaming". Like the traditional African town hall setting, the village meeting at the HQ of NSMNE allows subordinates the freedom to share their views and criticise others objectively in a way that benefits the entire team. According to interviewee BOM3, "*This democratic process unearths any grievances or misgivings that are held by subordinates in relation to their job function and policies from the head office. It provides a good avenue for staff to share their concerns and offer suggestions concerning ways to move the organisation forward"*. Staff are able to speak without fear of losing their jobs because the village meeting setting is an approach adopted at the branch level of management, where the managers seek to mobilise staff and resources to achieve set targets, which are evaluated by the area managers and other supervisory team from the head office.

The village meeting approach demonstrates the cultural influence of the local society on management practices. By adopting practices from the institutional environment in which it operates, the NSMNE is subjected to the cultural-cognitive pressure of the environment (Kostova and Roth, 2002).

6.5.3 Informal control and the relationship between subunits of the NSMNE.

As discussed previously, the NSMNE was involved in a transformation exercise that resulted in corporate activities being divided into two broad subdivisions of operations and marketing.

The different targets and performance requirements that these two groups have to meet may result in conflicts. The market-facing staff members are referred to as relationship managers and have to meet targets for numbers of customers they are able to bring to the NSMNE. The operations group, on the other hand are assessed based on the quality and efficiency in service delivery. The main contention is getting the two subdivisions to agree on how best to align these performance targets. For example, interviewees suggest instances of delays in executing customers' transactions and requests as a result of the different focus in targets. An interviewee noted that:

"At the beginning when the whole thing (restructuring) started, there were a lot of conflicts, even up till now, there is still some cold war in some places. The major conflict is meeting our individual unit targets. For us to measure our performance in the line of services we are delivering" (CS2).

However, evidence suggests that staff can exploit social capital in the relationships that exist among them, to resolve the conflict of interests. Although the established system of controls is not abandoned, trust and reciprocation become vital attributes in staff relationships. An interviewee shared the following in that regard:

"For instance, documents required by customers to effect a transaction may not be complete when the marketing people bring them to us. Ideally I would say if you don't bring it I won't do it, but because the relationship is built on trust for him or her, I can go ahead with it based on your commitment that I will get the missing document(s) at some point. There is the respect, there is the trust, and then based on may be consistency in previous transactions that has occurred and this person lived up to the bidding; that is where the trust comes in and it helps a lot (CS2).

Another interviewee supports the need for cooperative relationships, suggesting that they are important for reaching agreements where traditional controls and structures may constitute a hindrance, as stated below:

> *"In our kind of working environment that has to do with a lot of controls, strong ties are important not only for an appropriate working environment, but for reaching agreements on how activities are to be performed. Having a bond with your team members gives them a sense of belonging, but at the same time, you should be able to wave the stick where it is necessary and they should understand that and appreciate when you take such position*" (BOM3).

The assertion by interviewee BOM3, as noted above, agrees with the findings of Masquefa (2008) and Aarstad et al. (2010), who found that the social capital generated from bonding relationships between staff of two departments, was helpful in resolving differences in the performance measurement system.

In addition to the value of cooperative relationships as discussed above, bridging relationships, or weak ties within and outside the NSMNE, was also found to have a controlling effect. For instance, the relationships between some BOMs and gangs (Area Boys) gave them control over how their activities may affect the NSMNE, and this helps to avoid issues that may impact the smooth operation of business. This ensures that customers are able to transact businesses without the fear of being harassed. That does not only help the BOM to meet performance targets, but also benefits the organisation as a whole by allowing more customers to access the services on offer, thereby increasing the profitability.

Within the NSMNE, bridging relationships also generated benefits for staff. BOM5 shared an experience of a staff member who worked with him previously. This relationship helped him

get around approvals more quickly from the head office department, where the staff member was moved to from the branch. The interviewee explained as follows:

"*I had this staff working with me, he studied computer engineering, so one day I was working in the morning and suddenly my computer display was upside down, I sent an mail to the IT department, they came and spent the whole day without succeeding to reverse it, the guy kept quiet, they tried and couldn't, the third day, the staff had fixed it. When the IT people came, they were surprised it has been fixed; the next day, a letter came from the head office that I should release him. His move was of such benefit for me that there was nothing I needed from the IT department that wasn't got. All I needed to do was to call him and say this is what I want from your department and that is it*".

The quotation above reflects the importance of bridging relationships between staff. It is also in line with previous research reporting the importance of bridging relationships as important sources of social capital benefits (Aarstad et al., 2010). From the interview evidence discussed above, social capital is the ingredient that enables the controlling effect in informal controls. That is, just as the prospect of rewards or punishments could shape employees behaviours and response to formal controls, the benefits and possibility of loss of social capital are important to the controlling effects of informal control system.

6.6   Chapter summary

This chapter has presented the results of the empirical study at the HQ of the NSMNE. The key findings presented in this chapter suggest that pressures from the Nigerian institutional environment impact on the way in which MCS are designed and used within the HQ of the NSMNE. For example, pressure from the regulations of the Central Bank of Nigeria and competition from new generation firms was instrumental in the restructuring activities of the NSMNE which lead to the redesign of the MCSs and saw organisational activities split

between the operations and market-facing subdivisions in order to cope with competition. As a result, budgets in the NSMNE were redesigned to give direction in the search for opportunities and to align operations towards the more efficient use of resources.

The study also explored the process of setting budgets, in order to understand whether lower level managers and other staff members participated in setting budgetary targets and how that affected their behaviour. The findings suggest that the NSMNE practices a participatory budgetary system where units and departments within a branch work together to develop the budget. The rationale for this is to enable staff members who are involved in regular contacts with the customers to include in the budgets items that meet their operational needs. The different cultures and dynamism of the institutional environment, means budgets have to be designed to account for the specific needs of branches.

Social capital generated from cooperative relationships was found useful in meeting budgetary targets. This is discussed further in chapter 8. Staff benefited from bridging ties that link them to business contacts, as they seek to meet budgetary targets. Bonding ties between the subdivisions and among staff members in the same division helped them to cooperatively achieve budgetary targets.

Performance measurement and evaluation system at the HQ have the function of monitoring and strengthening accountability and also support decision-making. PMES in the Nigerian institutional environment is important in ensuring that staff put in the effort required of them. This was necessary to counter the effects that the cultural-cognition of the Nigerian environment may have had on staff members. The PMES was originally group-focused, which is more consistent with the local culture, but leads to what were perceived to be unfair results. In acknowledgement of the pressures from competitors a change was made to

measure individual performance. However, the culture of kinship impinges on the successful operation of the PMES.

The NSMNE has in place an elaborate system of compensation and reward. This could be explained from the events in the institutional environment, where there is a reported lack of motivation among staff. Both financial and non-financial rewards were identified. While staff suggest they appreciate both, there seems to be some preference for financial rewards. Non-financial rewards like promotion that may eventually lead to financial rewards are also preferential.

Of importance in the reward and compensation system, is the place of punishment. While the literature barely touches on the subject of punishment when evaluating the factors that may lead to better performance, punishment was found to have the effect of improving performance among staff in the NSMNE because of the fear of losing their jobs. This is important as the institutional environment (which the NSMNE belongs to) does not offer much in terms of job opportunities.

Apart from the traditional controls discussed above, informal controls were also found. These informal controls are proven to add the needed flexibility to deal with the challenges of business operations in the NSMNE Nigerian institutional environment. An aspect of the informal control systems is the organisational culture of the NSMNE. Through the expression of strong beliefs and values, the NSMNE influences employees' behaviours in ways that make them identifiable as staff of the organisation in the society.

To develop the NSMNE 'culture', the NSMNE engages in what is described as a creative recruitment and training programme to select employees that could be trained to imbibe the organisational culture. This culture has been helpful in establishing the NSMNE as one of the leading and most stable firms in the Nigerian financial services industry.

Informal controls were also found particularly useful in moderating the relationship between the two main subdivisions (operations and marketing) of the NSMNE, where formal controls led to conflicts and delays in the execution of customers' requests. The Nigerian kinship culture was also found to have a part in creating bonding relationships among staff. This generated social capital can lead to better performance. However, there are also indications that such bonding and bridging relationships that gave rise to social capital, can be exploited in ways that made them risky for the NSMNE.

To sum up, the theoretical implications of these findings are that the MCSs found at the HQ are still being developed and are not standardised systems that could be transferred to a subsidiary in a more developed and stronger institutional environment. Furthermore, the new systems being trialled at the HQ are the result of the pressures from the Nigerian regulator, the CBN, and events leading from the changes in regulation, and not from a conscious attempt by the HQ to strategically position the NSMNE to be competitive.

Moreover, efforts being made to develop more standardised systems are directed at the factors of the Nigerian institutional environment rather than a broad-based array of factors from the different institutional environments that could impact on the functioning of MCSs. Given that the focus of these new systems is local rather than international, this implies the that HQ may not be enthusiastic about developing systems that could be transferred internationally.

The new systems also bear a resemblance to the subsidiary's MCS, where staff members from the HQ are sent for secondment duties to gain experience. In addition, the exchanges between the HQ and the subsidiary and the fact that the HQ opted to employ experienced staff members who have worked in other foreign MNEs in the UK to manage the subsidiary's

operations rather than sending expatriates from the HQ suggests the HQ lacks confidence in the competencies and technical abilities of its senior staff members to manage the subsidiary.

This discussion is important to gain some insight into why MCS may or not be transferred to the subsidiary from the HQ, since the subsidiary operates in a stronger institutional environment than the HQ.

<div align="center">**Chapter Seven**</div>

<div align="center">**Management Control System at the Subsidiary of the NSMNE**</div>

7.1 Introduction

This chapter discusses the MCS found at the subsidiary of the NSMNE. It discusses the design, uses and how the institutional environments shape the process of MCS design and use. The NIS is the theoretical lens through which the influences of the institutional environments on the MCSs are explored and explained. The structure of this chapter is as follows: the first section discusses budgetary controls in the subsidiary. It is followed by the performance measurement and evaluation system (PMES), and then the rewards and compensation system. These controls are the formally documented MCS in the subsidiary that have to be approved by the subsidiary's board of directors. However, they operate alongside other informal controls. These informal MCSs are discussed in the last section of this chapter.

7.2 The UK institutional environment and budgetary controls

Budgets at the subsidiary are prepared during the last quarter of the year as at the headquarters. Preparing the budgets at the same period as the headquarters and subsidiary offers several benefits to the NSMNE, such as being able to align operations and financial reporting of the HQ with that of the subsidiary. This is consistent with the findings of Yadong (2005). It is also important to align the timing of budgets preparation since the subsidiary "*designs its budgets by taking into consideration both the strategic objectives of the HQ and its own strategic approach. This ensures that the HQ objectives are also achieved*" (UK3).

Budgets are prepared following predetermined budget policies and guidelines that take into consideration the overall corporate objectives, the past results and performance and the opportunities and threats from the external environment of the subsidiary operation.

Interviewee (UK1) describes the considerations that are made by the subsidiary with regards to its operations and meeting the strategic objectives of the headquarters and explains how budgets are involved as follows:

"okay, we are here, we are going to offer retail services, we are not going to make a big deal of money as such, but we offer that as a primary service, meanwhile what we can do strategically to cover our costs and to put money into the shareholders' pocket, we can set up trade related products, that is trade finance, export and import financing activities etcetera. But how much will that cost us, how do we set that up? What is the impact, what is the way forward on this, who do we want to deal with? Do we want to deal with any other people other than UK-Nigeria; do we go UK-Africa, the rest of the world-Africa? Obviously, all those things have to be justified, have to be considered, what do we get (profits) in return? How much is it going to cost to support that, are we going to put the infrastructures in place, how much is it going to cost to put that in place, we going to have a system, we are going to have computer, we got to have human resources, we got to have space in our premises, all of that has to be taken into account. And of course, budgets are at the heart of the process" (UK1).

In order to prepare the budget of the subsidiary, a budget committee comprising the various functional heads of departments is formed. The committee organises pre-budget meetings and strategy sessions to enlighten employees and sensitise them to the budgetary process. The heads of department then work with their teams to make budgetary projections, which are submitted to the budget committee. The committee evaluates the feasibility of the

projections made by the various departments and may effect amendments where necessary. The budgets of the different departments are brought together to form the "master budget" for the subsidiary.

The headquarters through the "*board of directors of the subsidiary review the controls of the subsidiary. The board also approves the strategic plans of the subsidiary before use*" (UK1). As noted previously, the subsidiary has its own board which allows it to be autonomous to a degree, however, when board meetings are held every quarter, "*everything is reported to the board and the representatives of our parent then take that to the management*" noted interviewee (UK2). While the subsidiary designs its own budgets, they work within the broader framework of the headquarters. Hence, it may be argued that the headquarters controls the subsidiary operation through approvals by the subsidiary board of directors, which comprises HQ representatives. The next section discusses budgetary target setting and how the differences in the institutional environments between the HQ and subsidiary impact this process.

7.3   Budgetary target setting – the role of the institutional environments

Dossi and Patelli (2008) argued that the setting of budgetary targets for subsidiaries by the HQ of multinationals could be achieved either through participation or imposition by the HQ. Participation involves the negotiation and agreement of budgetary targets between the HQ and the subsidiary (Elbashir et al., 2011). In contrast to the findings of previous researchers (Norreklit and Schoenfeld, 2000; Hyvonen et al., 2008), at the NSMNE budgetary targets are not being imposed by the headquarters on the subsidiary. The subsidiary is allowed to design its own budgets in line with the HQ strategic objectives and subject to the approval of the subsidiary's board of directors.

The reason for this approach to dealing with the subsidiary's budgets, according to interviewee 'HBS', is the peculiarity of the UK environment, which does not lend itself to the imposition of budgetary guidelines and targets by the HQ:

"You know they are not on the same business line, the peculiarity or what I will call the features of that industry sometimes is a challenge. In the UK, the operating environment does not offer more than 12-13% on return on equity. And the group is saying that the subsidiaries should at least return 25%, so you discover that your aspiration locally may not be able to be met by the subsidiary as a result of the environment. So you see that because of the peculiarity of different businesses, it is sometimes difficult to have the central aspirations that will commonly drive the subsidiary, as I said, because they don't have the same characteristics, different businesses in peculiar environments" (HBS).

This is consistent with the argument of Hassel and Cunningham (1996) that budgetary process in foreign subunits should be different from the HQ because of the differences in environment and the strategic emphasis that may be placed on the sub-unit by the HQ.

The peculiarities of the subsidiary environment, which have not encouraged setting budgetary targets as a means of controlling the subsidiary, according to interviewee 'HBS', include the levels of economic development of the UK institutional environment and the activities of competitors. The regulatory activities in the UK, which are considered to be more advanced than those of the HQ environment, is another factor of the UK institutional environment that makes it different. As noted in chapter 5, there is the perception among interviewees at the HQ that the UK regulator – the financial services authority (FSA), is a standard bearer in the financial services industry in the world, and being able to comply with its regulations brings

added value to the NSMNE. For that reason, the HQ seems satisfied with the subsidiary being able to "cover its costs" and keeps its presence in the UK.

Interviewee (UK2) noted that: *"It is tougher for us in the UK to do business in the international market than it is for our parent to do business in the domestic environment so; obviously, it is having the presence in London which is what our parent wanted. Because having your presence in London gives you international recognition. Being a UK financial services enterprise is a conduit for other companies, because we are regulated by UK authority, the FSA. Sometimes that gives more confidence for the companies to deal with the UK financial services enterprise than an overseas enterprise".*

Ferner (2000) suggests that where the priority of the HQ is to benefit in other ways rather than from the profits the subsidiary may generate, the subsidiary would be expected to design and implement its own budgets and solve any impending budgetary problems. This same principle works in the NSMNE. In this case, the subsidiary allows the different departments to identify their needs and make projections concerning the resources that will be required to satisfy those needs. The problems (constraints that may limit planned activities) identified and the solutions offered through budgetary projections are incorporated into the budgets, rather than being imposed on the subsidiary.

The HQ sets budgetary targets and ensures that budgetary projections of other subsidiaries are evaluated and defended during group management meetings (GMC), which is also a forum to review strategy and assess performance objectives. However, the UK subsidiary does not defend its budget at the GMC based on targets from the HQ, but from budgetary projections that have been internally made within the subsidiary in furtherance of the HQ objectives. An interviewee shared an experience of a GMC attended where budgetary targets had to be defended as follows "*I have attended one of the GMCs, and I found it quite*

exhilarating on the basis that we had all the subsidiaries around the table, we all had our budgets and it seem we were the only one who had been allowed to design our budgets without having targets set by the HQ" (UK5).

Documentary evidence indicates that most of the other subsidiaries of NSMNE in attendance at the GMC are located in Nigeria (the same institutional environment as the headquarters) or within the West African subregion. Countries in the West African sub-region share similar attributes of the Nigerian institutional environment; they are LDCs with developmental issues like, poverty, illiteracy and corruption as discussed in chapter 5. Thus, the exception in the imposition of budgetary targets on the UK subsidiary, as observed at the GMC by interviewee (UK5), can be attributed to the differences in the institutional environments between the HQ and the UK subsidiary.

While the pressure is not on the UK subsidiary to meet high budgetary targets as it is at the HQ, the GMC meeting provides a forum for the UK subsidiary to engage with other subsidiaries of the NSMNE and the HQ to discuss, share ideas and explore business opportunities and areas of common interest that could be developed together with other subsidiaries to achieve the strategic objectives of the NSMNE. Ferner (2000) noted that MNE HQ may oversee the subsidiary budgetary activities through regular reporting and reviews. Although in the UK the subsidiary may have budget flexibility, there are other ways in which the HQ controls it. In the next section, the role of social capital in budgetary target setting of the subsidiary is discussed.

7.4 The role of social capital in budgetary target setting

In traditional multinationals, HQs may use detailed financial budgets that articulate action plans into strategies to control subsidiary operations (Chenhall and Morris, 1995). MCS scholars have argued that the use of budgetary targets to control and coordinate subsidiary

operations may be met with resistance and lengthy negotiations (Frow et al., 2005; Hansen and Stede, 2004). Social capital relationships among staff members have been suggested as having the ability to enable a faster process of reaching agreements over the design and implementation of budgetary systems (Masquefa, 2008; Cantwell et al., 2010; Chenhall et al., 2010).

In the case of the NSMNE, rather than depending on budgetary target setting which may hamper the achievements of other objectives that the HQ is set to achieve through the UK subsidiary, as noted earlier, it has adopted a more flexible approach. Being relatively inexperienced in business operations in a highly regulated environment, the HQ of the NSMNE adopted the approach of hiring experienced staff from the UK industry. This contrasts with findings in the multinational literature where it is argued that staff are transferred from the HQ to manage strategic positions in subsidiaries (Ghoshal et al., 1994; Collings et al., 2007). An interviewee stated:

> *"We trust the subsidiary management to act in good faith even though we do not set budgetary targets for them as we do to other subsidiaries here (local subsidiaries). So far, we have not been disappointed and I attribute that to trust, and the common interest we share"* (HBS).

From the HQ perspective, depending on staff hired from the UK industry allows the HQ to benefit from the experience of the staff to adapt faster to the UK institutional environment. It also allows the HQ to benefit from the established contacts and networks of relationships that the staff members have developed over their careers in the industry.

A central figure enabling the coordination of subsidiary operations without necessarily following a stringent regime of budgetary targets is the CEO. The CEO of the NSMNE shares a trust relationship with the UK MD which enhances cooperative action and

reciprocation. This trust relation enables the CEO and MD to *"share as often as needed information relating to business operations at the subsidiary level"* noted (UK1). Langfield-Smith and Smith (2003) noted that where trust relationships exist among management staff, it leads to a decrease in the risk of inappropriate behaviour and enables social control mechanisms. This finding regarding the relationship between the CEO and MD is also consistent with Roth and O'Donnell's (1996) assertion that in the relationship between the HQ and subsidiary, the focal point for balancing the interests of the headquarters with subsidiary operations rests with senior management.

The social control approach, building on the social capital that exist between staff according to interviewee (HBS), allows the subsidiary to develop its own strategies and build controls around them in ways that suit its operating environment: *"They have their strategy independent of our own. However, we try to integrate the strategy of the subsidiary with ours to have a common platform to drive performance. The integration process is a complex process which is based on existing relationships at the top"*. Kasurinen (2002) noted that the fear that HQ-imposed budgetary targets may fail to meet local needs and may stifle the subsidiary's ability to achieve other objectives of the HQ may influence the decision as to whether formal MCS (budgetary targets) are deployed to control operations.

However, Adler and Kwon (2002) argued that over-dependence on social capital relationships as a means of control may lead to "parochialism and inertia", as people may not be willing to challenge the norms (ideas and opinions) that may cause disagreements and division within a group. Furthermore, while the contrast in the institutional environment is suggested by the interviewees as a reason why the use of budgetary targets as a control has not been followed, MCS scholars have found them useful in improving performance (Boland Jr et al., 2008; Chenhall et al., 2011; Davila et al., 2009). Rather than exonerate the subsidiary because of the environment, better efforts would be encouraged if the reliance on

social capital could be balanced with the use of formal systems of control. It is, however, important to note that in the case of the NSMNE, the HQ appears happy with the approach that it has adopted and the results being produced, as suggested by the interviewees. The next section discusses performance measurement at the UK subsidiary.

7.5 Subsidiary performance measurement and evaluation system

Documentary analysis and interview evidence indicate that the PMES at the subsidiary are standardised operating systems rather than experimentations, as was the case with the HQ. The standardisation of the PMES could be attributed to the stronger institutional environment of the subsidiary, where regulations governing business operations and employment relationships exist and are functional. In addition, the UK legal system could be depended upon by aggrieved staff members to address their grievances, and there are several opportunities for employees to change jobs where they feel they have not been fairly treated. Another reason for the standardisation is that key staff members, involved in the design of the subsidiary's PMES, have experience in other multinational companies, where they have been involved in the development or adaptation of PMESs in the UK operating environment.

For example, interviewee (UK2) stated that: *"I spent the first 10 years working for an American financial institution in London, I then left that and I went to a Dutch institution, then I worked for a Greek institution and I worked for the Arabs for 12 years and the common denominator was a UK way of doing things whether it was the design of the performance evaluation system or other systems in use here"*.

Similarly, interviewee (UK3), who has responsibility for leading the design of the PMES in the subsidiary, had held a leading role in another firm, where she helped design their PMES. Her past experience played an important part in adapting the design of the PMES to the needs of the subsidiary, as noted below: *"the templates I helped to design while working for a*

previous organisation, were still with me when I moved here and has played a part in designing the present system in use. Along with inputs from other staff we were able to adapt it to the present conditions, what I can tell you is that they are not very different".

The experiences of these staff members were not only helpful in designing the PMES, but also helped the HQ to achieve its objectives of operating in the UK in accordance with the UK regulatory framework, as noted by interviewee (UK1). Hence, the strong institutional environment of the UK attracted multinationals from all over the world, enabling employees to change their jobs and carry their experiences to other enterprises as they moved jobs.

Broadly speaking, the PMES is "*designed to support the role of the subsidiary to the NSMNE and the broad objectives of the NSMNE. So the Human Resource Department came up with these core elements that staff are expected to imbibe and exhibit for those objectives to be achieved*" (UK3). These core elements make it possible to measure staff performance and to assess whether they are meeting their individual targets.

The PMES designed for the subsidiary is oriented towards the evaluation of individual performance. Seddon (1987) note that performance evaluation as a means of control has an individualistic connotation which could be associated with the western cultures of the US and UK. Individualistic cultures like the UK's lay emphasises on individual rights and contracts, accountability, rationality, individual decision-making and individual goals instead of those of the group (Alexander, 2012). While staff performances are measured at individual level, departments and units are assessed based on targets that have been set for them by senior management. Lohman et al. (2004) and Ukko et al. (2007) noted that, by evaluating the performance of units and departments in addition to individuals' contributions towards the overall performance, organisations hope to not only encourage better performance from the

206

individual, but also create a sense of cooperation and responsibility in achieving the group goals.

The process of performance evaluation according to an interviewee involves "*giving our profit centres targets to meet, and there are a few institutions that will do that not just this institution. You have the back office, support office and you have the front offices which are going out bringing in business. There are specific measures that are assigned to key elements that are supposed to make these departments function properly*" (UK2).

The front office staff members mentioned by interviewee (UK2) above have the same job functions as the market-facing staff at the HQ that go out to bring in business. But while staff in similar positions at the HQ worry about meeting high targets as noted in chapter 6, staff at the subsidiary are incentivised to put in that extra effort. Interviewee (UK2) notes that "*well, we may say if you can bring in this much business, we will make sure that you are paid this level, so they are incentivised*". While the subsidiary gets most of its business from the HQ, the subsidiary management also makes efforts to ensure that the subsidiary is viable and remains operating, hence the incentive given to staff to bring in business from within the UK. In the next section, the "specific measures" or key performance indicators (KPIs) that are used at the subsidiary in the design of the PMES are discussed.

7.5.1 Key performance indicators (KPIs) and performance measurement

Performance measurement in the UK subsidiary is based on key performance indicators (KPI) that have been designed to suit the requirements of the UK institutional environment, as well as the subsidiary objectives which are set by the subsidiary board of directors. Broadly speaking, KPIs are tailored towards efficient service delivery, customer satisfaction, resource management and individual qualities that employees need to possess, to attract customers and create value for the organisation.

KPIs specifically targeting individuals' performance and work ethic, as contained in evaluation reports analysed during the empirical data collection process, fall under the following major headings: knowledge of the job, service delivery, habit and attitude to work and team work. These KPIs are illustrated in Figure 7.1 and explained below:
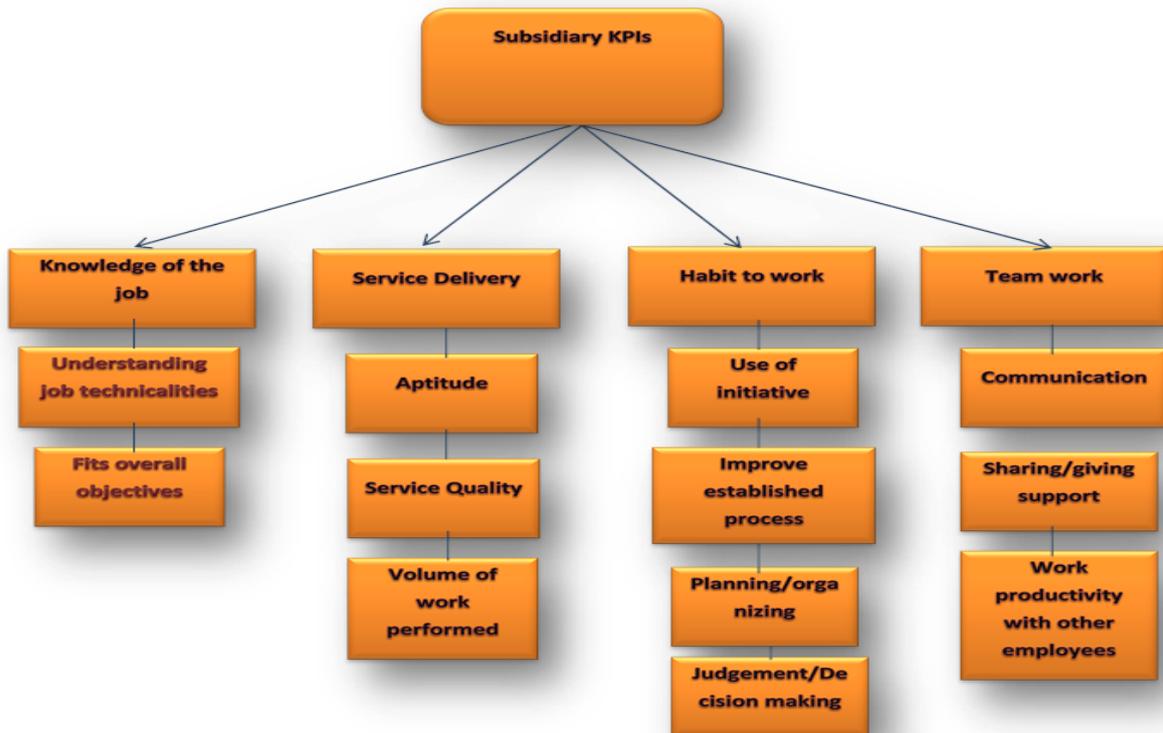
Figure 7.1 KPIs used for performance measurement at the subsidiary of the NSME

a) Knowledge of the job: this indicator focuses on the employee's understanding and/or knowledge of the job. The employee's understanding of the technicalities of the job and how it fits into the overall objectives of the subsidiary is captured under this evaluation criteria.

b) Service delivery: this criterion incorporates aptitude or how quickly the employee is able to learn and retain newly learnt work techniques. The quality of work output and the quantity or volume of work performed in comparison with the expected output also come under this indicator.

c) Habit and attitude to work: this indicator is focused on the employee's ability to use their own initiative to make the appropriate decisions, decisions that bring positive outcomes or improve an established process. It also covers the employee's organisational abilities, that is being able to anticipate, plan and execute the assigned task effectively and efficiently. The employee's ability to exercise judgement or think through situations to make appropriate decisions is also evaluated under this indicator.

d) Teamwork: the indicator evaluates how well the employee has worked productively with other employees or members of the team to actualise the established objectives. A crucial element of this indicator is communication, which helps the team get along well. Sharing in and giving support to other team members are other elements that are evaluated under this indicator.

Scores are rated on a five-point scale. A score of 3 is an average performance, a score above 3 and up to 4 is above average and a score that is above 4 is an excellent performance. Any score lower than the average score of 3 needs to be improved, since the staff member has performed below average.

These KPIs are similar to those at the HQ except that, unlike at the HQ, they are standardised measures that are modified based on strategic changes that the subsidiary management decides to engage in. This is different from the case of the headquarters, where efforts are still being made to develop a standardised PMES that will better access the performance of employees, as discussed in chapter 6. Furthermore, much emphasis is placed on non-financial indicators such as use of initiative, aptitude, service quality, work habits, judgement and decision-making and sharing/giving support. These indicators reflect expectations and areas that the management of the UK subsidiary expect employees to pay attention to. For example, sharing and giving support is an element that builds social capital and enables team bonding. Work productivity with other employees and communication are other non-financial

indicators that help to build social capital and ensure cooperation among staff members. In the next section, the usefulness of the PMES to the subsidiary is discussed.

7.5.2 PMES, dialogue and social capital

Contrary to findings by Cravens et al. (2010) and other scholars like Dossi and Patelli (2008) and Henri, (2006) that management (HQ) uses PMES to gather relevant feedback and to ensure that the subsidiary's performance is in line with its desired goals, the HQ of the NSMNE does not place the burden of high performance targets on the subsidiary. Rather, the subsidiary is allowed to design and use the PMES in ways that lead to the achievement of the broader objectives and to achieve other long-term benefits for the NSMNE. However, the subsidiary has to achieve enough to pay its staff and also remain operational.

An important use of the PMES at the subsidiary, according to interviewees, is that it provides the platform for dialogue among the management team. An interviewee noted that "*when performance appraisals are done, we are able to see from the outcomes areas of strengths and weaknesses and can dialogue with colleagues about them and ways to improve*" (UK2). Interviewee (UK1) echoed the point made by interviewee (UK2), noting that:

"*… we are a business that seeks return on investment; we pay our staff and get them employed. So we have to assess how they do their jobs and share our concerns where the need arises. We discuss what we can do to improve our performance and keep our parent (HQ) happy*".

The consciousness that poor performance may lead to the failure of the business and impact on the staff is another reason for dialogue during performance reviews. For example, interviewee (UK2) also noted that if efforts are not made to improve performance: "*we could lose our institution to other institutions*". Cravens et al. (2010) note that performance evaluation may not only motivate staff to perform better, it could also encourage

communication and exchange of information between staff. Social capital theorists have suggested that social capital is generated from the collective interactions and shared interest of those within a dense network of strong ties (Adler and Kwon, 2002, Coleman, 1990). Thus, the dialogue that ensues in the course of performance evaluation may help teams to bond and build social capital.

The dialogue that ensues, as a result of performance, outcome increases the level of interaction between staff members and helps develop bonds through sharing of responsibilities for poor performance and ideas for improvements. The sharing of responsibilities helps to build trust in each other. One interviewee maintained that:

"…*we share a cup of coffee and chat about the performance outcome. There is the tendency to want to put the blame on someone or some people when things go wrong, but we try to share the responsibility for any area of weakness and rather seek ways forward while acknowledging that things could be done better*"

Another interviewee shared that:

"*Sometimes it develops into a tense situation and we argue over issues, but what is important is that the job needs to be done and if that helps us to do a better job then, that is fine. But when the MD gathers the functional heads together to discuss performance he is right on top of the situation ensuring that we are discussing solutions rather than who failed to do what. That gives the reassurance that we are all in this together*".

This is in consonance with the findings of Chenhall et al. (2010), who noted that the dialogue that ensues during performance reviews encourages cooperation and may in turn lead to better performance results. Cravens et al. (2010) suggest that such dialogues lead to exchange

of information and cooperative relationships between staff members. It also encourages the need to ratify performance in ways that make the individual goals of managers, as well as the strategic objectives of the organisation, achievable (Dossi and Patelli, 2008). The subsidiary's engagement in dialogue, the self-evaluation of performance and the need to work cooperatively to achieve objectives are important for the HQ to achieve its strategic objectives without imposing performance targets on the subsidiary.

The difference between other studies of PMES in MNEs and the case of the NSMNE is that, while dialogue and discussions on improvements are mainly done within the subsidiary in the NSMNE, previous studies suggest a situation of dialogue between the subsidiary and HQ management, which seeks to use PMES to ensure the subsidiary is meeting its performance objectives. This could lead to tension and performance pressure being put on subsidiary management (Henri and Journeault, 2010, Coates et al., 1992). However, the relationship that exists between the HQ and subsidiary top management staff in the NSMNE means the subsidiary management can be relied upon to support the objectives of the HQ.

A key function of the PMES is providing the basis for rewarding the performance of staff members (Ukko et al., 2007, Henri, 2006); however, the PMES at the subsidiary has a different focus. The outcome of PMES at the subsidiary of the NSMNE helps management to intervene with appropriate actions to pursue the objectives of having an operating subsidiary of the NSMNE in the UK, and to develop the untapped potentials that may be revealed through PMES. The PMES also provides the basis for placement decisions of promotion, demotion and dismissal.

Coates et al. (1992) found that rewards and compensation that are linked to PMES serve as the main mechanism through which organisations are able to persuade managers to work

towards the achievement of corporate objectives. In the next section, the compensation and reward system is discussed.

7.6 Reward and compensation system

One of the aims of performance evaluation at the subsidiary is to ensure that the subsidiary meets its targets. These targets are outlined by the subsidiary management and ratified by the subsidiary board of directors. As noted previously, the subsidiary acts autonomously as if it is a separate entity from the HQ, but works towards the objective of remaining operational in the UK.

Another very important aim is to incentivise staff as they make their contributions towards the organisational objectives (Cravens et al., 2010, Awasthi et al., 2001). An interviewee explained the process of incentivising as follows: "*So management goes if you can bring in this much business, we will make sure that you are paid this level, so they are incentivised, but it depends on where you are within the enterprise. That is how you can be incentivised*" (UK5). The assertion by interviewee (UK5) suggests that rewards at the subsidiary share the characteristics of what Chiang (2005) described as performance-oriented and non-performance-oriented rewards system.

While performance-oriented rewards, as the name implies, are based on the performance of staff, non-performance-oriented rewards are based on the position or level that staff occupy in the hierarchy of the subsidiary. Top management incentivise staff members to encourage better performance and direct efforts towards the achievement of the subsidiary's strategic objective. Strategically the subsidiary is very important to the HQ as it makes effort to become an international enterprise. Even though the HQ does not pressure the subsidiary with high targets because of the peculiarity of the UK environment and the subsidiary's strategic importance to the HQ, the subsidiary seeks to use the discretionary decision-making powers

given to it by the HQ to explore for opportunities from the UK, as discussed further in chapter 8. In the next section the nature of rewards and compensation at the subsidiary is discussed.

7.7 Nature of rewards and compensation at the subsidiary and cultural-cognition of the UK institutional environment

Chiang (2005) noted that an individual is an embodiment of culture in their "most basic, consciously and unconsciously held assumptions, beliefs, norms and values" (1546). He argued that rewards constitute a cultural element in the relationship between employers and employees and, as a result, it is essential to understand employees' perceptions of different rewards. Rewards and compensation at the subsidiary are not as elaborate as those at the headquarters, which was discussed in chapter 6. Rewards, as described by interviewee 'UK1' "*should be good enough to attract the right talents and skills for the job; and should be such that makes it possible to retain them and keep them motivated. Fortunately, things are made easier because of organisations that produce industry-wide data upon which rewards may be based*". Another interviewee explained it in more detail as follows:

> "*... obviously you have the basic salary which tends to be in the UK market, because you have 100s of financial services institutions in London. The salary is basic salary, and they will be institutions which create volumes of statistics, that give the standard pay for job functions, there are about 3-4 institutions that produce them, and then if you want to hire a trade finance clerk, what is the average salary, contact a 100 institutions, how much do you pay a trade finance clerk at this level, what size of institution (in terms of number of staff). And for a trade Finance Clerk, there could be many variations, so basically, you come to an institution like this where we have an excess of a 100 people, so you have to move at this big (the size of the business)*" (UK2).

214

Apart from promotion, bonuses and similar rewards, other forms of rewards, such as the Area Manager Annual Merit Award (which is set up at the HQ by team leaders in charge of different areas to motivate staff under their supervision, as discussed in chapter 6), do not apply at the subsidiary. An interviewee noted that:

"The closest that we have here is that we have what is called staff suggestion. For instance, we have statements that need to be sent to our customers at the end of every month. A suggestion might come up that, instead of a person picking them up and putting stamps on them before sending them, why don't we get a machine to do that? And if we could find a machine that could do it, you say, hey, that is a good idea. And therefore, we might say to that person, well done, thank you for suggesting that, here is a small token of a thanks, and it is a very small monetary reward, we are not talking hundreds of pounds here, we are talking 25 or 50 pounds. So it's just to allow the staff to say hey, because they are doing the job" (UK2).

Salk and Shenkar (2001) pointed to the important of culture (consciously and unconsciously held assumptions, beliefs, norms and values) in shaping cognitive processes. They suggested that the cognitive and affective processes have a bearing on the perception of rewards, and efforts should be made to understand the implications that they may had on the reward system. That is, employees' reward preferences are culturally bonding (Chiang, 2005; Salk and Shenkar, 2001).

The subsidiary has an additional way of compensating staff that was not identified as a form of reward among staff at the HQ. This can serve as a replacement for those other forms of rewards at the HQ. An interviewee suggests that:

"it is not just the question of financial rewards, it is environment, what is the office like, is everybody cramped on top of each other, are you treated fairly, we take all of that into account as well to make sure that, basically, if you treat the staff well, you are going to get a much better return, the work ethic and the amount of effort each person puts into it. It is not just a question of paying loads of money to these people, it is a question of paying what is competitive in the market, and also by adding your own flavour to it by giving great accommodation, office space, have we got a kitchen, down to that, we have coffee, tea, people can have. It is just an all-round environment, a good working environment. So it is not just financial reward". (UK1).

While the discussion has so far centred on traditional MCSs at the subsidiary, the informal MCSs will be discussed in the next section. Traditional and formal MCSs are entwined with other informal or organic controls. The next section discusses informal controls at the subsidiary of the NSMNE.

7.8 Informal controls at the subsidiary

Informal controls provide the elements of flexibility that are needed to manage the operations of the subsidiary business. They serve as the galvanising force in the use of traditional mechanistic controls systems; enabling communication, faster adaptation and flexible decision-making (Chenhall et al., 2011). Elements of informal controls were found in various forms at the subsidiary.

Informal controls are expressed through the organisational culture of the subsidiary. The organisational culture is visible through the way that work gets done by employees on a daily basis. There is a team-oriented approach to work, that work is organised around teams rather than individuals. The emphasis on team work is reflected in the use of open work spaces. An interviewee noted that *"with the emphasis on teamwork, the work spaces have been designed*

216

to foster interaction among employees and also to suit the fast work pace that we encourage here as people are able to get about more freely" (UK3).

Another element of the organisational culture is leadership. Although team work is emphasised, the team leader is responsible for coordinating the activities that the team perform. There is also emphasis on how the outcomes of activities are achieved, rather than the results. The organisational culture orientate employees to work cooperatively and agrees with Kärreman and Alvesson (2004), who stated that strong organisational culture has controlling abilities that enable staff to work cooperatively towards goal achievement. Hence, team work is a key performance indicator upon which employees are evaluated, as noted in section 7.2.1.

Empirical evidence suggests that the subsidiary uses recruitment as a means of selecting the right calibre of staff, and also to build the organisational culture (expressed in values and norms), which is consistent with previous findings by Ahrens and Chapman (2004). Organisational values, beliefs and norms are built into the selection criteria of employees. So in the recruitment process of the subsidiary according to interviewee (UK1):

"We seek to attract people whose personal values are compatible with collective orientation that we encouraged. It requires being upfront about our values, so we include them in our application forms and recruitment materials. We also explore further the suitability of the candidate by structuring some interview questions around our values".

Top management staff members with previous experience in other organisations are also able to recommend directly or through acquaintances those they feel have the right attributes to fill vacancies in the subsidiary. An interviewee noted that "*when those who have been recommended by staff members are employed, they more easily adapt to the system because*

they find themselves in the company of someone or people that they have had previous relationship with" (UK3). Recruiting staff members through the recommendation of employees also helps to save costs that would have been incurred using recruitment agencies. This is supported by an interviewee as follows

"...the city of London to most people is enormous but it is quite small, because, we all know each other. And if there is a vacancy to be filled, we might discuss among ourselves whether anyone knows someone who could do a good job that would help our business in that area. If someone is suggested, we invite the person for an evaluation which is good because we don't have to pay to advertise for the vacancy" (UK3).

An essential part in maintaining the organisational culture and helping employees make appropriate contributions to the NSMNE is training (Abernethy and Brownell, 1997). Training provides opportunities to set individual personal development needs that relate to the values that staff need to imbibe or improve in. Apart from periodic training, the values of the organisation are communicated to staff through discussions and at meetings. Unlike the HQ where the values and mission of the NSMNE are printed out and displayed on the walls in strategic places in offices, the emphasis at the subsidiary is on verbally communicating these values to staff members "*to keep them (staff) conscious of them (values) and have them at the forefront of people's their (staff) minds as they perform their functions*" noted interviewee (UK3).

Staff at the subsidiary undergo various training programmes as *"management deems necessary for them to perform effectively on their jobs*" (UK1). However, training at the subsidiary does not follow the regimental approach of the HQ, neither is it incorporated into the performance evaluation of staff, as it is done at the headquarters. It is important to note that, although the subsidiary does not incorporate training hours into its PMES, such an

inclusion may be a useful way to reinforce the values of the organisation by rewarding exemplary practice.

Part of the aim of the training at the subsidiary is to forge the identity of the subsidiary as part of the NSMNE and as a Nigerian enterprise, and to inculcate in employees that awareness. An interviewee maintained that:

"The plc desires to be seen as the same Nigerian enterprise operating in London and it is important that we do not lose sight of that objective since what we do here has to follow the UK way of doing things. That is why we remind ourselves of that in meetings and training programmes (UK2).

This is necessary to achieve the objective of the NSMNE to be perceived as an international organisation able to operate in a more developed and highly regulated environment. This is supported by interviewee (UK5), who stated that "*the image of a successful international enterprise in quote is very important to our parent. In the pursuit of that image, it (parent) does not want to lose its identity as a Nigerian enterprise because that is where much of the benefits of operating internationally are needed*".

Furthermore, by training staff members in the manner the subsidiary desires, the subsidiary is able to inculcate its values and norms in staff. Alvesson and Willmott (2002) argue that, because accounting and controls are not outside the influence of the individuals, but are shaped by their sense-making and meanings, it is important for individuals to be trained to achieve desired objectives.

Through the combination of traditional MCSs as discussed and the subtle influence(s) of informal controls the subsidiary is able to operate in the UK, while fulfilling the objectives of the headquarters. The social capital that bonds members of the organisation and enables a

network of trust-based relationship and reciprocation to exist is an enabler of this form of relationship. This issue is elaborated further in chapter 8 on the relationship between the HQ and subsidiary.

7.9 Chapter summary

This chapter has discussed the MCSs found at the UK subsidiary of the NSMNE during the empirical study. From the theoretical perspective of the NIS, the chapter discussed how the UK institutional environment impacts the design and use of the MCS. It has also discussed how social capital generated from trust-based relationships and reciprocation has been useful for creating cooperation and harmony among group members at the subsidiary. Budgets, PMES and compensation and rewards system are the key formal MCS found in the subsidiary. Informal controls, which are less mechanistic in nature, were also found to operate alongside the traditional MCS.

Budgets at the subsidiary are prepared by the subsidiary management and are subjected to the approval of the subsidiary board of directors, who ensure the alignment with the HQ strategic goals. Contrary to the view that budgetary controls may be imposed on the subsidiary and/or follow a process which may sometimes involve lengthy negotiations (Norreklit and Schoenfeld, 2000; Hyvonen et al., 2008; Elbashir et al., 2011), the HQ does not set budgetary targets for the subsidiary. The HQ is also not involved in negotiating budgetary targets with the subsidiary. The HQ exercises influence on the subsidiary through the subsidiary board of directors and relationships between senior managers, which the HQ uses to ensure that its interests are reflected in the design of the budgets. Evidence suggests the non-imposition of budgetary targets on the subsidiary was because of the subsidiary's location in a stronger institutional environment. As a result, social capital, which is generated from cooperative relationships based on trust and reciprocation, became a useful tool of integration and coordination.

Furthermore, the HQ depends on the experience of the subsidiary management and their understanding of the UK institutional environment, to pursue its objectives of an international enterprise. These objectives are important for the HQ to maintain its leading role in the Nigerian financial services industry, and they are enough reason for the HQ not to put additional financial performance pressure on the subsidiary.

Similarly, staff experience was helpful in the design of the PMES. Key staff involved in the design of the system, are those who have been involved in similar positions in their previous organisations. These staff members are also helpful in ensuring that they take adequate consideration of the impact of the UK institutional environment on the design of the system. The PMES of the subsidiary is mainly designed to evaluate individuals' contributions. From the inception of the subsidiary operations in the UK, their PMES system was an established system with occasional minor changes over the years, which is different from the findings at the headquarters, where experimentation is still on-going in a bid to obtain a standardised PMES.

Another important MCS at the subsidiary is the reward and compensation system. The system is designed to incentivise employees and to ensure they display the appropriate behaviour and effort required of them. An interesting finding that came up while exploring the reward and compensation system of the subsidiary, is the perception of what constitutes a reward. Employees at the subsidiary considered a comfortable working environment as rewards. They claimed this gave them as much value as financial rewards. This is significant because it differs from the observation at the headquarters, where staff were keener on financial rewards. Provisions of items like free coffee, tea and the use of a kitchen were valuable rewards to staff and complemented the financial rewards they were given. Relationships with other staff and peacefulness of the working environment were also classed as rewards among the subsidiary staff. Notably absent in the discussion of rewards and compensations as a

possible outcome of the evaluation process, was punishment. This may be associated with the UK institutional environment, where such may be viewed as inappropriate. While punishment was found useful at the HQ as staff were afraid of losing their jobs, it might not generate similar results in the UK environment.

Informal controls, which were not usually documented, provided the elements of flexibility needed to manage the operations of the subsidiary. One avenue through which organic controls was exercised was through the organisational culture. The subsidiary used its recruitment strategy and training to build a culture for the subsidiary. An aim of this was to ensure that the subsidiary carried the agenda of the HQ and was also recognised as the NSMNE which was operating abroad. That image is important to the HQ as it gives people more confidence and trust in order to deal with the NSMNE.

The implications of the discussions presented in this chapter are that as a result of the pressure exerted by the institutional environment, especially in the form of regulations from the FSA which forced the subsidiary to adapt its structures and controls to fit the regulatory environment, it would have been difficult to use MCS transferred from the HQ as a means of coordination and control of the subsidiary's operations. Also, given that the HQ operates in a weaker institutional environment and the MCSs found to be in use there could be termed sub-standard in comparison with those found at the subsidiary, such systems could not be depended upon to integrate and control the operations of the subsidiary. The standardised systems being used at the HQ and the fact that they have been designed to adapt to the forces of the UK institutional environment is important for the legitimacy that the HQ seeks to obtain by operating the UK subsidiary.

The discussion of this chapter sheds some light on why MCS from the HQ have not been imposed on the subsidiary, but the subsidiary is allowed to design and use its own controls.

The discussion also points to the importance of social capital in the relationship between the headquarters and the subsidiary, indicating that social capital could serve as a means of integration and coordination without formally transferred MCSs. In the next chapter, social capital as the means of coordination and control in the absence of transferred MCS, and its importance in fostering integration between the HQ and the subsidiary, is discussed further.

Chapter Eight

Headquarters-subsidiary relationship and how this influences the management control systems

8.1   Introduction

This chapter discusses the relationship between the headquarters and subsidiary of the NSMNE, and details how the differences in the institutional environments of the headquarters and subsidiary of the NSMNE shape the relationship. It aims to give some insights into how the subsidiary operates in relation to the headquarters, and how social capital could server as the means of coordination and control that is used in the process.

The chapter is structured as follows: the first section discusses how the differences in the institutional environments between the headquarters and subsidiary of the NSMNE have influenced the origin of MCSs at the subsidiary. The second section discusses the subsidiary's autonomy and how it has been shaped by the differences in the institutional environments and how the significance of the subsidiary to the HQ impacts the subsidiary-headquarter relationship. The third section discusses the role of social capital in the headquarters-subsidiary relationship. The fourth section highlights the role(s) of individual social capital in the relationship and imminent social capital risk in the relationship. The final section is a summary of the chapter.

8.2   Institutional environments differences and the relationship between the headquarters and subsidiary of the NSMNE

Dacin et al. (2002) suggests that the differences in institutional environments between the HQ and subsidiary of MNEs may determine the relationship between them as well as the strategy that would be followed to implement the HQ strategic objectives. Rozkwitalska (2013)

supported the above view arguing that because MNEs function in divergent institutional environments, which involves satisfying the needs of stakeholders with different cultural orientations. As such, relationships between the headquarters and subsidiaries need to be established and maintained on a daily basis. This section aims to give some insights into how the subsidiary operates in relation to the HQ, and the means of coordination and control that is employed.

8.2.1 Institutional environments differences and the origin of management control systems in the subsidiary

The literature on multinational enterprises' (MNEs) headquarters-subsidiary relationship suggests that, business models, structures and controls from the headquarters are normally transferred to the subsidiaries (Coates et al., 1992; Norreklit and Schoenfeld, 2000; Hyvonen et al., 2008; Elbashir et al., 2011). Rosenzweig and Singh (1991) argued that the HQs of MNEs tend to transfer MCSs to foreign subsidiaries because of the uncertainty and ambiguity of doing business in a foreign country. They attribute that uncertainty and ambiguity to differences in the institutional environments of MNEs.

Differences in the institutional environment, according to Norreklit and Schoenfeld (2000), may make individuals perceive and react differently to similar issues. Reacting differently to similar issues is consistent with the cultural-cognitive notion of the NIS that the ways in which the external institutional environment is internalised determine the interpretation and meaning made of events and actions (Scott, 2001). Hence, MCSs are imposed to achieve uniformity, provide a common platform for dealing with employees within the enterprise and to influence performance results and decision-making (Dossi and Patelli, 2008).

Rosenzweig and Singh (1991), however, argued that the extent of a country's legal regulations may limit how an HQ uses MCSs in relation to foreign subsidiaries. They noted

that the regulatory framework of the host country represents a strong environmental pressure that subsidiaries of MNEs face. Thus, the extent to which the state imposes regulations on aspects of management may mean that foreign subsidiaries have little choice but to operate differently. DiMaggio and Powell (1983) described the pressure from regulations as coercive isomorphism, which could be the strongest environmental pressure that foreign subsidiaries face.

It is important to note, that most of the prior empirical studies that have reported that MCSs are transferred by HQs have been based on conventional MNEs. These enterprises have had HQs in developed countries and subsidiaries in other developed and/or less developed ones (Ghoshal et al., 1994, Norreklit and Schoenfeld, 2000). The case study organisation in this research differs from these conventional MNEs, being a multinational with headquarters in a less developed country (LDC) with a subsidiary in a developed country. The contrasting nature of the institutional environment of the HQ in comparison to the subsidiary as discussed in chapter 5 have influence on not only the way the MCSs are designed and used, but also the way the headquarters relates to the subsidiary as will be seen in later parts of this chapter. Empirical evidence discussed in chapter 7 indicates that the headquarters has not imposed MCSs on the subsidiary, but has allowed the subsidiary to design its own control systems.

This is contrary to findings by Rosenzweig and Singh (1991) that suggest similarities in the institutional environments of the HQ and subsidiary may be a reason why the HQ may not impose controls on the subsidiary. In other words, MCS are imposed to achieve operational similarities between the HQ and subsidiaries of MNEs and to align goals where different environmental factors prevail (Hyvonen et al., 2008; Elbashir et al., 2011). Institutional theorists argue that when uncertainty prevails and goals become ambiguous, the uncertainty created becomes a powerful force that causes organisations to be modelled in ways that have produced successful results in other organisations (Carpenter and Feroz, 2001; Scott, 1995).

226

Drawing comparisons between the cultures of the United States, Canada and the United Kingdom, Rosenzweig and Singh (1991) posit that there may be less need to impose controls if the HQ and subsidiary are from similar cultures with a high degree of understanding, which may reduce the level of uncertainty. However, it would be necessary to transfer MCSs in a situation where the HQ and subsidiary were located in environments that were institutionally and culturally different.

However, the case of the NSMNE differs. The differences between the institutional environments of the HQ and subsidiary, as established in chapter 5 and supported by interview evidence, resulted in the subsidiary operating autonomously. That is, rather than integrating HQ-subsidiary strategies by imposing structures and controls, the HQ seeks to benefit strategically from the location of the subsidiary. An interviewee expressed it in the following words: *"What we integrate is not the strategy, what we integrate is what I call the aspirations. So we may not align the content of the strategy, but the expected result is what we align together"* (HBS).

This finding is consistent with the assertion of Hunschild and Chandler (2008) that institutional pressures could lead to divergent practices rather than similarities in practices, as the mimetic isomorphism of DiMaggio and Powell (1983) suggests. Given the challenges of the Nigerian institutional environment, the HQ seeks to establish its reputation at the international stage and raise its profile by having its presence in the UK through the subsidiary. The stability and advancement of the UK institutional environment, as noted in chapter 7, gives companies more confidence dealing with the NSMNE. An interviewee maintained that:

"There are several reasons why operating in the UK is of such strategic importance to us (NSMNE). Companies may consider the level of risks associated with dealing with a

UK firm more acceptable than dealing with a firm that is operating from Nigeria. For example, there is economic and political stability in the UK and a functioning legal system (in comparison to Nigeria) which might give companies the assurance that they can seek legal redress and get a fair hearing if a contract has not been enforced as agreed" (AOM1).

This is in stark contrast with Nigeria, where the rule of law may be disregarded and a fair hearing difficult to get if legal actions are taken because of the lack of a properly functioning legal system. This is significant given that the legal system is an important component of the regulatory pillar. The regulatory pillar relies on the mechanisms of rule-setting, monitoring and sanctions to enforce compliance to standards of operation within a domain (Scott, 2001). A properly functioning regulatory system is an important factor in evaluating the risk of dealing with organisations in a given domain. This makes the UK vital to the internationalisation objective of the NSMNE.

Institutional theorist argue that the NIS allows for an understanding of the potential effects of 'powerful groups' within the organisation that have the ability to influence behaviour and processes (Burns and Scapens, 2000). These 'powerful groups' could be individuals or subunits whose strategic importance to the organisation provides "a *raison d'etre* or justification for being, as well as an external legitimacy for the organization" (Collier, 2001, p.467). Findings from this research which show that the HQ depends on the subsidiary to gain external legitimacy and to be perceived as an enterprise devoid of the negatives of the institutional environment in which it operates are consistent with this assertion by Collier (2001).

Dacin et al. (2007) argued that the type of legitimacy that a firm needs and constituents to which a firm must appear legitimate are shaped by the objectives that a firm intends to

achieve in a particular environment, the firm's characteristics and the characteristics of the environment (p.172). Powell and DiMaggio (1991) argued that if organisations are perceived as being similar to other successful organisations that are operating in the same industry, this gives legitimacy (credibility and acceptance) to the organisation seeking legitimacy. Organisations require legitimacy in addition to technical and material resources to survive. Hence, creating a general perception that the actions or activities of the NSMNE were desirable within the socially constructed system of beliefs, values and norms of the UK institutional environment was an imperative that the HQ aimed to achieve through the UK subsidiary.

The NIS suggests that mimetic pressures (Powell and DiMaggio, 1991) make organisations want to copy other successful processes. In the situation of the NSMNE, rather than seeking to operate like the subsidiary to achieve external legitimacy, the HQ chose to distance itself because of the negatives of the Nigerian institutional environment and to benefit from having a subsidiary that is shaped by different sets of institutional pressures. That was considered more beneficial to achieving legitimacy and the NSMNE's broader goal of internationalisation.

Kostova et al. (2008, p.1000) noted that legitimacy is achieved in the MNE context by becoming "less not more similar". They argued that the MNEs' contexts make it more critical to be recognised and approved by the various legitimating factors because of the liability of foreignness. Thus, "it is impossible to achieve legitimacy through isomorphism. Conforming to the myriad regulatory, cognitive, and normative institutional expectations coming from multiple and conflicting sources is not feasible" (Kostova et al., 2008, p.1001).

The arguments of Kostova et al. (2008) are consistent with the findings of this research and explain the divergent path chosen by the HQ; that is, because the challenges of the Nigerian

institutional environment which were impacting on operations at the HQ were beyond the control of the HQ, the HQ could not possibly try to be similar to the subsidiary. Hence, divergence rather than making efforts to appear similar to an enterprise operating in a stronger institutional environment and shaped by different forces became the main motivation for having the UK subsidiary and the reason why controls were not imposed on the subsidiary.

These findings are also supported by the heterogeneous literature of the NIS (Scott, 2005; Greenwood and Meyer, 2008; Dacin et al., 2002; Lounsbury, 2008; Kostova et al., 2008). The heterogeneity or practice variation perspective of the NIS suggests that variation in practices originates from the need for organisational actors to act strategically in resistance to institutional forces (Lounsbury, 2008). Heterogeneous practices have also been associated with organisations' ceremonial efforts to appear to conform to institutional demands while following their own agendas (Oliver, 1991; Lounsbury, 2008). In this research, the idea of practice variations arising from the need to act strategically in resistance to institutional forces is supported.

An interviewee maintained that:

"what the subsidiary offers us is expertise at the international level. We have been successful domestically, but lack the experience at the international level. That is why the crop of experienced staff members that we have at the subsidiary are very important in the current scheme of things that management is pursing" (HBS).

This assertion is supported by an interviewee at the subsidiary who noted

"... don't get me wrong, there are very competent people at the plc (HQ), but most of them have not worked outside Nigeria before. There is the usual saying that experience

is the best teacher, and that is why our being here (UK) is important to the plc (HQ)"

(UK2).

From a regulatory perspective, the FSA, which is the UK regulator, was perceived at the HQ as a pace-setter in formulating regulations in the industry. The FSA's regulations are far-reaching and impact on global practice. The experience of operating in such an environment was considered valuable to the NSMNE. However, an interviewee raised an important point which may be attributed to the cultural-cognition element of Nigerian people. That is, how the ambiguities of the Nigerian environment have been internalised and have come to shape perceptions and beliefs of people (Scott, 2001). The interviewee noted that:

"... this is by the way, I can tell you that whether the UK people are just sitting there doing nothing, their being there is very important to us (NSMNE). You know our people, once it has to do with a white person, they are more comfortable. Even if what they may be requesting for will end up on our tables, having the UK people involved gives them (clients and customers) confidence that it will be properly done"(AOM3).

The HQ is able to retain and attract businesses by referring them to the UK subsidiary, as such businesses seek to avoid the problems of the Nigerian institutional environment and deal with more stable foreign enterprises. This is discussed further later in the section. Hence, without being directly involved in the search for opportunities, the subsidiary is able to contribute to the results of the HQ, which is why the HQ seeks to align results, as noted by interviewee (HBS) earlier. That is, the HQ is more concerned with the strategic role of the subsidiary; hence, it has limited interest in imposing any financial controls.

Nohria and Ghoshal (1994) described the situation where the HQ adopts a strategy to match the subsidiary context rather than integrating the strategies as "differentiated fit" (p.491). Boeker (1989), in their study of factors affecting institutionalisation, found that the prevailing

231

institutional factors at the time an organisation is founded influence the strategy that is adopted. While the impression from the interviewees indicates that the strategy adopted by the HQ of the NSMNE to allow the subsidiary to operate autonomously was deliberate, a regulation requiring all foreign branches of foreign companies in the UK to be registered as subsidiaries was the reason why the UK subsidiary was incorporated in the first place, as noted in section 4.7. This suggests that the UK regulation and its timing may have influenced the strategy of the NSMNE, and is consistent with the findings of Boeker (1989). Scott (2001) argued that organisations respond strategically to the impact of the institutional environment, "either by decoupling their structures from their operations or by seeking to defend themselves in some manner from the pressure experienced" (p.152). The reaction to the institutional environment by decoupling structures is consistent with the approach adopted by the HQ of the NSMNE.

A reporting structure that enables the HQ to have representatives as members of the board of directors of the subsidiary serves as a channel through which important information about the subsidiary's activities are relayed to management at the HQ was put in place instead of direct use of MCSs. To explain this, an interviewee said

"*So we have our own board which allows us to be autonomous to a degree, because obviously when we have board meetings every quarter, everything is reported to the board and the representatives of our parent then take that to the management. So, there is a communication link across, so the board interrelates to main board in PLC*" (UK2).

By autonomy, interviewee (UK2) means that the subsidiary managers are allowed to use their discretion to make decisions regarding the operations of the subsidiary (see for instance, Birkinshaw and Morrison 1995). With the subsidiary able to choose how it uses the resources

at its disposal (technology, human resources, knowledge and finance), controls from the HQ such as budgetary and performance targets are not imposed on the subsidiary. In the next section, how the subsidiary autonomy shapes the business relationships with the headquarters is discussed.

8.2.2 Institutional factors, subsidiary autonomy and business relationships with the headquarters

Chan and Makino (2007) suggested that MNEs are most likely to react when under a strong pressure to conform to the institutional environment of the host country by taking a lower ownership stake in exchange for external legitimacy in the host country or local industry that their foreign subsidiaries are entering. They argued further that in response to strong internal pressure to sustain their internal legitimacy at the corporate level of their institutional environment, MNEs are likely to take a higher ownership stake.

The suggestion of Chan and Makino (2007) that MNEs take a lower ownership stake in exchange for external legitimacy in the host country is consistent with the findings of this research. Business relationships between the HQ and subsidiary of the NSMNE are also shaped by the HQ's reaction to the subsidiary's institutional environment and the need to gain external legitimacy which makes the subsidiary operate autonomously. While the HQ desires to be seen as a reputable international enterprise able to operate overseas and in developed economies such as the UK, direct business dealings between the HQ and the subsidiary are avoided. For this reason, daily business relationships between the HQ and the subsidiary are intermediated through a Nigerian representative office of the subsidiary.

The Nigerian representative office was established in Lagos, Nigeria's largest commercial city, as a liaison between the headquarters and the subsidiary. Staff members from the representative office are accountable to the subsidiary and are under its payroll. They work

closely with the headquarters staff to bring business to the subsidiary. As noted previously, businesses may be more comfortable dealing with the subsidiary as they try to minimise the impact of the uncertainties in the Nigerian institutional environment. Interviewee (UK3) acknowledges the representative office role in connecting the subsidiary to the headquarters, as follows: *"You know we have a Lagos representative office, and they work for us and introduce Nigerian customers to London"*.

However, in some instances, direct relationships involving communication of business transactions with branches and the head office at the headquarters do occur. These are rare as described by an interviewee below:

> *"Basically the way it works is that, if the transaction originates from a branch, the branch will have to ensure it has been successfully executed for the client and that will require communicating directly with the subsidiary. For example, if someone sends a mail from the subsidiary, and the mail concerns a transaction originating from my desk, I will respond to it. It doesn't happen regularly, it's been more of a one off event* (FT1).

Figure 8.1 illustrates the business relationship between the headquarters and subsidiary of the NSMNE. It shows the representative office in Nigeria, through which customers are referred to the subsidiary and business relationships maintained with the headquarters. However, there may be instances of direct dealings with the subsidiary, as indicated by the direct arrow between the headquarters and subsidiary. Branches may also occasionally have dealings with the UK subsidiary when the services they have rendered to a customer require the attention of the subsidiary. In some cases, a branch may be required to facilitate some transaction for a customer that has had previous dealings with it and is now referred to the UK subsidiary to proceed or take up a different business for the customer.
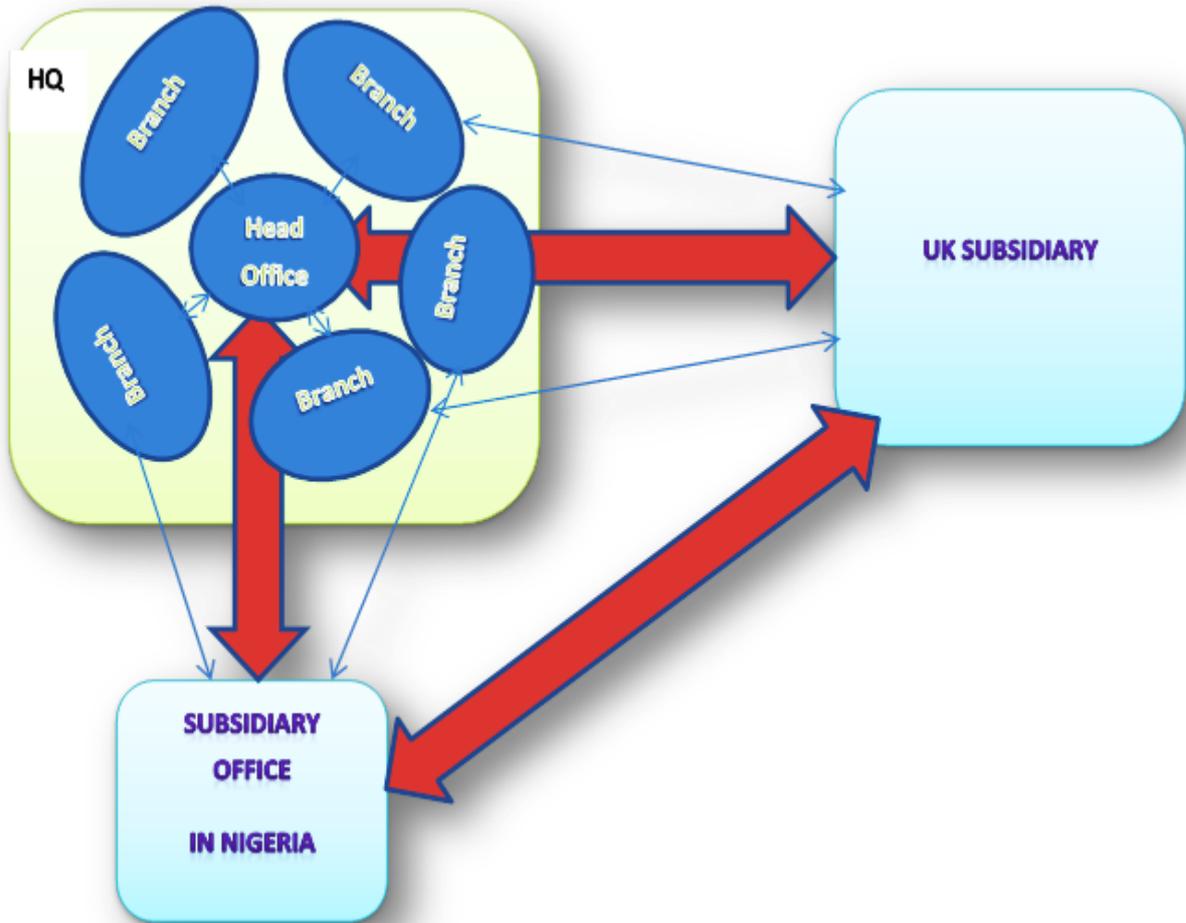
Figure 8.1 illustrates the business relationship between the headquarters and subsidiary of the NSMNE

One reason identified for having the Nigerian representative office is the mutual commercial benefits that are made available to both the headquarters and subsidiary. Interviewee (UK5) states that: "*this is why it is good to have a big parent as we do, they can introduce us to customers - our parent is the best friend that we have because its size sort of provides what we call open doors for us into customers. And they can help us. Say for example our parent are dealing with a company in the UK - I mean big level, they could in effect say, hang on, let's introduce our London subsidiary because they can do some stuff for you*".

The second reason is an attempt by the HQ to present the subsidiary to the Nigerian customers in the light of the UK; independent of the HQ and devoid of any negative impression

associated with it and the vices of the Nigerian institutional environment. It may be recalled from the discussion in chapter 5, that among Nigerians, the UK is perceived as more developed, transparent and in complete contrast to Nigerian society. That makes operation from the UK more trusted than operating from Nigeria, and relies on the perception that UK-based enterprises possess the capabilities to deliver better quality services. This widespread belief among the Nigerian people is part of the reason for establishing the UK subsidiary (see Agbonifoh and Elimimian 1999; Agboli and Ukaegbu, 2006).

Meyer (2008) described individuals, organisations or groups as actors. He argued that a "network relation between actors is a simple form of organisational institutionalisation," and that such relations may constrain actors as well as provide opportunities for their activities" (p.793). In the case of the NSMNE, the network of relations created between the HQ and the subsidiary through the Nigerian representative office provides opportunities for the subsidiary to access customers in Nigeria, and also provides the HQ with the opportunity to build its profile as an international enterprise and gain external legitimacy.

Scott (2001) noted that organisations usually have many network connections and have to "decide what criteria to employ to assess similarity" if pressured by the institutional environment (p.168). He argues that scholars who take an interest in exploring how organisations choose whether to be similar and what organisation to be similar with have come to these issues from 'network approaches'. The social capital theory employed in this research helps in understanding the impact of networks of relationships on organisational processes. The next section discusses the role of social capital in the relationship between the HQ and the UK subsidiary and the mechanisms of socialisation used by the NSMNE. Social capital, as noted previously, is a benefit derived from a network of relationships.

8.2.3 Social capital as means of coordination and integration in the absence of imposed controls

The NSMNE exhibits what is described in this study as organisational social capital in the relationship between the headquarters and subsidiary. Organisational social capital according to Leana and Van Buren (1999) is a "resource reflecting the character of social relations within the organization. It is realized through members' levels of collective goal orientation and shared trust, which create value by facilitating successful collective action" (p.538). It is used in this research to describe the form of social capital that has both attributes of bonding and bridging social ties. That is, social capital derived from both dense networks of relationships (bonding) and individual bridging ties across networks of relationship (Woolcock, 2001; Staber, 2006; Aarstad et al., 2010). Newman and Dale (2005) suggested that the formation of organisational social capital through bridging and bonding ties facilitates access to further social capital and increases collective agency. That is, both social capital and agency combine to generate further social capital and create a virtuous cycle.
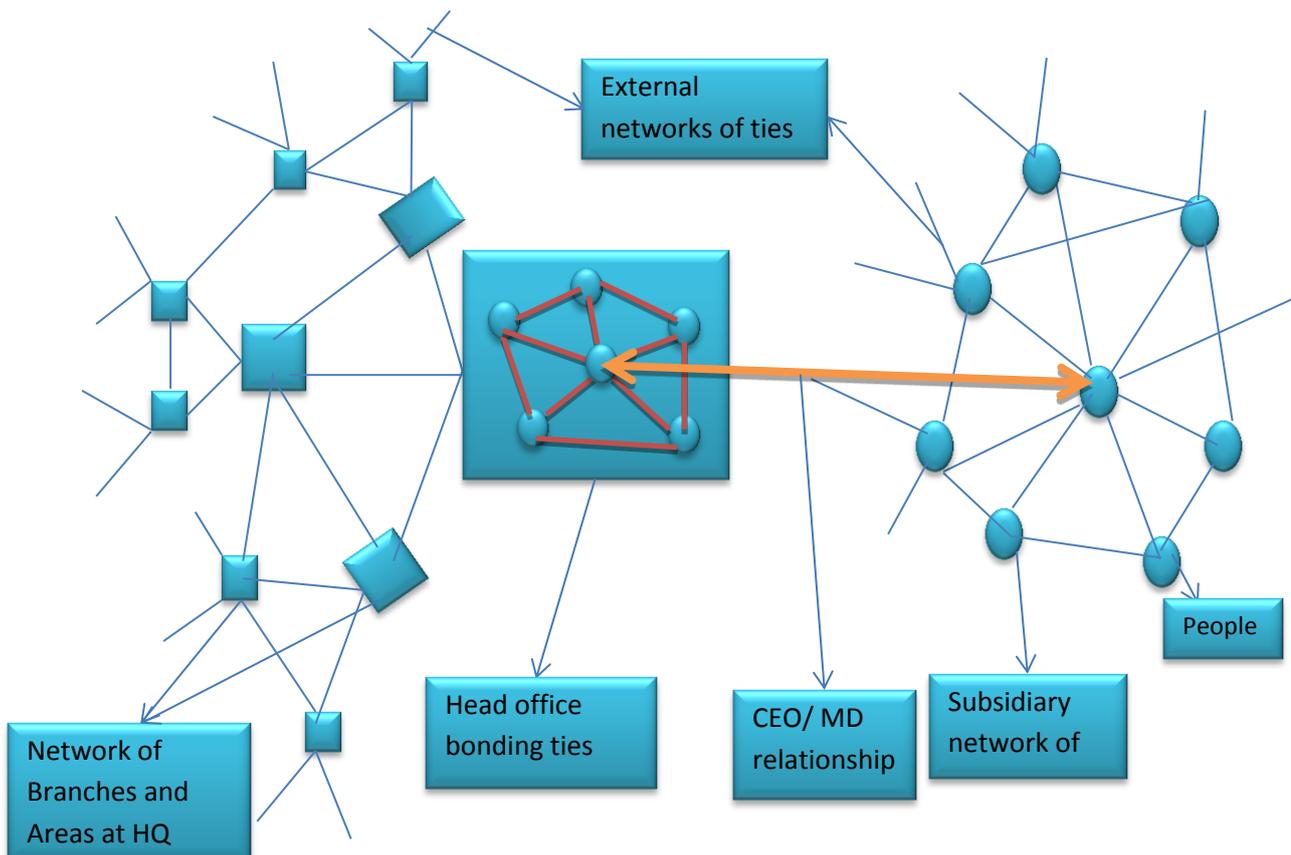
Figure 8.2 illustrates organisation of social capital in the HQ-subsidiary relationship of the NSMNE.

The figure depicts the HQ and subsidiary as networks of bonding and bridging ties. Staff members share relational ties that may be useful in addressing individual differences and self-interested behaviour. Chenhall et al. (2010) noted that relational ties between staff enhance bonding and the flow of information and exchanges between actors, which generates social capital. These relationships may also be shared with those external to the NSMNE (external networks). Social capital theorists suggest that relationships which are external to actors' dense network of bonding ties give the actors (individuals and organisations) access to information, opportunities and capabilities that are not readily available within their own network of relationships (Burt, 1997; Adler and Kwon, 2002; Anderson and Jack, 2002; Anderson et al., 2007).

In the present study, it was found that the benefits of the external networks of relationships, that staff of the subsidiary, by virtue of their professional relationships share, went beyond the subsidiary network to the HQ. An interviewee explained how ideas and information are sourced from external ties as follows:

"If it is something that has to do with operations, for example, you will get all the like-minded people like me all going to the same place, and we will go and say hi to each other, and it is very useful for various reasons because, ... like there are so many regulations being brought in by the regulatory body, one of them is what we call resolution of recovery which is FSA required process that all the financial services have to go through. And we talk to others, our peer group, similar size, similar business, what are they doing, do you know anybody on there, of course you find them and say, guys what are you doing on this issue? Everybody is very protective of course, nobody wants to give out really, so it is more of give me an idea, you try and help but you don't give anything away" (UK2).

Another interviewee (UK4) suggests that "*information from external sources does not only help us (the subsidiary) to be better informed about regulations and policies that might affect our operation, it is also useful to the HQ to get better insight about the policy changes by the regulator and how such policies may affect the NSMNE operation as a whole*". This agrees with the assertion by Adler and Kwon (2002), that positive information from external networks of relationship may not only benefit the focal actor that receives the information, but may in some cases benefit the broader aggregate (the subsidiary and the HQ in this case) that are able to make informed decisions based on such information.

Apart from the external information that has been found beneficial to the NSMNE pursuit of organisational objectives, the bonding of social capital between the headquarters and the subsidiary has helped the NSMNE to regain its market share, which has been consistently threatened by the new generation enterprises. An interviewee noted that: "*The subsidiary has been instrumental in the implementation of our transformation agenda and helping us regain our status in the industry. To tell you the truth we were losing grounds to these new generation competitors, some of them got to the UK before us and were taking big businesses away from us because customers were getting the impression that we were not innovative. We lost about 7% of our market share in a space of 5 years and indeed had some catching up to do*" (HBS).

By cooperating and relying on the complimentary capabilities that exist between the HQ and subsidiary and frequently exchanging information, the NSMNE has been able to retain customers and attract more by offering customers services through the subsidiary. The subsidiary is also able to assure big businesses that are reluctant to deal with it because of its size that it is able to deliver the services they need, by making them aware of the size of its parent and its leading place in the Nigerian industry. An interviewee noted that:

"We try to attract a customer, but we are too small for the customer, whereas our parent is huge, and when we tell them of our parent they will listen because our parent is huge and reputable. That is why the synergy between the subsidiary and the parent has to constantly be there. Our parent is a big company which can give us access in big companies that would normally not want to do business with us because of our size" (UK4).

Figure 8.3 illustrates the complimentary elements that the UK subsidiary and the HQ of the NSMNE share. The figure shows the advantages that the HQ has by operating from the UK. These advantages mainly stem from the confidence and enhanced reputation that the UK institutional environment affords to the NSMNE. Despite the size of the subsidiary, it offers the NSMNE a unique advantage that compliments some of the disadvantages of operating from a less developed country.

As noted in chapter 7, the headquarters does not rely strictly on using formal MCSs to set performance targets for the subsidiary, but relies on informal processes that encourage the free flow of information, flexibility and adaptive decision-making. Harzing and Noorderhaven (2006) describe this process as "control by socialization and networks" (p.198) which involves building solidarity across the organisation. Adler and Kwon (2002, p.29) described solidarity as a benefit of social capital that is associated with strong social norms and beliefs, and that encourages compliance with rules and customs and reduces the need for formal controls. Through this form of controlling and coordination, the headquarters is able to share benefits in other forms to boost the overall performance of the NSMNE. An interviewee pointed out that *"In NSMNE we look at the larger picture; that is what we have been trained to do. You look at what will be beneficial to the organisation at large* (BOM1). Birkinshaw et al. (2000) argued that multinational enterprises may be more concerned about

worldwide profitability than the specific performance of a subsidiary, thereby focusing on the bigger picture of how that could be achieved.

HQ Disadvantages

Less developed economy

High rate uncertainties/ambiguities

Poor quality services

Instability and Lack of security

Political interference on regulation of industry

Lacks international experience

Lost opportunities due to international presence

More developed and stable economy

Stable government

More effective legal system and security

Technologically more advanced

Availability of skill and competence

Environment engender trust, reputation and legitimacy

Access to other foreign companies and networks of relationships

HQ Advantages

Large domestic market share

Domestic reputation

One of the leaders in the Nigerian and sub-Saharan Africa financial services market

Access to foreign companies seeking to invest advantage of a growing Nigerian economy

UK subsidiary disadvantages

Small market share

Operates in a saturated and highly competitive environment

Narrow scope of operation

Figure 8.3 Complimentary relationships between the HQ and UK subsidiary

By focusing on the larger picture, the NSMNE is able to explore opportunities cooperatively by exploiting the organisational social capital that exist between the HQ and subsidiary, rather than placing a specific emphasis on subsidiary profitability, that is controlled by the use of formal MCSs. Alder and Chen (2011) reported similar findings in their study regarding multinational enterprise. This involved sharing of ideas, opportunities and knowledge and relying on both the resources of the HQ and subsidiary to achieve objectives.

Aarstad et al. (2010) also found the social capital generated from cooperative relationships between individuals and groups was useful in improving performance. Masquefa (2008)

argued that the reason social capital within a group was useful is because it helped in resolving differences among the various actors that are involved in cooperative functions. In the next section, the role of individuals in achieving the organisational social capital between the HQ and subsidiary of the NSMNE is discussed.

8.2.4 Individual level social capital in the headquarters-subsidiary relationship

Social capital has been described as an attribute of individuals and groups (Staber, 2006, Theingi et al., 2008). Empirical evidence suggests some key individuals play crucial roles in building and maintaining the organisational social capital in the headquarters-subsidiary relationship of the NSMNE. For example, the friendship, trust and mutual respect that exist between the Chief Executive Officer (CEO) at the Nigerian HQ and the managing director (MD) of the UK subsidiary was found useful in maintaining control and the flow of information across the HQ and subsidiary. The CEO and MD share a trust-based relationship following previous employment in the same firm. Kim and Mauborgne (1993) suggest that the subsidiary top managers' trust in *headquarters* management bodes well for the organisations and could "have an overall positive effect on their compliance with corporate strategic decisions" (p.509). Kostova and Roth (2003) described the situation where top managers are key to the exchanges between a subsidiary and the HQ as simple interdependence. They suggest that such circumstances make it possible to specify when the exchanges should occur and "are likely to lead to positive and cooperative behaviour since they create a psychological environment that is conducive for collaboration and mutual support" (p.301)".

The friendship between the top managers of the NSMNE makes for more frequent interactions between them. This includes informal discussions of issues personal to them and the business of the NSMNE. This is supported by the following comments by an interviewee: "*In terms of how we relate, we are obviously in constant contacts with our colleagues in*

Nigeria. We use phones, the communication method of swift; it is like a telex type situation. Beyond that, the MD and CEO are great pals, which is useful because then, they are able to informally discuss and resolve issues more amicably. The discussions may be formal – business related issues or personal issues that may affect the business. So we have great synergies with our parent" (UK1).

The friendship between the MD and the CEO is significant in this case since formal MCS are not imposed or used as a means of controlling the subsidiary. Furthermore, unlike conventional MNE, where the number of expatriates assigned from the HQ may be used to measure the level of control the HQ has (Staber, 2006), the HQ has not used expatriates from Nigeria.

Social capital scholars argued that frequent and informal interaction between actors enables trust building, which is germane in a situation where there is less use of formal control (Chenhall et al., 2010, Kostova and Roth, 2003, Staber, 2006). Krackhardt and Hanson (1993) view trust as an antecedent of social capital, which enhances solidarity and cooperation in a network of relationships. However, trust is not the only antecedent of social capital, reciprocation and actors' willingness to define and enact collective goals have also been identified as the benefits of social capital (Leana and Van Buren, 1999, Adler and Kwon, 2002).

The first benefit of the friendship with the subsidiary (MD) is that it opens up a channel for informal knowledge sharing. The vast knowledge and experience that he is said to have of the business, and the network of relationships he has developed across the industry, is of considerable value to the NSMNE as it tries to establish itself in the international business circle. An interviewee noted that: "*Yes, he is certainly an asset to us. His knowledge of the business as well as his experiences working with other foreign firms is definitely a plus*"

(HHC). The wealth of knowledge and experience of the MD are important because cross-unit knowledge exchanges are vital to multinational operations as they can be adapted from one context to another (Reiche et al., 2009). This also agrees with the assertion of social capital scholars that individual social capital could be exploited for the benefits of a larger group or business (Adler and Kwon, 2002, Anderson and Jack, 2002, Chenhall et al., 2010).

The MD's knowledge of the business, as well as his understanding of the UK institutional environment, is of such benefit to the headquarters that interviewees suggest he will play a vital role in choosing his successor should he be leaving. Social capital scholars recognise the sharing of knowledge and information as an important element of social capital relationships arguing that it affords organisations sustained competitive advantage (Wasko and Faraj, 2005, Fukuyama, 1995).

Apart from the benefit of knowledge sharing, the informal relationship that the top managers at the HQ and subsidiary of the NSMNE share for example, have been instrumental in coordinating the operations of the subsidiary without many of the tensions that characterise HQ-subsidiary relationships reported in previous studies (Birkinshaw et al., 2000, Doz and Prahalad, 1991, Chini et al., 2005). In essence, it has helped to bridge the gap resulting from the differences in the institutional environments (Chini et al., 2005).

The MD along with other management staff have large networks of relationships that have been useful in gathering information and adapting business activities to institutional pressures from the UK regulators. This is supported by the following comments stated below:

"...like there are so many regulations being brought in by the regulatory body, one of them is what we call resolution of recovery which is FSA required process that all the financial institutions have to go through. And we talk to other organisations, our peer group, similar size, similar business, what are they doing, do you know anybody on

there, of course you find them and say, guys what are you doing on this issue? Everybody is very protective of course, nobody wants to give out really, so it is more of give me an idea, you try and help but you don't give anything away" (UK2).

It is important to note that while the relationship between the CEO and MD has been highlighted in this discussion, some other staff members also maintain relationships with management staff at the HQ, but the case of the MD is most significant. The charismatic qualities that the MD of the subsidiary displays serve as a binding force that holds the members of the subsidiary together. "*He genuinely cares about how we fare here"* noted by an interviewee (UK5). Besides caring for staff welfare, a culture of friendship is being promoted at the subsidiary which has been helpful in resolving differences among staff members. "*Like any other organisation, we have our challenges, but we have learnt to put those issues behind us and work together to accomplish set goals"* noted interviewee (UK5). In the next section, the significance of the subsidiary to the NSMNE, and how that may have shaped the relationship between the HQ and subsidiary, is discussed.

8.3 The significance of the subsidiary to the NSMNE and organisational social capital

The significance of the role of the subsidiary in the MNE's network is crucial to the headquarters-subsidiary relationship (Staber, 2006, Andersson et al., 2001). Kim et al. (2005) described the approach to the multinational operation, where the subsidiary assumes varying roles and responsibilities as transnational. They argued that the transnational approach takes into consideration the differences in institutional environments and the capabilities the subsidiary may offer.

The UK subsidiary of the NSMNE is the most significant investment that the headquarters has outside Nigeria. Operating the subsidiary in the UK, as noted previously, has enhanced

the reputation of the NSMNE and given it legitimacy in the international scene. The knowledge gained from operating the UK subsidiary has also been important in the NSMNE bid for internationalisation. Both the management at the headquarters and the subsidiary understand the significance of having the subsidiary in the UK and are keen to have it operating with as few problems as possible.

Birkinshaw et al. (2000) argued that the perception of the subsidiary's role among managers, both at the HQ and subsidiary, has important implications for the approach to managing the subsidiary. That is, depending on the role(s) that the subsidiaries play in the MNE setting, it may be difficult for it to be controlled using traditional MCSs, they argued. This also may explain why the MCSs from the headquarters were not imposed on the subsidiary as discussed earlier.

Birkinshaw et al. (2000) argued that in situations of headquarters-subsidiary relationship, where both the headquarters and subsidiary understand the significant role(s) of the subsidiary without underestimating or overestimating, it leads to an effective relationship. In that case, ideas and proposals from the subsidiary on how to achieve the broad objectives of the organisation are more likely to be accepted by the headquarters, which may also help the subsidiary to engage in other value-adding activities. Birkinshaw et al.'s (2000) argument seems to hold in the current case. The subsidiary is allowed the discretionary decision-making powers regarding value-adding activities.

"For example when we started in London, we started with retail, however, that doesn't give us a great deal of money, just facilitates and it just offers us very similar service that the customers in Nigeria get. So they can come to London and in effect walk into a pseudonym of NSMNE plc. However, you (subsidiary) just do not want to do that, you want to make money for your shareholders so, you say okay, what else can we do

strategically? The biggest thing that we can do is trade related business, what we call

trade finance. Because a lot of UK companies are trading with Nigeria and Nigerian

companies are trading with UK companies too and they need someone to facilitate that.

Who better could do that than a UK company which is owned by one of the biggest

financial services company in Nigeria? So we venture outside the scope of the plc"

(UK2).

Another important role of the UK subsidiary is in knowledge flow. While the headquarters

has operated as a domestic enterprise for decades, it lagged behind in innovative activities

and quality service delivery as supported by an interviewee below:

"Our organisation is very conservative and has been sort of slow to embrace

innovations like the new generation competitors. When customers come, most times we

are not able to serve them because our network is down or we not exploring other

avenues to service delivery that allow customers to do things over the internet. When

the network is down for instance, we empathise with them, try to move around so that

they see you are not just sitting tight and watching them. Sometimes we go to the extent

of making announcements to make explanations to them. It came a time that some of

them had to say: is it every time that you people will have one problem or the other?

And that our management will be declaring huge profits but cannot invest in improving

the quality of our services. Just before we changed to all these flats screens computers,

a customer said to me, look at the types of computers you are using, looking like Noah's

ark and you expect to get the best of them" (BOM1).

This lack of innovation and poor service delivery is causing the NSMNE to lose customers to

the "new generation" of competitors, who have embraced new techniques and approach to

business, as noted in chapter 6. The ability to gain access to information, expertise and ideas

247

that are not locally available is a key contribution of the UK subsidiary to the NSMNE, and this agrees with Harzing and Noorderhaven (2006) as to the role of the subsidiary to the HQ. The flow of knowledge from the subsidiary to the HQ is achieved in part through the secondment of staff from the HQ, to the subsidiary to gain experience and learn new skills. An interviewee noted that "… *we do go to the subsidiary to spend some time as part of our training and development requirements*" (BOM6). However, staff at the subsidiary are not required to attend secondment at the HQ. This suggests a unidirectional flow of knowledge (Rozkwitalska, 2013). Despite the size of the subsidiary, operating from an institutional environment, which is more developed, and hosting some of the world leading enterprises in the financial services industry, makes the networks of relationships that the subsidiary staff develop and maintains a valuable asset to the NSMNE. Hence, the social capital generated from the bridging relationships that staff have with other external networks (individuals and organisations) places the subsidiary in an advantageous position relative to the HQ and agrees with previous findings (Barbieri, 2003, Aarstad et al., 2010).

This also buttresses the point made previously about the subsidiary MD's knowledge and experience of the UK financial services industry, and why he is regarded by management at the HQ as a valuable asset to the NSMNE. An interviewee explained that: "*You know we are relatively new to the international business, and that is where he (MD) is very valuable to us because he has been in the system for many years, not only that, he has worked with several international companies and those experiences are very valuable to us and we are making the best of having him there. There have been times some of our staff have been sent there for workshops and the MD was key the facilitator*" (HBS).

Given the importance of the subsidiary to the NSMNE, management at HQ are keen to ensure that it remains operational and viable, and this ensures a good relationship with the subsidiary. While management understand that the use of formal MCSs may lead to improved

performance of the subsidiary, the current forms of controlling and integrating of the subsidiary operation with the HQ has proven useful in improved results for the NSMNE. This is reflected in the data analysis of its performance results, which show an average improvement of 5.6% since the subsidiary was established. This may suggest that the approach to management that the HQ has adopted for the subsidiary and the social capital, in the various relationships shared between the HQ and subsidiary, may be working well. However, there is evidence to suggest that there could be imminent challenges ahead which could constitute social capital risks for the NSMNE. In the next section, agency and social capital risks in the relationship is discussed.

8.4   Subsidiary staffing and potential social capital risks

Tan and Mahoney (2006) and Yaping (2003) argued that, having expatriates from the headquarters in charge of key positions at the subsidiary may be an appropriate way to exercise control and integrate the goals of the HQ and subsidiary. However, the NSMNE presents an interesting case, where none of the traditional recommendations for dealing with integration and control by management and organisational scholars have been applied. As stated previously, the UK subsidiary of the NSMNE is of strategic interest to the headquarters and as a result, it is allowed to use its managerial discretion to make decisions that support the overall corporate objectives of the NSMNE, which is consistent with the findings of Kim et al. (2005). It was also noted that the subsidiary is to a large extent autonomous of the headquarters. Hence, rather than send expatriates to manage the subsidiary operation, staff members have been sourced from the UK.

Yaping (2003) however, argued that local staffing of the subsidiary could be risky because of the problem of information asymmetry. That is, "information available on-site may not be available to a parent company" (p.728). This may be more problematic if the subsidiary enjoys greater autonomy that gives its accesses to information and specialised knowledge

(Hölmstrom, 1979). While social capital has been suggested in this research as a means through which the HQ-subsidiary relationship has been maintained, there are risks inherent in the social capital relationship that are based on trust, reciprocity and shared interest.

Tan and Mahoney (2006) found that reliance on the expertise of staff members at the subsidiary places them in a position to resist pressure for better performance from the headquarters. For example, the HQ was in effect conceding that the subsidiary could not be made to perform better because it operates in a different institutional environment as suggested by interviewee (HBS; section 7.1.1), whereas staff at the HQ worried about meeting targets.

Adler and Kwon (2002) posit that, the reliance on social capital (trust and reciprocation) as a means of controlling subsidiary operations may reduce the incentive for entrepreneurial activities that could improve the performance of an enterprise. Social capital scholars argue that this constitutes a social capital risk (Leana and Van Buren, 1999, Adler and Kwon, 2002). That is, the HQ may be paying a price in return for the social capital-legitimacy and knowledge transfer it enjoys. Hansen (2002) for example found that it took project teams that enjoyed bonding social capital among members longer to complete their task than others with weaker ties among members. This is because maintaining cordiality in the relationship may make it difficult to request better performance from underperforming team members.

However, the HQ in this case exercises some level of control through the board of directors of the subsidiary that reviews the decisions made by the subsidiary management, to ensure that the subsidiary operates according to its mandate and in the interests of the headquarters.

8.5   Chapter summary

This chapter compared and contrasted the differences in the institutional environments of the HQ and subsidiary of the NSMNE and how that shaped the design and use of MCS and the

relationship between the HQ and the subsidiary. The chapter has also discussed the role of social capital in fostering integration and cooperation between the HQ and the subsidiary of the NSMNE.

The chapter was structured in two main sections. The first section discussed the similarities and differences between the main MCS identified at the HQ and subsidiary, namely budgets, performance measurement and evaluation system and the reward and compensation system. The second section discussed how the differences in the institutional environment impact the relationship between the HQ and subsidiary.

The budgetary system at the HQ and subsidiary of the NSMNE share some similarities. There are similarities in the timing of budget preparation and the bottom-up approach. However, while budgets at the HQ involve branches preparing and having to defend budgeted items, participation at the subsidiary involves units contributing to a single budget. Budgets prepared at branches go through various stages of vetting, but budgets at the subsidiary are subject to vetting by a budget committee and approval by the subsidiary board of directors.

Another difference in the budgetary system has to do with the pressure of meeting budgetary targets. Staff members at the HQ are subjected to meeting high budgetary targets, but subsidiary staff are under less pressure to meet targets. This is because the subsidiary gets most of its customers from the HQ. Also, the scope of the mission given to the subsidiary also limits the extent to which staff members may go in search of opportunities and may account for the lesser pressure from competition.

The key similarity in the PMES is in the use. But while the PMES at the HQ is still undergoing experimentation, PMES at the subsidiary is standardised. Furthermore, while there are allegations of unfair use of the PMES at the HQ, there were no such concerns expressed by staff at the subsidiary.

Compensation and reward at the subsidiary are standardised and based on industry standards. This is different from the HQ, where there is an elaborate system of compensation of reward aimed at motivating staff to put in their best efforts. The non-standardisation of the system at the HQ gives room for manipulation, which leads to demotivation. However, the compensation and reward system at the HQ and subsidiary reflect a common ambition of staff members. Both staff at the HQ and subsidiary desire promotion and reward for their efforts, but while subsidiary staff perceive a comfortable working environment as reward, opinions at the HQ differ regarding what is perceived to be reward. Staff at the HQ assume a comfortable working environment, which is shared by everyone, is not really a reward, rather rewards are monetary and other benefits accrue directly to individual staff members for their efforts.

Contrary to suggestions in the literature, the MCSs of the headquarters have not been imposed on the subsidiary. A key factor in this from empirical evidence is the difference in the institutional environments. The level of development and advancements of the UK institutional environment, which encourages standardised practices and use of MCSs, was particularly highlighted by interviewees. Formal MCSs like PMES and rewards and compensation systems, which are still undergoing experimentation at the subsidiary, were found to be standardised and operated in accordance with published industry standards. This may also account for why the headquarters has not imposed MCSs on the subsidiary.

The subsidiary is autonomous to a large extent, and it is allowed to advance business plans and engage in other activities within the mandate from the HQ that adds value to the NSMNE. That is, besides the initial operational mandate given to it by the headquarters, evidence suggests the subsidiary could innovate at its own discretion to increase profits and sustained operations.

The autonomous status of the subsidiary is a deliberate effort of the headquarters to present the subsidiary as devoid of the negatives associated with operating from Nigeria. It helps the headquarters to present the subsidiary as a UK-based, UK regulated entity that embodies the values of UK society. This is important because of the perception in the Nigerian institutional environment, that the UK is more developed, more organised and has a legal system which free from interference, which is not the case with Nigeria.

Business relationships between the headquarters and the subsidiary are mediated through an intermediary, the UK subsidiary representative office in Nigeria. The representative office is a part of the subsidiary and under its full control. Staff at the representative office are also answerable to the subsidiary and are under the subsidiary payroll. This is important because the subsidiary gets most of its customers from Nigeria. The subsidiary representative office helps to facilitate business with the headquarters as would the UK subsidiary. However, having the representative office in Nigeria also helps the subsidiary to deal with issues of institutional differences, such as culture, by engaging Nigerians, who work directly for it.

Social capital was found to constitute an important element of the headquarters-subsidiary relationship. The NSMNE manifests what is described in this research as organisational social capital. This involves exploring and exploiting both elements of social capital as a group property (i.e. bonding social capital) as well as social capital from bridging relationships that are outside the immediate network of the NSMNE.

Key actors in the social capital relationship between the headquarters and subsidiary are the CEO of the headquarters and the MD of the subsidiary. These two have a trust relationship that has existed over a period of previous work in a different organisation. Their friendship involved frequent communication with each other, and also included sharing personal issues and concerns regarding the operations of the NSMNE and the role of the subsidiary.

Organisational social capital that has developed in the relationship has helped the NSMNE to regain its status as a leading financial services firm in Nigeria. This is because the headquarters and subsidiary share ideas and knowledge on strategies and developed new techniques to stay competitive. The charismatic qualities of the MD were also found useful in creating the bonding social capital among the subsidiary staff.

Empirical evidence suggests the subsidiary has been crucial in the flow of knowledge to the HQ. Staff from the headquarters are sent to the subsidiary to learn new skills that could be applied to their jobs at the headquarters. The subsidiary's external networks with other actors in the UK institutional environment has been important in acquiring and sharing knowledge.

In conclusion, the current status of the HQ-subsidiary relationship constitutes a social capital risk because of so much reliance on the MD. The headquarters seems to be aware of the danger and is making efforts to address the issue by leaving some staff on secondment to become permanent staff of the subsidiary. Likewise, the board of directors with nonexecutive directors also aims to keep the subsidiary in check and in line with the interests of the HQ.

<div align="center">**Chapter Nine**</div>

<div align="center">**Summary and Conclusion**</div>

9.1   Introduction

This chapter presents a summary of the findings and conclusions reached based on the objectives of the study. The study explored how differences in the institutional environments of the NSMNE shape the design and use of MCSs, and the role of MCSs in the headquarters-subsidiary relationship of the NSMNE. Primarily, the research aimed to contribute to the understanding of the phenomenon from an emerging multinational enterprise perspective.

The findings show that the Nigerian institutional environment, which is where the headquarters of the MNE is located, differs in many ways from the United Kingdom, which is the location of the subsidiary. Nigeria is a less developed country (LDC) that is faced with various developmental issues, such as corruption, poverty and lack of security. The UK, on the other hand, is one of the most developed countries in the world, has a very stable government, more advanced economy and a functioning legal system.

The differences between the institutional environments are important to the HQ of the NSMNE, which desires to build the reputation and gain legitimacy through its UK establishment because of its disadvantaged position as a firm from an LDC. Also, because of the differences in the institutional environments, the HQ management has not imposed MCSs designed at the HQ on the subsidiary, which is allowed to operate autonomously. This is significant since scholars have argued that the HQs of MNEs impose MCSs on subsidiaries to control and integrate subsidiaries' operations with the HQ (Norreklit and Schoenfeld, 2000; Hyvonen et al., 2008; Elbashir et al., 2011).

The remainder of the chapter is structured as follows: the next section provides an overview of the research, that is: the objectives of the research, and the research design adopted to achieve the objectives and the gaps in the literature which the research contributes to fill. It is followed by a summary of the major findings of the study. The next section discusses the contributions and implication of the study to theory, policy and practice. The chapter concludes by discussing the limitations of the study and suggestions for future research.

9.2   Overview of the thesis

This study focuses on how differences in institutional environments shape the design and use of MCSs, and the role of MCSs in the headquarters-subsidiary relationship of an MNE. Multinational enterprises are businesses that operate in more than one country and are exposed to different institutional environments.

MNEs emerged to take advantage of proprietary opportunities and other economic advantages which enable them to engage in the production of goods and delivery of services in foreign countries (Guillén and García-Canal, 2009). However, the MNE is exposed to different external environments and the difficulties of responding to a range of complex issues (Mathews, 2006; Kostova et al., 2008). The diversities in the nationalities of employees and other factors of the institutional environments are some of the issues of operating an MNE (Roth and Kostova, 2003; Tan and Mahoney, 2006).

The complexity of operating an MNE increases because different cultural values, norms and ethnicities are intertwined (Buckley and Ghauri, 2004; Cantwell et al., 2010). Employees of an MNE bring into the organisation different attitudes, values, and goals which create a complex relationship that may cause interpersonal conflicts (Chang and Taylor, 1999; Taylor, 2007). As a result, the major challenge of managing MNEs is the integration and control of

the activities of the various subunits (Tan and Mahoney, 2006; Harzing and Feely, 2008; Cantwell et al., 2010).

Scholars have suggested the use of MCSs as a means of controlling and integrating the activities of subunits of the MNE. MCSs are a combination of control mechanisms that are designed and implemented by management to increase the probability that organisational actors will behave in ways that support the interest of the organisation (Abernethy and Chua, 1996). However, MCSs are impacted by factors from the environment where they are applied (Dacin et al., 2002; Rozkwitalska, 2013).

Previous research (Elbashir et al., 2011; Hyvonen et al., 2008; Norreklit and Schoenfeld, 2000) has suggested that the imposition of HQ-designed MCS on the subsidiary helps to reduce the uncertainties posed by the different institutional environments of the MNE. However, most studies on MCSs in MNEs have been based on conventional MNEs with HQs in developed countries and subsidiaries in other developed and less developed countries. They have also focused on manufacturing settings, where it is argued that templates of structures and processes may be more easily transferred for standardisation than could be possible in firms that provide services (Robert, 1995; Pache and Santo, 2010). Developments in the past two decades have seen the emergence of MNEs from LDCs that are taking their operations internationally to developed countries. Emerging MNEs, as noted previously, are enterprises that started their operations in LDCs and are emerging onto the international scene by setting up operations in other developing and developed countries.

The current study has sought to empirically and theoretically understand how differences in MNEs' institutional environments shape the design and use of MCS, using evidence from an emerging MNE. In order to achieve this objective, three research questions were outlined in chapter 1 and are stated here as follows:

(1) Which controls are designed by the HQ and which by the subsidiary, and how do these complement or conflict with each other? (2) How can the design and use of MCS in the NSMNE be explained by the various institutional forces and social capital? (3) How does the NSMNE ensure integration and control of the activities and performance of the subsidiary?

To answer these research questions and fulfil the objectives of the research, the study adopted an interpretive epistemological philosophy, using a qualitative research design. Consistent with this methodology, a single case study was adopted, allowing for the use of multiple data collection techniques to collect both primary and secondary data. Data from secondary sources included the company's annual reports, employees' handbook, minutes of meetings and performance evaluation reports.

From a theoretical perspective, two theories were engaged considering the objectives of the study. The MNE's institutional environment in this research was explored from a New Institutional Sociology perspective, drawing on the framework of Scott (1995, 2001). Scott (1995) noted that institutional environments are "characterised by the elaboration of rules and requirements to which individual organisations must conform if they are to receive support and legitimacy" (p.132). Using the NIS framework enables an understanding of how the external environment of the MNE shapes the design and use of MNEs and the use of MCSs for control and integration.

However, the NIS is weak in informing on how the internal environment of the organisation may also play a part in the process. In order to compensate for that weakness and explore the internal environment of the organisation and its influence on the design and use of MCS and the integration of subunits, social capital theory was used to enhance this understanding. This was also aimed at addressing the criticism of the NIS as being too externally focused. The next section presents the summary of the findings.

9.3   Summary of findings

This section presents a summary of the findings of this research based on the research question identified for this study. In order to answer the research question, the study examined the nature of MCSs in the NSMNE, how the NSMNE designs and uses MCSs in its operation and how MCSs are implicated in the relationship between the HQ and the subsidiary. Evidence gathered for the study shows distinctive differences between the Nigerian and the UK institutional environments. Based on Scott's framework, the differences were discussed from the perspective of normative, cultural-cognitive and regulatory pressures that are exerted on the NSMNE and are summarised below.

9.3.1   Nature of management control systems in the Nigerian service multinational enterprise

The findings show that the NSMNE designs and uses formal MCSs, such as budgets, PMES and reward and compensation systems at the headquarters. Budget is a key MCS and was found to be prepared following a bottom-up approach, which Chenhall (2003) described as participatory budgeting. That is, lower level managers are allowed to design their own budgets based on parameters handed to them by senior management. Budgets that are designed at the lower levels (branches) go through a series of vetting, but the final approval comes from the budget department at the head office. Where there are significant variations between the budget department parameters and budgets prepared at branches, the branches involved in the preparation are required to review the budget before a final approval is made.

The findings indicate that the main area of contention in the budgetary system at the headquarters is the implementation of approved budgets. While branches are allowed to request extra-budgetary approvals to cater for extra spending, doing so impacts the performance rating of the branch involved and the scorecard of the area to which the branch belongs. As a result, area managers (AOMs) are unhappy when their branches are not able to

259

operate within the limits of budgets approved for them at the beginning of the business year. The contentions that arise in the use of the budgetary system, and the linking of the budgetary systems to the PMES, show that the headquarters of the NSMNE engages a budget that is coupled with decision-making, and not decoupled as suggested in the literature (see Suchman, 1995; Moll and Hoque, 2011, Hopper et al., 2009).

The UK subsidiary also prepares and uses budgets, but does not depend on parameters set by the headquarters to prepare these. The subsidiary is allowed the discretion of designing budgets, but the budgets must be approved by the subsidiary's board of directors. Findings indicate that the board of directors' role in reviewing the budgets of the subsidiary is aimed at ensuring that the budgets operate within the larger strategic framework of the headquarters.

While participatory budgeting is also assumed at the subsidiary, the nature of participation differs from the headquarters. Participation at the subsidiary involves departments participating in the allocation of budgetary resources and defending the need for the inclusion of certain items in the master budget.

Findings also show that there is a clear link between the budgetary system and the PMES at the HQ in order to evaluate the performance of branches and areas, but the HQ does not use budgetary targets to evaluate the subsidiary. This is because the subsidiary operates autonomously to a large extent. Also, the subsidiary gets most of it business from the headquarters, which may raise questions if high budgetary targets are set for it to achieve. Rather, the subsidiary works towards its own targets that have been approved by its board of directors.

PMES is another MCS that was found at both the HQ and subsidiary of the NSMNE. The design of PMES at the HQ involves setting performance objectives for units and groups and measuring the contributions that individuals make towards achieving the objectives. The

260

PMES at the HQ incorporates both financial and non-financial measures. Employees' conformance to internal and regulatory policies, and customer satisfaction, are examples of non-financial performance measures, while targets of revenue and amount expended to achieve targets are some of the financial measures upon which employees' performance are evaluated.

The findings show that the PMES at the HQ is still evolving and has been the subject of experimentation to find a suitable system for use. The interview evidence suggests that the previous system in place was paper-based and was inefficient. A new system in place at the HQ is computer-based and intended to evaluate individual performance rather than groups as was the case with the older system that was being replaced. However, a major issue with the PMES at the HQ is the use of the system. Evidence indicates that the outcome of the evaluation may not be taken into consideration in administering rewards. This is important since according to the Employee Handbook, the HQ adopts a performance-driven reward system. There were also allegations among staff of favouritism, lobbying and tribalism since the PMES is also used for succession planning.

In contrast with the HQ, findings at the subsidiary show that PMES at the subsidiary is standardised. A reason for the standardised PMES being used at the subsidiary is that staff members, who are involved in the design of the system, have worked previously in other multinationals within the UK, where they have been involved in a similar capacity and have transferred the knowledge to the NSMNE. The PMES at the subsidiary is also based on key performance indicators (KPIs) that are intended to capture the areas that employees are expected to direct their effort. An important use of the PMES at the subsidiary is to provide a platform for dialogue among staff of the subsidiary. The outcome of performance evaluation allows subsidiary staff to evaluate how well they have performed and to discuss areas that

require improvements to be made. This is unlike the situation at the HQ, where a key function of the PMES is to provide the basis for reward.

A reward and compensation system was also in use at HQ. Both monetary and non-monetary rewards are given to staff to encourage performance. However, interview evidence suggests that staff members are more motivated when the reward increases their financial status. That is, reward that adds monetary value and can be reflected in their status in society is more appreciated than non-monetary rewards that do not reflect in their individual status. Findings show that middle level managers at the HQ also make personal effort to encourage performance among staff they supervise, by initiating their own reward schemes in addition to the enterprise-wide rewards.

The subsidiary, like the HQ, also operates a reward and compensation system. But while the system at the HQ is not standardised, and middle level managers may even develop their personal rewards to motivate the staff they supervise, the subsidiary relies on a standardised reward system that is based on industry standards. Unlike the Nigerian system, where there are no average standards set for rewarding employees, and each firm may choose to set its own reward and compensation system, the UK subsidiary rewards based on industry standards. Employees at the subsidiary may also be incentivised to encourage extra effort in the search for opportunities within the UK. This is important because, the subsidiary gets most of its business from the HQ, and the HQ has not set high targets for the subsidiary. As a result, there is the tendency to miss out on opportunities that may be available within the UK.

A significant difference in the reward system between the HQ and subsidiary is that the subsidiary rewards its staff members by ensuring they were provided with a comfortable working environment and snacks. While staff at the subsidiary indicated this form of reward is important to them and had been a consideration for accepting the job, it was not

acknowledged as a reward among HQ staff. This could be related to the differences in the institutional environment of the HQ, where the high level of poverty and the value placed on wealth may make non-monetary rewards unimpressive to staff members.

In addition to the key formal control system mentioned above, informal control systems were also found at both the HQ and subsidiary of the NSMNE. Findings show that the informal controls do not operate separately from the formal systems, but support the functioning of the formal systems. The HQ of NSMNE operates a strong organisational culture that makes its staff identifiable. The strong organisational culture facilitates coordination and control and agrees with previous research by Kärreman and Alvesson (2004).

The organisational culture at the HQ is based on four principles – leadership, safety and security, enterprise and service excellence. The NSMNE is known for its leadership as well as security and safety in the Nigerian financial services industry. The NSMNE is thorough with safety issues, which interviewees reckoned to be the NSMNE's strongest selling point, and which gives it an edge among competitors. This is because of the concerns for security and safety in the Nigerian institutional environment and the vulnerability of the financial services industry to fraudulent activities.

While interview evidence suggests the NSMNE is thorough with safety issues, it is weak in the area of enterprise and service excellence. Some interviewees suggest that the emphasis on safety and security may be part of the reason for the lapses in service excellence. The NSMNE is also considered by some interviewees to be lacking in innovation, and, as a result, was losing some customers to more innovative new generation firms.

In order to create the organisational culture at the HQ, the NSMNE uses its recruitment policies by engaging in what is described as creative recruitment strategy. This involved recruiting staff who have both the right character traits and the technical abilities that the

NSMNE desires of its staff. When recruited, the staff are put through a series of training that shapes their quality traits to what the NSMNE desires of them.

At the subsidiary, the organisational culture is oriented towards team work. Open work spaces are used to encourage free communication and interaction between staff members. Emphasis is also placed on results rather than just outcomes. Kärreman and Alvesson (2004) had indicated that strong organisational culture may constitute a form of control and could enable staff members to work cooperatively towards set objectives.

Recruitment was also found relevant in selecting the right calibre of staff to sustain the culture of team work. The subsidiary builds into the selection criteria of employees its values and beliefs. These are reiterated during the interview process, where prospective employees are asked questions to ascertain whether their values fits with the objective of the subsidiary. Staff members are also trained to acquire the values of the organisation and to maintain the image of the enterprise as a Nigerian organisation, which is important to the HQ objective of being seen as a Nigerian enterprise that is able to operate at the international level and do business in the UK.

9.3.2   Informal controls in the NSMNE

Informal controls both at the HQ and subsidiary provide the flexibility for the operation of the subsidiary. At the HQ, the NSMNE emphasises the beliefs, values and norms that should be shared by employees. Newly employed staff members learn these values from the point of their induction into the organisation where they are taught about them. These values and norms are in the mission statement and vision, which are written out and placed in strategic places to serve as reminders to staff members.

Through the recruitment of staff with the desired qualities, training and socialisation of employees, the organisational culture is sustained in ways that shape employees' behaviours to make them consistent with the culture of the NSMNE (see Abernethy and Brownell 1997).

An important claim of this study is that, the controlling effects from informal controls emanates from the social capital that is formed from frequent interactions between organisational members, trust and reciprocation (see Sitkin and George 2005; Gomez and Sanchez, 2005). For example, informal control was found important in the integration of the activities of the two broad subdivisions at the HQ enabling them to work together to deliver services to customers. Through interactions, informal agreements, trust and reciprocation, formal procedures required to carry out some operational activities were sometimes not strictly followed in order to avoid delays and the probable loss of customers. This is necessary since customers often bemoan the several controls they have to go through to have their business transactions performed. This finding is consistent with the benefits of social capital (see Aarstad et al. 2010; Masquefa 2008 and Adler and Kwon, 2002).

At the subsidiary level, employees relied on the social capital generated from informal relationships within the subsidiary and with staff members at the HQ to pursue the objectives of the enterprise consistent with Ahrens and Chapman (2004). However, the formal systems that are in place to check staff activities are important to give confidence to customers that their investments are secured with the NSMNE.

9.3.3 Impact of institutional environments on the design and use of management control systems

Scholars have argued that the institutional environment of organisations impact on organisational activities, and in particular on the design and use of MCSs within organisations (Elbashir et al., 2011, Hyvonen et al., 2008). At the HQ of the NSMNE, formal

MCSs were found useful to contain some of the challenges of the Nigerian institutional environment. For example, evidence suggests formal MCSs help to deal with the uncertainties of the environment by specifying procedures that are crucial for maintaining and safeguarding organisational assets.

Given the diversity of the Nigerian institutional environment, the differences in cultural beliefs, kinship and religious beliefs, formal MCSs help the NSMNE to create an organisational environment based on its own sets of rules, policies and procedures. As a result, management at the HQ is able to control the extent of external environmental influences on organisational operation.

In designing budgets for instance, branch managers are allowed to incorporate miscellaneous expenses to cater for the activities that may be unique to their locations. By so doing, the NSMNE takes care of the individual needs of branches and is able to better handle the specific challenges of the operating environment. The approach also allows the NSMNE to gather information relevant to the area of operation that may not be available to management at the head office.

In addition, the NSMNE operates a policy that prohibits the employment of family members in order to reduce the likelihood of collusion to commit fraud especially because of the Nigerian kinship system. Resident internal control officers (RICOs) are also permanently stationed in all the branches at the HQ. These RICOs are independent and are tasked with supervising transactions that emanate from the branch they work in.

Furthermore, the compensation and reward system at the HQ is very elaborate. There are rewards from the head office that are general to the organisation, and there are specific rewards that lower level managers' setup on their own volition to reward extra efforts of staff members under their supervision. For instance, the Nigerian service multinational annual

merit award is an organisation-wide reward scheme. The same goes for the Chief Executive Annual Merit Award. However, area managers are not obliged to set up their own reward schemes to motivate staff under their supervision. This is important because interviewees noted there is low morale and lack of motivation among staff members. They attribute some of these to the challenges of the institutional environment of Nigeria.

From the subsidiary perspective, the impact of the UK institutional environment was instrumental in way the HQ used MCSs in relation to the subsidiary. The subsidiary designs its own MCSs and had no MCSs imposed on it by the HQ. The subsidiary is also exposed to more advanced and standardised regulatory requirements. The subsidiary's MCSs are designed to support the HQ objective of having an operating business in the UK. Rather than setting high targets that staff members have to meet at the subsidiary, the emphasis is more on delivering quality services that satisfy the needs of clients and customers referred to the subsidiary by the HQ.

9.4   Contributions and implication of the study

This thesis examined how differences in the institutional environments of the NSMNE shape the design and use of MCSs and the role of MCSs in the headquarters-subsidiary relationship of the NSMNE. In order to understand what impact the institutional environments may have on MCSs design and use, an emerging multinational from an LDC has been studied. Based on the findings, some conclusions and implications of this study have been reached and are contributions highlighted as they relate to policy and practice, the extant literature and theory.

9.4.1   Contribution to theory

According to Kilduff (2006) research makes a theoretical contribution if it furthers insights into a previously known theory or theories. This study provides evidence that the NIS enables the understanding of the influence of external environmental factors on the design and use of

MCSs. From the HQ perspective for example, the introduction of minimum capitalisation requirement by the CBN put pressure on the NSMNE and was instrumental for the NSMNE strategic move of transformation. The regulatory pressure stemming from the CBN, in the form of threat of sanctions and possible government takeover of underperforming enterprises, had impact on the budgetary system, resulting in higher targets. This finding is consistent with previous research that argues that organisations may introduce policies and controls as a result of regulatory pressures stemming from the environment (Hopper and Major, 2007; Powell and DiMaggio, 1991).

DiMaggio and Powell (1983) argued that, normative pressures stem from professional affiliations and culture. While there was no evidence to support the professional dimensions of pressure on the design and use of MCSs in this research, there was evidence to suggest culture influences on the design and use of MCSs. For example, the PMES were used to monitor the implementation of company policies, provide standard requirements of performance and exert control necessary to focus employees' efforts on organisational goals. Furthermore, key performance indicators (KPIs) were used to integrate elements of the environment, such as culture and religion, into the PMES to ensure that staff members paid proper attention to them in dealing with customers.

Culture also impacts the design of the compensation and reward system as well as the perception of rewards. The HQ had in place several reward and compensation schemes. These were attributed to the need to get staff members motivated in a situation where the challenges of the institutional environment bore down on their work. For example, the perception of wealth as the main determinant of a person's status and value in society influenced employees' attitude and behaviour and makes monetary reward a potent motivator among employees.

From the subsidiary perspective, the level of development of the UK institutional environment was reflected in the standardised design and use of MCSs. While the HQ was still experimenting with its PMES, the subsidiary had in operation a standardised system that was developed from templates that staff members had used in their previous jobs elsewhere. This is possible because of the opportunity of being in the UK, where there are many other international multinational financial services companies as well as local companies, whereas the HQ remains a leading player in the Nigerian setting, and rather picks up best practices abroad. A challenge with such development for the HQ is that, systems like the PMES, which are oriented towards the individual, are based on the individualistic nature of the environments, where they have originated conflict with the collective nature of the Nigerian (HQ) institutional environment. This is consistent with previous observation by (Seddon (1987).

Furthermore, reward and compensation at the subsidiary was standardised based on industry standards available in the UK. Whereas, in Nigeria, there are no industry standards for rewarding employees, but companies are allowed to use their discretion to offer rewards that attract, retain and motivate their staff. Also, regarding reward and compensation, while staff members at the subsidiary suggest they paid attention to non-financial reward like the conduciveness of the environment for work, staff at the HQ were keen to have monetary rewards instead. There were suggestions among staff members at the HQ that whatever did not directly add to an individual's economic value or contributes to one's status in society was not really perceived as reward.

However, while the NIS may have explained how the institutional environment shaped the design and use of MCSs in the NSMNE, the NIS has been criticised for focusing on external organisational factors and ignoring the influence of intra-organisational factors. The NIS also ignores the activities of individual actors in the organisation that could shape policy

decisions, impact behaviour and the functioning of the MCSs. To contribute to the understanding of the individual's role in the functioning of MCSs, the social capital theory has been used in this research. Scholars have taken different views of social capital.

Social capital, for the purpose of this study, is an attribute of both bonding and bridging relationships that social actors share. Social capital is found important in the control and coordination of the HQ-subsidiary relationship, without the actual imposition of HQ-designed MCSs on the subsidiary. This is important in this research since previous studies have suggested that HQs control their subsidiaries by imposing MCSs they have designed on the subsidiary.

Social capital is also important for the bonding necessary for staff to perform their duties in creating an atmosphere that supports the pursuit of collective goals. In agreement with Masquefa (2008), social capital expressed trust, reciprocation and mutual interest was found useful in resolving issues and reduced conflict especially among staff of the two subdivisions at the HQ.

The role of social capital in understanding the HQ-subsidiary relationship of the NSMNE

The literature on MNEs recognises that subsidiaries create an important source of competitive advantage for the MNE (Chiang, 2007). The literature also notes that the autonomy of a subsidiary or strategic independence is adopted to achieve external legitimacy and enrich the competitiveness of the NSMNE (Chiang, 2007; Heidenreich, 2010). This is consistent with the findings observed in this research that the autonomy of the subsidiary is intended to enhance the achievement of the NSMNE's broad objective(s). The key objectives identified in this research are the achievement of external legitimacy for the HQ, knowledge transfer and improvement in performance.

In order to achieve these objectives, the NSMNE exploits the organisational social capital that exists between the HQ and subsidiary. The concept of organisational social capital has been used to describe connection with the social context of organisations and organisational relationships (Burt, 1992; Tsai & Ghoshal, 1998). Leana and Van Buren (1999) described organisational social capital as reflecting the character of social relations within the organisation and realised through members' levels of collective goal orientation and shared trust.

Collective goal orientation and shared trust was exhibited in the HQ-subsidiary relationship of the NSMNE through what interviewees described as looking at the bigger picture. The bigger picture in this sense refers to the broad objective of the NSMNE to achieve external legitimacy through the subsidiary and build a reputation as an emerging MNE that is internationally recognised.

Another benefit of the organisational social capital that exists between the HQ and subsidiary of the NSMNE is the cross-national knowledge transfer between key management staff members at the HQ and subsidiary of the NSMNE. Masquefa (2008) suggests that the social capital formed in the relationship between managers in an organisation impact on the performance of the firm. Heidenreich (2010) posits that MNEs combine the advantages of global strategies with the social capital formed in "heterogeneous social, and especially national, contexts". He argues that this social capital "contributes to the innovativeness of MNEs by facilitating access to external resources and competences as well as coordination with internal and external actors" (p.549).

Trust and reciprocation are important elements of social capital that enable the translation of individual level social capital into the organisational level of social capital. The elements of trust and reciprocation determine the extent to which individuals associate and interact with

one another (Alder and Kwon, 2002; Kotsova and Roth, 2003). Chiang (2007) argues that "not only is trust a determinant of individual social capital but it also serves as a motivational source for building organizational social capital" (p.45). Hence, trust as an element of social capital is germane in knowledge sharing within MNEs. In the next section, the contribution that this research makes to policy and practice is discussed.

9.4.2 Contribution to policy and practice

Evidence from this study show MCSs are designed separately at the HQ and subsidiary of the NSMNE, rather than being imposed on the subsidiary. This is consistent with findings from previous research and suggests that the institutional environments of the HQ and subsidiary, and how similar or different they are, shape the policy and strategy that the MNE adopts in its use of MCSs to control and coordinate international operation (Dacin et al., 2002, Rozkwitalska, 2013).

Evidence also indicates that social capital could be effective in the integration and coordination of multinational operations. This is consistent with previous studies (Adler and Kwon, 2002, Masquefa, 2008, Kostova and Roth, 2003). However, where social capital becomes the main mechanism of control, the focus may have to be, as in this case, on organisational social capital and the need to achieve group goals, rather than specifically designated target goals for the subsidiary. The implication of this is that it may limit the potential of the subsidiary to explore its environment and search for opportunities.

Another implication of this research to practice and policy is in the use of local or expatriate staff to manage the operation of the subsidiary. While previous studies on the MNE, from the conventional perspective of multinational operation, suggest expatriates may be sent to the subsidiary to main key positions so as to enable the HQ to have control of the subsidiary operation, it is different in this case (Staber, 2006, Tan and Mahoney, 2006). The NSMNE

has adopted a policy of using locals who have the expertise and understanding of the UK institutional environment to manage the subsidiary's operation. The main reasons for doing so are that, the HQ lacks the skills and experience to operate the subsidiary without the local expertise. Also, HQ seeks to develop a reputation as an international enterprise against the negative impression that is associated with its background as an MNE from an LDC, and specifically Nigeria. However, social capital from the relationships between top managers at the HQ and subsidiary was necessary to develop the trust required to serve the subsidiary operation.

Another policy issue worth considering from this research is the creation of an industry standard of reward and compensation in the Nigerian financial services industry. This could allow for competitive rewards across the industry, encourage dignity of labour and may be a motivation to employees. It may also address, to a certain extent, the concerns raised by interviewees in this study about the use of performance evaluation reports. In the next section, the contribution of this study to literature is discussed.

9.4.3   Contribution to literature

The literature review in chapter 2 shows that most research investigating MCSs has been based on developed countries' contexts, with limited research evidence available on MCSs in developing economies. Specifically, there is a dearth of research investigating MCSs in private enterprises in LDCs. Hopper et al. (2009), in their review of the literature of management accounting and organisational research in LDCs, found only two publications by Van Triest and Elshahat (2007) and Tayles et al. (2007) related to private enterprises in LDCs. This research contributes to the literature of MCSs in LDCs by studying a MNE in order to understand how the different institutional environments in which the MNE operates shape the design and use of MCSs.

Most studies of MCSs in MNEs' have focused on traditional MNEs with headquarters in developed countries and international operations in other developed and LDCs. However, there is an emerging trend of MNEs with headquarters in LDCs that are seeking advantages in developed countries and other LDCs (Guillén and García-Canal, 2009, Mathews, 2006). While scholars have started paying research attention to these new forms of MNEs, there are no empirical studies of emerging MNEs from Africa. This study contributes to the literature on MCSs in MNEs by focusing on an emerging MNE rather than a traditional or conventional MNE. Conventional MNEs have their HQs in developed countries and subsidiaries in other developed and LDCs (Guillén and García-Canal, 2009, Yadong and Huaichuan, 2009). Emerging MNEs are enterprises from LDCs that are seeking advantages by extending their operations to other developing and developed countries.

Moreover, while scholars have argued that traditional MNEs impose structures and controls from the headquarters on their subsidiaries (Elbashir et al., 2011, Norreklit and Schoenfeld, 2000), the situation with emerging MNEs remains to be understood. This research also contributes to the literature on MCSs by giving some insights into how the institutional environments of the MNE may impact the way MCSs are designed and used within the HQ of an MNE, and in relationship to subsidiary operation. It also contributes to the literature by highlighting some critical institutional environment factors that may influence the decision to implement a strategy that requires the imposition of controls and structure on the subsidiary.

Furthermore, the study contributes to the understanding of the impact of relational factors on cross-border integration and the control of business operations in a situation where MCSs are not imposed. By engaging social capital theory, the study brings into perspective the importance of social relational factors in shaping the cross-border relationships of an MNE. While this research makes various contributions as highlighted above, there are also limitations as with every research project. These limitations have potential implications for

the findings and conclusions of this research. The limitations of this research and suggestions for further research are presented in the next sections.

9.5   Limitation of the study and suggestions for future research

The first limitation of this research can be attributed to the research methodology used. A qualitative approach based on an interpretive epistemological position has been engaged to gather evidence for this research. This is appropriate based on the research question for this study and the review of extant literature. However, as with most qualitative research, the researcher was in close contact with the subject of the research, which may have influenced and biased some of the views expressed. To mitigate this risk, document analysis, observation and informal discussions was used to verify claims made by interviewees, as suggested by Eisenhardt and Graebner (2007).

Also relating to the research methodology is the fact that the findings made in this research may not be generalisable. The lack of generalisable findings has been a major criticism of the qualitative research approach, especially with the single case study approach that was adopted in this research. However, the research makes up for statistical generalisation by offering more in-depth understanding of the subject matter of the research. Also, the case study approach takes into account the context of the research, which is important in this study.

To further mitigate the methodical limitations highlighted above, triangulation was used to verify the authenticity of the evidence obtained. Triangulation involves combining different sources of evidence to support the claims made in this research. Interviews, documentary evidence, informal discussions and observation have been instrumental to claims made in this research. For example, interview techniques requiring similar questions being asked, as well

as varying the presentation of the same question by phrasing it differently, were strategies used to confirm responses given by interviewees and to seek clarifications.

The second limitation relates to evidence gathered in support of the regulatory pressure of the NIS. Scott (2001) noted that most studies view regulatory pressure as the single most potent force of institutionalisation. The initial proposal of this research had intended to gather evidence from the regulatory authorities, as well as providing additional support for claims made in this research regarding the impact of regulatory pressures on the NSMNE policies and controls. However, attempts to involve the regulators were unsuccessful. Rather, documentary evidence and opinions from interviewees within the NSMNE have been used to support claims made in this research.

9.6   Suggestions for future research

The social capital theory as suggested in this research holds some potential in understanding controls and coordination in MNE. Further research might benefit from the exploration of specific ties and structures of relationships. In this way, an understanding of how the position that actors occupy in a MNE's network impact the generation or hinder social capital could be made. Also, further research could be conducted to investigate how social capital is implicated in situations of informal control.

Research could also be conducted to understand the strategic approach that multinational enterprises from LDCs are adopting in their internationalisation efforts, and how management control systems are implicated or adapted to the strategy that such multinational enterprises may choose.

Methodically, more insights may be gained by adopting a mixed method approach that combines survey with evidence from qualitative methods. While doing so may help comparison and provide more support for evidence gathered, there may be a trade-off of

depth of qualitative evidence for quantitative evidence. Also, comparison studies involving an MNE with HQ in a developed country and subsidiary in an LDC, and vice versa, could be conducted. Comparisons may also be made between manufacturing MNEs and service MNEs to investigate how their line of operation influences the transfer of control and structures, and the use of expatriates to manage international operation.

Finally, the claims that cultural distance may play a part in the use of MCSs for coordination and control of subsidiaries operations may be investigated further. This could be done by using at least two subsidiaries within the West African sub-region and UK if there are multinationals from Africa that operate in both places. An English speaking country like Ghana, which shares similarities (colonial history and some cultural practices) with Nigeria may be used. Where language barriers could be overcome, a Francophone country within the region may also be used to aid comparison as Francophone countries share different colonial histories with the English speaking countries of Africa.

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Appendix E

Table 1:

The interviewee codes presented in this table have been used rather than the job functions of interviewees to refer to their quotations made by interviewees.

Interviewee Code	Headquarters	Subsidiary	Job function
ROM1	*		Regional Manager
AOM1	*		Area Operations Manager
AOM2	*		Area Operations Manager
AOM3	*		Area Operations Manager
AOM4	*		Area Operations Manager
AOM5	*		Area Operations Manager
AOM6	*		Area Operations Manager
BOM1	*		Branch Operations Manager
BOM1	*		Branch Operations Manager
BOM2	*		Branch Operations Manager
BOM3	*		Branch Operations Manager
BOM5	*		Branch Operations Manager
BOM5	*		Branch Operations Manager
BOM6	*		Branch Operations Manager
BOM7	*		Branch Operations Manager
BOM8	*		Branch Operations Manager
BM1	*		Business Manager
BM2	*		Business Manager
CS1	*		Customer Service Staff
CS2	*		Customer Service Staff
HS	*		Head of Strategy Headquarters
HIC	*		Head of Internal Controls Headquarters
HHC	*		Head Human Capital Headquarters
BCS	*		Branch Customer Service Team Leader
UKTS1		*	UK Treasury Staff

RT1	*		Retail Department Staff
RT2	*		Retail Department Staff
RT3		*	Retail Department Staff
AD1	*		Administrative Staff (PA to ED)
TR1	*		Treasury Staff
UK01		*	MD UK subsidiary
HOUK		*	Head of Operations UK
UK03		*	Head of Human Capital UK
UK04		*	Executive Director UK

Documents accessed in the course of research

Documents	Headquarters	Subsidiary
Employee Handbook	The employee handbook at the HQ is a 100 page document. In it are the rules, ethical requirements, the organisational hierarchy and reporting structure. It is like the constitution of the company in relation to the employment contract that staff members have signed unto. This document contains rules on the expectations of all employees, what is acceptable and what is not acceptable. It also contains rules on what processes and procedures would be followed should an employee breach the rules outlined.	The Employee handbook at the headquarters is different from what is used at the HQ. It is smaller in volume and does not contain the elaboration of rules and expectations from employees as that of the HQ.
Annual Reports	The 2010 Annual Report was provided by the company in hard copy. As at the time of data	The Annual Report of the UK subsidiary for 2010 was also collected in hard

	collection in February, 2012, the 2011 Annual report was not ready. However, it became available on the company's website along with the 2012 and 2013 versions which were referred to in the course of this study.	copy. Other versions (2011, 2012 and 2013) became available online on the subsidiary's website which is different from that of the HQ once they were published.
Performance Evaluation Report	Two versions of the performance evaluation report were accessed at the HQ. The paper version which was being phased out at the time of empirical data collection and the electronic version which was being introduced. While hard copies of the paper version were given for the purpose of this research, access to the electronic version was only allowed while in the company. The reason being that the system was still at the trial stage and had not been fully implemented as at the time of data collection for this study.	The UK subsidiary had in place an automated version of performance evaluation report. A copy of this was received during the data collection; however, there was an agreement to destroy it once used. There was no such requirement by the HQ, probably because the paper version received was being phased out.
Internal Control Manual	An internal control document produced by Ernst and Young was being used to guide the design and implementation of internal control procedures at the HQ. A copy of the same document was received in the course of the research.	A copy of an internal control document was not received at the HQ. However, explanations of how the systems worked were offered by interviewees.

Participant Information Sheet

This document provides important information to assist you to understand and decide to (or not to) take part in the research which will involve an **interview, observation at meetings and document analyses**. Please read it carefully and if you do not understand any part, I will be happy to clarify.

1.   The design and use of management control systems in a multinational enterprise – Evidence from an emerging multinational

This research work has as its objectives to study how management control systems may be involved in the headquarters-subsidiary relationship of a multinational enterprise and is conducted in partial fulfilment of the requirements for a PhD degree in Accounting and Finance for Inya Egbe at the University of Birmingham, UK.

2.   Why Africa? The research is motivated by the increasing role of multinational enterprises in less developed countries but the lack of research on their management control systems. There is a need to understand the control systems of these multinational companies. The particular objectives and aims are addressed in the next sections.

3.   Aims of the research

It also seeks to understand whether this set of management control systems from the headquarters and the operational controls at the subsidiary complement or conflict with each other, and how this set of controls may be managed without losing sight of the organisational strategic and operational objectives.

4.   Expected outcomes of the research

- Enhance understanding of management control issues surrounding the headquarters-subsidiary relationship
- Develop a model that will serve as an explanation of the impact of the location of the subsidiary on the operation of management control systems at the subsidiary and possibly at the headquarters
- Case study research generating rich data that covers cultural and social issues that could be embedded into management control systems as a result of their location
- A PhD thesis report and academic papers and presentation at conferences and seminars.

5.   What is my role if I opt to participate?

- You will be interviewed for a period lasting between 1 – 1½ hours in relation to the stated topic of the research.
- If you agree to be interviewed, the interview will be tape-recorded. Should you decide not to be tape-recorded, notes will be taken instead.
- If you agree to be observed, the observation will be done at meetings.
- The observation will involve looking out for the participant's contributions at meetings and reactions to discussions at meetings.
- Documents that will be collected for the study are minutes of meetings, employees' handbook, annual financial reports and organisational chart.
- Participants are not under any form of obligation to give these documents to the researcher.
- No documents will be taken out of the company premises unless approved by the company.
- You will be asked to sign a copy of the consent form stating that you agree to be interviewed, observed and asked for documents relating to your job.

Please note:

a) You can withdraw from the interview and/or observation up until (a date which will be communicated to participants) without having to give reasons.
b) Participants may refuse to answer any question(s).
c) A participant may choose to be involved in the interview process only without being observed.
d) There will be no consequences for you for withdrawing from the research.
e) In the case of withdrawal, all the information you will have provided will be excluded from the research and destroyed.
f) Interviews will be conducted at a time and in a place convenient to you.
g) Note that only documents which a participant is willing and allowed by company regulations to give out for the purpose of the research will be collected.
h) Participants may refuse to give out any document which may not be appropriate for public consumption.
i) A high level of confidentiality will be maintained to ensure that documents are secured and information in these documents is not disclosed to a third party.
j) All information gathered from documents analysed will be used for academic purposes only.

6.   Risks of participating

As a researcher I value your honesty: that is why care will be taken to ensure confidentiality and to ensure that management will not be told any information gathered in the course of the interviews.

7.   Benefits of participating

The benefits may not be direct to you as an individual but could be significant to your organisation, as the important issues at the heart of the research will be given more profile in your organisation. You will be contributing to the academic literature and offering insights to other multinationals who may be intending to invest in other sectors of the African economy.

8.   Levels of confidentiality and anonymity

All the information you provide will be treated with the strictest levels of confidentiality as required in professional research. No

personal details relating to you will be included in the thesis or passed to any third party without your written consent. I will check with you to ensure that nothing in the transcript could be identified or traced to you. Care will be taken during writing to conceal the identity of individuals and the company by using pseudo-names and statement structures which will not make it easy to link direct quotes to a participant. The company name will only be mentioned where the company has agreed to it and permission given in writing.

9.   Data Protection

All data files, both in soft and hard copies, will be stored in such a way that they are either password protected or under lock by the researcher. Codes will be used during the data collection and names relating to codes will be deleted once the thesis is written up. Furthermore, recorded interviews will be deleted once they have been transcribed. Upon full completion of the study, all data transcriptions will be stored securely for 10 years before they are destroyed.

10.   The researcher, University of Birmingham

The researcher, Inya Egbe is undertaking doctoral studies at the University of Birmingham Business School. This research has been approved by the University of Birmingham College of Humanities and Social Sciences Ethical Review Committee.