Accounting in Chinese?
-Swedish subsidiaries in Hong Kong

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Abstract

This study focuses on subsidiary managers in Swedish MNCs. The purpose is to investigate, from subsidiary managers’ point of view, the accountability process towards the parent company/headquarters and how this process is influenced by the embeddedness in the local context. The theoretical framework is based on work by Roberts, Lindkvist & Llewellyn and Florin-Samuelsson regarding accountability and Andersson & Forsgren regarding embeddedness. The hypothesis, based on a study by Andersson & Forsgren, is that a high degree of corporate embeddedness for the subsidiary leads to the occurrence of a formal mode of accountability. The study was realized by interviewing five managers of Swedish subsidiaries in Hong Kong. The result shows that two of the subsidiaries involved supported the hypothesis but the other three proved to have other constellations of accountability and embeddedness.

Keywords: accountability, subsidiary embeddedness, Swedish MNCs, Hong Kong
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Appendix 1: Questionnaire

Appendix 2: Supplementary Questions
1 Introduction

When it comes to multinational corporations (MNCs) Sweden has historically a quite big share comparing to its small population. Names as Ericsson, Volvo, SKF, SAAB, IKEA, Alfa Laval, ABB, Electrolux etc. are well-known in great parts of the world. It has been said that Sweden has the highest number of MNCs per capita in the world and even if proof for this statement has not been presented the fact is that Sweden in 1998 had 105 MNCs /billion citizens comparing to Japan (17), Italy (17) and Germany (104). ¹

The reason for this active corporate ship around the world will not be investigated in this study but an educated guess would be that a tradition of technical innovations with a small domestic market and a relatively rapid economic development after WWII plays an important role.² Research about the internationalization of Swedish enterprises has, among other things, focused on how these corporations acquire knowledge of their new markets, research ending in the IP-model (internationalisation process model) developed at the Department of Business Studies, Uppsala University. The model describes the different steps in establishing a business in a new market.³

Since the third opening of the Chinese market originating from political decisions in 1978 the world and its enterprises have dreamt of making money hand over fist in this seemingly huge market. Following the entrance in WTO in December 2001 China has gradually complied with the organizations regulations, phasing out the last restrictions by December 2004.⁴ Although other restrictions e.g. tariffs have arise the long dream of China is still alive for corporations hoping to expand their business or at least make it more efficient. A big amount of MNCs as well as SMEs are about to or already have established a business in China. Although we are being told that the globalization will bring the world closer there are still many differences between countries due to culture, legislation, political systems etc. Differences that supposedly will affect the conditions for making business and consequently for MNCs and their activities. A foreign subsidiary on the Chinese market consequently has to handle, apart from complying with the internal standards, an external environment consisting of differing business culture, legislation etc. An accounting system can be seen an

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¹ UNCTAD (1998), no comparable data available for the other G7-countries.
² Sweden.se
³ Johanson, Blomstermo & Pahlberg (2002)
intermediary that “glues” the MNC together and thus makes the headquarter integrate the subsidiary activities in the strategies (from HQ).\textsuperscript{5} The concept accountability includes accounting systems but it also contains many other aspects. Such aspects as how organizational activities are illustrated and measured, how meaning is created, how individuals form their identity, what matters in the organization etc.

1.1 The problem
With an ever increasing competition it becomes more important for corporations to work more efficiently. Avoiding sub-optimization is one means to become more effective, i.e. make all departments and subsidiaries of the corporation to work towards a common goal. But at the same time customers all over the world wants to be treated individually and have their special requests fulfilled. For a Swedish corporation making business in China this means they will most probably face competition from domestic corporations who presumably are better at mastering the local context. So how can a foreign corporation compete with a domestic one? One component is, as indicated above, to adjust to the local context. And this without sub-optimization. A concept used in research to illustrate this adjustment is subsidiary embeddedness. As a first step it thus becomes important to understand how the local context affects the accountability in the corporation, since accountability is a way of making clear which activities are taking place and subsequently it will affect what decisions managers and the board takes. In learning how the subsidiary embeddedness affects the accountability process the MNC can hopefully improve their processes and become more effective.

1.2 Purpose
The purpose of this study is to investigate, from subsidiary managers’ point of view, the accountability process towards the parent company/headquarters and how this process is influenced by the local context. Hereby the questions at issue are:

1. What does the accountability process for subsidiary managers consist of?
2. How does the local context of the subsidiary affect the accountability process?

\textsuperscript{5} Kirk & Mouritsen (1996), p.245
2 Theoretical approach

The purpose of this chapter is firstly to define, develop and problemize the theoretical concepts being used in this study, i.e. accountability and (subsidiary) embeddedness. Secondly this will lead to the construction of a suitable model considering the purpose of the study. And eventually this will end up in the operationalisation of the model, i.e. constructing the questions (for the interviews) that will act as the sensors in real life for the parameters in the model. So, let us get started.

2.1 What is accountability?

For the Swedish audience the meaning of accountability can be especially hard to grasp since, as Lindkvist and Llewellyn suggests, there is no difference in the Swedish language between accountability and responsibility. Subsequently they mostly use them as interchangeable in their study from 2003. Nevertheless, Florin-Samuelsson calls on different authors when she compares the two concepts and suggests that accountability is more about external control and instrumentality (than internal control and morality), more about past and future (than present) and more without boundaries (than clearly defined duties). Having said that I would like to continue this section with a short example.

Imagine people working in the field under the supervision of a foreman. What kind of information does this foreman need in order to be sure that the job is carried out? Provided that the people who are working alter the soil or the crop in some way all the foreman needs to do is to make a visual inspection. However, when organizations started to build up throughout history and tasks got more and more specialized and complicated, one man could not by mere look decide whether or not the work had been carried out. This was both due to lack of specific knowledge about the process as well as separation in time and place between the orderer and the executer. An accounting system, where certain outputs (e.g. financial result) are compared to standards, could act as an intermediary and solve this issue. The executing individual (or group) gives accounts to the orderer who in his/her turns give commission, resources and feed-back. This whole process is one way of looking at accountability, where the subordinate is accountable to his/her boss. As will follow in the discussion one can also be accountable to others in the organization, e.g. peers. Of course, if you run your own business, you are, in this aspect, accountable to yourself.

Lindkvist & Llewellyn (2003), p.261
This short story reflects what in the literature is often called hierarchical accountability, and what Florin-Samuelsson calls rational accounting theory - where the accounts given are the outcome of management control.\(^7\)

The process of accountability can be seen as means of illustrating what has been, is and could be taking place in the organization. However, as Roberts call attention to, this process is seldom challenged but instead often seen as an objective image of the action taking place in the organization. This, he says, is partly due to the fact that we seem to perceive figures as objective information.\(^8\) However, Roberts object to this way of looking at accountability and instead suggest that accounting should be understood as an organizational practise reproducing itself and hence creates a biased image of what matters within the organization.\(^9\) Ahrens, in his study of British and German breweries, illustrates this with the example of a leaking roof. As the maintenance manager submitted a budget containing a quite big investment in a new roof the director denied this kind of expense and subsequently the effect was that no one was held accountable for this part, even if the maintenance manager had tried to get accountable.\(^10\) Thus, the conclusion that can be drawn from this reasoning is that as well as you will see what you are looking for the things you will not measure will be judged as insignificant – even if they in reality are important to the organization.

So what are the components of accountability? In research so far there are different opinions about this. Florin-Samuelsson propose that accountability has been studied, among other things, as something a person feels, something a person has been granted and something a person exchanges for authority. In the interpretative school that Florin-Samuelsson represents accountability is both about the willingness and the ability to give accounts and hence accounting relations are not necessary hierarchical but accounting can also take place between for example peers.\(^11\) In her study of accountability in a family business context Florin define accountability as “…the everyday process of giving, demanding and receiving accounts…”\(^12\)

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\(^7\) Florin-Samuelsson (2002) pp.33
\(^8\) Roberts (1991), p.359
\(^9\) Roberts (1991), p.355
\(^10\) Ahrens (1996), p.152
\(^11\) Florin-Samuelsson (2002), pp.33
\(^12\) Florin-Samuelsson (2002), p.35
2.2 Formal and informal modes of accountability

One of the most common dichotomies, though known under different names, when talking about accountability is the formal-informal. The formal mode of accountability consists, according to Florin-Samuelsson, of official information as budgets, accounting reports etc. and quite often figures are of great importance since they easily can bridge over distances. Even if there is no antagonism between words and figures the latter is measurable and hence often seen as creating a more accurate and true picture of the activities taking place in the corporation, according to Laughlin. Florin-Samuelsson further associates the formal mode of accountability with hierarchical relations since, she says, it is often a way for superior managers to control activities. However, she also claims it to be common knowledge that this kind of information is of less relevance for managers close to operations. Common for this mode is that everything that is delivered is also requested in one way or another.

The other part of this dichotomy, the informal mode of accountability, is described by Florin-Samuelsson as something taking place in the spaces of organizational life not subjected to management control. This is an arena where relations with e.g. peers constitute the meaning of the activities in the organization as well as the individuals own identity. In short it is more about lateral than hierarchical relations, and as Roberts suggest the understanding created from this process is achieved –in contrast to imposed understanding derived from formal accountability. The purpose, or maybe outcome is a better word since it is not a directed process, of the informal accountability process is the creation of understanding of the organization beyond what is being measured. Since the individuals are accountable in this situation not only as the position they occupy but also as e.g. professionals, colleagues and friends the understanding generated is more comprehensive. Thus this information is used to challenge and reinterpret the official versions of the organization which can in turn affect the corporation’s strategy and goals etc. Supposedly this is quite essential for corporations acting in a dynamic environment. In this study I will slightly deviate from Roberts original idea and deal with informal accountability as something occurring not only between peers but also in interaction superior-subordinate. Treating informal accountability as something that takes place parallel with formal accountability (in the hierarchical relation subordinate-superior) is also supported by Lindkvist & Llewellyn (see below).

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13 Laughlin (1996), p.228
14 Florin-Samuelsson (2002), pp.40
2.3 Effects of accountability

Roberts writes about the dichotomy individualizing-socializing forms of accountability which he also connects with formal-informal respectively. He says that hierarchical forms of accounting creates the self for the individual, i.e. as being evaluated one can form his/her identity. This type of accounting also demarcates the individual’s area of concern which Roberts means cause the effect that human and ethical values are left out from the organizations. The main focus in Roberts contribution is that hierarchical accountability (accounting to your boss) is always individualizing and hence obstructs communication and the feeling of communality within the workforce. This means that one will hinder the other and that accountability and communication can not exist at the same time. Socialized forms of accounting flourish in the informal areas of the organization, predominately among peers. This latter form also forms the self of the individual but stresses the interdependence of the individuals in the organization. Lindkvist & Llewellyn however has another view on how accountability could be understood. They criticize Roberts’ opinion about the dichotomy, especially that hierarchical-socializing forms of accountability are separated in place and are antagonists, instead they suggest that “Such processes are more likely to be intertwined and occurring at the same time, but with the emphasis on any of them shifting continually.” Further they refer to Mouzelius who means that in favour of less hierarchical accountability, i.e. team-work and communal responsibility, communicative action is still necessary, even on day-to-day basis, in order for corporations to cope with the changing contexts of today.\(^\text{15}\)

It seems that these different ways of looking at the effects of accountability could partly be assigned to cultural differences of looking at corporations and their role in society. As a very illustrative example Lindkvist & Llewellyn points to the fact that while in England a hierarchy is visualised in the form of a ladder the Swedish version is a pyramid. Hence they mean that in Sweden there is more emphasize on peer relations (where Roberts use the Habermasian “communicative action”) and communal responsibility instead of looking up the corporate ladder and worry about how one is evaluated. Another parameter is the time. Although Roberts’ article from 1991 does not seem that out-of-date there has been an immense development within technology and globalization. For instance, how many persons did use internet and e-mail at that time or how many companies considered production in

\[^{15}\text{Lindkvist & Llewellyn (2003), pp.254}\]
China in 1991 (just after Tianmen Square)? It would be really strange if these revolutionary events did not affect processes and action in our organizations.

### 2.4 Embeddedness

The concept of embeddedness is used in many branches both within social as well as natural science. In their study of subsidiaries of Swedish MNCs Andersson & Forsgren investigated the connection between the degree of embeddedness and the perceived control from headquarter, from the subsidiary point of view. The result was that for a high degree of relationship with corporate counterparts the control was perceived to be increased while for a high degree of relationships with external counterparts the control was perceived to be less. Hence their division of embeddedness into corporate and external. With corporate embeddedness they mean “…relationships that go beyond administrative links because of adherence to a common organizational entity.” between the subsidiary and it’s sister units. Further Andersson & Forsgren describes external embeddedness as the contacts with actors outside the organization, i.e. customers, suppliers, competitors, authorities etc. Building on the work of network theory and resource dependency Andersson & Forsgren further argue that relationships with the local network affects the subsidiary’s behaviour as well as it’s attributes. This assumption is based on the work of Granovetter and although he is talking about embeddedness on an individual level Andersson & Forsgren claims it to be true also on the organizational level. They mean that the local context and headquarters can be seen as contradictory forces affecting the subsidiary’s behaviour.\(^\text{16}\)

Granovetter is said, according to Hess, to have had as one of his main concerns when developing the embeddedness-concept of economic action to avoid both the under-socialised view of neo-classics as well as the over-socialised view of sociology.\(^\text{17}\) In short the understanding of embeddedness in the context presented in this study should be understood as the acknowledgement that organizations are open system and thus subject to influence both from outside and inside itself. As Andersson & Forsgren call attention to it is not only the direct relation with counterparts affecting the subsidiary, but also the indirect counterparts can affect the direct relation between subsidiary and counterpart.\(^\text{18}\) Another important feature of embeddedness is that it is specific to different areas. As Andersson & Forsgren point out the degree of embeddedness depends on which functional area that is being measured. From their

\(^{16}\) Andersson & Forsgren (1996), pp.487  
\(^{17}\) Hess (2003) p.10
reasoning can be derived that a subsidiary can be embedded to a high degree in for example technology while it is embedded to a lesser degree when it comes to marketing.\textsuperscript{19}

2.5 Definition of concepts
Derived from the exposition above, the definitions of the main concepts in this study are as follows.

\textbf{Accountability} - actions and events, made deliberately or unintentionally arisen, that has the primary effect of illustrating what is taking place in the organization.

\textbf{Subsidiary embeddedness} - the extent to which a subsidiary in different aspects, relative to its mother company, becomes interdependent with its local counterparts.

2.6 Constructing a model
In the light of the two concepts presented above, I will in this chapter design a model suitable for examination for the purpose of this study. The model is not for plotting the companies involved but merely for illustration of the underlying thinking. Subsidiary embeddedness is the element used to illustrate the local context. Based on the assumption that the surrounding world has a greater impact on the corporation than vice versa the concept \textit{Subsidiary embeddedness} is treated like an independent variable and hence \textit{Accountability} is dependent. The hypothesis is that a high degree of corporate embeddedness lead to a more formal accountability being exercised (field 1). And vice versa, a high degree of external embeddedness leads to more informal accountability (field 4). Hence I expect the participating companies to fit into one of these two fields. This reasoning is well in line with Andersson & Forsgren’s findings mentioned above (see 2.4 Embeddedness).

\textsuperscript{18} Andersson & Forsgren (1996), p.492
\textsuperscript{19} Andersson & Forsgren (1996), p.494
2.7 Constructing the indicators and their related questions

2.7.1 Subsidiary embeddedness

In their study of Swedish subsidiaries Andersson & Forsgren operationalized embeddedness as technological embeddedness. In order to reflect a more comprehensive understanding two further dimensions were added in this study; strategy and relation. Strategy was chosen because virtually all companies have a strategy for their business, most often an explicit one, which makes this dimension meaningful to examine. Furthermore relation was chosen to stress the dimension of the company more depending on human contribution since individuals, and not the company itself, can be seen as initiating, maintaining and liquidating the subsidiary’s relations with counterparts.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Definition</th>
<th>Value</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>The technique used in the making of the company’s product</td>
<td>degree of co-operation in development with locals vs. HQ</td>
<td>Printed material, websites.Suppliers/customers influence on tech.? etc.</td>
</tr>
<tr>
<td>Strategy</td>
<td>Long term plan for implementation of business</td>
<td>centrally-locally initiated</td>
<td>Who propose the strategy for HK? etc.</td>
</tr>
<tr>
<td>Relation</td>
<td>Relationship/connections with superiors, colleagues, customers/suppliers</td>
<td>close - distant</td>
<td>Key connections, length in years, share of turnover etc.</td>
</tr>
</tbody>
</table>

Figure 2. The dimensions used in assessing subsidiary embeddedness.

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2.7.2 Accountability

As accountability is a more difficult concept to concretize formal accountability was judged from the range of communication habits and accounting reports (when available). The extent of informal accountability was derived from questions about the contact with local hired people at the office, contact with colleagues in the same branch, fellow Swedes etc. Much attention was also directed to how they described their business and their duties.
3 Procedure

The purpose of this chapter is to explain how the study was conducted, what considerations have been made and what decisions that has been taken. And last but not least how things really turned out in the end.

3.1 Choice of method

The method chosen for this study is qualitative interview. The reason for this is that the author had the opportunity to reside in Hong Kong specifically and that the number of Swedish companies represented there is too low to allow for a quantitative study. A second reason is that the study intends to display the opinion of the subsidiary managers, not only the official view but their own personal ones, in which case a qualitative interview seems more appropriate.

3.2 Delimitations

This study only considers companies that have their head office in Sweden and have a predominantly Swedish board and management. However, the companies don’t need to be under Swedish ownership. The managers included are all Swedish since interviewing domestic managers or expatriates of other nationalities would complicate the analysis of the material as consideration to national culture then had to be taken. Another complicating factor if interviewing other managers than Swedish is the language barrier, i.e. that words and concepts have different interpretation in different languages. A second delimitation of this study is that only the manager of the subsidiary was interviewed. Even if we often believe managers to make the biggest contribution in shaping the behaviour of a company interviewing subordinates was an option never realized. This could have resulted in a different picture instead of this one, originating only from the manager’s point of view.

3.3 Selection process

The selection of informants was made in cooperation with The Swedish Chamber of Commerce in Hong Kong (SCCHK) using their directory. In the first step I have selected, after consultation with SCCHK, the managers of subsidiaries who speak Swedish –which in reality was the same as being of Swedish nationality. As the purpose was to interview the manager highest in command (the one who is accountable) this fact was also checked with the directory as a second step in the selection process. And as the third and last step, I verified that the company had their headquarters in Sweden. This last step was taken to assure that a
possible future study from the HQs point of view could deal with the same type of geographical relation, i.e. Sweden-Hong Kong. The titles of the informants were company dependant but the common thing is that they are highest in command in HK. With the selection process described here there was no initial contact with the HQ but only the subsidiary manager was asked to participate (see 3.4 Ethical considerations for further discussion on this issue). After this first selection the list of possible candidates consisted of 26 companies.

After the initial contact by e-mail and telephone some potential informants dropped off. Some subsidiaries were found to report to other offices in Europe and as a result they have not been directly subordinated to headquarters in a hierarchical point of view. Since the purpose is to examine the direct relation between headquarters and subsidiary these informants were excluded. Some other reasons for exclusion were:

- Lack of time for an interview
- Office relocated to mainland China
- Management buyout of the subsidiary
- Just about to end the placement
- No contact –in spite of numerous phone calls and e-mails sent

After some persistent work I ended up with five willingly informants, who at that point seemed to fit the criterion.

### 3.4 Ethical considerations

For the purpose of guaranteeing the anonymity of the informants and to assure that the information is as accurate as possible I have made some ethical considerations. The focus in this concern is two questions:

1. Is it appropriate to interview managers in Hong Kong about a field involving HQ without first having the permission from HQ?
2. Can and should I guarantee the anonymity of the informants?

After some discussion with my supervisor and assistant supervisor two arguments supporting an independent contact with the informants stood out. Firstly there is the principle saying that the one who owns the information makes the decision of how to use it, which in this case means that the subsidiary manager in Hong Kong himself/herself has to decide whether or not
to provide the information. To put it in another way; it is the informant’s responsibility to make sure that any internal support needed for participating in an interview really exists. Secondly, Swedish subsidiary managers abroad are, by cultural reasons, assumed to be independent enough to make a contact through the head quarter seem artificial. There is also an aspect of quality for this second argument; if receiving the approval from HQ as a first step the risk is that the subsidiary manager would think of me as a controller instead of an independent part. Thus the risk that they would provide me some insignificant information.

About the second question, anonymity, one view expressed is that studies where participating informants and companies appear with their true identities increase the credibility.\textsuperscript{21} This view is based on the assumption that anonymous informants have a tendency to exaggerate since they are not accountable. I admit that this reasoning seems realistic. In my reasoning however, I have started from the fact that focus in this study is on relations between the parties and that the nature of these relations could possibly be of delicate nature. In the case of delicate information anonymity would guarantee more trustworthy information, instead of just general one. This is the reason why the informants are anonymous.

### 3.5 The questionnaire

The basic principle for the construction of the questionnaire was to start with some general questions about education and career and then later on ask about control and accountability, e.g. how the contact with Sweden is carried out, what responsibility and authority one has and so on. However, the questionnaire was not followed to the letter but the informants were allowed to elaborate matters they found to be important, furthermore some interesting aspects were followed up. The questions were designed in co-operation with the assisting supervisor Lars Frimanson. Later on supplementary questions were sent out by e-mail, which four of the informants answered.

### 3.6 The interview

The informants got to choose the time and place for the interview themselves, this lead to that the interview was conducted in their respective office. At the beginning of the interview I have once again explained the purpose of the study and guarantied their anonymity. With the consent of the informants I have recorded the interview. Some of the informants also provided

\textsuperscript{21} Joachimsson & Wiedersheim-Paul (2004)
me with some strategy documents. However, no accounting reports were received. The
interview that came to differ the most from the others was the first one (Alpha) which, due to
technical problems, was not recorded. The material from this interview is a reproduction made
from my notes 2 hours after the interview. Consequently the material from this interview is
not as comprehensive and detailed as the others.

3.7 Suitability of the method
Not very surprisingly it proved quite difficult to extract the essence of the informal
accountability process. One possible way to gain access to this kind of information could be
participation in the company, as an observer, for some time. However, I found that method to
include too much effort for the companies involved.
4 Empirical material

This material consists of the transcribed interviews, received documents from the informants and information from the web-sites of the participating companies. The subsidiary managers interviewed were, as mentioned in 3.4 Ethical considerations, promised to remain anonymous. In the following description I have therefore changed or left out some distinguishing features, hopefully without distorting the very essence of the information they provided during the interviews. The participating companies are hereafter called Alpha, Beta, Gamma, Delta and Epsilon. For matters of simplicity, all managers are referred to in feminine (although they are of both sexes), i.e. she and her.

4.1 Alpha

The office in HK is a purchasing one and the subsidiary manager is also the regional manager. She has been an employee in the company for more than 10 years. The branch office in HK is tailor-made to fit the head office, i.e. every function, the merchandiser, the controller etc. has it’s counterpart. The head office takes the actual order decision but then the subsidiary takes over the responsibility and carries out the purchase. The region under the managers command count for about 70 % of the companies total purchasing.

4.1.1 Alpha’s technology

The technology used in Alpha is not high-tech but rather quite simple. The main issue regarding technology is instead the rapid shifting between different, individually simple, techniques. In general, the mother company exert most influence on the technology, since they mostly make inquiries and send requirements about products. However, the mother company itself is influenced by other companies and the market, hence they seldom invent new technology themselves. To some extent the purchasers in HK can be influenced by local technology development but from the suppliers there is not much influence, says the manager.

4.1.2 Alpha’s strategy

One strategy is to have SMEs as suppliers in order not to get to dependent. Another is not to use intermediaries but to purchase everything themselves. And a third strategy is to maintain relations with suppliers and support them if they have trouble complying and not to immediately break of the co-operation. These strategies are produced and settled in the regional limited company of Delta where also the deputy managing director (from Sweden) is a member of the board. Board meetings are usually held twice a year and business
management meetings are held four times a year. The manager says that she probably has more authority than she thinks and that “… they trust me cause of my long time service in the company and my large network…”.

4.1.3 Alpha’s relations
According to the manager the strategy is to have SMEs as suppliers in order not to get too dependent. The suppliers themselves do not want Alpha to count for more than 30% of their turnover, for the same reason of interdependence. As a rough estimation the manager believes that Alpha is influencing their suppliers with 75% and vice versa 25%. Alpha is not using any intermediaries but sourcing everything by themselves. The 30 biggest suppliers count for about 70% of the turnover. The manager tells about an occasion some years ago when the company was disappointed with a former manager’s performance and fired him. The reason was that he lacked the Alpha-spirit.

4.1.4 Accountability in Alpha
Once a month the local controller sends an economic report to his counterpart in Sweden. Apart from that she says there are no extensive formal reporting to Sweden, just communication by e-mail and usage of the on-line order system. The manager prefers to communicate with HQ through e-mail “… as every discussion and agreement then will be documented…”. Budget for the whole region is prepared by the manager and Alpha uses a system with commission (5% of invoice value). If any bigger investments are required the manager expects the support from other offices in other countries that have bigger margins. The manager claims that there is a special spirit within Alpha manifesting things to be run in an informal way, just to call and chat if something needs to be done and no need to be formal. She also talk of the company as “we”, i.e. that “we had a financial crises”. The manager says that her main driving force is to learn more about production in China since the country is a powerful economic factor in the world today. She estimates that she has most contact, in her daily work, with colleagues within the company, especially locals and Swedes.

4.2 Beta
Beta is a sales office and also the regional office for Asia. The manager explains that the office is situated in HK because it is the most convenient place considering the extension of the region and travelling distance. The manager has several salesmen in the whole region under her command and she has worked in Beta for over 10 years.
4.2.1 Beta’s technology

Beta’s products are quite technology intensive and Beta is in the front line, at least when it comes to advanced versions of the products. Beta claims to be proficient in customizing the product for the customer and the manager says that it is quite often they get feed-back from the customer and this is way of establishing a closer connection with the customer. All development of new technology however takes place in the mother company in Sweden.

4.2.2 Beta’s strategy

The overall strategy for Beta is derived from a collection of policy documents developed on headquarters’ initiative but in close co-operation with middle managers. The policy documents, which are familiar throughout the organization, are an extensive exposition of Beta’s way of working including mission, values etc. However, the more specific strategies are drawn up during the strategy meetings that take place a few times annually. There all the region managers discuss with headquarters about allocation of the products based on the reports from region managers about their customers’ actions and the state of the national economies in the region. Typical decisions concern which customer relations to maintain and which to end. She also says that according to the control documents Beta is supposed to act and be perceived as one company, hence sub-optimization is not allowed and Beta sell to the customer who gives the highest margins.

The strategy is to rather have many small or medium sized companies than a few big ones as customers. Another strategy is to sell to different branches to avoid fluctuations in demand throughout times of prosperity and times of depression respectively. A third strategy is to try to persuade customers to upgrade to a more advanced/customized product, in order to make them more dependent on Beta, to establish a closer connection. The other reason for this strategy is the profit since Beta has higher margins for the more advanced products.

4.2.3 Beta’s relations

The world market for Beta’s product is quite good for the moment. Some time ago all sales offices did not reach the estimated sales but now most can sell their budget and more. Since their production is limited they have to allocate the product by quota. So they try to safeguard customers to maintain relations for the future. The most important factor is said to be profitability but she also admits that building long-term relations with customers is also very important. The two major customers count together for slightly less than 20 % of the turnover for the region. And then Beta has more than 200 smaller customers in the region, a number
they are trying to increase, or at least spread over different branches. The bigger customers are, not very surprisingly, unhappy with Beta’s attempt to decrease their buying. As mentioned above in Beta’s strategy the company tries to get their customers to upgrade, partly in order to make them more dependent on Beta. The other reason for this strategy is the profit since Beta has higher margins for those more advanced products. She admits that it is hard to keep the balance between maintaining the relation and earning the highest profit. Beta has also encountered some problems in Asia-region in general because their brand name is not commonly known and hence the customers often lack brand loyalty.

4.2.4 Accountability in Beta

When it comes to communication the subsidiary has regular scheduled telephone meetings with headquarters regarding the decisions about allocation to markets and customers. And they also meet in person some few times every year. Although regular telephone meetings the manager finds the e-mail most useful because of the difference in time, i.e. she can e-mail when Sweden still is sleeping. Because of the time difference there is also quite common with calls from Sweden in the afternoon/evening when she supposedly should be off work. She also says that e-mail traffic has started to become too comprehensive and that they have discussed how to limit the amount of e-mails sent. But as mentioned earlier she likes the scheduled telephone meetings, whom she thinks are useful since discussing is much easier this way. Beta also uses an on-line data system for the regions to place their order to Sweden.

The manager talks a lot about how to make the company one and she refers to the control documents. Regarding salesmen Beta has the policy that salesmen and especially salesmen managers should be part of Beta and the Beta thinking. Hence, especially managers are often required to work in Sweden for a time to acquire this knowledge. Earlier this meant in practice that most managers were of Swedish origin but recently this has changed and know they are becoming more international, which she thinks is good since it is better use of talented people. She says that the goal with this exchange is not only to make the managers more knowledgeable but also to make them committed for the Beta-way of making things. The manager says that her main driving force is to build and develop the sales organization in the rapidly growing market in her region. “I perceive the business climate as very optimistic here!” she proclaims. She estimates that she has most contact, in her daily work, with colleagues within the company, especially locals and expats.
4.3 Gamma

Gamma’s subsidiary in Hong Kong is a purchasing office in a very price-sensitive line of business. The regional manager is situated in another country and the manager in Hong Kong is hierarchically subordinate to the regional manager. This fact was a setback if one compares the criterions for participating in the study (see 3.3 Selection process). However it proved that the subsidiary still had direct contact with Sweden in many aspects. The manager has worked in the company for more than 10 years.

4.3.1 Gamma’s technology

The technology in the product Gamma produce is not very advanced, instead the main issue is the rapid fluctuations in demand and the short life span of the products. The manager says that in general a purchase is initiated in Sweden when they send a specification about the product they want to have. And then the manager and her staff examine the possibilities for the suppliers to produce this product. The HK office acquire a prototype of the product, negotiate with the supplier (constantly in contact with Sweden) and finally the order is placed from Sweden. Before the production starts and also during the process Gamma does a lot of controls and tests, all directed from the Hong Kong office. Another part of the HK office job is to provide Sweden with inputs about trends in product development and new ideas, all acquired from the local environment. She claims that it is quite often they suggest new products or improvements to Sweden.

4.3.2 Gamma’s strategy

The strategy about suppliers consists of two elements; firstly to have a decent share of key suppliers who are important to Gamma and who finds Gamma important too –in order to have a good co-operation. And secondly the strategy includes the sourcing of new suppliers with the intention of cutting prices. For every specific category of products Gamma does not want any separate supplier to count for more than 30 % -in order not to become too dependent. Vice versa Gamma does not want suppliers that are too dependent on them, but in some cases they can accept suppliers that produce 80-90 % for Gamma. But the decision about this I made in close co-operation with Sweden. The strategy now is to have key supplier (long-term relations) count for 50 % of the turnover and aggressive sourcing count for the rest. So for now they are trying to establish a decent part of key suppliers. She thinks this is a good mix, since good prices can be achieved with a long-term relation with key suppliers and at the same time changing some of the suppliers makes more competition and lowers the prices. In general the HK-manager has the authority to open and close suppliers and she uses the
regional manager as sounding board about this and if it is a more important suppliers Sweden is also involved, in order to anchor the decision. But we also manage ourselves to some extent in the region. Strategical supplier meetings are held twice a year where the manager, the region mangers and representatives from Sweden take part. The decision about allocation of resources to the HK office is taken in Sweden

She claims there is no formal reporting apart from budget, nevertheless she often use to make strategy plans for her own use. “But there is no demand for these plans, I just do them because I like to formulate myself”. Sometimes these are used for presentations for superiors but in that case it is all originating from her initiative.

4.3.3 Gamma’s relations
Apart from budget and accounting figures, which are sent to the regional office, most of the contact regarding operations she claims to have with headquarters in Sweden. Gamma does not provide the raw material for their suppliers, they merely suggest and “recommend” the suppliers to buy this and that. The reason for this behaviour is that Gamma does not want to risk to be blamed for any problems in production. In most cases Gamma has a direct relation with their suppliers, only in exceptional cases will they use an intermediary. The resistance to use intermediaries is firstly due to the fact that Gamma wants to supervise the conditions in the factories used for production and secondly the obvious reason that using intermediaries decrease the profit margin. Hence intermediaries count for only 5-10 percent of the turnover. Within one year there are about 35 active suppliers, whom about 15 are key suppliers, some of them even as old as 15 years of relation.

4.3.4 Accountability in Gamma
All accounting figures are sent to the regional office, compiled there and then sent to Sweden. The different business ratios reported are evaluated yearly but she claims they are merely a base for discussion and not used as indicators bringing direct action from the board. As mentioned above in Gamma’s strategy she claims there is no formal reporting apart from budget, but she often use to make strategy plans for her own use. Plans that are not required but sometimes are presented to superiors, on her own initiative.

The manager thinks that they have quite informal ways of reporting in spite of the size of the company. They have an intranet, but only in Swedish, so local employees can not use it. Further she claims that they are proficient in informal contacts instead, “…one just picks up
the handset…”. She says that Gamma does not have that many strategy documents but the meetings twice a year decides the direction and then she carry out the operative work. Operative work is nevertheless carried out in a continuous dialogue with the regional manager and Sweden. She calls Sweden every day and her staff are also in contact with Sweden regularly about operations.

The manager also has extensive contact by e-mail and telephone with the product manager in Sweden, both discussing operative parts as well as strategic issues. One effect of this extensive communication both with Sweden as well as the regional manager is that the manager feels that she doesn’t need to ask if she is allowed to do this and that but that decisions are made jointly. The manager often returns to the fact that they have a lot of informal contact within Gamma and she believes this is due to branch-specific factors. Since the life cycle for the products made are very short there are many quick decisions to be taken and numerous reconsiderations. In short she indicates that they are working ad-hoc to manage the situation and that only long-term strategies can be made formally. She further says that in Gamma’s line of business many decisions are based on feelings instead of facts. There is an existing long-term plan considering purchasing active but she doesn’t want to give away information on that.

She believes that she got the job because she has worked for the company for many years and that she had an existing network in Sweden, she knows virtually everyone there. Gamma also prefers to send out experienced employees instead of hiring local managers. She believes it is necessary to integrate with the company in Sweden and she often act as an intermediary/interpreter between Sweden and her local employees. On the other hand she says that the local employees are essential for the contact with suppliers since they know the language and the culture. The manager says that she gets stimulated when co-workers succeed and when the office makes good deals and can contribute to the mother company. She claims to have most contact with co-workers, especially Chinese.

4.4 Delta

The Delta subsidiary in Hong Kong is a sales and support office. The manager has been working for Delta for more than 10 years.
4.4.1 Delta’s technology

The technology used is quite advanced and the manager claims they lead the development in the world. In the process of selling the product Sweden is always involved in every step, controlling the process and providing resources. One underlying cause for this is that Sweden should guarantee that Delta is working the same way in all regions. The development of new technology mostly takes place in the large mother company in Sweden but to some extent it also originates from the regional headquarters.

4.4.2 Delta’s strategy

Through acquisition, fusion and disposal Delta are building a stronger position. In the reorganization one goal is to “go to the market as one company”, i.e. to act and be perceived as one company throughout the world. She says that this was not the case before when the offices were specialized in their own portfolio of products. Today there is no written instruction about how to run the HK office, but the manager says that there is a lot of unwritten rules, feelings and thoughts and she also says that “… if one work here one knows how we act, but there is no written instruction…”

There is a strategy framework derived from Sweden but apart from that the manager says that she develops long-term plans for her area of responsibility in co-operation with the regional manager. In the development of these plans Sweden acts more like a sounding board and providing experts. She says that it is a region based work much depending on knowledge of the local market instead of global knowledge. Still Sweden has to approve these plans and usually never questions them, which sometimes is good and sometimes is bad. Sweden has liaison officers for the product areas, most of who reside in Sweden and a few in the region.

Delta is said not to have any strategy documents but their explicit strategy for Hong Kong and the region is to; 1. Develop better relations with current customer to keep them satisfied since they are used as reference for making more business, as references is seen as the only way to sell. 2. Focus on growth in some geographical areas. 3. Focus on increasing one of the products in two specific geographical areas.

4.4.3 Delta’s relations

Because of the matrix organization the HK manager is in one dimension (product area) subordinate to Sweden and in the other dimension (region) subordinate to the regional manager, situated in another country. The reason for the HK office is to support the customers
in town and to promote sales in the region. However the office is not self-supporting but needs resources from Sweden or the other offices in the region if to solve some bigger issue. Originally all support originated from Sweden but this changed some time ago when Delta realized they have to be present to support their customers and seize the opportunities for making business.

Historically there has always been Swedes when starting up new offices, part due to urgency, but the strategy is to hire locals and build a local competency. The experience from hiring locals is a mixed one says the manager. In particular it is hard to keep the staff since they are used to tough HR-politics and changing jobs often. Delta wants them to stay so they can invest competency in them. So far they have been quite successful with this softer approach. In the future the manager (her successor?) will be hired locally. This does not mean however that he or she has to be a Chinese but can also be an expat, however locally hired. A preferred alternative would then be to hire a manager who has already worked for the company, in order to have the network and the feeling for the culture within Delta. She says that the headquarter in Sweden is quite big comparing to the small sales- and support offices and that one can easily be forgotten or screened off if one does not have good connections and networks with Sweden. These kinds of networks can only be achieved while working in Sweden. Hence the need for a future manager to be well acquainted with the company.

But she also talks about the advantages having a local manager. Firstly they would probably have a better local network and connections with existing or prospective customers. Secondly, in the case of a need for a rapid expansion, they would probably manage the growth of the office and hiring of people in a better way. The third argument is the cost, which is supposedly higher for hiring expats, but the manager doesn’t agree with that argument. She argues that, if you want to find qualified managers you probably have to pay the same amount anyway. Delta has had some bad experience from starting up with local management or buying and keeping the old management—in both cases the sense of belonging was lost. The failure was probably due to the overestimation of the importance of established local networks.

She says that orders and revenue are two of the parameters they are measured by. A third one is customer satisfaction, which is measured by means of a customer inquiry conducted by an external part and by estimations from Deltas own customer teams. If she wants to make an
investment the important arguments is increase in sales or more satisfied customers. The latter means that, e.g. if a customer is unsatisfied Delta can take measures to increase the presence of support staff. And this is a good argument the manager says. But in general, she says, it is not a problem convincing superiors to invest if they have a sound reasoning for the case. The superior managers are often present when meeting major customers, partly because the big customers demand the attention from senior managers.

4.4.4 Accountability in Delta
Due to the matrix organization the manager has both contact with Sweden and with the region and the regional manager. Telephone meetings are scheduled on a regular basis. She claims that she has equal contact with Sweden and the regional office. She also says that the region tries to become more independent towards Sweden, to be more self-supporting. As mentioned above (see Delta’s technology) Sweden is highly involved in every step of the selling.

The office in HK has a budget regarding the office costs and it is incorporated in the regional budget through regional office. Apart from that budget, Delta has also budgets for their customers and these are made in co-operation with Sweden since resources used are mostly located in Sweden. The budget is made bottom-up with a preceding analyse of historical data and desired profit-margins. She thinks the budget process is quite scientific and usually they are “running a tight shop” in HK, but one exception is the location of the office. As Delta is aware of their image they have an expensive office. Just for image, as the manager says.

A summing-up of events and accounting figures is submitted every month through regional office. Delta also has an on-line sale- and CRM system which is updated continuously and the manager also use this system to follow up the present status of activities. Reports are most often made on project basis, i.e. sent to the project manager. As long as she makes investments or purchases within the budget no reporting is necessary. She also says that sometimes she gives information anyway if she find it to be important. Since the follow-up is carried out monthly and quarterly it is very obvious if someone exceeds their authority. If she has the need for an investment outside the budget she decides in a dialogue with the regional manager if they need to do it and then the regional manager asks Sweden. The manager believes that she got the job because she had a long experience working different areas within Delta, and especially knew the way of working and had good connections/network. She believes that due to her previous experience she has the ability to “… make Hong Kong more
visible in Sweden… ” which is necessary since subsidiaries tend to be screened off from headquarters. But she says that she knows what measures to take, which strings to pull and which persons to call. She believes that for a future locally hired manager to understand the company a placement for some time in Sweden is the only possible way. This thinking is the united opinion of the region but she also thinks that the entire company would agree to this. But then, market conditions could make this arrangement impossible anyway.

4.5 Epsilon
The function of the Epsilon office in Hong Kong is to manage marketing, sales and support for the region. Consequently the manager is also the regional manager and she has been in the company for more than 10 years. Earlier the manager held a senior position in the mother company in Sweden and she is still on the board of directors. During the last 5 years Epsilon have experienced a big growth with more than a doubling of the turnover. Recently Epsilon has also changed to a more English–sounding name that will be used for all subsidiaries. Epsilon now claims they are market leaders but they have also started to experience some competition. Of special interest is the fact that the mother company in Sweden and the regional offices does not differ that much in size since the number of people working at headquarters is quite small. Some regional offices might even be bigger in terms of employees.

4.5.1 Epsilon’s technology
The product sold by Epsilon is moderately advanced but not high-tech. It is basically a system consisting of individually simple parts that are put together by Epsilon to, as they claim, a market-leading application in their specific branch. The manager says that “Neither of the parts in the system would award you the Nobel Prize but it is the system knowledge that is our strength”. The systems delivered are all customized so that one could say the manager admits, that customers have an influence on the technology. But in general, she says, the customers have very little knowledge about the product and Epsilon has to start by teaching them. Thus, customers have little influence on technology development. Technical development takes place in the competence-centres situated in the regions. The manager says that there is a R & D-manager in Sweden but that he merely has the function of a coordinator, who will make sure that there is no duplication of work with regard to developing new technical solutions.
4.5.2 Epsilon’s strategy
There is a printed collection of documents that specify the overall objectives for different areas and in different aspects of Epsilon’s business. The manager says that Epsilon prefers to buy from small suppliers and spread the making of the parts on many actors. This because the risk that big suppliers making many different parts could end up imitating their system and hence become a competitor. In the strategy on corporate level is the focusing on prioritized regions. According to the manager the strategy in the regions is that all activities are controlled there and Sweden is mainly a base for technical coordination, financial support and producing marketing products. She further says that control from Sweden is decreasing and that the region should be almost self-supporting. Hence another strategy is the subsidiaries to be local companies.

4.5.3 Epsilon’s relations
The customers of Epsilon’s product are quite big and powerful actors on the local markets. Selling the product is an extremely long-term process, sometimes lasting years before they can sell anything. Typically they start influencing local authorities in a small scale with one or a few salesmen hoping to be helped along selling to the customer. Since the selling is based on having relations it is no use of being aggressive and starting up a big office at once. The manager also stress that the marketing job is difficult and that they therefore welcome serious competitors in the market as Epsilon now are building most of the acceptance and understanding for the system themselves. She also says that they have been the prime mover in all the existing markets in the world. Although marketing is a time-consuming process and demands a lot of effort the pay-off can be good, once the market is ready.

The manager’s experience is that being Swedish is a huge advantage in her branch. This she says, is partly because Swedish businessmen in general have a good reputation and Sweden has an especially good reputation when it comes to the branch of Epsilon’s product. She also says that this fact is useful when making business in Mainland China since, more than anywhere else, business comes out of relationship there.

4.5.4 Accountability in Epsilon
Telephone, e-mail and intranet are used for communication with headquarters. The most common way is e-mail but they also use the intranet extensively to get updates and technical information which is stored there. Unfortunately the intranet is not all in English but also with some regional languages. There is no scheduled communication with Sweden apart from the
four board meetings annually. The manager says that every region is quite independent and the company itself is much decentralized. “The mother company in Sweden is very small and merely a coordinating function” the manager says. Monthly accounting figures including a “state of the nation”-document are sent to Sweden.
5 Analysis

In this chapter the empirical material gathered during the study (and presented in chapter 4) will be analysed using the theoretical framework in chapter 2.

5.1 Alpha

5.1.1 Alpha’s technology
As the development of the technology used in Alpha in most aspects originate from the mother company in Sweden (although they seldom are the innovators themselves) one must consider the subsidiary to be corporate embedded in this aspect.

5.1.2 Alpha’s strategy
Regarding where the strategy for the office in Hong Kong originate there are two sides to the matter. On one hand some strategies emerge in the regional company, i.e. in one aspect locally, but on the other hand the regional company is wholly owned by the mother company and a senior manager from Sweden is on the board. Therefore I consider the subsidiary to be corporate embedded also in this aspect.

5.1.3 Alpha’s relations
Not using any intermediaries when sourcing brings the subsidiary closer to the suppliers and hence the external environment. However, Alpha has strategies not to get too close or too interdependent of their suppliers. But there is also the strategy to maintain relations and try to influence a badly performing supplier, i.e. more of a voice than exit behaviour. All in all the impression is that the subsidiary is corporate embedded even in this aspect, although more moderate than for the other two aspects.

5.1.4 Accountability in Alpha
As described by the manager accounting consists of the usual monthly report including business ratios and the rest, which is said to be a lot of informal contacts, preferable with e-mail. The fact that she gets stimulated in her job when learning more about China and the fact that she states that she has more contact with colleagues than superiors would imply a presence of informal accountability. Apart from the standard set of accounting reports the subsidiary manager claims the spirit to run things in an informal way and hence they are considered to have a moderate predominance for informal accountability.
5.2 Beta

5.2.1 Beta’s technology
Although the customers of Beta has some knowledge about the products they buy and also often gives feedback about desirable changes the technology development does not take place in the region or in direct cooperation with the customers. Instead all technical solutions are produced within the mother company in Sweden, unless the problem the customer declares can be solved just by changing to another product in the collection. Hence, regarding the technology dimension the subsidiary in Hong Kong is more embedded in the corporate structure than in the external environment.

5.2.2 Beta’s strategy
As Beta has a collection of policy documents that are actually used in operative work and also has scheduled strategy meetings with representatives from headquarters it is quite obvious that the subsidiary strategies are formed mainly together with the mother company. Hence they are corporately embedded in this aspect.

5.2.3 Beta’s relations
The world market for Beta’s products are extremely favourable right now and they could even sell more if they could produce more. Still Beta is trying to maintain and nourish their long-term relations with customer since they know that a recession will follow. Customers are not that loyal, it seems like some of them prefer buying cheaper and abandon Beta if possible. Hence I interpret that the Hong Kong subsidiary is trying to develop more relations with their external environment but still has its major parts of relations within the company, e.g. corporately embedded.

5.2.4 Accountability in Beta
There is extensive and formalized communications and accounting from the Beta subsidiary. According to the manager, there are many scheduled meetings and the on-line system is used frequently. One can also consider Beta’s efforts to make it one company, spreading the policy documents throughout the organization and realizing job exchange for future managers as an attempt to control indirectly by means of culture. With this I mean that by internalizing the company values, “get committed” as the manager put it, the managers in Beta can be controlled in another way than by formal accounting. So for now I believe the subsidiary to have a more formal way of accounting but this might possibly change if the “Beta-way” of doing things permeates the whole organization.
5.3 Gamma

5.3.1 Gamma's technology
The manager said that she and her colleagues would quite often suggest new technology to the mother company in Sweden. Still, the major part of the technology development takes place or is initiated by headquarters, hence Gamma is corporately embedded in this aspect. Due to the influence from the subsidiary (derived from the local environment) one could though consider Gamma to be moderately embedded in the corporation.

5.3.2 Gamma's strategy
The manager claims that she use to make strategies for her own office but also mean that the overall strategies are decided in the meetings held twice a year with representatives from Sweden and the region managers. She also says that they decide quite much themselves in the region. But since the overall strategies are derived from Sweden the subsidiary is considered to be moderately corporate embedded.

5.3.3 Gamma's relations
Gamma has normally direct relations with their suppliers (no intermediaries) which I interpret will result in a closer connection, i.e. in that sense some external embeddedness. Especially the key suppliers, some who have a 15 years old relation with Gamma, will influence towards external embeddedness. But at the same time, since price matters and the technology is not that advanced (there are usually alternative suppliers) they also have an aggressive sourcing (see Gamma’s strategy) which will cause distant relations with many of their suppliers. All together I find Gamma still to have a moderate corporate embeddedness.

5.3.4 Accountability in Gamma
The most obvious occurrence of the formal accountability is accounting reports sent every month via the regional office. Apart from that, the manager tells about the extensive but non-scheduled communication with Sweden. She also stresses herself that they work in an informal way, which she thinks is due to the nature of the business and the pace. I estimate that the informal contacts are in majority in the subsidiary and hence that they use a moderately informal mode of accountability.
5.4 Delta

5.4.1 Delta’s technology
Regarding technology Delta’s Hong Kong subsidiary is quite a clear case of corporate embeddedness. The major development of new technology is initiated in Sweden but also partly from regional office. New technology is in any case not developed in co-operation with customers.

5.4.2 Delta’s strategy
The strategy framework is initiated from Sweden but the HK manager also says that she develop strategies for the local market. As these strategies are made in co-operation with the regional office they are of course still to be considered as corporately initiated and hence the subsidiary is argued to be corporately embedded in this aspect.

5.4.3 Delta’s relations
This is kind of a special case since Delta are providing support for their customers and hence are present and quite close to them, which would imply an external embeddedness regarding this aspect. On the other hand, as the manager says, senior managers (the very embodiment of the mother company) are often present when building and maintaining the relation to customers. Thus the overall picture is that the subsidiary still is corporately embedded regarding relations.

5.4.4 Accountability in Delta
There are several signs of formal accountability to be found in the case of the Delta subsidiary; scheduled telephone meetings, budgets for projects as well as the office costs, monthly reports and accounting figures and on-line sales and CRM-systems. This could partly be an effect of the matrix organization which one could suspect is a form of organization more difficult to control and govern. The subsidiary hence exercises a formal mode of accountability.

5.5 Epsilon

5.5.1 Epsilon’s technology
In terms of technical development the manager states quite clearly that they have the ability to solve all technical problems in the region and that Sweden is mostly for co-ordination. This statement and the fact that the mother company is really small lead to the assumption that Epsilon is externally embedded concerning technology.
5.5.2 Epsilon's strategy
Even if the manager gives the impression that the region is almost self-supporting and self-governing there is also some indications that the strategy framework, about for example which regions to focus on is set in co-operation with headquarters. Inside the framework the manager then can decide her own strategies in the region. I believe Epsilon to be moderately external embedded in this aspect.

5.5.3 Epsilon's relations
Due to the special characteristics of Delta’s line of business with long-term marketing efforts the subsidiary builds close relations with current and prospective customers. Considering the relation to Sweden becomes more and more weak, as the manager claims, there is support for the impression that the subsidiary is more externally than corporate embedded when it comes to relations.

5.5.4 Accountability in Epsilon
The formal accountability present is the usual report and accounting figures sent monthly and the intranet. Not much more formal than that but the manager does not either suggest much of informal activities in the company so I consider the subsidiary to mainly exercise a formal mode of accountability.
5.6 Summary of the analyse

Below is a graphical illustration showing the assessed degree of embeddedness in the three dimensions and the dominant mode of accountability respectively.

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<th>Relation</th>
<th>Corporate</th>
<th>External</th>
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<td>Beta</td>
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<tr>
<th>Accountability</th>
<th>Formal</th>
<th>Informal</th>
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<td>Beta</td>
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As can be observed Beta and Delta are the two companies behaving like predicted since they both are corporately embedded to a high degree and at the same time show signs of a greater part of formal accountability. Not conforming to the hypothesis both Alpha and Gamma were found to be corporately embedded but nevertheless have a preference for informal accountability. And in the case of Epsilon the subordinate was estimated to be externally embedded but also showing signs of formal accountability. So, with 3 out of 5 participating companies not supporting the hypothesis one can suspect that, at least in these cases, the explanation that corporate embeddedness leads to a preference for formal accountability
seems not to be valid. This hypothesis was, as mentioned in the theoretical approach chapter, derived from a study conducted by Andersson & Forsgren. Their result was that a high degree of corporate embeddedness leads to the perception, from the subsidiary’s point of view, of more control. I then made the assumption that more control equals more formal accountability and that a connection could be found between corporate embeddedness and formal accountability. One has to remember though that this study only examined five subsidiaries and that Andersson & Forsgren’s study involved interviews with three managers for each of the 78 companies participating. According to the large number of companies involved they could make a quantitative analyse, something that is not possible with only five participating subsidiaries. So this selection of five subsidiaries could show other characteristics than in general.

So what could be the reason for the non-compliance to the hypothesis in the cases of Alpha, Gamma and Epsilon? About Epsilon I think maybe part of the explanation can be due to the quite unique constellation of the company where the regional offices are probably as big, or even bigger, than the mother company in Sweden. The subsequent shifting in power between subsidiary and headquarter could result in a subsidiary building it’s own future in it’s local context and hence get more externally embedded. For Alpha and Gamma, who actually are in closely related lines of business, the nature of their line of business could provide some explanation. As one of the managers said there is a high pace on these markets, a pace that calls for action and response that can not be meet by formal accountability alone. And hence the need to use more of an informal accountability. This explanation would be in line with Lindkvist & Llewellyn’s arguing that informal accountability is necessary to cope with a changing context (see page 10). I believe it not to be an overstatement to describe today’s business environment, especially in Asia and in particular in this line of business to be rapidly changing. An interesting fact is that two of the companies deviating from the hypothesis, Alpha and Gamma, are the only purchasing offices in this study. It is imaginable that purchasing, by contrast with sales, creates more knowledge locally that has to be transferred to the mother company, hence the need for more informal accountability. This reasoning builds on the assumption that formal accountability is not broad enough to seize all the information.

In his study of British and German breweries Ahrens identified a difference in accountability in the two countries. While the British culture stressed the accounting figures the German
culture also took into account the physical reality of the situation. The latter partly because it was generally accepted that some factors could not be represented in a good way by figures.\textsuperscript{22} Comparing this result to the outcome of the assessment of accountability in Alpha and Gamma I suggest that the presence of informal accountability could be due to the fact that the knowledge in this line of business is hard to express in figures. The manager in Gamma supports this reasoning as she says that a lot of decisions are based on feelings rather than facts. This would imply that the line of business has some influence on the accountability.

\textsuperscript{22} Ahrens (1996) pp.149
6 Concluding discussion

To begin with I would like to recapitulate the purpose of this study; to investigate what the accountability process for subsidiary managers consist of and how the local context of the subsidiary affect the accountability process.

The answer to the first question, found in this study, is that for three subsidiary managers their way of accounting is in a predominantly formal mode. Consequently, the two other managers exercise a predominantly informal mode of accounting. As to the second question, two companies, Beta and Delta, comply with the hypothesis that corporate embeddedness leads to formal accountability. Alpha, Gamma and Epsilon however does not support this hypothesis and the possible explanations to this outcome is presented in the summary of the analyse.

As a result of the number of participants no general conclusions for subsidiaries can be drawn from this study. The conclusion only applies to the participating companies.

Suggestions for future research is to perform a quantitative study with Swedish subsidiaries in several regions/countries to find out if the hypothesis that corporate embeddedness leads to formal accountability is valid or not.
7 Bibliography

Literature


Johanson, Blomstermo & Pahlberg (2002), ” Företagets internationaliseringsprocess: lärande i nätverk” Studentlitteratur, Lund

Internet / websites


**Other sources**

Interview with subsidiary manager at Alpha, 2004-11-25

Interview with subsidiary manager at Beta, 2004-12-01

Interview with subsidiary manager at Gamma, 2004-12-02

Interview with subsidiary manager at Delta, 2004-12-09

Interview with subsidiary manager at Epsilon, 2004-12-17
Appendix 1 Questionnaire

Background data, technology
1. Your education?
2. Tell me about your career, before and during your time in the company!
3. Describe your company’s activity in Hong Kong!

Relation to locals, accountability
4. Describe the most important supplier- and/or customer relations? (approx. numbers, length of relation, share of total revenue/cost, common projects)
5. What is their impact on the development your business activity?

Relations to HQ
6. What is significant about the communication with HQ? (who, how often, about what?)
7. Has there been any changes in the communication depending on who was your contact at HQ?

Accountability
8. Describe the budget process in the company and your participation!
9. If there is a need for an expense, e.g. an investment, describe the decision-making process!
10. Which arguments are accepted? Financial, operational, development
11. Which figures are suitable to show? cost estimate, cost of capital etc.
12. Describe how you act when you would like to prepare HQ for coming events (e.g. poor return) or if you would like to affect the development in a certain direction?

Strategy, Accountability
13. How are you utilizing customers/suppliers to bring pressure on headquarters? (affecting decisions about strategy, development, investment etc.)
14. Who is the one formulating strategies for operations in Hong Kong? (headquarters, subsidiary manager or jointly?)
15. Has these strategy formulations changed they way you are controlled? (an increase or decrease in terms of freedom of action?)

Accountability
16. Which tasks are your formal responsibilities?
17. What does the formal reporting consist of and how often do you send it?
18. Regarding authority, what actions do you have to ask in advance before you can start?
19. When the reports you send are evaluated, which part do think your superiors consider important?
20. Why do you think you got this job?
Appendix 2 Supplementary questions

Accountability, especially informal and relations

1. In your present job position, what stimulates you the most? Why do you like your job?

2. Rank from 1-3 which ones you have most contact with in the line of duty? (1 implies the most contact and 3 the least contact)
   - Superiors within the company [ ]
   - Colleagues in your office [ ]
   - Colleagues within the company (not your office) [ ]

3. Rank from 1-3 which ones you have most contact with in the line of duty?
   - Chinese colleagues [ ]
   - Swedish colleagues [ ]
   - Expat colleagues [ ]

4. Rank from 1-4 which ones you have most contact with in the line of duty?
   - Individuals within your company [ ]
   - Customer/suppliers [ ]
   - Competitors [ ]
   - Authorities [ ]

Comments on questions 2-4:

5. Eventually I wonder if there is a possibility to be informed about the accounting reports that are sent to Sweden? The figures are not important so they can be erased, I am just interested in what is being reported.