# Formality and Informality in Internal Control Systems: A comparative study of control in different social and cultural environments in a global bank

**Narisa Chauvidul**

Department of Information Systems

London School of Economics and Political Science

Houghton Street, London WC2A, England

UMI Number: U176433

Dissertation Publishing

UMI U176433

# Abstract

This thesis examined the relationship between formal systems and informal norms in internal control systems in a global bank. The thesis argues that the global policies and standardised manuals and procedures of multinational firms cannot be internalised and interpreted in the same way as anticipated by the management in every branch. This assumption confirms the importance of the need for this study to increase an understanding of the issues and concerns in the management of internal control systems among different organisations in different cultural and social environments. A broad range of literature has been reviewed and it was found that little research in information systems security had previously focused on the internal control systems. As such, this research presents a new area in information systems security study.

This research aimed to provide a qualitative approach to increase an understanding of the relationship between formal and informal systems. The main objective was to analyse in depth the interaction between these two systems. More focus was placed on the study of people who played a significant role in the control systems. In pursuing this aim, the interpretive case study of a global bank in two branches was conducted.

The findings from this research suggest that there are problems in implementing internal control systems globally across the bank. The internal control systems should be examined with respect to both formal and informal analysis. The considerations should be focused more at the informal level where pragmatic and semantic concerns should be addressed. The thesis concludes that qualitative approach is an appropriate way to conduct research in cross-cultural studies in information systems security, also that semiotics theory is an appropriate approach in this area of study.

# Acknowledgements

First and foremost, I would like to thank the Almighty Lord for the successful completion of this thesis. My sincerest gratitude goes out to my supervisor Dr. James Backhouse who has been the source of much inspiration and support - this thesis would not have been possible without him. I hope he will consider this as a `special thanks` for everything he has taught me at LSE. Thank you very much Dr. Backhouse, the best supervisor ever!

I am also indebted to many lecturers within the Information Systems Department, London School of Economics and Political Sciences for their wonderful encouragement, friendship and discussions.

Special thanks go to my best friends, Lydia Goldberg, Katie Priyanu, Jacqui Crean Dr. Warren Sherliker and Panchaluck Thanunmanee, who have always been there for me when I needed help and who kept me happy and sane while I was writing up my thesis. I am grateful to my boss, Mr Brian Hladnik and the Sihanatkathakul family at the Landmark Hotels Group for their encouragement and support while I was completing my Ph.D.

I am grateful to Dr. Adrienne Leon for having kindly accepted to help edit this thesis on such a short notice, and also to all my friends at OCF and HTB who prayed for me for the completion of this thesis.

To my parents, who have given me so much love and the best moral support, I am dedicating my thesis. To my sisters, brother, and aunt who have given me so much happiness and joy.

Last, but by no means least, I am grateful for the love and companionship of my husband, Tuan-Jin Aw, who taught me the most important lessons about life, love and friendship. Thank you, with all my love.

For my Heavenly Father
and
For my dear parents

# Contents

# List of Tables

# List of Figures

# Chapter 1

## Orientation

### 1.1 Introduction

This research is about the management of information systems security. Information systems security is viewed in term of minimising risks arising because of inconsistent and incoherent behaviours of actors with respect to the compliance of internal control systems within organisations.

Businesses today use facts and figures produced by their accounting and other information systems to provide management with the information required to run a business in an optimal fashion. Owing to the complexity of the information in large businesses strict rules and processes are required. These are collectively known as 'internal control systems'. Internal control systems are also responsible for ensuring that the business assets are secured, the management policies are being followed and the risk of fraud or mistakes is minimised. Multi-national companies in general attempt to construct reasonable internal control systems that can be applied worldwide. However, from the researcher's experience as an internal auditor for an international chain of hotels she has found that although the underlying principles and controls are the same, the implementation is subject to interpretational differences. Her background of working in both Thailand and the UK has demonstrated the practical importance of these variances and subsequently motivated her to highlight their importance through the research presented in this thesis.

The focus of this research will be placed on the study of the internal control systems. Most research in internal control systems puts emphasis on the control,

the organisation and the audit procedures. Little attention has been given to people who are the core actors in the control operation of an organisation. Most studies, both in accounting and information systems security, focus their aim on the formal part of the control system or computer system. A few of them extend their studies to include the study of people and their interpretation of the informal part (Dhillon and Backhouse: 2001). This research, therefore, will provide a newer perspective in this area of study.

The overall objective of this research is to increase understanding of the issues and concerns in the management of internal control systems among different organisations in different cultural and social environments, to determine whether they differ from each other in their policies and practices. The focus is placed on the relationship between formal systems and informal norms in the organisations, especially the study of people who play a significant role in the control systems. In pursuing this aim, the case study of a global bank in two branches was conducted. The case study in a global bank was chosen due to the fact that many major trading losses over the last decade are in the financial sector and they have involved human errors rather than mere technology (Sassen: 1999).

This section presents a brief introduction of the research. The rest of the chapter will discuss more detailed considerations of each of the studied areas, in order to provide a foundation from which to consider the work presented later in this thesis. The chapter concludes by stating the objective of the study, the main research questions and details of the structure of the thesis.

## 1.2 Areas of study

*Organisation and information systems security*

In this thesis organisations are viewed as constituted of formal, informal and technical parts[1] (Liebenau and Backhouse: 1990), but the focus of this research is on the formal and informal ones. An information system in this study is not restricted to the physical parts or the use of technology, but is concerned with the behaviours of actors in managing information in organisations. Therefore, the highlight of this study is not on the security of technology that is used in managing internal control structure in the organisation, but on the consistency with which employees interpret formal rules and apply informal norms in their interpretation to inform their decision making. The security of the organisation can be threatened if there is discordance between these formal rules and informal norms in practice (Dhillon: 1997).

*Formal rules*

Liebenau and Backhouse (1990) classified formal systems into three categories: substantive rules, message rules and control rules. Substantive rules concern the prime task of the organisation and the message rules govern the flow of paperwork and reports through the organisation. In addition, control rules are rules that govern how employees should be rewarded with bonuses and promotions or how they should be punished with fines or loss of job. In an organisation internal control systems are created to implement these rules. These rules are needed to be identified in written documents because the organisation cannot rely on employees to do as they are told to. There has to be a type of written rules to ensure that employees behave or perform their activities correctly. Hence the written policies and procedures are developed.

---

[1] According to Liebenau and Backhouse (1990), formal and informal systems are two different types of information systems. Formal system is rule-based systems that provide uniformity throughout the organisation. Computer based information systems or information technology can be used to implement these rule-based systems. Therefore, they are only a small part of the formal system. Formal system is contained within the informal system. "The formal system has no existence except where it has been deliberately created as a part of an informal system" (p. 109).

*Internal control systems*

The objectives of implementing the internal control systems within organisations are to ensure that the business assets are secured, the management policies are being followed and the risk of fraud or mistakes are minimised. The simplest way to abolish fraud is to eliminate opportunity by establishing a sound internal control system within an organisation.

The term 'internal control systems' in this research will refer to mechanisms that management uses to assure the execution of organisational goals and plans and to ensure the appropriate behaviour of its employees in the organisation. Control is fundamentally concerned with regulating the activities within an organisation so that they are in accord with the expectations established in policies, plans and targets set by management.

The basic features of sound internal control systems are common to all organisations. They are designed to provide reasonable assurance regarding the achievement of objectives to ensure the effectiveness and efficiency of operations, the reliability of financial reporting, and the compliance with laws and regulations within an organisation. Some principles of good internal control systems[2] are:

- Adequate separation of duties
- Proper authorisation of transactions and activities
- Proper control over documents and records
- Sufficient physical control over the entities assets
- Independent checks on staff performance.

*Multi-national companies/ Global companies*

A multi-national company is a company that operates internationally with operations locally and overseas. They normally have an established internal control system with global guidelines that are effected from the head office.

---

[2] More details will be discussed in chapter 2.

Internal control systems are considered very important for multi-national companies due to the constraint of distance and the complexity of their operations. Generally the policies from head office will be sent to all branches and applied consistently within their local practices. However, overseas branches may be subjected to special rules and regulations by their local authorities and may have to adapt the global policies to comply with their local regulations. To ensure that each branch complies with global guidelines and local regulations, internal auditors, who form an independent department, are usually engaged to perform this role. The internal audit department is responsible for assisting management in meeting their control objectives and to ensure that all rules and guidelines set by head office are strictly followed and complied with by every branch.

*Globalisation and the research ideas*

Globalisation is a term that has become fashionable since 1980s when it was used to replace the old words such as internationalisation or transnationalisation (Dominelli and Hoogvelt: 1996). These terms are used to denote the ever-intensifying networks of social and economic relationship in the world system. Different scholars can define globalisation very differently. For a wider definition in social science, Giddens (1990), a well-known social scientist, defines globalisation as "the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring miles away and vice versa" (p.64). Levitt (1983) views globalisation as a strategy applied in an organisation to market the same things in the same way everywhere. In economic terms, globalisation refers to a process of growing economic integration worldwide.

Although there is much debate around the concept of globalisation, it is widely accepted that the world is now becoming increasingly interconnected in terms of economics, political and cultural life (Walsham: 2000). Despite the financial market crisis in the late 1990s, the transformation of global financial and capital markets into a new supranational order is continuing. Nationally based financial

operations are shrinking and internationally oriented operations are taking their place (Sassen: 1999)

However, the focus of this research is not on the significance of globalisation, but on the global policy and practice in a multinational firm. Globalisation is seen as representing distance and the friction of communication. Following Barrett, Cooper and Jamal (1997)[3] and Walsham (2000), the provisional idea of this research focuses on the friction of space and the constraints on the smooth co-ordination of activities across places and locations. This may include difficulties of communicating and interpretation across cultures and organisations. The researcher believes that globalisation is not a homogeneous process. The cultural and social factors of a country will mediate globalisation process in particular ways in different social contexts. This claim will be validated in the chapters that follow.

Little research has been focused on the internal control systems in information systems security studies. However, there has been some relevant research carried out. Further examples[4] of research into friction of space include Cooper, Brown, Greenwood, and Hinings (1997) who studied decision making within the "Big Six" accounting and auditing firms. This study highlighted the limits to the firms' integration when it came to expanding into new markets in different cultural locations. Goerdeler (1981) suggested that the quality of the performance of an audit assignment should not rely only on standardised instruction manuals and other directives. Van Maanen and Pentland (1994) showed how audit working papers were variously used and interpreted. Fischer (1996) pointed out that

---

[3] Barrett, Cooper and Jamal (1997) examined the management of an audit of a multinational company in one of the big multinational accounting and auditing firms. The purpose was to examine a central mechanism by which auditors felt able to express an audit opinion by exploring how audit is practised across multiple offices and jurisdictions and the strategies employed by auditors to achieve a level of comfort when the numbers are produced and verified over space and time. They argued that even though multinational accounting and auditing firms have invested much of their profits in acquiring standardised IT across global networks they have not necessarily attained frictionless systems.

[4] Quoted in Barrett, Cooper and Jamal (1997)

different auditors in different situations could apparently use audit technologies in a variety of different ways.

According to the above research, it seems impractical to assume that the global policy and standardised manuals and procedures of multinational firms will always be internalised and interpreted in the way anticipated by administrators. This assumption confirms the importance of the need for further studies in this area. Further work is needed to more clearly understand the relationship between the standard rules and the practices in reality. As such, a part of this study will be focused on a global bank to explore ways in which local conditions and knowledge interact with their global operations.

*A global bank*

The case study in a global bank was chosen because of two reasons. Firstly, as finance and banking are often characterised as the most globalised of all businesses (Arnold and Sikka: 2001). There are many rules and regulations applied in the banks worldwide. Secondly, as mentioned earlier, many major losses over the last decade are in global banks and have involved human errors rather than formal rules and technology. The fall of the Baring Bank in 1995 at the hands of a single trader (Sassen: 1999) and the enormous losses from large numbers of foreign exchange deals at the AIB (Allied Irish Bank) in February 2002 are two classic examples.

Worldwide response to Barings' collapse was immediate. Many banks worldwide immediately began reviews of their own internal control systems (Parker: 1998). They believed that improving the formal financial control structures would not allow other banks to fail again and prevent further chaos in the financial markets. This proved to be wrong. In February 2002 the Allied Irish Banks has lost $750m in the accounts of its US subsidiary as resulting from a complex and determined fraud[5]. These two cases demonstrated the challenge of keeping pace with rapid

---

[5] http://news.bbc.co.uk (08/02/2002)

changes in the globalising economy. Rules and controls that once seemed reasonably robust in explaining economic events now seem less well able to forestall global occurrences. Simply looking at the problems of formal control procedures or technology has proved to be insufficient to solve the global financial problems. The study of individuals who are a significant element of the system should be increasingly highlighted.

Today most major banks, financial services firms and large multinational companies set up their branches across the globe and exercise their operations globally. People throughout the world are exposed to the cultural norms, values and behaviours of others in many countries besides their own. When people are part of the same culture, they normally derive the same meaning from the signs they read, words they hear, or what they see. However, the same understanding may not be the same when interpreted by people from different cultural and social backgrounds. As such, this research will argue against global homogenisation on the grounds that different persons will interpret formal rules and global policies differently, depending on their social and cultural backgrounds. In examining this claim, a comparative study of a global bank in Thailand branch and a UK branch was conducted.

*Experience and research motivation*
The experience of the researcher in working as an internal auditor for a multi-national firm led her to the subject area presented in this thesis. When performing an audit the auditor has to obtain an understanding of the organisation's internal control systems. Certainly internal control systems will vary from organisation to organisation, however, the fundamental assessment is not different. The auditor's task is to find out about the components of the internal control systems, to see whether they have been placed in operation and to document the information obtained in a useful manner.

Her interest arose when it was found that in reality when internal control systems were implemented, people in different organisations followed formal rules and control policies differently. From her experience, although the underlying system was the same, due to cultural and interpretational differences in the staff, operations differed greatly. It was found that where internal control systems were implemented, people from differing cultural environments tended to follow formal rules and control policies differently. Although the same set of formal rules is given to each member of staff, the outcome of their interpretation of these rules is often varied. This highlights that not all formal rules are straightforward, that people may interpret them differently.

In essence, individuals cannot simply apply formal rules to all aspects of life in order to control circumstances and the behaviour of others as we see fit. Conceptually, they will generally try and set formal rules to cover whatever may happen, but they will leave the decision making in the hands of whoever is involved.

As an example, when we look at internal control systems in an organisation we can investigate the ways in which employees are controlled by formal and informal systems in their behaviour and activities. Looking particularly at behavioural patterns in an organisation, one can see how they are generally strongly controlled by formal rules and regulations; for example "work starts at 9am". Employees know that they should not come after 9am otherwise their position in the organisation may be in jeopardy. However, many more activities and types of behaviour in an organisation cannot be set simply by such formal rules. If an organisation's formal rule or internal control system states that:

"In terms of paying deposits on a product, trusted companies, those with which previous business has been successfully undertaken, can be excluded from paying a deposit, otherwise a full deposit is required"[6]

---

[6] Control procedures in credit department of the Landmark Hotel, London

How can we distinguish between a "trusted "company and one which is not? In this case the decision of a person is based on judgement of a number of not necessarily formal criteria and falls therefore within the jurisdiction of the informal systems. As stated by Liebenau and Backhouse (1990) "the boundary between what is appropriate to formalise and what should be left as informal should depend on the decision makers and their political concerns". This statement could be applied to the study of different organisations, particularly those defined by their distinct locations and cultural environments. This could be equally reflective upon the unique background and experience of the decision-makers, which influence the divergence between formal systems and informal norms. This research, therefore, seeks to find out more about the relationship between these two systems.

*Mode of analysis*

This research employs semiotics, the theory of signs, as the underlying philosophy and mode of analysis. The concept broadly suggests that signs are sent from the sender to the receiver and that they will be interpreted to reveal the intentions of the sender. In this study, internal control systems are viewed as signs from the head office to the branches where the interpretation of the management's intention then takes place. The approach is concerned with the question of how these signs are interpreted by the receiver through formal and informal means. In this case, how internal control systems, as bodies of control norms, may be interpreted differently by different people in different parts of the organisation.

For the purpose of this research, the following definitions for formal and informal systems are given. Formal systems are rules in written form, which are explicit and easy to identify. They may be in the form of laws, institutional regulations, or standard practices, but consequentially, they have to be followed by most members of the group. Informal systems are rules and procedures that have been generally accepted by the users of the systems. Their character is expressed implicitly in the everyday behaviour of an organisation, not simply on paper.

A semiotics approach is applied in this research for the purpose of increasing the understanding of the relationship of these two systems through the case study. Semiotics represents a range of studies in art, literature, anthropology and information systems. However, it has not been applied to research on internal control systems. The majority of research on internal control systems has been conducted from an accounting perspective utilising economic or accounting theory as the research framework. Most research in internal control system puts emphasis on control systems, organisations and audit procedures (see for example, Washington: 1987, Choi: 1988, Bruggink: 1989, Caplan: 1994). Much research in internal control systems tends to focus on the differences between internal control systems across countries, but little research has been made for the greater explanatory content of comparative studies within formal and informal systems. This research therefore adopts the semiotic approach to the investigations into the internal control systems. More details of the semiotics will be discussed in Chapter 3.

## 1.3 Research objective

This research aims to introduce an interpretive approach for understanding the relationship between formal and informal systems within a global organisation. The main objective is to increase the understanding of internal control policies that are applied in different branches and to examine how they differ from each other in respect of their formal rules and informal norms in practice. A clearer understanding of the interaction between these two systems will help management in the analysis and design of sound control systems in the organisation. It will help to attend to factors that may have been overlooked by management when designing the global control policies.

This research therefore seeks to answer the following questions:

1) What is the relationship between formal systems and informal systems in internal control structures?

2) How do these systems interact and impact on each other?

3) Do organisations show different patterns of interactions between formal and informal systems? How and why?

4) What would be the factors that influence the interaction of these two systems?

5) What is the effect of the interaction on the business performance?

## 1.4 Pilot study

A pilot study of the credit department in three hotels in the UK and Thailand of the same management company was conducted (see Chapter 3 for more details). The study was based on interviews, observation and supporting documentation. The aim of this pilot study was to demonstrate the validity of the research ideas and to help refine the data collection methods used for the main case study. The results from the pilot study suggested that variances between rules (formal systems) and practices (informal norms) exist in organisations which are located in different cultural and social environments. The hotel in London in which more formal procedures were established tended to follow written guidelines and rules in its decision making. On the other hand, the sister hotel, situated in Thailand, but under the control of the same organisation, had fewer formal rules and relied upon the social practices and previous precedents as a base for making- decisions. Its focus on internal control systems seemed to be in the area concerned with the wealth of the company rather than other areas.

The experience from the pilot study also highlighted the way in which employees are controlled by either formal or informal systems, also their behaviours and activities were divergent depending on the distinct character of the organisation. This research will highlight the complementary aspect of these systems and how they support or work against one another. Organisations with operations in various locations may have differing variances between formal rules and their informal practices. An analysis in those locations of the interplay and interdependence between these two systems to strengthen internal control procedures within organisations is therefore required.

## 1.5 Preliminary Contributions

The research presented in this thesis aims to provide certain contributions to the areas of accounting and information systems security studies. As previously mentioned, traditional research both in accounting and information systems security had placed the emphasis on the formal systems and technology. Little attention has been given to the agents who are the significant actors in the control of an organisation. This research therefore aims to provide a new approach to this area of study. The preliminary contributions from this research can be summarised as follows:

- The investigation into the internal control systems work to adopt a semiotic approach. Specifically, internal control policy is considered as a part of the communication system and the emphasis has been put on the key players in the communication process. This is an approach which has not yet to be adopted in internal control systems research and as such this research contributes a new perspective on the area of study.

- The analysis is divided into two parts. The first is concerned with the formal systems. Examples are: internal control policy, written rules and regulations. The second part highlights the informal systems, where the intention of the actors and the meaning of the content of the

communication interpreted by the actors is significant. Greater understanding of both systems is significant to the analysis and design of sound control systems in an organisation.

- The case study was conducted in two branches in a global bank. It seems impractical to assume that the global policy of the firm will always come to be internalised and interpreted in the same way. The objective of this study is to gain a clearer understanding of the relationship between these formal rules and practices.

- Following from the previous point, the case study was conducted in different organisations in distinctive locations and environments to compare and contrast the interaction of the formal and informal systems. The aim is to explore this relationship through such variants as local conditions and culture, interacting within the global operations of the firm. Greater understanding of this relationship will be beneficial to the new development of the control systems in global organisations.

## 1.6 Organisation of the thesis

This thesis is organised into seven chapters. Chapter 1 is an orientation chapter. It introduces an overall understanding related to the development of the research ideas. Research questions, contributions and the organisation of the thesis are also discussed.

Chapter 2 reviews the literature relevant to the research. It covers four main areas. Firstly, definitions and descriptions of formal and informal systems as well as internal control systems are discussed. Secondly, studies of multinational companies are reviewed. Thirdly, some issues with regard to culture and in particular its influence within an organisation are explored. Fourthly, cross-national management control research is discussed. Finally, a gap in the current literature is discussed and proposed as a research area of interest.

Chapter 3 discusses the philosophical assumptions of this research and the research methodology. The aim is to identify the fundamental assumptions and compares various methods suitable for this study. A pilot study that was conducted on hotel credit departments is then discussed. The pilot study was performed as a basis for discussing methods for refining research ideas and the data collection plan.

In order to gain an understanding of the wider context of the case study, the background of the banks is presented in Chapter 4. Internal controls of the banks are also discussed.

Empirical work is presented in Chapter 5. The results are based on a case study that was conducted in a global bank in two branches; one located in London the other in Bangkok. A synthesis of the research findings is presented in Chapter 6. This was undertaken under the theoretical and fundamental assumptions discussed in Chapter 3.

Finally, Chapter 7 presents a discussion of the results of the study. It summarises the core contributions of the research, and identifies the limitations of the study. Future research directions are suggested.

# 2

# Literature Reviews

## 2.1 Introduction

This chapter presents previous studies and research in relevant areas of this study. These areas include internal control systems, formal and informal control mechanisms, transnational organisations as well as the cultural issues. An analysis of various research approaches that have been adapted in internal control systems is also discussed.

The first section reviews the literature relevant to internal control systems. Definitions of internal control systems and their common features are included. The overall concepts of formal and informal systems are discussed. The classification of the control forms distinguished by various researchers is also reviewed.

The second section discusses different organisational and control structures of multinational companies. Globalisation and cultural contexts are also presented.

The third section discusses some issues with regard to culture and in particular its influence within an organisation. A brief review of Thai culture is also mentioned.

Lastly, the fourth section reviews and suggests research perspectives suitable for the study of internal control systems. A gap in the literature review is discussed to highlight the gap in the internal control study and point out the significance of the research within this thesis in presenting a new method of analysis.

## 2.2 Internal control systems

### 2.2.1 Definition

This section presents a sample of the previous definitions of internal control systems and defines the definition to be used in this thesis.

The following are a few examples of definitions given to internal control systems over the last three decades:

"The internal control refers to the mechanisms used to assure the execution of organisational goals and plans" (Youssef: 1975, p.136).

"Any organisation wishing to conduct its business in an orderly and efficient manner and to produce reliable financial accounting information, both of its own and for others' use, needs some controls to minimise the effects of these endemic human failings. When such controls are implemented within the organisation's systems they are described as internal controls" (Anderson: 1977, p.143).

"All formal organisations are concerned with how to channel human efforts towards the attainment of organisational objectives. The organisation employs a set of instruments and processes designed to influence the behaviour and performance of organisational members, groups, subunits and/or the organisation as a whole towards goal congruence and goal achievement. The sets of instruments and processes are designated herein as either control systems or control instruments" (Leksell: 1981, p.76).

"Control within organisations is a process whereby management and other groups are able to initiate and regulate the conduct of activities so that their results accord with the goals and expectations held by those groups" (Child: 1984, p.136).

"Control is seen as having one basis function: to help ensure the proper behaviours of people in the organisation. These behaviours should be consistent with the

organisation's strategy, if one exists, which, in turn, should have been selected as the best path toward achievement of the organisation's objective" (Merchant: 1985, p.4).

"An internal control system consists of the policies and procedures...that management has established to provide reasonable assurance that specific entity objectives will be achieved. Control procedures have various objectives and are applied at various organisational and data processing levels" (American Institute of Certified Public Accountants: 1988).

The Committee of Sponsoring Organisations of the Treadway Commission[7] (COSO, 1992) defined internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives to ensure the effectiveness and efficiency of operations, the reliability of financial reporting and the compliance with application laws and regulations within an organisation.

The European Commission defines internal control as "...the globality of the policies and procedures conceived and put in place by an entity's management to ensure the economic, efficient and effective achievement of the entity's objectives; the adherence to external rules and to management policies and regulations; the safeguarding of assets and information; the prevention and detection of fraud and error and the quality of accounting records and the timely production of reliable financial and management information" (Moran: 2001, p.9).

" Internal control is defined as a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories: reliability of

---

[7] After several significant audit failures happened during the 1980s in the United States, the Committee of Sponsoring Organisations (COSO) was formed to redefine internal control and the criteria for determining the effectiveness of an internal control system. The 1992 COSO document, *internal control-Integrated Framework*, changed the way internal control is viewed. The COSO framework considers the evaluation of not only hard controls, such as segregation of duties, but also soft controls, such as the competence and professionalism of employees (Simmons:1997).

financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulation." (Changchit, Holsapple and Madden: 2001, p.438).

The citations above appear to point in the same direction where control is a means to achieve organisational goals and plans. Two major elements can be drawn from these definitions of control. Firstly, controls can be used by management as a means to direct the behaviour of individuals in an organisation towards the goals of the organisation. Secondly, there is an element of power in this relationship where power is exercised by management to ensure that their goals are met. Therefore, for the purpose of this thesis, the term 'internal control systems' shall be defined as:

"The process used by management to direct and regulate the behaviour of individuals and conduct the activities of the organisation so as to achieve the goals set by the management through the exercise of power."

### 2.2.2 Common Features

The discussions in this section highlight the common features of internal control systems with the intention to construct a general meaning that the researcher will describe in this thesis.

Arens and Loebbecke (1994) suggested that the general control activities which management has established to meet the control objectives should include adequate separation of duties; proper authorisation of transactions and activities; adequate documents and records; sufficient physical control over assets and records; and independent checks on staff performance.

MacLatchie (1997), in addition, proposed that the most important principles of internal control systems are that cash handling should be kept separate from the accounting system; that all employees should be properly supervised and their work product reviewed; the access to documents should be limited to those who

are required to have access to them; the frequency and types of errors made by employees should be documented and investigated and management should demonstrate its concern regarding internal control issues.

The Statement of Auditing Standards (SAS) 300 "Accounting and Internal Control Systems and Risk Assessments" advised that control policies and procedures designed to prevent or to detect and correct errors should include the following:

(a) Approval and control of documents

(b) Controls over computerised applications

(c) Checking the arithmetical accuracy of the records

(d) Maintaining and reviewing control accounts and trial balances

(e) Reconciliation

(f) Comparing the results of cash, security and stock counts with accounting records

(g) Comparing internal data with external sources of information

(h) Limiting direct physical access to assets and records

More details of control features can be viewed in Czarnecki (1982), Gray (1983), Cerullo (1985), Gibbs and Gibson (1998), MacDermott (1998), Talmor (1998), Duncan, Flesher and Stocks (1999), Kinney (2000), Sides and Grosso (2001), Changchit, Holsapple and Madden (2001).

The above principles of good internal control systems appear to have certain commonality regardless of an organisation's size or type. The fundamental characteristic however should at least encompass these four features: (a) reliable personnel with clear responsibilities; (b) clear separation of duties; (c) proper authorisation of transactions and (d) adequate documentation. This checklist therefore will provide the basis for conducting the research fieldwork and when analysing data from the audit results of this research.

## 2.2.3 Classification of internal control systems

Internal control systems can be found in many forms such as rules, regulations, guidelines, informal communication, and organisational norms. This section presents a review of literature related to the control systems and the explanation of control mechanisms differentiated into two categories: formal and informal systems. The aim of this section is to give a distinguished classification scheme to characterise these two different categories that will be used within this thesis. The overall concepts of formal and informal systems are discussed. The classification of the control forms distinguished by various researchers is also reviewed.

Before further discussion of the control description is presented in the next section, it should be noted that there is very little research focused on formality and informality specifically within internal control systems. However, in order to label different control mechanisms, the researcher has had to make some generalisations. As such, an effort has been made to preserve the original meanings wherever possible within the limited source of literature. Further explanation of these two systems will be presented in more detail in the following section

### Formality and informality

### Formal systems

The concept of formal and informal systems in this thesis concurs with that of Liebenau and Backhouse (1990) and Allsop and Mulcathy (1996) in that formal systems comprise the behaviour patterns dictated by rules constructed to control organisations. Such formal systems are usually defined in documented rules and regulations that are easily interpreted but may appear staid and rather rigid. In an organisation the formal systems will include rules, regulations and guidelines that are representations of the prescriptions used to control behaviours in organisations. Organisations require rules and regulations to sustain standards and uniformity.

The process of constructing them requires acts of responsible agents (Liebenau and Backhouse: 1990).

According to Allsop and Mulcathy (1996), formal systems comprise the behaviour patterns dictated by rules constructed to control organisations. These rules are normally in written form. Organisations require rules and regulations to sustain standards and uniformity. Some rules may be the result of government edict, professional institutions, or simply normally accepted procedures but all rules and regulations have to be valid so that they are generally adhered to (Cohn and White: 1990).

Bartlett and Ghoshal (1989) reported formalisation to be the dominant control mechanism in American multinational firms. In other words implying that American firms depended more on written and formal rules in their day-to-day operations. Birnberg and Snodgrass' (1988) study revealed that American companies have more explicit control systems in place, whereas Japanese companies have more implicit control systems. They define implicit control systems as one in which rules and standards are not clearly set out and readily knowable by both parties. In this context explicit control systems are considered to be similar to the term formal systems.

Negandhi's (1987) early study revealed that eighty eight percent of subsidiaries of American multinational companies responded that they depended a great deal on written policies from their head offices. In contrast the responses from the subsidiaries of German and Japanese firms were thirty two percent and twelve percent respectively. Chow, Kato and Shields (1994) however disagreed as their comparative study of Western and Eastern students revealed that the preference for formal rules among Japanese students was higher than that of American students. Zaheer's study (1995) also later demonstrated similar results and reported that Japanese banks had significantly higher levels of formalisation than American

banks. The terms of formal rules and written policies are used to represent the formal systems in their contexts.

The objective of this section is not to criticise the research results but to get an idea of the concept of formal control used by varied researchers. The literature review of formal control so far highlights the common characters of formal control mechanisms in that they are impersonal and they are mostly in written form. They aim to pre-specify the behaviours that are expected from employees. In this way, control can be imposed upon as impersonal because employees can or should refer to the 'manual' instead of being told directly what to do. The term used by the authors are written manuals, formalisation, rules, regulations, paper system (Negandhi: 1987; Birnberg and Snodgrass: 1988; Bartlett and Ghoshal: 1989; Cohn and White: 1990; Chow: 1994; Zaheer: 1995)

*Informal systems: Norms*

In contrast to formal systems, the characteristic of informal control is expressed implicitly in the everyday behaviour of an organisation, and not simply just on paper. Norm is the word that various authors used to describe the character of informal systems (see for example, Liebenau and Backhouse: 1990; Stamper: 1994; Trompenaars: 1997; Liu and Dix: 1997; Stamper, Liu, Hafkamp, and Ades: 2000; Filipe and Liu: 2000; Liu, Sun and Dix: 2001). Norms are patterns of behaviour which are specifically cultural and are useful in analysing varieties of social conduct. Rules and formality indicate institutional behaviour but in themselves do not form a culture or complete pattern of behaviour; to accomplish completeness, norms and informality are necessary. Informality or norms control social interaction in an organisation.

Cohn and White's study (1990), which applied the theory of legalisation to explore the complex of behavioural interaction that surrounds issues of enforcement to a student university community, concluded that authority was more successfully

established for those students where rules were informally maintained through social norms rather than those based on strict formal rules.

Trompenaars (1997) identified norms as the mutual sense a group has of what is 'right and wrong'. Norms can be referred to as 'social control'. Their character is expressed implicitly in the everyday behaviour of an organisation. Norms are the perceived regularities of behaviours within institutions. They would relate to the judgement or acceptability of social behaviours or the explanations of how people behave or believe. They are used to judge what should be done and what should be accepted socially within the group.

Organisations consist of many socially differing influences and entities such as owners, managers, staff and customers. Employees within organisations will act according to different norms exhibiting beliefs, expectations, values, responsibilities and commitments which determine their actions (Stamper: 1994). Stamper's Normbase approach (1973, 1991) introduced a solution to explain organisational problems by applying the concept of norms. Stamper looks at an organisation in term of a system of social norms. He argued that many things happen under the influence of norms and to identify solutions to an organisation's problems, group norms need to be formulated and the organisation is required to follow these norms. In this sense, norms are used to judge what should be done and what should be accepted socially.

To give an example, the now extinct traditional legal system in Thailand is what was once considered to be accepted social judgement by local norms and beliefs. In ancient Thai society, when the local society looked for a wrongdoer, they used the 'proof of fire' test to determine the guilty person. The accused person had to walk with their naked feet on a bed of burning coal. If he came out unscarred, he would be presumed innocent. The community believed that the sinner or wrongdoer would suffer pain and perhaps death if he were indeed guilty of the act

(Engel: 1975). Norms in this context represent a particular society's values with regard to morality and acceptable behaviour.

According to Stamper et al. (2000), four types of norms can be identified and each of them governs a certain aspect of human behaviour. Perceptual norms determine what signs the agent chooses to perceive and then when a sign is perceived. Cognitive norms enable one to incorporate the beliefs and knowledge of a culture, to interpret what is perceived and to gain an understanding based on existing knowledge. Evaluative norms help explain why the agents have different beliefs, values and objectives. Finally, behavioural norms define what an agent is expected to do. They govern the agent's behaviour within regular patterns (Filipe and Liu: 2000 and Stamper et al.: 2000).

In summary, it can be said that group norms within an organisation are the perceived regularities of behaviour within the institution. They may be found in any organisation and they are the normal results of the human interactions. They implicitly control what should be done and would be accepted in an organisation or a social group. Norms may govern how agents behave, think and make judgements. They may make the agents tend to behave or think in a certain way within an organisation.

| Author | Formal Control | Informal Control |
|---|---|---|
| Laurence and Lorsch (1967) | • Managerial hierarchy<br>• Written system | • Socialisation |
| Ouchi (1980) | • Rules and procedures | • Social relationship |
| Child (1984) | • Written rules | • Cultural and social control |
| Bartlett and Ghoshal (1989) | • Formal systems<br>• Written policies and standards | • Socialisation |
| Cohn and White (1990) | • Written rules | • Social norms |
| Allsop and Mulcahy (1996) | • Written guidelines, rules, standards | • Socialisation<br>• Informal communication<br>• Norms |

**Table 2.1**: Summary of formal and informal control mechanisms from various authors

## 2.3 Managing across borders: Transnational organisations

This section discusses relevant literature on transnational organisations with a focus on managing business strategies across different countries. In this research a case study was conducted in a global bank in two branches in different countries where there were challenges in developing global strategies across borders. The aim of this section is, therefore, to review both the organisational structure and control strategies in managing global businesses as well as the management strategies for coping with the challenges.

## 2.3.1 Organisational structures

Organisations have adopted a variety of structural forms when they implement an international strategy. In the initial stage of the international expansion, foreign sales are an extension of domestic sales. Companies increase their international presence by creating a sales subsidiary and 'mother-daughter structure' is applied (Franko: 1974). A high level of independence for corporate strategies and the transfer of expatriates are required (Ebstrom and Galbraith: 1977). A corporate headquarters is in charge of each and every foreign unit that serves its own market and has a fairly free hand in the day-to-day operation (Dunning: 1993).

The next stage when companies try to build an international division. In this structure, all foreign subsidiaries report directly to the international division- that is separate from the domestic division (Brook and Remmers: 1970). This international division will cover all foreign activities and becomes the firm's first source of international expertise (Stopford and Wells: 1972). This structure facilitates information processing between the headquarters and the foreign subsidiaries but hinders information processing at the parent level between the domestic operations and international division (Egelhoff: 1982).

Following creation of the international division when the foreign market expands rapidly, the head office recognises the significance of a global perspective in which there should not be any separation between domestic and foreign activities. Two new forms of structures emerges: a worldwide product division and an area division (Egelhoff: 1982). The worldwide product division extends the responsibilities of the domestic product division to cover their product lines on a worldwide scale. Under this structure, authority shifts from subsidiaries and regional managers to headquarters, and headquarters' responsibility changes from a single line to multiple lines of authority (Davidson and Haspeslagh: 1982). The area divisions are divided into regions and each regional headquarter is responsible for all products and businesses within the geographical area (Egelhoff: 1982).

Lastly, the latest developed international structure becomes a global matrix. In matrix structure, there is a dual line of authority. For example, in an area division by product division matrix structure, a subsidiary manager will report to both worldwide product division headquarters and the geographical area headquarters. Both headquarters managers will be at the same level and their responsibilities may overlap (Dunning: 1993).

Organisational structure of a multinational firm can change over time according to the growth strategy of the firm (Egelhoff: 1988, Dunning: 1993). As reported by Stopford and Wells (1972), when product diversity increased, companies moved from the simplest structures to worldwide product division structures. In addition, when foreign market sales increased, firms tended to adopt worldwide area division structures. Finally, when both product diversity and foreign sales increased, a multinational company might adopt a matrix system (Pla-Barber: 2002).

*2.3.2 Monitoring and control structures*

The previous section described the organisational structures of a worldwide company. This section reviews different structures of monitoring and control of subsidiaries. Early research on centralisation and decentralisation saw the multinational companies as a hierarchical organisation and focused on how much decision-making authority lay at the head office or was left to subsidiaries (Ghoshal and Nohria: 1987). Prahalad and Doz (1981) revealed that the degree of centralisation is shaped by how much the subsidiary is dependent on head office for resources and by the degree to which the firm has a common culture. According to Prahalad and Doz, where the subsidiary is highly dependent on the head office and where there is a developed culture, the companies will be integrated.

Later work has identified features of firms' environment and internal structures that promote the integration of control policies. Firstly, the nature of the product

market is identified. It is believed that where relatively standard goods are produced for the markets in which consumer tastes are of limited importance, integration is more likely to happen (Frenkel: 1994), Coller: 1996, Edwards: 1998). Secondly, there is integration in the production process. Surveys and case studies show that the integration of production across plants promotes common policies in labour management (Hamill: 1984, Mueller and Purcell: 1992, Martinez Lucio and Weston: 1994, Marginson et al: 1995). Thirdly, firms' internal structures can be influential. Some researches reveal that organisations that have grown by acquisition find it more difficult to develop their common policies (Marginson et al: 1993, Edwards, et al: 1996). These latter findings show that there are few common standards and little sense of corporate identity, which makes it hard to develop a shared vision among managers. According to Rosenzweig and Nohria (1994), acquisition led to a relatively decentralised structure. However, this structural contingency approach has its limitations. Some research finds that apparently important contingencies, such as the age of a subsidiary and the degree to which a firm's market is global, do not always explain variations between firms (Rosenzweig and Nohria: 1994).

In addition, the `political approach` sees firms in general and multinational companies in particular as bargaining and influence systems (Ferner and Edwards: 1995). Subsidiaries have a range of resources such as knowledge of local markets and skill in dealing with employees with which they can bargain with head offices. These resources have to be interpreted in practice. It is now widely argued that firms are moving away from hierarchies towards networks and that a `single standard set of management systems and procedures` cannot cope with the growing complexity and diversity of transnational companies (Prahalad: 1990, Doz and Prahalad: 1992, Wasilewski: 2002). The assumption that control resides only in one particular place may be increasingly outdated. Multinational companies are not tightly bonded homogeneous, hierarchically controlled systems any more. More studies are beginning to develop the idea that in developing international strategies, managers in multinational companies need to be

responsive to individual companies and to different national contexts (Bartlett and Ghoshal: 1989, Pla-Barber: 2002).

## 2.3.3 Globalisation and cultural contexts

In an increasingly global business environment, one of the main challenges facing multinational firms is how to balance the desire for standardised global policies, with appropriate consideration of the specific norms of various cultural contexts (Bartlett and Ghoshal: 1989, Royle (1995), Enderle: 1997, Wasilewski: 2002, Thorne and Saunders: 2002). The management theory of `one size fits all` where management policies from one country will be effective everywhere is now being supplanted with the knowledge that managerial attitudes, values, behaviours and efficacy differ across national cultures (Newman and Nollen: 1996). Differences in national cultures call for differences in management practices. Many empirical studies are beginning to develop this idea (see for examples Bartlett and Ghoshal: 1989, Newman and Nollen: 1996, Kochan et al: 1997, McDonald: 2000, Thorne and Saunders: 2002).

Bartlett and Ghoshal's (1989) research is based on a survey of nine multinational companies in three business sectors. The different management approaches in the US, European and Japanese companies in these sectors were compared and their success and failure were explained. The study suggests that the strategic integration of management resources is needed to achieve global efficiency and competitiveness and simultaneously respond to the diversity in individual markets, that the needs of national markets vary greatly between countries. Consumer tastes and requirements are affected by differences in lifestyles, values and culture, as well as social, technical and regulatory environments. They also discuss how advertising and sales promotion techniques also need to be different. Successful advertisement in the US may or may not work well in Europe. It may be even more challenging in Japan. Communication styles and methods need to be adapted to the perceptions of people in each country, especially when moving between East and West.

Newman and Nollen's research (1996) also confirm that multinational firms need to adapt their management practices to the national cultures in which they operate in order to achieve high levels of business performance. Branches that are managed consistently with national cultural expectations will be better performers than those whose management practices do not fit the national culture. In addition, their results show that companies are well advised to take national culture as a given and adjust their practices accordingly. This means that US firms, for example, should not try to become more like Japanese firms or German firms.

Kochan, Lansbury and Macduffie (1997) concluded from their research that there are different interpretations of lean production in the car industry and that their diffusion is shaped by a wide range of forces that are specific to individual companies and to different national contexts.

According to Mcdonald (2000), different cultural backgrounds lead to different ways of perceiving the world and cultural differences affect the individual's ethical reasoning. Thorne and Saunders (2002) support this idea and suggest that research in ethical reasoning should consider the influence of culture on each component of the ethical reasoning process. This understanding would be useful to transnational companies in their development of corporate values and standards, more specifically in implementing corporate values and standards across cultures.

From prior research mentioned so far in this section, it can be concluded that it is not feasible for transnational organisations or multinational companies to ignore the diversity of culture in the workplace today. A major challenge of organisations is in integrating their systems and their operations across geographically dispersed subsidiaries to achieve corporate goals, while at the same time remaining responsive to the local organisational norms and cultures, in order for subsidiaries to operate effectively and smoothly in the local environment (Bartlett and Ghoshal: 1989, Thorne and Saunders: 2002).

## 2.4 Cultural issues in this study

As mentioned in the previous section, multinational firms need to adapt their management practices to the national cultures in which they operate. The impact of the cultural differences that exist should not be ignored. As such, this section will discuss some issues with regard to culture and in particular its influence within an organisation. A brief review of Thai culture is also mentioned in this section. This may work to explain some of the characters in the results collected when the pragmatic analysis is conducted in chapter 6.

### 2.4.1 Definition of Culture

Culture has been defined as "a way of life of a group of people, the patterns of learned behaviour, which were handed down from one generation to the next through the means of language and imitation" (Barnouw: 1963). Culture consists of patterns, both explicit and implicit and behaviour, acquired and transmitted by symbols, constituting the distinctive achievement of human groups, including their embodiment in artefacts. The essential core of culture consists of traditional ideas and especially their attached values (Kroeber and Kluckhohn: 1952).

Carrol (1982) and Alder (1991) support these ideas, defining culture as something shared by all, or almost all, members of a group, who then pass it on to the younger generation. It is something that shapes behaviour, or structures one's perception of the world. Hall (1973) defines culture as a form of communication both in linguistic and non-linguistic forms. Culture is considered as an individual's medium. There is not one aspect of human life that is not influenced and altered by culture.

Pedersen and Sørensen (1989) see culture as it is related to all aspects of a group's behaviour and its social organisation, whether the group studied is a village, a tribe, organisation, or a nation. According to Liebenau and Backhouse (1990), culture means the set of beliefs and assumptions associated with a community. People in different cultures adopt different notions of reality.

## 2.4.2 Culture and Organisation

It has been asserted by Hofstede (1981) that culture influences people and organisations in two different ways. Firstly, through legal and political systems and secondly, through values, attitudes, behaviour, goals and the preferences of members of the group. To understand the influence culture has on an organisation, one could refer to the way culture shapes the organisation's structure and its formal procedures.

Alder (1991) have confirmed that the cultures in different countries have a substantial effect on organisational policies, which will have different effects in different countries. For example, in individualist societies, such as those of Western countries, the relationship between the individual and the organisation is presumably calculable, based on informative self-interest. In contrast, in collectivist societies as in Asian countries, morals are the links between individuals and their traditional organisations, based on the individual's loyalty towards the clan, organisation or society. Hofstede's (1984) research shows that employees in the United States and Great Britain are motivated by personal and individual success, whereas, in the East, people are motivated by security and belonging. Culture also influences the process of decision making in organisation. For example, in large power distance cultures (Eastern), people prefer decisions to be centralised; subordinates have strong dependency needs in relation to their superiors, and this tends to move decisions to the top of the scale. On the other hand, people in small power distance cultures (Western) want decisions to be more decentralised (Hofstede, 1980).

## 2.4.3 National culture

It has mentioned by many scholars (see for example, Atkinson: 1957, Mcmillan and Horvath: 1979, Child: 1981, Sekaran and Snodgrass: 1986, Bartlett and Ghoshal: 1989, Royle (1995), Enderle: 1997, Wasilewski: 2002, Thorne and Saunders: 2002) that culture influences people and organisations through the values, attitudes, behaviours, goals and preferences of members of the group.

Consequently, culture has created distinctive characteristics for each group of people. Value systems, as relatively stable structures of culture held by representative member of the culture, can reflect the national character of the culture. However, characterising a national culture does not mean that every person in the culture has all the characteristic dimensions arranged in the same order of importance. Therefore, when describing the national characteristics one should refer to the common characteristic elements within that "culture", the national norms, or group norms in the case of describing particular group. To use the researcher's benefit of having been born and lived for many years in Thailand, the next section presents some of the main characteristics of Thai people and their culture.

*2.4.4 Thai culture and values*

According to Komin (1991), Thai culture was developed from a combination of the patterns of living of its agricultural society, its political system and the influence of two cultural links, the Indian and Chinese cultures. Indian culture had an influence in the form of Buddhism, which is the national religion. Buddhism affects the beliefs and the philosophy of life in Thai society. Chinese culture has an influence on the form of family structure and the pattern of Confucianism, which reflects the way of seeing and the general outlook on life of the Thai people, as well as Thai social values.

Using Hofstede's (1991) study on cultural dimensions, one may come to the conclusion that, firstly, Thai culture is a large 'power distance' type of culture. This means that the less powerful members of the organisation expect and accept that power is distributed unequally. Secondly, Thai culture is based on collectivism, with individuals and families being relatively linked by kinship ties and interdependent. Thirdly, Thai culture maintains a strong feminine dimension; people tend to be modest and caring, with a preference for resolving conflicts through compromise and negotiation. Fourthly, Thailand is a relatively strong 'uncertainty avoidance country'. People look for structure in their organisations

and relationships, which makes events clearly interpretable and predictable, while unknown or uncertain situations are perceived as threatening. Finally, the dimension of short-term orientation suggests that Thai culture is inclined toward respect for tradition, and focuses especially on supporting relationships among people in the group. That is, they care more for the saving of each other's "face", as well as fulfilling all social obligations.

Furthermore, empirical research by Komin (1991) has produced results, which support Hofstede's cultural dimensions. Komin's research identified nine Thai values through the use of an inter-subjectivity method from a number of scholars familiar with Thai culture and personality. The research data supports the overall picture that the Thai social system is first and foremost based on a hierarchically structured society, where collectivism and interpersonal relationships are of extreme importance. The following paragraph presents three key values that describe the characteristics of Thai people. These values together with Hofstede's will be used in the pragmatic analysis in Chapter 6.

The *"Face saving"* value, which occurs whenever there is any problem to be solved that would directly or indirectly involve people. The first criterion to consider is, therefore, saving the face of the persons involved. Thai people would usually find indirect ways to soften the negative message. It is important to avoid public confrontation, regardless of whether it involves an inferior or superior. Furthermore, Thai people are first and foremost ego oriented, characterised by the high ego value of being independent and a high value of self-esteem. Thai people have a very deep sense of independence, pride and dignity, as the country has never been colonised by the West unlike its neighbouring countries.

The *"Criticism-avoidance"* value makes Thai people dissociate ideas and opinions from the "ego" self. This is why strong criticism to express ideas is often automatically taken as criticism of the person holding those ideas. This means that criticism of any type is a social affront and an insult to the person. A Thai person

would avoid criticising rather than confronting it. Such characteristics are deeply internalised. If they really have to act as a critic, they often end up by hiding their toned-down criticisms in general and vaguely stated terms, for the person being criticised to figure out for him/herself. If the person truly wants comments, he/she can seek out the critic afterwards and discuss it in private.

The *"Kreng Jai"* attitude means "feeling considerate for another person, not wishing to impose or cause other person trouble, or to hurt his/her feeling". This Kreng Jai concept underlines a significant portion of everyday interpersonal behavioural patterns of Thai people. Klausner (1981) stated that it is one of the most difficult concepts for foreigners to understand. Its closest meaning is "to be considerate, to feel reluctant to impose upon another person, to take another person's feelings into account, or to take every measure not to cause discomfort or inconvenience for another person". Kreng Jai refers to such an attitude, predisposed to one's resulting behaviour towards someone else.

### 2.4.5 Globalisation of culture

There are many researchers attempt to conceptualise and measure differences in cultures among nations and to relate cultural diversities to differences in management practices. However, the literature of globalisation also suggests that there is a culture element of globalisation as well. A major source of cultural globalisation is in entertainment media, telecommunications, travel and the introduction of the Internet (Parker, p.183). Culture and nation are refracted and reinvented through the disjointed social, economic, technological and ideological dimensions of the contemporary world. Appadurai (1990) proposes a relevant diffusion framework for global culture with five paths of cross-cultural flow. These are "ethnoscapes" (involving people moving around the world as tourists, refugees, foreign students, etc.), "technoscapes" (global configurations of technology), "financscapes" (financial markets and money flows), "ideoscapes" (political ideas and ideologies), and "mediascapes" (the media themselves and the images of the world created by them). Localities are not always seen as discrete

communities in different parts of the world. They are in fact connected to other localities (Robinson: 1992, Appadurai: 1996). The notion that the `local` is always diverse and unique to each location or audience is challenged. Robertson (1992) suggested that certain kinds of localities might themselves be produced globally, although this does not imply homogenised local responses to global culture. Additionally, as mentioned by Avgerou and Madon (2002), "what happens in a particular locality is influenced also by regional or global institutions" and "even in the same local social context organisations vary in terms of the ways they are governed, and this implies different forms of actorhood" (p.15).

Following Walsham (2000), the author of this thesis agrees that researchers should recognise and accept the fact that the global trends are influencing all countries and that interconnectedness between them continues to increase. However, as Walsham mentions, researchers should also realise that "indigenous cultures are deeply rooted, and the way in which these global trends will be appropriated in particular countries will be highly diverse" (p.302).

## 2.5 Research perspectives in internal control systems

The previous sections provided a background for understanding internal control systems, the formal and informal control mechanisms, transnational organisations as well as the cultural issues. This section will provide an analysis of various approaches that have been adapted in this research area. There are four key approaches influencing cross-cultural research in control systems in multinational firms. The first approach is that of the contingency theorists, which considers an organisation's structural relationships as having influence internationally across the company. The second approach is one of a culturally- based perspective which considers culture as a determinant of human action and the environment in explaining international variation. The third approach is the societal effect perspective that concerns itself with how the nature of organisations reflects the institutional features of the society in which they are located. Lastly the fourth perspective is the new institutionalism approach. This approach focuses on the

analysis of organisational actors' interpretation of rules and a cognitive approach to decision making.

A literature review on these various approaches will be discussed. The main objective is to distinguish and criticise the concepts underlying them, also to discuss their limitations.

## 2.5.1 Contingency perspective

Contingency theory postulates that the circumstances in the environment dictate organisational members' patterns of perceptions and preferences. Historically, contingency theory, developed in the 1950s and 1960s (Burns and Stalker: 1961; Lawrence and Lorsch: 1967), implicitly assumed that these patterns would be universal across national boundaries. According to Laurence and Lorsch, the contingency perspective argued that varied external environments placed different requirements on organisations and their departments. For example, environments characterised by uncertainty and rapid change, place demands on organisations that differ from environments which are stable and well understood. The perspective assumes that successful organisations rationally match their structures in ways which are appropriate to environmental conditions (Kidwell and Kidwell, Jr.: 1997).

Contingency theory is based on the functionalist paradigm because it is concerned with the relationship between organisational structures and technical systems. Organisational effectiveness is the consequence of a match between a situation and a structure (Bhimani: 1999). Its study usually examines an organisation's overall structure and control. With respect to the internal control systems, the elements most often considered in terms of the degree to which an organisation concentrates its control and functions to one location, the structure of its management, the organisation specialisation and the synergy between its various operations. The contingency perspective presumes that contextual factors such as technology and organisational size are different from other elements of the environment within

which they exist. The presumption is that knowledge of these contextual factors can help in designing management control (Hickson, Hinnings, McMillan & Schwitter :1974; Hickson et al.: 1979; Hickson and McMillan: 1981).

Researchers working on this approach include Clegg & Dunkerley (1980), Hill (1981) and Litler (1982) who suggested that contradictions within capitalism generate broadly similar trends in the management control process. Organisations across countries under the same circumstances are expected to have similar tendencies toward the managerial control over the conduct of their work, toward the de-skilling of workers through the simplification and standardisation of tasks. Adopting a similar view, some scholars have argued that broad environmental factors, such as the process of structuring managerial hierarchies, induce convergence in organisational structure and management control (Dore:1959; Inkeles:1960; Dyas & Thanheiser: 1976).

In addition, Harbison and Myers (1959) argued that "organisation has its logic which rests on the development of management and there is a general logic of management development which has applicability both to advanced and industrialising countries in the modern world (p.44)". This logic forces industrial organisations to adopt greater specialism of function, which in turn enhances the level of managerial decentralisation in organisation witnessing increasing growth and complexity of activities (Harbison and Myers: 1959).

Cross national organisational differences within the notion of this perspective are viewed as reflective of the extent of industrialisation rather than of any inherent element of national distinctiveness. As Jamieson (1983) noted, early cross-national researchers adopted a view that inhibited the explicit consideration of nation- specific forces in explaining business behaviour. The theory maintained that all the evidence pointed in the direction not of cultural diversity, but of the convergence of the basic principles of management. The approach focused on broad features of organisational structure and control such as the degree of

centralisation, formalisation, technology, and organisational size. Knowledge of these contextual factors is assumed to enable management controls to be purposefully designed (Bhimani: 1999).

Although contingency approach has been applied in many studies in the early research, it presents a simplistic viewpoint for research and practice. The approach ignores the role of culture, the organisational participants and their behaviour. As mentioned by Dhillon (1997, p.11) "human beings and organisations are far more complex than implied by this theory." With respect to contingency approach, behaviour, intentions and domination patterns of people in organisation are overlooked. Disregarding these factors may reduce the significance of explanations in comparative research. This perspective is, therefore, inappropriate for this research because it ignores the relationship between the organisational structures and the behaviours of people. In an attempt to address this issue, much research has been carried out on the culturalist perspective.

## 2.5.2 Culturalist perspective

The culturalist perspective attempts to explain regularities of structure in organisational functions. There is much evidence suggesting that various identical tasks or goals take place in different ways from one nation to another. It is assumed that individuals affect each other and are influenced in similar ways in one nation because it has an internalised core cultural value, which is shared by its membership in a national society.

The concern with national culture arose in the management literature in the 1960s-1980s (see for example, Oberg: 1963; Farmer and Richman: 1965; Webber: 1969; Sorge: 1977, Hofstede: 1980; Child and Tayeb: 1983; Harrison and Mckinnon: 1986; and Cooper and Cox: 1989).

Child and Tayeb (1983) defined cultures as sets of ideas, values, shared symbols and meanings. Culture defines and mediates the behaviour of members interacting

within the social group (Harrison and Mckinnon: 1986). In culturalist theory it is argued that human actions and social environments are determined by cultural values. As such, differences in cultural values are thought to affect work motivation and method of organisational control over one another. More understanding about such variations is seen to offer the potential of developing nationally specific solutions to problems of management control design.

The culturalist perspective also provides the basic proposition underpinning comparative management control research. For instance, Hofstede (1980, 1987, 1991) in a questionnaire-based study of employee values and perceptions within one large multinational organisation, conducted a survey in 40 countries based on his five-dimension values: power distance, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity and long term versus short term orientation. These values are used to understand and determine a national character in each culture. The results of his studies have been used by many researchers in cross-cultural comparative research.

The culturalist assumes that the social world and its structures can be verified empirically. Methodological instruments are seen as enabling researchers to locate, explain and predict social regularities, patterns and their effects on management control structure. Culturalist studies give emphasis to the systematic collection and analysis of quantified data in order to confirm hypothesised relationships. They also tend to draw their results in technical functional terms in discussing their implications for the design of management control systems (Bhimani: 1999).

National values and peripheral influences are referred to in many comparative management literatures. For example, Hanada and Holsen's[8] (1981) study of employee satisfaction with decision-making processes reports that in Japanese organisations operating in the US, Japanese employees were the most satisfied with the consensual methods of decision making. Consensual decision-making was

---

[8] Cited in Bhimani (1999), p.419.

for these workers a core value that was an important element of organisational practices. Japanese-Americans workers in this setting were less satisfied and non-Japanese Americans were the least satisfied with the consensual decision-making. This is attributed to individualism being a core value among US employees which is more compatible with contentious rather than consensual methods of decision making.

Another example, was an investigation of public organisations in Egypt by Hinnings and Badran (1981), which reported that the high degree of participation required by the restructuring of an organisation was difficult to implement as core cultural values emphasised social and hierarchical distance in interpersonal relationships.

In addition, there are some studies in accounting and cross-national management research where the researchers have investigated the differences in control mechanisms between Eastern and Western cultures. Harrison, McKinnon, Panchapakesan, and Leung (1994) suggested that there was a positive relationship between power distance[9] and centralisation[10] and negative relationship between individualism[11] and centralisation. Harrison found a significantly higher level of centralisation of control in companies located in Hong Kong and Singapore, when compared with American and Australian companies.

Birnbaum and Wong (1985, 1994), in a study of multinational banks in Hong Kong, suggested that where the cultural emphasis is on high power distance, the structure of organisations will tend to be centralised and local Chinese employees

---

[9] Power distance: the extent to which members of a society accept that power is unequally distributed in organisations.

[10] Centralisation: the extent to which power and control is mainly managed by head office rather than under local management.

[11] Individualism: the extent to which members of a society believe that individuals are supposed to take care of themselves and their family as compared to a collectivist society where there is unquestioning loyalty given to a larger group.

will be more satisfied when working in a centralised rather than decentralised structure.

Negandhi (1987) found that the decentralisation of decision-making in subsidiaries of American firms to be lower than that of German and Japanese firms. Similarly, Jain and Tucker (1995) asserted that power and control was more centralised in Eastern firms than in Western firms. Zaheer (1995) also found that Japanese banks showed higher levels of centralisation than American banks. This claim was confirmed indirectly by Chow, Harrison, Mckinnon and Wu (1999) in which the result showed that a Taiwanese firm had higher power distance and centralisation than an Australian firm owing to the Chinese based culture in Taiwan.

In addition, Alderfer (1987) noted that the distribution of power among culturally identifiable groups, both inside the organisation and in the larger society, was a key to how people feel, think, and behave at work. Ridgeway (1991) argued that much of what we think of as the effects of membership in particular identity groups are in fact produced by the status value our society ascribes to those groups. In organisations, status differentials are reinforced when higher-status identity groups are disproportionately represented in positions of organisational authority and are challenged when they are not. Perceptions of one's relative status in the organisation, in turn, influence and control one's expectations and behaviours (Lau and Murnighan: 1998).

Although there are various researchers interested in the role of culture in management control practices, its perspective still suffers from certain methodological and conceptual problems. Swidler (1986) commented "...to assume that culture shapes action by supplying ultimate ends or values toward which action is directed is fundamentally misleading (p.273)." In order to overcome this limitation, the definition of culture must be sufficiently precise to allow an explanation of the elements of national culture that are seen to influence the functioning of organisations. Incomplete descriptions of cultural characteristics

can reduce the useful understanding of the full relevance of a culture's role in developing practices.

In addition, although there are some researchers who assume that cultural and historical influences distinguish one country from others and adopt a culturalist perspective, their study was limited in theoretical framework. Very little has been documented about the cause of observed similarities and differences in practices across nations. Studies on organisation practices regarding cultural differences provide neither sufficient theoretical nor empirical indications of how culture causes such differences. The relationships between national values and management controls have not to date been investigated to any appreciable degree in research adopting a culturalist perspective. The definitive feature set is taken too literally as constituting culture and it can introduce cultural bias into research methodology (Bhimani: 1999). More consideration should be taken to avoid disregarding the significance of the other varieties of influence in organisational structural controls.

The Structural Contingency and Culturalist theories have been prominently adopted in cross national management control research. However, it is evident that other alternative approaches are required to overcome the limitations of these existing approaches. The following sections will discuss two new approaches adapted in this area of study.

*2.5.3 Societal effects perspective*

Bhimani (1999) proposed the societal effects approach as an alternative conceptual approach to investigate the underlying systems in organisations. The approach assumes that characteristic patterns exist across organisations within one country in relation to organisations in another country. This view recasts substantive theories of the evolution of advanced industrialism in terms of society-specific features underpinning the specifics of organisational operation. In the societal effects perspective it is suggested that societal features such as educational

systems and job training programmes may influence organisational forms and practices. Cultural factors may also have an influence, but the highlight is on the effects of societal features (Maurice: 1979).

The approach considers values and characters as affecting different individuals behaviour in different ways. Cross-national comparisons of societal factors and systems of internal control activities in organisations within this perspective search for evidence of structural elements underlying the interaction of people at work, systems of recruitment, the nature of qualifications and levels of supervision (Bhimani: 1999).

The approach attempts to overcome some of the problems posed by the cultural perspective. It suggests that organisations influence the behaviour of people, with those people within organisations also being able to modify organisations through their actions. As such, the societal effects perspective assumes the existence of interdependencies between the two. Rather than focus only on culture as the basis of value orientations, the societal perspective also emphasises the examination and differentiation between organisational actions and work activities in different national contexts.

To cite an example of research using the societal perspective, Sorge (1991) conducted research on comparative management policies in Germany, France and Britain. The study demonstrated that the German style of management tended to have unclear organisation boundaries, less segmentation, fewer line-staff, management execution and generalism - specialism distinction. On the other hand, French organisation tended to be characterised by greater hierarchical and lateral segmentation. It de-emphasises training and role sets, using career progression and the combination of school and college education with job - specific training in the organisation as more important mechanisms generating competence. Conversely, in British organisation, the functional segmentation between production and maintenance, management and engineer, supervision and technical work is

pronounced. The management hierarchy in British organisation is less technical and more subject to financial controls in comparison with German and French companies (see also Loveridge: 1990; Sheridan: 1995; Carr and Tomkins: 1998).

There are a number of research studies which have applied societal effects perspective. However, it has been noted that the researchers have only documented indirect empirical evidence of the influence of social institutions upon management control systems in a systematic way reflecting typical national patterns. The observation in this research perspective is still broad. Methodologically, the approach needs the systematic analysis of matched data across organisations in different countries as well as societal context background information to explore the existence of specific organisational forms and structures across different nations (Bhimani: 1999).

Other criticisms of the approach have been made; Lane (1989) argued that institutional arrangements of capitalist societies represented the values of all social classes. However, it does not consider that institutions can be influenced by power in the society. To overcome this problem, Lane suggested that interviews should be carried out by researchers using the societal perspective to classify how employees at different levels of the hierarchy view their organisational structures.

A further argument is that this perspective is based on the comparison of matched pairs of organisations while it is possible that one particular factor in one country may be an exception in another nation. Organisational and globalisation effects may also have an impact on the societal effect. Mueller (1994) suggested that in some organisations, which may be part of multinational organisational groups, their internal structures and processes are likely to be substantially influenced and shaped by the multinational firms and policies.

*2.5.4 New institutionalism perspective*

With this approach, institutions are seen as the product of organisational design and the purposive action from the actors. This approach suggests that actions may be understood by examining their cognitive rather than their normative basis. Decision-making is often more a process of the organisational actors following the organisation's rules rather than thinking about the consequences of the action. New institutionalists believe that people live in a socially constructed world that is filled with taken-for-granted meanings and rules. Much of their action is neither intentional nor conscious, for it is undertaken unconsciously and as a matter of routine. The perspective suggests that societies promulgate complex rules and patterns which originate from professional groups, governments, competitors and other stakeholders (March and Simon: 1958; Meyer and Rowan: 1977; Weick: 1979; Zucker: 1987; Covaleski and Dirsmith :1988; Carruthers: 1995; Kidwell and Kidwell Jr.: 1997; Bhimani: 1999).

From the institutional perspective, organisations might decide to adopt internal control systems based on prevailing opinions which hold sway in society. As Meyer and Rowan (1977) noted:

"Many of the positions, policies, programs and procedures of modern organisations are enforced by public opinion, by the views of important constituents, by knowledge legitimated through the education system, by social prestige, by the laws, and by the definitions of negligence and prudence used by the courts" (Meyer and Rowen: 1977, p. 343).

This approach highlights the ways in which action is structured and order made possible by shared systems of rules and it may influence the organisational operating procedures. The approach seeks to explore how organisational norms influence the actions of people working within the institution and their environment. The notion that structure results from predefined design and intended action is less convincing within the new institutionalism approach. Actors in

organisations are viewed as making assumptions that remain semi-conscious and which influence how they perceive, think and feel as part of groups. Their judgement in certain areas becomes conditioned toward the group norms. As a result, the actions of the organisation's actors can implicitly determine the effect of management control.

Ansari and Bell (1990) argued that meaning is contextually determined and the meaning of the phenomena under study is contingent on interactions between organisational actors and their interrelationship. The structuring of management control systems cannot emerge simply from actions or design, but it may be viewed as reflective of wider social elements being embedded in them. The institutionalism perspective focuses on the nature of management controls rather than their technical functions and highlights the contextual focus of the research methods it implicates.

It is accepted that comparative research influenced by the institutionalism paradigm is increasing. For instance, Ahrens (1996, 1997) adopted an ethnographic methodology in his studies of accountability and conceptualisation of accounting expertise within British and German breweries. His studies suggested that there were national differences in the perceived reality of accounting information in representing the operational context.

There are a number of researches on cross-national comparisons of management control systems adapting new institutionalism perspective (see for example Covaliski, Dirsmith and Michelman: 1993; Hogler and Hunt: 1993; Ansari and Bell: 1994; Mezias: 1994; Donaldson: 1995; Zan: 1995; Schein: 1996; Ahren: 1996, 1997; Kallinikos: 2002). There is, nevertheless, little doubt regarding the potential that new institutionalism research can offer to explain the basis of organisational structures or practices across different contexts. However, it is argued that the emphasis placed on culture by the new institutionalism is perhaps too cognitive (DiMaggio and Powell: 1991; Carruthers: 1995). The normative side

of culture, although they acknowledge it, is not given much consideration. In addition, these studies reveal little of the underlying causes and consequences of observed differences and similarities. A clearer understanding of how changes in organisational structures take effect is still in need.

## 2.5.5 A Gap in the Literature

From the literature review so far in this section, it can be seen that cross-national research on internal control is at present a relatively unexplored methodological concept. Generally it appears that its perspective has moved towards a more social based approach, building onto a subjectivist study, and away from more functionalist paradigms. The emphasis is now less on techniques and formal areas of the systems and more on the roles and interpretation of the actors in the systems. Even though, there have been many discussions of empirical findings in cross-national studies, it seems that the theoretical development in this area has not been fully implemented. The methodological appropriateness is therefore still in question.

## Semiotics

Semiotics is an approach that will be introduced in this study. As mentioned in Chapter 1, no research has been found that has previously adopted semiotics in the area of internal control systems study[12]. Most research in internal control systems puts emphasis on control systems, organisations and audit procedures, rather than people who play a crucial role in the organisations. Semiotics highlights the intention of the actors involved and the meaning of the content of the

---

[12] Articles and research in Accounting and Information systems areas were reviewed. These include four leading account journals from 1989-1998: 1. Accounting Review, 2. Contemporary Accounting Research, 3. Accounting, Organizations and Society, and 4. Auditing (Meyer and Rigsby: 2001). By using Electronic Access to Subject Information (EASI), 125 accounting articles and research in 24 journals from 1999 to April 2002 were examined. Five journals in information systems were reviewed: 1. Information Systems Journal (1998 onward), 2. Information Management and Computer Security (1994 onward), 3. European Journal of Information systems (1997 onward), 4. Information Systems Research (1998 onward), 5. Accounting, Management and Information Technologies (1997-2000). In addition, North American doctoral theses (1861 onward) and British Irish doctoral dissertations (1970 onward) were also reviewed using the EASI.

communication interpreted by the actors in the process of communication. The advantage of adopting semiotics is that cultural and social elements, together with the technological aspect are analysed extensively. Organisations are seen as social forms governed by both formal rules and informal norms. Its concern is to understand the organisational norms and the compliance of human actions to the formal control systems. Internal control systems are viewed as sign processing systems where human actors do the processing.

The approach is concerned with the question of how these signs relate to communication. The approach starts with the investigation of all formal and informal factors that cause a group or a society to share a system of representations and a system of values. It attempts to explain how and why organisations across nations are similar and different through the connection between formal and informal systems. This connection takes place through an examination of internal control systems and their applications as they are shaped by many factors such as norms, culture and organisational changes. As mentioned previously, the aim of this research is to increase the understanding of the internal control systems in different organisations in different locations. However, much research on internal control systems emphasises on the formal part of the system; only a few have extended their studies to include the study of people and their interpretation of the informal aspects. As such, this research presents a new method of analysis. More detail of semiotics will be presented in Chapter 3.

## 2.6 Summary

In this chapter, the relevant literature has been reviewed, beginning with internal control systems, their common features of formal and informal control, transnational organisations, cultures and then moving on to cross-national internal control research perspectives.

Four perspectives in management control research were discussed in this chapter. The contingency view places the emphasis on organisational structure and

functional relationships. The culturalist perspective attempts to add to the contingency view the effect of cultures upon organisational behaviour.

The societal effect perspective, on the other hand, concerns itself with how the nature of organisations reflects the institutional features of the society in which they are located. This notion enters into a more substantive paradigm in recognising that institutions influence the behaviour of organisational actors and also the actors can change institutions through their actions.

A new perspective in cross-national research has extended its frame of reference to include institutionalist understandings of the forms of organisational structuring and management controls. New institutionalism focuses on the analysis of organisational actors' interpretation of rules and cognitive approach to decision making.

Finally, this section introduces semiotics as a new approach that opens up the possibility for a substantive approach to comparative cross-national management control research. This particular view attempts to explain how and why organisations across nations are similar and different in respect of their internal control rules and norms in practice.

# 3

# Philosophical and Theoretical Assumptions and Research Methodology

## 3.1 Introduction

In this chapter the researcher defends the qualitative research approach taken based on the interpretivist paradigm. The overall objective is to present the philosophical assumptions underpinning this research as well as to introduce the research strategy and the techniques employed in this thesis.

The following sections will show the process through which the methodology is developed. The philosophical assumptions that lie behind the research methodology will be mentioned first in this chapter. The research design for this project will be presented in detail. Research method, data collection plan, unit of analysis and the data analysis will be included. Finally in this chapter, a pilot study that was conducted in a credit department of three hotels will be presented. The pilot study was used to refine the data collection plan for the proposed case study and will be discussed in detail.

## 3.2 Philosophical perspectives

According to Burrell and Morgan (1979), there have been two main dimensions underlying social science theory: Objectivism and Subjectivism. The objective dimension in social science is generally characterised by reference to models and methods of natural science. The social world is treated as the natural world, as being hard, real and structured. It exists independent of humans. The nature of social reality can be measured and perceived in objective ways. In contrast, from the subjectivist point of view, "the social is essentially relativistic and can only be understood from the point of view of the individuals who are directly involved in

the activities which are to be studied" (Burrell and Morgan: 1979, p.5). Social reality cannot exist aside from humans; it has to be produced and reinforced by humans through their actions and interactions (Morgan: 1983; Gibbons: 1987; Dhillon and Backhouse: 2001). Ontologically[13] speaking, this research is inclined forwarded nominalist arguments which believes that `reality` exists through an individual's consciousness and that there is no world that exists independently of an individual's appreciation of it.

From the epistemological[14] assumption these two dimensions can be distinguished as positivism and anti-positivism respectively. Positivism seeks to explain and predict what happens in the social world by searching for regularities and causal relationships between its constituent elements. The set of model and measurement is constructed to capture the essence of phenomena in the social reality. The study of organisation and human behaviour is viewed as in the mode of scientific knowledge and it is composed only of facts (Archer: 1988). This positivist research approach is considered as the traditional approach in information systems study in which the technology is focused. Most of the research highlight is on collecting the empirical evidence; accordingly survey techniques and laboratory experiments have dominated this research approach (Dhillon: 1995). These research methods are considered more suited to the natural sciences (Galliers: 1991, 1999).

In contrast to positivism, anti-positivism sees the social world as essentially relativistic and can only be understood by participating in the social processes, through socialisation and interaction with them. Interpretive research is the dominant approach that has been increasingly recognised in the anti-positivist

---

[13] Ontology is an assumption concerning the very essence of the phenomena under investigation. The assumption is all about the nature of reality "whether it is external to the individual or the product of individual consciousness, whether it is a given out there in the world or the product of one's mind" (Burrell and Morgan: 1979, p.1).

[14] Epistemology is concerned with the nature of knowledge such as how to understand the world and communicate it as knowledge to human beings, how one can differentiate between truth and falsehood, what is human knowledge and how it can be learned, etc.

perspective. According to Frye (1981), interpretive research considers knowledge as a social construction of reality by humans. Organisations and information systems are therefore human constructs that are formed by factors external to individual cognition. As stated by Dhillon (1995, p.23) "the core concept of interpretivism is intentional acts in which the emphasis is to understand the acts and link them to the meaning of the conducts". From the interpretive point of view, understanding social reality or the meaning of social life requires understanding of human behaviours and actions (Gibbons: 1987, Orlikowski and Baroudi: 1991). According to this perspective, researchers cannot view the social process by systematic rules and techniques as in positivism. Instead, this process requires understanding of how practices and meanings are formed by the culture and norms shared by human beings with regard to some shared goals.

Considering the positivist perspective which is established in the natural sciences, the research in this thesis disregards the application of the approach for two reasons. Firstly, the emphasis in this study is not to test a hypothesis but to develop a deeper understanding of the social context in information systems security. This cannot be explained by hypothetical deductions or statistical technique as dominates the positivist approach. Secondly, positivism focuses on the scientific domain that acknowledges only facts. This may lead to omissions in the social relations and social context which influence human perception, attitude and interaction in the management of information systems security. In addition, this research is concerned with the management of information systems security in terms of internal control systems. Information systems security is viewed in terms of minimising risks arising because of inconsistent and incoherent behaviour with respect to internal control systems of the organisations. The study will focus on the systems and especially on the people working in the systems. The behavioural issue which is a key domain in internal control systems will be highlighted. Owing to the nature and focus of this research where reality is considered to be the product of individual recognition, this study is influenced by the anti-positivist perspective rather than the positivist one.

Methodologically, as commented by Galliers and Land (1987), to gain insight into what constitutes appropriate research methodology, the nature of information systems and what we hope to gain from undertaking the research should be considered. The appropriateness of the selected methodology will be critical to the results and the quality of the study. Accordingly, the research objectives and the nature of the study must be considered as a key issue when selecting the research methods (Benbesat: 1984; Walsham: 1993; Dhillon and Backhouse: 2001).

The methodological stance of this research emerges when underlying ontological and epistemological assumptions in this research are put together. This research tends towards an ideographic approach that focuses on analysis of subjective accounts and the significance of `getting inside` and seeing situation `through the eyes of the actors`. An ideographic approach argues that one can only understand the social world by obtaining first hand knowledge of the subject under investigation. The researcher has to get as close as possible to the situation in which the actors are situated and in which social activities take place (Burrell and Morgan: 1979).

## 3.3 Research paradigms and information systems security studies

Based on the philosophical assumptions discussed in the previous section, Burrell and Morgan[15] propose four paradigms in social science study: radical structuralism, functionalist sociology, interpretive sociology and radical humanism.

---

[15] The Burrell and Morgan framework is not without its critics. Many sociologists have considered the classification to be overly simplistic (see for example, Hopper & Powell: 1985; Chua: 1986). As stated by Backhouse and Dhillon (2001) some researchers consider the two analytical dimensions to be synthetic and incapable of dealing with subtleties of social theories (see for example Gutting: 1980; Reason and Rowan: 1981). Nevertheless, despite the criticisms the Burrell and Morgan framework and paradigms have been widely used in many literatures in IS.

**Radical Change**

|  |  |
|---|---|
| Radical<br>Humanist | Radical<br>Structuralist |
| **Interpretivist** | Functionalist |

*Subjective* ... *Objective*

**Regulation**
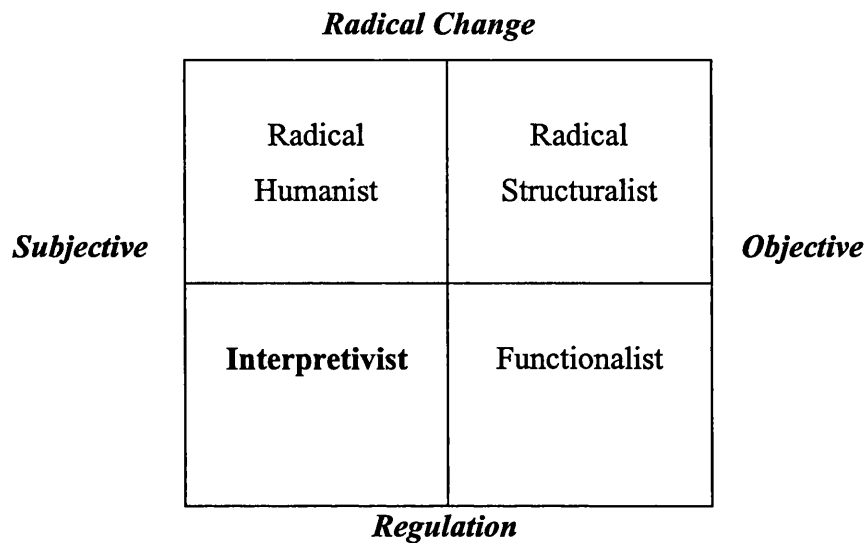
**Figure 3.1**: Burrell and Morgan's four paradigms (Burrell and Morgan: 1979).

### 3.3.1 Functionalist paradigm

The functionalist paradigm is concerned with providing explanations of the status quo, social order, social integration, consensus, need satisfaction and rational choice. It seeks to explain how the individual elements of a social systems interact together to form an integrated whole (Burrell and Morgan: 1979; Goles and Hirschheim: 2000). Functionalist researchers investigate the causal laws and take a rationalistic view of the phenomena under investigation. They tend to express the objective viewpoint of management (Dhillon: 1997).

Most of the literature in information systems security in this paradigm is related to information technology. Research into security in an organisation is often concerned with technical issues such as systems architecture, hardware performance, databases and software design. Confidentiality, integrity and availability of information are the security objective of the systems (Lane: 1985, Dierstein: 1991, Bentzien: 1991, Warman: 1993). The emphasis is mainly placed on the formal automated part. Backhouse and Dhillon (2001) stated that most of the current research within functionalist approach could be broadly classified into three categories: checklist, risk analysis, and security evaluation.

Empirical study in the functionalist approach is still within the positivist approach where the social world has not been considered. Human actions, patterns of behaviour and the meaning associated with actions, the core consideration in this research, are not recognised as an important issue. Therefore, the functionalist approach is less appropriate in this research. More details on functionalist research in security issue can be found in Boockholdt: 1987, Longley: 1991, Baskerville: 1993, Krueger: 1993, Kailay and Jarratt (1994), Zyl, Oliver and Solms (1994), Hall (1998), Peltier (1999) and Antón and Earp (2000).

## 3.3.2 Radical structuralist paradigm

The radical structuralist paradigm views society and organisations which focuses the need to overthrow or transcend the limitations placed on existing social and organisational arrangements. It emphasises primarily the structure and analysis of economic power relationships.

Information systems and security researchers in radical structuralist paradigm believe that the business environment, social organisation and security systems are within the process of dialectical materialism. Organisations are considered to be loosely coupled coalitions with conflicting interest groups and the various groups are in discordance with each other (Dhillon: 1997). It is assumed that the conflict can be solved through negotiation (Dhillon and Backhouse: 2001). Ciborra's works (1991, 1994) on the contractual view of information systems may fall into the radical structuralist perspective. As mentioned in Backhouse and Dhillon (2001, p.17) Ciborra's works "highlight the interaction and bargaining between individuals both within an organisation and within environment. He believes that conflicts can be exposed and then negotiated and those whom affected by the conflicts in organisations can be actively involved. Therefore, the advantage with respect to computer based systems can be fulfilled not by developing top level policies and strategies but by "tinkering at the grassroots of the organisations". Within information systems security research, there are only a few researchers who employ the concept of this paradigm (Dhillon and Backhouse: 2001).

### 3.3.3 Radical humanist paradigm

The radical humanist paradigm seeks "radical change, emancipation and potentiality. It stresses the role that different social and organisational forces play in understanding change. It emphasises on all forms of barriers to emancipation: in particular, ideology (distorted communication), power and psychological compulsions and social constraints; and seeks ways to overcome them" (Goles and Hirschheim: 2000, p. 253). There are only a few researchers who have used concepts root within this paradigm (Dhillon and Backhouse: 2001). Prominent among them are Lyytinen and Hirschheim (1989), Nissen (1989), and Angell (1994, 2000).

Lyytinen and Hirschheim adopted Habermas' social science theory to understand and describe information systems[16]. Information systems development and use is seen as manifestations of social action, and are socially determined and conditioned (Lyytinen and Hirschheim: 1989). "They conclude that computer based systems and emancipation are not necessarily antithetical, only paradoxical" (Dhillon: 1997, p.22). They argue that the computer based system can promote physical, and organisational emancipation by establishing new discursive processes. In addition, they can also promote physical, psychological and organisational emancipation by debating all system related changes (Lyytinen and Hirschheim: 1989).

Similarly, Nissen uses Habemas' concept and his study focuses on developing responsible human action. He argues that any computer based information system Influences how people act and that whoever wants to work with information systems development and to act responsibly, has to develop information systems which encourage and facilitate responsible human action by all the people affected (Nissen: 1989, p.99).

---

[16] It is assumed that there is a correlation between actual human experiences and the possible range of conduct and the focus is on how an information system is experienced and used by humans.

Angell (1994, 1996), whose studies highlight the impact of globalisation on today's businesses, takes a radical stance on the implications for the security of information systems and criticises the functionalist approach on the basis of `sheer complexity`, `profound uncertainty` and `linear thinking` (Angell: 1996). As Backhouse and Dhillon (2001, p.16) described "he criticised the functionalist perspective on the grounds that logic, rationality and technology are the vehicles of cognitive dominance that lead to the alienation of humans, which in turn becomes a barrier to the achievement of full humanity."

It may seem that the emancipatory approach to developing information systems and security are crucial, however, in spite of some prominent research from a few researchers in this paradigm, it is argued that the implementation strategies within this paradigm still remain vague and unclear (Dhillon and Backhouse: 2001).

### 3.3.4 Interpretive paradigm

The interpretivist paradigm seeks explanation within the realm of reference of the perspective: "social roles and institutions exist as an expression of the meanings which individuals attach to this world" (Burrell and Morgan: 1979). This thesis is regarded as falling within the interpretive paradigm. Ontologically, an interpretive approach claims that `reality` is intrinsically meaningful and that its meanings are constituted by the meanings that actors within society provide to it. Epistemologically, it argued that the social world could be understood only through discovering the meanings that constitute it, and by a process that involves understanding situations from the actors' point of view (Burrell and Morgan: 1979). Research methods in the interpretive paradigm highlight the importance of being inside situations and understanding them from inside. It emphasises in-depth understanding of phenomena through accessing the meanings that participants assign to them. As mentioned by Galliers (1991) "the strength of such methods is their ability to represent reality following an in-depth self validating process in which presuppositions are continually questioned and our understanding of the phenomena under study is refined" (p.158). Similarly, Walsham (1993) added that

the interpretive approach helps the researcher to produce an understanding of the context of the information systems, and the process whereby the information system influences and is influenced by the context. Based on these assumptions, interpretive approach is the most suitable for this study.

There has been an increase in the numbers of information systems security researchers whose studies are in interpretive sociology where the focus of studies has shifted from the purely technical base to encompass the social and political phenomena. Some of the main proponents include Liebenau and Backhouse (1990), Dhillon (1995), Silva (1997), Dobson (1998), Backhouse and Dhillon (2001), etc.

## 3.4 Information systems theories

In this section core research theories lying within the interpretive approach in information systems research are reviewed and the theories that will be used in this thesis are briefly discussed.

Giddens' `Structuration theory`[17] has been widely applied by many researchers in information systems research. Giddens developed the structuration theory to explain the social order in terms of shared meanings and values. Structure can be defined as sets of roles and resources that individual actors draw upon in their practices which reproduce the social systems. They have no real existence, but merely a virtual existence in the practices as they are organised (Gidden: 1976, 1979, 1984). The focus of structuration theory is the mutual interaction of agents and social structure. The agents are enabled and constrained by the social structures. The social structures are produced and reproduced by agents according to the results of the previous actions. Rules and resources that human agents use in their everyday interactions are the structural properties of the social system. The

---

[17] Structuration theory emerged as a significant development in European sociology in the late 1970s. Urry (1982) traced its origin to Berger and Luckman's (1967) concept of the mutual constitution of society and individuals, and identified several different strands of structurational

relationship between the agents and the social structure is the core issue in structuration theory.

Some of the main proponents of interpretive research are Scapens & Macintosh (1990, Orlinkowski and Baroudi (1991), Orlikowski (1992), Walsham (1993, 2000), 1996), Barrett and Scott (1999, 2002). Orlikowski and Baroudi (1991) have used Giddens (1984) structuration theory to study information systems use within organisations. They present an outline of Giddens' ideas mainly in the context of a contrast between "subjective and objective treatment. Orlikowski (1992) also employs structurational insights to the development of a new model of the relationship between technology and organisation. She argues that the research on information technology has been deconstructivist and there is a lack of a conceptual basis from which to conduct future research. She proposes a model derived from Giddens' structuration theory to investigate the relationship between technology and organisation.

Another significant contribution to the use of structuration theory in information systems research has come from Walsham. His work has included a review of the application of structuration in information systems research (Walsham and Han: 1991), analyses of case studies in a variety of domains drawing on structurational concepts (Walsham: 1993, 2000), and the use of structuration as a sensitising device in studies employing other analytical approaches (Barrett and Walsham: 1995[18]).

Scapens and Macintosh (1990) sought to use structuration to analyse a longitudinal case study of accounting practice, showing how management accounting systems are the interpretive schemes which management use to interpret the results, take

---

analysis including the work of Bourdieu (1977), Bhaskar (1979) and Giddens. However, in the IS context, it is only Giddens that has received any significant attention (Jones: 1999).

[18] Barrett and Walsham's analysis of innovation in the Jamaican insurance industry. Structuration theory's use can be described as means of focusing research attention on actions, mental models and processes of reproduction and change.

action and make plans, and are a facility that management can use to co-ordinate and control participants.

Barrett and Scott (1999, 2002) uses Giddens' time-space concept to provide insights into the evolving temporal features of global work by examining the transformation of traditional futures markets facilitated by electronic trading. Time is identified in the context of routinisation as significant features of structuration. Time in this context has become separated from space, for example, in pre-modern society time might have been measured by the movement of the sun or by a public clock, but in modern society time throughout the world follows a common, abstract, and standardised order (Giddens: 1990; Jones: 1999).

Another theory in interpretive research in information systems is the 'Web model' (Kling and Scacchi: 1982). The web model has been used to analyse the social context in organisations. The model defines the social context in term of social relations of the participants, the infrastructure of the available support and the history of previous developments (Walsham: 1993). The web model is used in a study by Kling and Iacano (1984, 1989) to develop the analysis of information systems implementation. Information systems are related to the organisational structures and to the manner in which they become institutionalised. However, there is a drawback in the use of the model due to its inability to present a dynamic interaction within the organisational environment (Dhillon: 1995). To overcome this limitation, the concept of contextualism has been brought into the discussion in information systems research.

The core features of Pettigrew's (1985) contextualist analysis concept involve considering the content, context and the process of organisational change. These three elements are regarded as interrelated. He suggested that the important part of the research on organisational change should involve the continuous interaction among the context of change, the process of change and the content of change. The focus is put on the importance of the linkages between the context and the process

of change. Further applications of the contextualism concept can be found in Madon (1991), Fincham (1992), Walsham (1993), and Walsham and Waema (1994).

Other major theories in the interpretive paradigm that have been widely used in information systems are `Hermeneutics[19] and Critical theory[20]. Hermeneutics emphasises on the problem of interpreting texts and experiences from other cultures and from different historical periods. As described by Silva (1997) "the alternative proposed by hermeneutics to solve this problem is to construct the meaning from the `pieces` of texts available to construct what is called an involving whole. The evolving whole is the starting point for understanding the parts. This process is known as the ` hermeneutics circle`" (p. 41).

The idea of a hermeneutic circle refers to the dialectic between the understanding of the text as a whole and the interpretation of its parts, in which descriptions are guided by anticipated explanations (Gadamer: 1976). It follows from this that we have an expectation of meaning from the context and the movement of understanding "is constantly from the whole to the part and back to the whole" (p. 117). As Gadamer explains, "it is a circular relationship. The anticipation of meaning in which the whole is envisaged becomes explicit understanding in that the parts, that are determined by the whole, themselves also determine this whole. (p.117)"

Hermeneutics can be treated both as an underlying philosophy and a specific mode of analysis. As a philosophical approach to human understanding, it provides the philosophical grounding for interpretivism and as a mode of analysis, it suggests a

---

[19] As described by Introna (1997) the word hermeneutics is of Greek origin and is translated as `to interpret` and the word hermeneutics suggests the process of bringing a thing, a situation or a concept from unintelligibility to intelligibility.

[20] As quoted in Silva (1997, p. 45), "critical theory is associated with the Frankfurt school, a group of German thinkers. The most relevant are: Adono, Fromm, Habermas, Horkheimer, Marcuse and Felix Weil. It was founded in the 1920s by Max Horkheimer."

way of understanding textual data (Myers: 1997). Hermeneutics is primarily concerned with the meaning of a text or text-analogue. The basic question in hermeneutics is: "what is the meaning of this text?" (Radnitzky: 1970). Taylor (1976) states that: "interpretation, in the sense relevant to hermeneutics, is an attempt to make clear, to make sense of an object of study. This object must, therefore, be a text, or a text-analogue, which in some way is confused, incomplete, cloudy and seemingly contradictory, in one way or another, unclear. The interpretation aims to bring to light an underlying coherence or sense." (p. 153)

When hermeneutics is used in information systems research, organisations will be seen as a text-analogue. In an organisation different people can have contradictory views on many issues. The aim of the hermeneutic analysis becomes one of trying to make sense of the whole, the relationship between people, the organisation, and information technology. Good examples of research articles in information systems which explicitly use hermeneutics are those by Boland (1991), Myers (1994).

Some researchers within the interpretive approach to information systems have proposed critical theory as an alternative for guiding researchers. The aim of critical theory is to reveal the underlying reality of phenomena. Critical researchers assume that social reality is historically constituted and that it is produced and reproduced by people. Although people can act to change the circumstances, their ability to do so is constrained by various forms of social, cultural and political factors. Critical research highlights the oppositions, conflicts and contradictions in the society and seeks to be emancipatory. One of the main exponents of critical theory is Jurgen Habermas. Habermas (1972) argued that "science has inscribed interests of technological domination that are covered by the appearance of being free from value judgement."[21] He proposed a framework to be the ground for a critical research methodology by outlining three main knowledge interests that

---

[21] Quoted in Silva (1997, p.45).

drive human inquiry: technical, practical, and emancipatory. Examples of a critical approach to qualitative research include Lyytinen and Klein (1985), Ngwenyama (1991), Hirschheim and Klein (1994) and Ngwenyama and Lee (1997).

In addition, information systems research has seen another trend. As described by Backhouse and Dhillon (2001), a shifting emphasis of researchers towards the social considerations in information system research led to importance being given to power and politics in organisations. Some prominent works include Karen (1991) on organisation change, Markus (1983) on the power and politics of information systems implementation, and Silva (1997), Backhouse and Silva (1999) on power and the institutionalisation of information systems.

Silva (1997) and Backhouse and Silva (1999) propose 'the Circuits of Power[22]' as a framework to consider how power is related to the process of institutionalisation in an organisation. In the circuits of power framework, "power is central in sustaining and providing stability to social systems" (1999, p. 7). The framework is proposed to help the researchers seek the answer of how information systems become institutionalised and how individuals in the organisation are constituted. It views that rules, procedures and any formal rules shape interpersonal relations and tasks circumscribing the actions of individuals in the organisations and can be explained through the three power circuits framework: episodic, social integration and systemic integration. This framework will be applied in this thesis. More details will be discussed later in this chapter.

As previously mentioned, the new direction of information systems research, in particular information systems security, has increasingly extended the focus to include the study of the agents and their actions. Those adopting this perspective include Dobson's (1991, 1998) ORDIT modelling concept, and semiotics, the theory of signs, applied by Backhouse and Dhillon (1995, 1996) and Dhillon

---

[22] Silva (1997) and Backhouse and Silva (1999) adopt the 'Circuits of Power' framework of Steward Clegg (1989).

(1995, 1997). Dobson developed the ORDIT model to provide a simplified view of the socio-technical system in an organisation. His main concern is to give explanations of the roles of agents, their activities, delegation of responsibilities, goals and policies. Three models, the responsibility model, the obligation model and the activity model, are used as a tool to analyse the problem in the system. The responsibility model is first set up to "analyse the high level policy or directional aspect of the organisation to investigate the responsibility and rights held by the agents". Then the obligation model is used to "examine roles and their associated obligation and capability". Finally, the activity model is applied "to examine the execution aspect of the enterprise" by looking at the agents, their activities and the resources they require" (Dobson: 1998, p.24). Dobson used speech act theory in applying his modelling concept. The model can be used in information systems security when specifying the security requirements in an organisation by examining the relevant responsibilities held by the agents involved and the obligations emerging from those responsibilities. Dobson's modelling concept is certainly a useful development in information systems security research; however, organisational, cultural and social environments that are the primary concern in this research are not extensively discussed in his work.

Additionally, semiotics is another approach used in understanding information systems security. Semiotics is primarily concerned with the meaning of signs and symbols in language. The word `sign` is used generally to include alphabetical and numerical characters, words, sentences, messages and all actions, which require some recognisable interpretation (Stamper: 1973). Semiotics was initially developed from linguistics and philosophy of language (Liebenau and Backhouse: 1990). According to Dhillon (1995, p.52), "semiotics can trace its roots back to the work of Saussure (1966) and Pierce (1958)". Prominent works in this area include Morris (1956) from a behaviour standpoint and Stamper (1973) in the business information systems domain. More recent works include Mingers (1995), Liebenau and Backhouse (1990), Backhouse and Dhillon (1995, 1996), Dhillon

(1995), Myers (1997), Liu and Dix (1997), Stamper, Liu, Hafkamp, and Ades (2000), Filipe and Liu (2000) and Liu, Sun and Dix (2001).

According to Myers (1997), the semiotics approach can be classified into three categories. One form of semiotics approach is 'content analysis'. Krippendorff (1980) defines content analysis as a research technique for making replicable and valid references from data to their contexts. The researcher searches for structures and patterned regularities in the text and makes inferences on the basis of these regularities. Intention and meaning are discoverable in the frequency with which words, phrases, idioms or ideas occur in a text and the meaning can be captured in a set of predefined content variable inherent in the word or idiom (Truex: 1996). Classes of meanings are assigned to a content variable[23] and it is the frequency counts of word or idiom meanings that are studied and analysed to look for patterns of the meanings (Krippendorff: 1980).

Another form of semiotics is 'conversation analysis'. In conversation analysis, it is assumed that the meanings are shaped in the context of the exchange (Wynn: 1979). The researcher immerses himself/herself in the situation to reveal the background of practices (Myers: 1997). In contrast to content analysis, conversation analysis does not assume the existence of fixed meanings in words and idioms. It presumes that meanings are embedded in layers of contexts, negotiated interpretations and in-depth knowledge. According to Truex (1996), conversation analysis is grounded on the assumptions of philosophical hermeneutics that meanings are understood through repetitive readings and interpretations of a text. Meanings are built up through continuing conversation in which actors have created layers of shared interpretations.

---

[23] A definition of a content variable is given by Krippendorff (1980) as " ....a variable that partitions a set of all recording units into mutually exclusive classes" (p.88).

A third form of semiotics is `discourse analysis`. Discourse analysis builds on both content analysis and conversation analysis. It retains the notion of a content variable based on Krippendorff's definition, specifically the idea that a content variable partitions the set of all recording units into mutually exclusive classes (Truex: 1996). However, discourse analysis differs from content analysis in that the content variables are not predetermined. They evolve during the interpretation and are adjusted during the analysis (Truex: 1996, Klein and Truex: 1996). In discourse analysis content variables are taken as a starting point and like conversation analysis multiple readings and analysis of the records allow the cross-checking of interpretations thorough iterative hermeneutic circles (Klein and Truex: 1996).

The approach that was applied in this research is content analysis. More details are discussed in section 3.8.

Mingers (1995) analysed the concept of meaning from a semiotic perspective is another contribution to this argument. Mingers identifies four main types of signifiers of information: events, signs and symbols and utterances. Each of these components contributes to the notion of meaning. By examining these components the researchers can establish links between the context, use behaviour, meaning, and value of information.

Liebenau and Backhouse (1990) propose another approach of semiotics. Its modern form has been applied in information systems security in the study of the relationship between signs and what they refer to by the agents. Communication is seen as an information system where the information has been sent from the sender to the receiver. "Communication takes place by the use of signs" (Liebenau and Backhouse: 1990, p.13). Signs are sent from the sender to the receiver and his intention needs to be interpreted. Signs that carry the message are seen as having no inherent meaning, but the meaning is only attached by the context and by norms (Dhillon: 1995). Norms exist in a community and will govern how

members behave, think, make judgements and perceive the world (Stamper, Liu, Hafkamp, and Ades: 2000). To apply semiotics to organisational analysis and information systems design, it is essential to unite both concepts of signs and norms. The successful interpretation of signs results in the success in information communication.

The approach that is used in this research follows the studies by Stamper (1973, 1991), Liebenau and Backhouse (1990), Backhouse (1991) and Dhillon (1995). This approach is based on an understanding of rules and social norms in which reality is seen as a consequence of human interactions which generate shared norms and experiences. Semiotics was chosen due to its advantage in which cultural and social elements can be analysed extensively through formal rules and informal norms. Information systems, in particular internal control systems, in an organisation are viewed as sign processing systems where human agents do the processing. The approach is concerned with the question of how these signs relate to communication. The focus is placed on the meaning and the use of information within an organisation. In this study, the internal control system can be considered as an information communication in organisations where formal and informal systems are taking part. To understand the relationship of these systems in different organisations we can analyse different levels in a semiotics approach. As mentioned earlier in Chapter 1, semiotics has not been applied to research on internal control systems, as such this very useful concept in interpreting the management of information systems security is used in conducting the argument of this research. More details will be discussed further in this chapter.

## 3.5 Research strategy

### 3.5.1 Research method

Given the nature of the research questions discussed in Chapter 1 and the fundamental assumptions presented in this chapter, this research has a strong justification for undertaking a qualitative approach and the strategy for doing this research is as an interpretive case study. The qualitative approach allows the

researcher to understand the nature and complexity of the organisational process and provides insight into the subject studied. As stated by Creswell (1998), "qualitative research is an inquiry process of understanding based on distinct methodological traditions of inquiry that explore a social or human problem. The researcher builds a complex, holistic picture, analyses words, reports detailed views of informants, and conducts the study in a natural setting (p.15)." This section discusses the alternative methods in qualitative research and examines the conditions where the case study is most appropriate as a research method for this study.

According to Creswell (1998), there are five traditional research methods extensively applied in qualitative study: biography, phenomenology, grounded theory, ethnography and case study. However, only are case study and phenomenology regarded as distinct research traditions within the qualitative research in information systems. Each approach is briefly explained in the following paragraph.

The focus of a biography is on the life of an individual whereas the focus of phenomenology is on a concept or phenomenon. In biographical study, the researcher will tell the story of a single individual who will be the only main focus for the study. This method originated from humanities studies (Creswell: 1998). For the phenomenological approach, the researcher will try to explore participants' perceptions to see how they experience, live and display the phenomenon. This emphasises the meaning of an individual's experience. This approach is rooted in the study of psychology and philosophy. In grounded theory, the purpose is to generate or discover a theory whereas the objective of ethnography is to describe the cultural themes of roles and behaviour in a cultural group or people (Creswell (1998). Ethnography methods are derived from cultural anthology. In studying organisations, ethnography may help researchers to extract cultural knowledge and identify actions that participants utilise in their every day life (Prasad: 1997). Their intention is "to see activities as social actions embedded within a socially

organised domain and accomplished in and through the day-to-day activities of participants. It is this which provides access to the everyday ways in which participants understand and conduct their working lives" (Hughes, King, Rodden and Hans: 1994, p.430). Ethnography is a good approach when the researcher needs to study the behaviours of a cultural-sharing group. However, the methods take a long period of time and very detailed observation evidence in conducting research (Yin: 1994). In contrast to ethnography, case studies can be conducted in a defined frame of time and do not necessary imply ethnographic techniques. Researchers conducting case studies may not necessarily have to visit the organisation under study. The researchers could collect data by secondary resources or interviewing over the phone or by mail (Silva: 1997).

The case study is a widely accepted research method in the field of information systems. It is advocated and applied by many scholars. As mentioned by Walsham (1995), the method applied in interpretive research is often through in-depth case studies. Yin (1994) defined case study as an empirical enquiry that focuses on a particular phenomenon and its relation with its real-life context. The advantage of case study is that data can be collected from different sources of evidence such as documents, interviews, archival records and observations (Yin: 1994). Similarly, Creswell (1998) defined a case study as "an exploration of a bounded system or a case (or multiple cases) over time through detailed, in depth data collection involving multiple sources of information rich in context (p. 61). He advised that a case study method should be chosen to study a case with clear boundaries and when the researcher had already had the material available to describe the setting for the case.

Additionally, Pettigrew (1990) added that case study method could provide the chance to examine the continuous processes in context and to draw on the importance of various interconnected levels of analysis. Other virtues of case study methods are that its focus is on contemporary events and contemporary phenomena within their real-life context. No experimental controls or

manipulation are concerned and no control of the subjects or events is needed (Yin: 1994, Benbesat, Goldstein and Mead: 1987). Accordingly, the researchers do not have to specify the range of independent and dependent variables beforehand. The results will depend on the integrative power of the researcher.

Although the case study is a distinctive method in information systems research, criticism has been levelled at the biased views of the researchers that may influence the direction of the findings and conclusions. To reply to such criticism, Yin (1994) argued that bias could also be found in all research strategies and research experiments even when the questionnaires are designed or historical researches are conducted. To overcome this criticism, it is suggested that the researcher should work thoughtfully to report all evidence reasonably. Data collection methods should be well planned to obtain a full set of data surrounding the research issue, as well as capturing and relating its contextual complexity.

The interest of this research is not on the study of an individual or on the examination of the meaning of experiences regarding a phenomenon, and also the focus of this study is not on the development of a theory or interpretation of cultural group, as such biography, phenomenology, and grounded theory are not the suitable method for this study. In addition, time scale of conducting an ethnographic study was judged as not feasible for this research as it may take excessive time to complete the research fieldwork. Therefore, the case study method has been chosen as the most applicable method in conducting this research.

*3.5.2 Unit of analysis*

This research was conducted in a global bank in two branches, one in the UK and one in Thailand. The researcher joined two internal audit teams in London and Thailand to audit these branches. The researcher was allowed to attend their meetings and to review the bank's documents including its policies and procedures. However, owing to the bank's plan, the researcher had to join London team and Thailand team to audit different departments. The branch in Thailand is

much smaller in size compared to the London branch, therefore the department that the London internal auditors audited in London did not exist in the Thailand branch.

A review of internal control systems applied in the bank was conducted in these branches. Semiotic analysis was performed in order to view how the formal and informal systems complement each other. Different branches in different cultural and social environments were researched to take account of the emphasis on the pragmatics and semantics level of research analysis, and also to allow this research to offer an opportunity for comparing and contrasting the findings from the study. More details will be described later in section 3.6.

As described in Chapter 1, the case study in a global bank was chosen because finance and banking are often characterised as the most globalised of all businesses. There are many rules and regulations applied in the banks worldwide. Additionally, as mentioned in Chapter 1, many major losses over the last decade were in global banks and have involved human errors rather than formal rules and technology. The collapse of Baring bank in 1995 and big losses from a large number of foreign exchange deals at the Allied Irish Bank (AIB) in February 2002 are two profound examples. Today risk is a primary concern of all banking institutions. The examples of Barings and AIB Banks showed that even long established banks could get into trouble despite seemingly adequate internal control systems and external regulations (Parker: 1998). What the Barings and AIB cases demonstrated was the danger of the gap between rules and procedures and reality. There are plenty of formal structures, guidelines and rules in place on paper, but in reality they are applied differently. Failing to understand this gap may lead to the breakdown of organisations.

A case study of a global bank in Thailand and the UK branches was conducted. The reasons to choose those two branches were due to the distinguished difference of cultures and social environments between the two countries, and the

researcher's background of working in both Thailand and the UK. In addition, the selection of a Thailand branch where the spoken language is the same as the researcher's also offers many advantages. The interpretation of actions and the reconstruction of the context are required from the researcher in order to have a clear understanding of the cultural settings. A rich understanding of national culture has offered a richer interpretation of action and organisational behaviours.

*3.5.3 Research plan*

The researcher spent almost two months at the bank in the London Branch in the internal audit department from the second week of January 2000 to the end of February 2000, and one month in the Thailand branch in March 2000. She joined the internal audit team in their meetings and also helped audit in some areas. The purpose of joining the audit team to do some internal audit work was to gain more understanding of the business areas where she would later interview the staff members and to gain some data from informal conversations with the internal auditors and staff members. This helped improve the researcher 's insight and understanding of the bank and its businesses. Additionally, it allowed the researcher to observe and interview the interviewees with the insight associated with their information.

However, some of the concerns were bias and the danger of researcher becoming too closely involved with the internal audit work. The researcher was aware of these limitations and increased more attention on her data collection plan and method. Multiple data collection methods were used to overcome these problems.

**3.6 Data Collection**

Multiple data collection methods can be applied in an interpretive case study. As suggested by Yin (1994), they include documentation, interviews, archival records, physical artefacts, direct observation and participant observation. Interview technique seems to be the most widely used in case research (Benbesat: 1984, Walsham: 1995). Interviews are the essential source of data for interpretive

case studies since the researchers can obtain the best access to interpretations that interviewees have provided for their actions and the events surrounding them (Walsham: 1995). Important perceptions regarding situations can be reported and interpreted by the participants through this process.

Primary data relevant to this research was gathered through open-ended interviews rather than focused or structured interviews. Open-ended interviews allow the interviewees more freedom to express their opinions about the events and the facts surrounding the situations. The interviewees can use their understanding and knowledge to answer the research questions in their own words. Answers from the interviewees can also generate further inquiry that may give the research more insight and knowledge.

However, researchers should not depend on the interview technique as the only source of evidence. Multiple sources are considered necessary for conducting case study research. Results derived from different sources are considered more reliable than those from a single one, thus any finding or conclusion from a case study are likely to be much more convincing than the others are (Yin: 1994). Denzin (1978) suggested four basic types of triangulation in conducting case studies: 1) data triangulation, the use of a variety of data sources; 2) investigator triangulation, the use of several different researchers or evaluators; 3) theory triangulation, the use of multiple perspectives to interpret a single set of data; and 4) methodological triangulation, the use of multiple methods to study a single problem.

A pilot case study in three organisations was conducted. This was carried out to assist the researcher to refine her data collection plans and research strategies. The results confirm that this research required different sources of evidence including interviews, documents, archival records and direct participation. The summary of the pilot study will be further discussed in this chapter.

The data collected from this research was from interviews, audit reports, meeting minutes, memorandum, e-mail messages, bank documents, guidelines, policies and procedures, informal conversations with internal auditors and staff members in business and front office departments, also from direct observations. It is worthwhile to mention here that the researcher 's presence as part of the internal audit team might have affected the interviewees whilst the researcher was conducting her interviews. The interviewees might not want to share their information with the internal auditor. However, after staff members who were interviewed were confirmed that the researcher was doing her research as a participant observer, not an auditor, and their interviews would be kept confidential and not be shared with the internal audit team, this proved to make the interviewees more relaxed during the interviews. This confirmation from the researcher was very important as it created more understanding and co-operation from the interviewees.

The primary data source was open-ended interviews. The interviewees were allowed to express any view of the phenomena under study. The researcher conducted 25 interviews with an average duration of one hour. The interviewees were internal auditors and staff members in front and back offices of a global bank in two branches, one in London and one in Thailand. The internal audit team in London consisted wholly of 5 British auditors, and in Thailand the group encompassed 6 Singaporean auditors and 2 Thai auditors. Staff members included 5 British managers in a business division in London, and 6 Thai and 1 British employees in both the back and front offices in Thailand.

The interview questions were designed and guided by theoretical frameworks that will be mentioned in the next section, and by the research objectives described in Chapter 1. The focus is placed on the questions of how internal control systems as bodies of control norms, are interpreted by the interviewees through formal and informal means, and whether they are interpreted differently by different people in different parts of the organisation. The aim of the questions is to provide an in-

depth analysis of the interaction between formal rules and informal norms within the organisation.

The guidelines for the interview questions were prepared for general open-ended interviews. These questions were subject to change or adjustment depending on the situation in each interview (see Appendix C for details). At the beginning of the interviews the researcher asked the interviewees for their permission to tape record the interviews and assured them that the tapes would not be available for other people to access. The tapes were fully transcribed and translated[24] to allow the researcher to engage in dialogue with the full interview data. The use of a tape recorder has proved to provide some advantages. First, it enabled the researcher to be able to concentrate on the interview process and capture some rich evidence from the interviewees through their actions, body language and intonation. If the researcher would have to take notes, it might prevent her from getting important data. Second, the researcher could use the transcription together with other documents when analysing her data by the ATLAS programme (more detail of ATLAS will be presented in section 3.7).

Nevertheless, tape recording interview has its disadvantages. First, the interviewees may not feel free to say all they want compared with a non tape-recording interview. Second, the tape recording interview takes more time and effort for the researcher to transcribe and translate data from tape into the form required for interpretation and analysis. However, after considering both the advantages and disadvantages, the researcher believes that the tape recording interview would give more advantages than disadvantages.

Along with the interviews data, other sources of data such as bank documents, audit reports, bank rules and regulations were also collected as data triangulation to prevent the possibility of interviewees' biased views. Additionally, each

---

[24] Interviews in Thailand with Thai internal auditors and Thai staff members at Bangkok branch are in the Thai language.

interviewee was asked to spend 5 minutes to fill in the questionnaire. Data from the questionnaires were used merely to gain a background of the interviewees (see more details in Appendix B and D).

## 3.7 Theoretical framework

This section discusses semiotics as the underlying philosophy and mode of analysis used in this study. Additionally, Backhouse and Silva's (1999) circuit of power framework is explained as another theory that will be employed when the pragmatics mode is analysed. In the pragmatic analysis the concern is to understand the organisational norms and the compliance of human actions with the formal rules. The circuit of power is used to help the researcher answer the question of how formal rules and informal norms become institutionalised.

### 3.7.1 Semiotics

Semiotics is traditionally divided into three modes: syntactics, semantics and pragmatics. Syntactics analyses the relationship among signs without regard to the relationships between the signs and the objects that they are presumed to represent or any regard for the users and what they intend to do with the signs. In other words, it is only concerned with the formal representation and relationships of signs and the operations and processes to which they may be subjected (Stamper 1973, 1996, Barron, Chiang and Storey: 1999).

On the other hand, semantics is the study of meaning. It deals with the relationship among signs and the objects to which they are applicable. Semantics deals with the relationships between signs and things in the real world; how signs relate to reality and how they represent, designate and signify things. In other word, we must know what the sign refers to in order to understand its meanings (Stamper: 1973, 1996; Liebenau and Backhouse: 1990; Barron, Chiang and Storey: 1999). For example, in the UK when we see the sign "P", we know that it represents a car park building.

As for pragmatics, it is concerned with relationships between signs and behaviour of the responsible agents, i.e. users of an information system in a particular context of activity (Stamper: 1996). The context is essential for understanding the signs in the pragmatic domain. "It considers the characteristics of people, organisations and acts of communication that affect information. It considers how people use shared assumptions and common knowledge, how ambiguities arise and how they are dealt with" (Liebenau and Backhouse: 1990, p.20). It is believed that the beliefs, expectations, commitments, intentions and communication patterns of people constitute the pragmatic structures (Liebenau and Backhouse: 1990).

Furthermore, there are two other additional modes, empirics and physical world specified by Liebenau and Backhouse (1990). Empirics is concerned with establishing a means of communication and information handling. It specifies the appropriate formal mode for the systems. Physical world is concerned with the physical devices of the systems.

As mentioned earlier in this chapter, semiotics that is used in this research follows the studies by Stamper (1973, 1991), Liebenau and Backhouse (1990), Backhouse (1991) and Dhillon (1995). The concept of semiotics suggests that signs are sent from the sender to the receiver and the sender's intention needs to be interpreted. In this study, internal control systems are viewed as a sign from the head office to the branches where the interpretation of management's intention then takes place. This approach is based on an understanding of rules and social norms in which reality is seen as a consequence of human interactions which generate shared norms and experiences. Information systems, in particular internal control systems are viewed as sign processing systems where human agents do the processing.

The approach is concerned with the question of how these signs relate to communication and how they are interpreted by the receiver through formal and informal means. In this case, how internal control systems from management may be interpreted differently by different people in different parts of the organisation.

In this research, the focus was placed on the meaning and the use of information within an organisation. The internal control system can be considered as an information communication in organisations where formal and informal systems exist. To understand the relationship of these systems in different organisations different levels can be analysed in a semiotics approach.

This research aims to explore in depth the interplay and interdependence between the formal and informal systems of internal control in the organisation. The core research objective is to investigate the nature of the relationship between these two systems in organisations in different social and cultural environments. Particular emphasis is placed on revealing the role of the informal norms, particularly when applying them to interpretation of rules and information. Informal norms are viewed as always coming into play when formal rules are being interpreted. This study argues that to understand the complement of these two systems, we need to understand the pragmatics and semantics aspects of an organisation.

The analysis is classified into four levels as presented below:

| | Analytical Level | Description |
|---|---|---|
| 1 | Business world | *Organisational commitment and obligation:* shared patterns of behaviour; aim of the business: -objective of the internal control system, security policy, etc. |
| 2 | Pragmatics | *Assumptions, expectations and beliefs of agents involved:* Culture; intentions; organisational norms and practices |
| 3 | Semantics | *Meaning, knowledge and interpretation by the agents:* Meaning of human actions and behaviours |
| 4 | Formal systems<br><br>• Syntactics<br><br><br><br>• Empirics<br><br><br><br><br><br>• Physical world | *Formalisms, tools for the construction of formal rules:* Integrity and availability of formal rules and procedures: -Internal control policy in an organisation, etc.<br><br>*Signals, codes and physical characteristics of the medium of communication:* Coding; signalling; the behaviour of control systems and the choice of communication channel<br><br>*Physical devices:* Guidelines, laws, written policy, standard, etc. in paper form |

Table 3.1: Semiotic analysis, adapted from Liebenau and Backhouse (1990, p.6) and Dhillon (1997, p.38)

The research analysis is divided into two parts using the four levels of the framework presented in table 3.2 above. The level 4, which mainly concerns the functional analysis and technical part of the system, is considered. This level can be regarded as a formal part of the internal control systems. Guidelines, standards,

rules and procedure are studied to determine the legislation and formal procedural controls applied in the organisations. Formal relationships between rules/regulations and the behaviour of people are investigated. In particular, the focus is on the integrity and availability of the internal control policy. However, more emphasis is placed on the second part of the analysis in which the first three levels of the framework (1,2 and 3) are discussed. These levels provide a better understanding of business practices in which informal system plays an important role.

The analysis starts with the consideration of the aim of the internal control policy, the mission and the purpose of the control. Then the pragmatic level of the organisation is analysed. The pragmatic analysis is used to describe the context of activities and characteristics of people. Its concern is to understand the organisational norms and the compliance of human actions with the formal control system. People in different cultures are believed to have different notions of reality (Hofstede: 1991). Therefore, to interpret the context of their communication, the assumptions, norms, and beliefs of people have to be taken into consideration. In the semantics level the concern is with the meaning and knowledge of communication. It is concerned with the interpretation of signs which are involved in the meaning and content. At this level the interpretation of internal control systems and information that people make and their actions and behaviour is important in evaluating the meaning content of the control system.

In brief, there are two parts of the analysis in which the first part is concerned with the formal system of the communication. Internal control policy, rules and regulations are considered part of the communication system. On the other hand, the second part highlights the intention of the agents involved and the meaning of the content of the communication interpreted by the agents in the process of communication. The emphasis in the second part is placed on revealing the role of the informal norms, particularly when applying it to the interpretation of formal rules and regulations focused on the first analysis. Informal norms are viewed as

always coming into play when formal rules are being interpreted. Understanding as much as possible on both systems will be beneficial to the analysis and design of information systems security, in particular the internal control systems in organisations.

## 3.7.2 The circuits of power

As described in the previous section, in the pragmatic analysis the concern is to understand the organisational norms and the compliance of human actions with the formal rules. Assumptions, expectations and beliefs of agents involved will be analysed. The circuits of power by Silva (1997) and Backhouse and Silva (1999) are applied when the pragmatic analysis is investigated in this research. The framework is used to help the researcher answer the question of how formal rules and informal norms become institutionalised and how individuals in the organisation are constituted.

Backhouse and Silva propose the circuits of power framework to study the relationship of power and the institutionalisation of information systems. They adopted the circuits of power framework introduced by Clegg (1989) and the concept of institutionalisation by Berger and Luckman (1967). Clegg (1989) introduced the circuits of framework in his book "Frameworks of Power". He suggests that to achieve outcomes of power, agents have to make alliances, control resources and translate the rules that govern meaning and membership in the organisations. He believes that organisation in itself is an achievement of power, therefore, the study of power should emphasis on understanding how agencies organise to achieve their outcomes and on explaining how organisations become steady or unsteady (Clegg: 1989 and Silva: 1997).

Berger and Luckman (1967) view that the institutionalisation of a segment of a social life is the typification of reciprocal habitualised actions (p. 72.) and it has

three characteristics: 1) institutions are the results of human actions, 2) institutions are external to individuals, and 3) institutions are objectified.[25]

As described by Silva (1997), in the circuits framework, power is central in sustaining and providing stability to social systems. There are three circuits of power described as: episodic, social integration and systemic integration. "Each circuit is defined by a different type of power: causal in the *episodic circuit*, dispositional for *social integration* and facilitative for *systemic* integration. The power that circulates in the episodic circuit is called `power over` or causal power`. The circuit of social integration focuses on dispositional power and its main elements are the rules that govern meaning and membership in organisations. The circuit of systemic integration considers power as facilitative. It is concerned with its ability to produce and achieve collective goals. Power circulates in each circuit through different media actions, rules of meaning and membership and techniques of production and discipline" (Backhouse and Silva: 1999, p.7). The metaphor of circuits is used to highlight the relational nature of power. However, Backhouse and Silva stated that "nothing actually circulates or moves- this is merely a ready-to-hand metaphor" (p.8). What happens is that rules, procedures and any formal rules shape interpersonal relations and tasks circumscribing the scope for action of the individuals in organisations.

Backhouse and Silva explain the circuits of power as shown in figure 3.3. In the episodic circuit, A exercises power over B when A makes B do something, otherwise B would not do it. The key for studying the circuit of episodic power in the institutionalisation of information systems is to distinguish A from B. Silva (1997) suggests that attention should be paid where there is resistance to the adoption of an information systems in organisations as the causal power makes itself evident whenever there is conflict.

---

[25] For a more detailed example of the concept of institution, please see Berger and Luckman (1967) and Backhouse and Silva (1999).

While episodic power deals with causal power, the circuit of social integration deals with dispositional power. Dispositional power is described as a set of capacities that enables someone to exercise power that can cause something to happen. In the power relationship of A and B, the dispositional power of A is supported by regulatory and symbolic devices such as authority. Social integration is linked to the circuit of episodic power as the rules of meaning and membership are what determine the standing conditions of the agents engaged in the power relations (Backhouse and Silva: 1999, p. 11).

The systemic integration circuit considers power as facilitative. In figure 3.3 A's power is facilitative because it is A who decides the goals that are to be achieved by B's actions. In other words, it is A's facilitative power that keeps organisational members working together. The circuit focuses on the mechanisms and techniques of discipline drawn on by A to ensure B's compliance. This co-ordination in working practices is what Backhouse and Silva call 'systemic integration' (p. 13). The advantage of emphasis on the facilitative aspect of power is that it will help researchers increase their understanding of power beyond mere conflict.
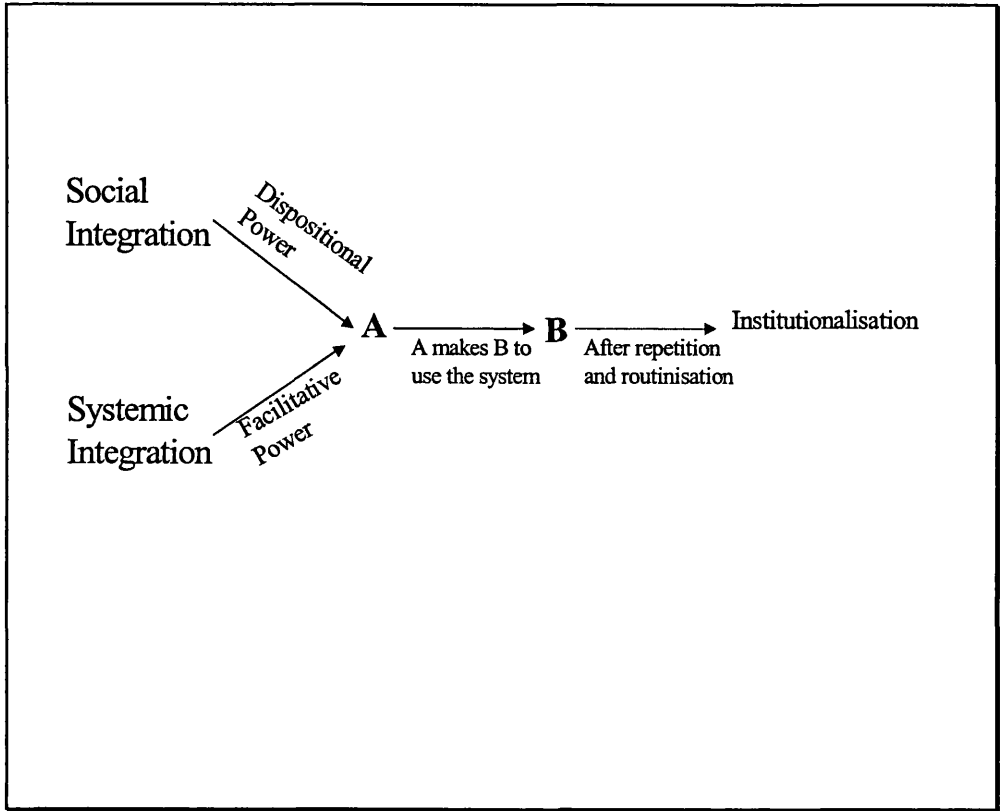
**Figure 3.2:** The circuits of power and its outcome: Institutionalisation (Backhouse and Silva: 1999, p. 10

The analysis of circuits of power in this thesis is classified into three circuits as presented below.

| Circuit | Data | Research issues |
|---|---|---|
| **Episodic** | - Identify power relations<br>- The goals of each actor regarding the information systems i.e. internal control systems, global policies | - Who are the actors in power relationship in internal control systems?<br>- What are their roles?<br>- What are their project's objectives? |
| **Social integration** | - The meanings assigned to the systems by organisational members<br>- How the systems affected the division of work (rules of membership) | - What is the general attitude toward the information systems i.e. internal control systems, global policies?<br>- What are the discourses that legitimate these information systems? |
| **Systemic integration** | - Architecture of the systems<br>- Techniques of discipline that facilitate the institutionalisation of the information systems<br>- Mechanism of control embedded in the systems | - How does the architecture of the systems reflect the technique of discipline?<br>- What are the mechanisms of control adopted to ensure compliance of these control systems?<br>- The effect of the control system on work practices |

**Table 3.2:** The circuits framework and its relation with data, adapted from Backhouse and Silva (1999), p. 18

The 'circuits of power' framework is applied in this study when roles and responsibilities of staff members are discussed and when the organisational norms and the compliance of agents are reviewed. The framework will be presented in more detail in Chapter 6 when the pragmatic analysis is discussed.

## 3.8 Analytical technique

As mentioned in section 3.3, the researcher applied content analysis as an analytical technique in this study. The content analysis was chosen based on the researcher's assumption that patterns of meanings are traceable and can be assigned to a set of content variables for further analysis. Intention and meanings can be discovered in the frequency with which words, phrases, idioms or ideas occur in a text. Meanings are inherent in these words or idioms. Structures and patterned regularities are searched in the text and the inferences are made on the basis of these regularities. ATLAS.ti is the programme that the researcher used to categorise different classed of meanings from the data. More details of ATLAS.ti are discussed in the following paragraph.

*ATLAS.ti*

ATLAS.ti is the qualitative data analysis programme that the researcher used in categorising data from the interviews and the secondary data including the bank's internal audit reports, memo, and key operating policies and procedures. ATLAS.ti is introduced as a programme for the qualitative analysis of large bodies of texts; a significant tool to help the researcher analyse this large amount of unstructured, mainly textual data.

ATLAS.ti was developed in the framework of the interdisciplinary research project ATLAS (1989-1992) at Technical University of Berlin. The project was initiated by the department of psychology. The project leader was Prof. Dr. Heiner Legewie. Starting in 1993 the prototype was further developed to its first commercial release by Thomas Muhr which is now being used all over the world by many major institutions and individuals engaged in qualitative research.

Beginning in 1994, ATLAS.ti for Windows was created based on the ideas of its predecessor but also incorporating a large variety of new concepts, functions and improvements.[26]

ATLAS.ti was chosen to be used in this study because there were large bodies of texts from interview transcripts and the bank's documents to be analysed. As previously mentioned, a total of 25 staff members in the bank[27] were interviewed. The interviewees were each asked between 15-30 questions. Each interview took, on average, one hour. The total numbers of documents (including the bank's documents and transcripts from interviews) that were categorised and analysed were more than 270 pages (223 pages from interviews). Owing to the large amount of documents, if the programme was not used, the researcher would have taken a much longer time to categorise the research data.

To begin the programme, data was input into the system readily by transferring from word documents. Main and sub categories had to be selected and added into the system. However, they could be altered, added to or deleted at any time. Four level of semiotics as presented in table 3.2 are the main categories. All data from the interviews and banks documents were input into the system and subsequently each sentence or paragraph would be highlighted and grouped into prior designed main and sub categories. In addition, the programme allowed the researcher to construct concepts and comments so that she could revert back to the notes or primary document selection at any time. This process also helped the researcher to be able to go back and check the link and connection of data from different interviewees or bank documents. The programme proved to be a useful tool in text analysis, particularly selecting, coding, and comparing different information categories among different data from different interviewees. It allows the researcher to connect selected passages, memos and codes through the system.

---

[26] More detail can be found at www.atlasti.de.

[27] More details about background of the bank will be discussed in Chapter 4.

However, it should be noted that ATLAS.ti is only a tool to help researchers categorise data, the content variables. However, the interpretation and understanding of the text had to be formed by the researcher through continually reading and re-examining the materials. Continuing engagement in dialogue with the materials was pursued in order to re-examine and revise emergent arguments and assumptions from the text.

## 3.9 Summary of the research design

In summary, this interpretive case study was conducted by applying the open-ended interview method for data collection together with documentation, observation and archival records. Semiotics and circuits of power were used as a research framework for data analysis. A global bank located in two different branches in different cultural and social environments was chosen as a case study. Table 3.4 summarises the research design of this study.

| Level of decision | Choice |
|---|---|
| Philosophical Assumptions | Interpretive |
| Research Strategy | case study |
| Research Techniques | Open- ended interview, documentation, Archival records, observation |
| Unit of analysis | Two branches of a global bank (UK and Thailand) |
| Analytical technique | Content analysis |
| Theoretical framework | Semiotics and the Circuits of Power |

**Table 3.3**: Summary of research design

## 3.10 Pilot study

A pilot study of the credit department in three hotels of the same management company was conducted. The reason that the credit department was chosen because of its obvious potential for interpreting rules and information in the assessment of credit risk. Convenience and access opportunity were also the other main criteria for selecting these organisations.

The three organisations will be called "HydePark", "Legend", and "Siam"[28]. HydePark and Legend are located in London, and Siam is located in Thailand. HydePark was taken over by a hotel group seven years ago, having belonged to a large diversified company for more than 20 years. Many employees had been working in HydePark before the acquisition. A working impression was obtained from HydePark that their staff criticised the organisation for being a closed family. Legend was acquired five years ago by the same group. It was previously managed by a well-known international hotel chain. As a result, many core rules and regulations have remained unchanged from the previous management. All routine work in HydePark and Legend is overseen by local management in London. However, once a month the managing director of the company makes a trip from Thailand to London to inspect HydePark and Legend. Siam is the base or head office of the group. Siam is run by the General Manager, but under very close supervision from the owner, the Managing Director, whose base is in Siam.

A pilot study of interviews with credit managers and one member of staff in HydePark and Legend and with the financial controller and two credit staff in Siam was performed. The interviews began with the researcher explaining the purpose and the objectives of the interview. They were also informed that this interview would not affect them or their jobs since all answers and the organisations' names would be treated anonymously. The credit policy introduced by the head office was used as a guideline for the researcher during the interviews (Appendix A). The open-ended interview was scheduled as presented below. As

---

[28] Not the real name of these hotels

recommended by Breakwell (1995), " a good interview schedule has a rhythm to it, which takes the responder through what appears to be a set of issues which are sensibly related".

*Interview Schedule: Semi-Structured Interview*

| Type of questions | Purpose of questions |
| --- | --- |
| Open-ended questions about demographic details of staff and their backgrounds | Familiarise the interviewees with the researcher and vice versa |
| Open-ended questions about the operating systems in credit department | Familiarise the staff with open-ended questions |
| Open-ended question about the credit policy from the head office | Prepare the interviewees for the topic of internal control systems in their departments |
| Open-ended questions: staff are asked to discuss their interpretations of each control and their actual practices | Review the application and interpretation of formal rules as well as informal norms that are applied in practice |
| Open-ended questions: staff are encouraged to criticise the control systems and give any further comments | Consider any facts that relate to formality and informality in these control systems |

It was found that the respondents felt more relaxed when in the first instance they were asked questions that did not relate to their responsibilities in the credit department. For example, the opening questions began with the working environment in their departments, their colleagues, their backgrounds and so on.

The next question then led them to describe the credit policies prevailing in their offices. Credit policy from head office was used as a guideline for the discussion of internal control systems. This policy is provided to HydePark, Legend and Siam hotels as a guideline for their operations. The results showed that, besides the guideline policy, more standard formal rules and policies could be discovered in Legend than HydePark and Siam. Siam seemed to have the smallest amount of formal rules. Only in Legend was the credit policy presented in written form and kept in the department for further reference. The credit manager in HydePark confirmed that there was a guideline used in her department, but it had not been referred to for a long time since most of the staff in her department including herself had been working in HydePark for more than 19 years. Experience was considered as more important than the rules. No formal written rules were discovered in Siam, but the operation was controlled very closely by the financial controller and the managing director.

Remarkably, it was found that the interviewees were reluctant to discuss their actual practices and to criticise the policy from the head office. They were not quite sure if there would be any effect if they answered negatively. However, after the researcher reaffirmed that their answers would remain confidential, they answered more freely.

In relation to the formal system where rules are used to govern activities and informal system where norms are applied in practice, it was clear that the organisations HydePark and Siam applied the informal system rather than the formal one. To cite some examples, one member of staff in HydePark argued that the requirement of performing credit checks on every customer would not be

possible. In practice a credit check will be performed on confirmation of booking only, "otherwise, the credit department would be in a situation whereby they had too much paper flying around". "For the room sales, the approval will come from the general manager directly, instead of from the credit department. It is a normal practice in HydePark for a long time". In addition, one staff member in Siam commented that if they requested that their customers should pay deposits as recommended by head office, no business would come to the hotel because of the high level of competition in Thailand. He also commented that the guidelines from the head office could not apply in Siam. On the other hand, the interviewees from Legend confirmed that all the rules were followed as directed by the credit policy.

With respect to the interpretation of existing controls in the credit departments of HydePark, Legend and Siam, it was found that some controls were interpreted differently by different people amongst these hotels. For instance, according to credit guideline C (see Appendix A), to consider whether customers should pay deposits or not depends on the credit manager's decision. The credit manager in HydePark considered the repeat and long-term customers as good business who might be exempt from deposit payments. In Legend, the credit manager determined good business by using a credit score from a credit agency. According to the Siam Hotel, good business means a well-known organisation.

Because of the interviewees' concern regarding any negative answers and the sensitivity of the research questions on security and control systems, interviews alone cannot guarantee the results of the study. Other techniques, including observation, participation and reviewing related documents such as memo, internal audit report and monthly long outstanding accounts report, had to be used to confirm the answers from the respondents. A summary from the pilot study using open-ended interviews and other techniques is presented below.

The discussion will be categorised into four activities related to activities in credit department:     Credit worthiness

Establishing responsibility

Credit approval

Receiving deposit and settlement

*Credit worthiness*

HydePark: as mentioned previously, the experience of the staff particularly the manager is considered an advantage for HydePark. The results from document review and observation showed that the credit department in HydePark had more experience in credit checks and had more skill in chasing the outstanding accounts receivable. However, the prevailing organisational norm in which some authorisations were made by the general manager, not the credit manager, might lead to a problem of delegated responsibility, as happened in one case when the customer had a dispute over one payment and the hotel had to give the benefit of the doubt to the customer and wrote off some revenues. The credit manager commented that this incident was not her responsibility since credit was not assessed by her department.

Legend: it was confirmed by the credit manager that the rules and policy were followed. From the observation it seemed that staff were accustomed to the formal system. For instance, the credit check using an independent credit agency had to be performed before approving any credit for new customers and in practice this had been done. However, some problems from the observation and documentation were found on several occasions when the credit had not been checked and the outstanding accounts had not been paid and followed up. It was explained that the credit was not checked because the business occurred during the weekend and no credit department staff were working at that time. In addition, it was found that staff turnover in the credit department, especially the position of manager, was high. The present manager has been in the position less than two years, compared with the manager in HydePark who has been in her position for twenty-six years.

Siam: it was asserted by interviewees that not all formal rules could be applied in organisation Siam. In some incidents credit approval would come directly from the general manager and also the owner. Likewise, required prepaid deposits from customers would be impractical for the hotel business in Thailand, owing to very strong competition and over-supply in the hotel industry.

*Establishing responsibility (Documenting)*

HydePark: the manager in HydePark argued that all responsibilities could be traced back to the persons who were in charge for each activity since most of the staff had been in the hotel for many years. These staff members know the role of each and every colleague thoroughly. For instance, HydePark uses a credit register system to check the customer's credit and put the results from the credit check into the computer for future reference. The manager believes that it is not necessary to ask clients to complete a credit application form. Written details on company headed notepaper are sufficient for a credit check by the register system. As a result, the formal application form with authorised signatures would be considered unnecessary. Surprisingly, no major problems in establishing responsibility had been found in the department.

Legend: all supporting documents are required by rules and policies in Legend. Staff seemed to abide by the rules set by the firm. Nonetheless, there were several occasions when the required documents were lost from the credit files, for example, sometimes in Legend when money was returned to a credit card company because the customers who were the cardholders refused to pay their expenses. Legend would have claimed the money back from the credit card company if they had sent the supporting documents to the credit card company as their back-up documents.

Siam: even though some credits were not initially authorised by the credit manager, documents had to be prepared and signed as showing the evidence of

approval and responsibility in each activity. Siam appears to have a preference for having hard evidence for responsibilities.

*Credit approval*

HydePark: the credit manager has gained much experience in her career over the years. When assessing credit she uses this experience. For a new customer the manager will also use the credit score system to make certain before approving the credit. However, as mentioned previously, on some occasions the credit appraisal was approved by the general manager directly.

Legend: the credit manager confirmed that where the applicant was an established customer, the credit manager would approve the credit by referring to the history of the account. If not possible, she would use an outside credit agency to assess the credit. All accounts are approved by the credit manager except on the very few occasions that they are approved by the general manager. Nevertheless, it was claimed by the interviewee that some cases were not approved by the credit manager because of omissions by the previous manager.

Siam: due to the strong competition in the business sector, in many circumstances credit had to be provided unless the guests were very dubious. Unexpectedly, loss from doubtful accounts was not excessive when compared with the other two organisations. The financial controller commented that this was due to serious attention given to this matter by himself, the credit manager and the owner.

*Getting deposit and receiving settlement*

HydePark: the interviewees mentioned that in some situations it was rare for group sales to contact them concerning credit. Most often sales staff would deal directly with the general manager. Consequently, there were few slow payers and bad debts. Since the credit staff did not have to review credit for those accounts, no complaint could be made toward the credit department.

Legend: the interviewees confirmed that deposits had to be paid beforehand and that they would try all means to get outstanding balances from the customers.

Assistance from other departments such as banqueting was sometimes requested to chase doubtful accounts. There were very few occasions when the deposit was exempted and this had to be approved by the general manager. Nonetheless, the evidence received from reviewing credit reports for the last three years showed that there were some bad debts and long outstanding accounts resulting from losing back-up documents and inappropriate credit authorisation.

Siam: the answers from the interviewees with respect to the money received from deposit and settlement implied that the focus in Siam was on the areas that deal with cash. One member of staff remarked that it would be a serious problem for the department's performance if there were many long outstanding debts and bad debts since the report showing those balances would be reviewed by the owner closely every month.

*Lessons learned from the pilot study for the case research*
The experience from the pilot study showed that interview technique alone is insufficient when applied to case studies on internal control issues. The interviewees might not fully co-operate when answering the questions concerning their activities and performances. As a result, besides open-ended interviews other sources of evidence including documents, archival records and direct observation should be used in the case study.

The researcher is convinced that the open-ended interview should be used as a major technique when conducting the case study. This is because it allows the interviewees more freedom to answer the questions without limitation. In addition, the researcher is able to ask the interviewees' opinions concerning certain situations, and the responses from the interviewees can also generate further inquiry.

In order to familiarise the interviewees with the researcher and with research questions, the informal inquiry of the backgrounds of interviewees and the

organisations should be made as a starting point before the interviews. Then the questions concerning internal control policy in their departments can be discussed. The questions with respect to the interpretation of their internal control systems should be compared with their actual practices. Alternative techniques should be applied to confirm the answers from the participants. Finally, the interviewees should be encouraged to express their honest opinions on the internal control systems and provide any further comments.

Regarding the results from the pilot study, it can be seen that there is a variance between formal rules and informal norms in the organisations in different cultural and social environments. HydePark, in which fewer written rules are applied in the credit department, appears to have control of risk in respect to credit worthiness and approval. The experience of staff, particularly the manager, is considered a more significant advantage. On the other hand, Legend, with more formal rules applied within the department, experiences more risk in establishing responsibility and receiving settlements. The high turnover and inexperience of staff in the department helped to explain this problem. Siam which is the base or head office of these organisations seemed to have the fewest standard formal rules and applied a more informal system in practice. The focus of the internal control system in Siam is on the area concerned with the wealth of the company (such as receiving settlement) rather than other areas. This may be due to the local style of management.

The experience from the pilot study also showed that when formality and informality are studied in internal control systems in distinct organisations in different environments, the ways in which employees are controlled by either formal or informal systems in their behaviours and activities were divergent. Though, on a primary level, formal systems seemed to control the majority of activities in organisations. On closer inspection one may find that it is the informal system which plays the important role. Different organisations may have different

fits between these two systems. The interpretive case study in this thesis, therefore, aims to investigate the relationship of these systems.

## 3.11 Summary

In this chapter, the methodology of the research concerning how this research is formulated has been reviewed. It began by presenting a fundamental and theoretical assumption underlying the study, followed by the illustration of how the methodology has been developed. The research was discussed as influenced by the subjective paradigm and interpretive approach. Semiotics and circuits of power were introduced in this chapter and would be used as a framework for research analysis in this thesis.

The research design has been summarised. Five traditional research methods were discussed. The case study applying the open-ended interview for data collection together with documentation and observation was explained as a suitable method for applying in this research.

Finally, the pilot study was included in this chapter to present the lessons learnt from it in helping the researcher in refining a data collection plan and research strategy. The results from the pilot study suggested that interview technique alone is insufficient when applied to case study on internal control issues in this thesis. The interviewees might not fully co-operate when answering the questions concerning their activities and performances. As a result, other sources of evidence including documents, archival records and direct observation would be used in this case study. In addition, the results from the pilot study confirmed that there was a variance between rule (formal system) and practice (informal norms) in organisations in different cultural and social environments. The results from the pilot study also showed that when formality and informality were studied in internal control systems in distinct organisations, the ways in which employees are controlled by either formal rules or informal norms in their behaviours and activities were divergent. Formal systems seemed to control the majority of activities in organisations, but on

closer inspection one may find that it is the informal norms which plays the important role.

# 4

# Background of the Study

## 4.1 Introduction

In order to gain an understanding of the wider context of an organisation, it is essential for the researcher to evaluate the environment and background of the bank. The organisational processes, structures, information technology, social and cultural environments, all play a significant role in determining the organisational events and actions. In this chapter ABC Bank[29] will be introduced with a brief history and an overview of the business and structure, followed by the internal control of the bank and the flow of formal rules and regulations.

## 4.2 The Study of the Organisation

### 4.2.1 A Brief History of ABC Bank

ABC Bank was founded in 1870 in one of Europe's largest financial centres. The main purpose was to transact banking business of all kind, in particular the promotion and facilitation of trade relations between the country of operation, other European countries and over into overseas markets. In 1873 ABC opened its most important foreign branch in London until its closure at the outbreak of the First World War in 1914. The bank was then reassembled in 1957. In 1959 ABC became involved in retail banking with the introduction of small personal loans. By the 1970s ABC began to take shape as a global group with the opening of a London branch, shortly followed by Paris and then Tokyo. In 1978/79, ABC acquired a major banking firm in New York, then it was considered the world financial centre and central to the banking business. In the ensuing years the

---

[29] Pseudonym for an important European-based bank, with global reach upon which much of this research is based, which preferred to stay anonymous in order to protect itself and its clients.

opening of many more branches followed across the world, including Brussels, Hong Kong, Milan and Madrid. In the 1980s the bank expanded more substantially into the Asia-Pacific region. With this expansion and with the acquisition of numerous banks and financial institutions in the last 10 years, there has been an important increase in the number of ABC employees, with 98,000 employees working in over 70 countries, serving the needs of over 12 million customers.

### 4.2.2 Business Overview

In terms of assets, ABC became one of Europe's largest banks after its acquisition of a US-based bank in 1999. At present there are over 2,300 branches worldwide. Its business covers all aspects of financial services, including global investment banking, global equities and markets and risk management. The aim of the bank is to be the best financial services provider in the world. As stated by one of the bank's senior executives:

> "We want to make maximum use of our unique breadth of experience, capability and financial strength to create value for our customers, shareholders, employees and for society as a whole".

As a multi-specialist bank, ABC offers a broad range of modern banking services to private clients with an all-round service ranging from account keeping as well as cash and securities investment advice to asset management. The bank also provides corporate and institutional clients with the full range of an international corporate and investment bank. In addition, ABC holds a leading position in international foreign exchanges, fixed income and equity trading. At present ABC is a major global investment-banking powerhouse (Financial Times, February 2001).

According to ABC's policy, satisfied customers and motivated staff are the most important prerequisites for the bank to continue creating value and expand the business. However, it was mentioned that under the new direction of the management, ABC's culture has become more shareholder-driven (Financial Times, September 2000), meaning that the bank is seeking value for its investors

through short-term profit increases, which in turn means a sales-driven environment, rather than an interest in long term client relations.

In addition, the bank's policy states that ABC has had a tradition of offering continuing education and training to all its employees, seeing it as an investment in their management. Employees can expect on-the-job training and job rotation, with temporary assignments in other departments. Seminars at business schools, distance learning and part-time professional education such as language courses or MBA's are all options open to its staff.

### 4.2.3 ABC Business Structure

With the growth and development ABC has become more specialised in how its processes are completed and the bank therefore requires more specialised expertise and knowledge in market sectors and product lines. As the bank's product lines expand additional resources are required to support these products. ABC Bank changed its organisational structure to the matrix system a few years ago. The bank changed to a more product-oriented approach and it has begun to organise its staff by product area. The responsibilities are now spread across regions with individuals reporting to another regional office in the same product line, rather than concentrated within one branch. The new matrix allows channels of information to flow across borders, including products that can be sold globally. The matrix system is expected to produce a more global orientation to the bank's products and may promote better co-ordination within the regions.

Board

Executive Committee

Management

Strategic Business Units | Geographic division

North America    Latin America    Europe    Asia

Department A

Department B

Department C
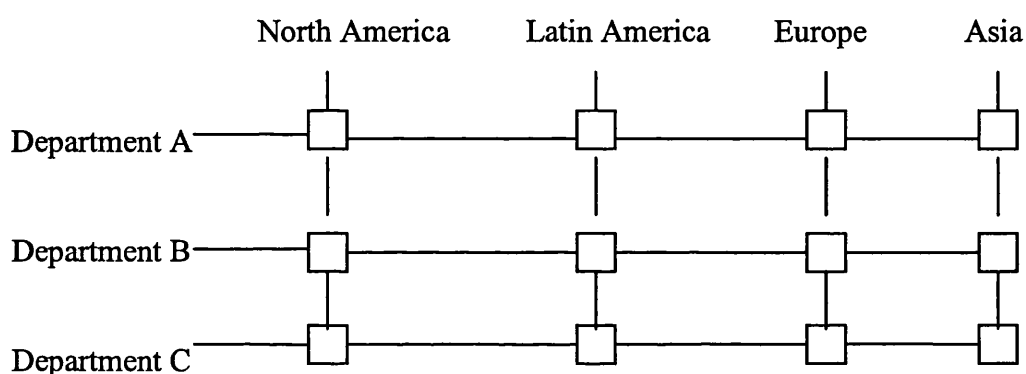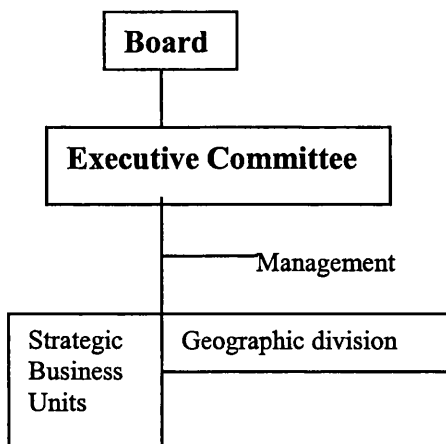
**Figure 4.1:** Global matrix structure, adapted from Parker (1998, p. 291)

## 4.3 Internal Control in the Bank

This section presents some of the internal control policies at ABC bank. According to ABC policies, the bank's global procedures are to set down as "best practice" to be followed by employees within the bank. The procedures are published by management and are reviewed and updated every year. Some rules and restrictions are also available on the bank's Intranet and are updated regularly. Members of staff are expected to comply with these internal control policies and internal auditors are responsible for checking their activities to ensure that all internal control procedures are followed.

With regards to customer information, accuracy and confidentiality is of the highest importance to the bank. All entry inputs into the bank system must be completely accurate and any correspondence or other form of communication that is received from a regulatory or supervisory authority must be immediately referred to compliance and related departments to ensure that all requirements are complied with. In addition, there must be a strict separation of duties between trading, accounting and control functions. As such, ABC operates a strict independence policy which requires that, when directors and staff provide services or are in receipt of information in connection with those services, they must disregard any other bank relationship, arrangement or interest which is likely to influence their decisions or advice.

This independence policy is strictly enforced within the bank by specific procedures covering three major concerns: 1) separation of function, 2) Chinese wall, and 3) confidentiality. Central to the policy of separation of functions within ABC bank includes: 1) no person in the front office must ever control the back office, processes and procedures (this includes the receipt/sending of confirmations and trading advice), 2) sales people are not permitted to independently quote rates to customers. Approval must first be obtained from a trader before a sales employee can confirm trade with a customer. The implementation of Chinese Walls within ABC bank is essential in maintaining confidentiality and independence of functions, and in avoiding the possibility of "insider" trading. The four eyes principle is considered a useful rule of thumb; whatever is done by one person is reviewed by another.

In addition, in some high risk departments, where all new transactions put the bank at risk, employees will receive independent comments in written form and in a timely manner from the control departments, which includes the Credit, Controlling, Legal and Tax departments. Control and risk management are also essential for limiting the bank's potential losses and for managing exposure. Front office staff members should have a thorough understanding of the different types

of risks to which they are exposed and the methods and tools available to manage and control these risks. It is the responsibility of the individual staff members to ensure that risks are carefully monitored, and are maintained at an acceptable level.

## 4.4 Rules and Regulations at ABC Bank

There are two formal sets of rules applied at ABC Bank. One is a global policy and the other is the local guidelines or the set of local key operating procedures (KOPs). The global policy is a general guidelines manual, a kind of bank's bible which the employees refer to and follow. It is an overall policy which must be adapted from region to region and from branch to branch. On the other hand, local key operating procedures will tend to be a closer reflection of day-to-day activities and work. Generally, the system is such that key operating procedures are set by head office and then disseminated to the various branches, at which point that branch becomes responsible for reviewing them for local office practices, making sure they comply with local regulations. Figure 4.2 presents the flow of formal rules at ABC bank.
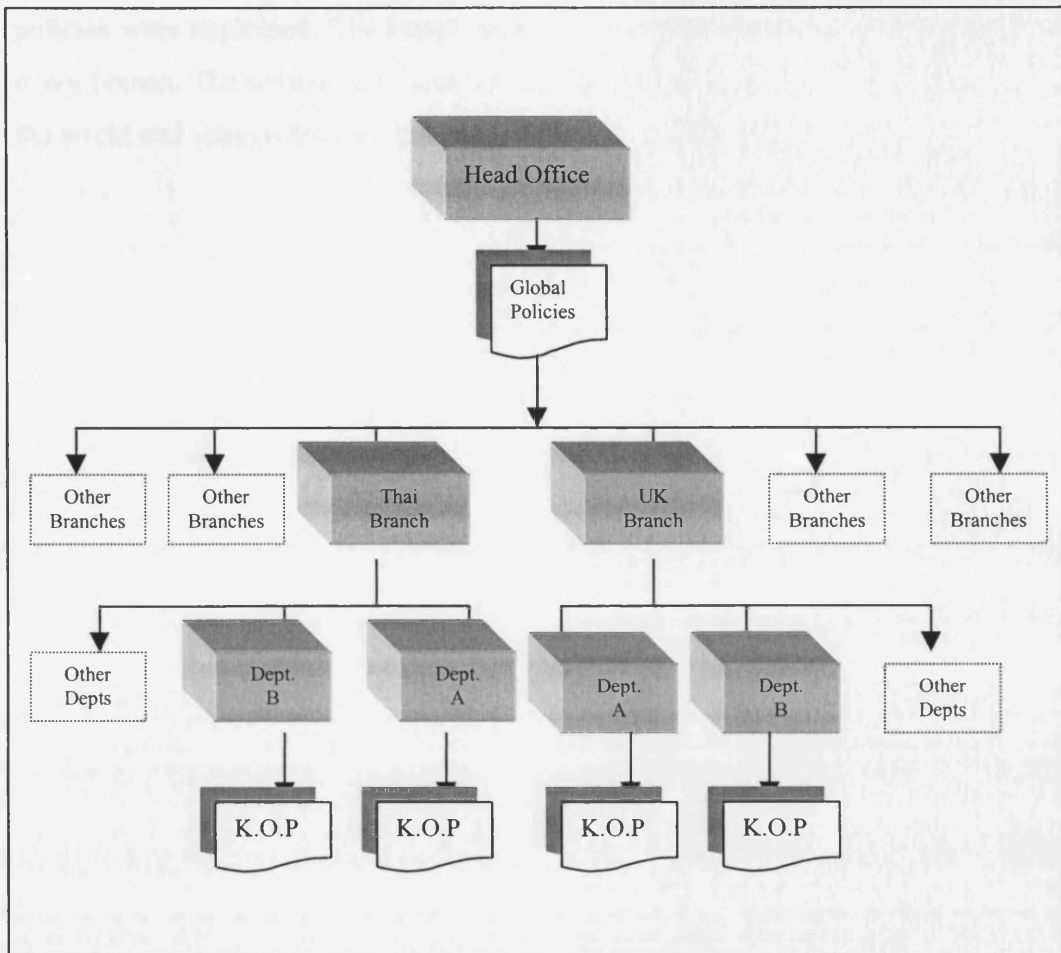
**Figure 4.2**: Flow of formal rules at ABC Bank

## 4.5 Summary

The main objective of this chapter is to gain an understanding of the ABC Bank. Therefore this chapter discussed the background and the control systems of the ABC Bank. Firstly a brief history and business overview was reviewed. ABC was described as one of the largest banks in Europe and has many branches worldwide. Recently the bank has changed its organisational structure to the new matrix system, a more product-oriented approach.

Secondly, the internal control system in ABC was presented. Some internal control policies were explained. The bank's policy is set to be followed by employees in every branch. The written rules and procedures are distributed to their staff all over the world and some rules are also available on the bank's intranet.

# 5

## Findings of the Study

### 5.1 Introduction

The previous chapter gave a brief background of the ABC Bank and its internal control systems. This chapter will present the findings of a case study conducted at ABC London and Thailand. The first section 5.2 summarises the interviewees' perception of the bank's rules and regulations at ABC, both in Thailand and in the UK. Section 5.3 summarises the interviewees' experiences of the organisational structures, in particular, the new matrix system. This is focused on presenting the advantages and disadvantages of this new organisational structure as perceived by the interviewees. In addition, the opinions of the members of the internal control and auditing function are presented in section 5.4. Section 5.5 shows some weaknesses that have been found during the audit. These findings were reviewed and summarised in the audit reports and from observation by the researcher. Finally, in Section 5.6 key findings from the questionnaires are presented.

### 5.2 Rules and Regulations at ABC Bank

*ABC UK*

In the UK the researcher had the opportunity to investigate auditing practices in two different areas. However, owing to very sensitive and highly confidential issues in one department, the researcher was not able to interview the staff members of that particular business area, where the majority are considered to be highly capable and hold quite senior positions in the bank.

The researcher also conducted interviews in the credit department, the one responsible for administering loans for ABC Bank in London. All six employees who participated in the interview held management level positions, and had been

working together for the previous 10 years. The interview was conducted in a group as requested by the interviewees. The interviews were very informal and pleasant, as these managers knew each other very well. Staff turnover in this department was very low, with the most junior employee having transferred from another department three to four years ago. When asked why the staff turnover was so low, the group consensus was: "Good boss [all laugh!]"

In this particular business department, there are general guidelines and procedures that the staff must follow. An example of such guidelines would be the way trades and controls are booked. In addition to this, local key operating procedures would also be applied. It was mentioned that head office does not necessarily provide guidelines for everything, but that staff members should fill this gap in their local key operating procedures. Due consideration is given to this activity at ABC UK, with a dedicated senior staff member assigned to keeping key operating procedures up to date and issuing new revised editions as necessary.

One of the auditors mentioned that staff members in London generally adhere to bank guidelines and local policies and procedures. One problem found was that for some activities staff failed to document properly, and hence key operating procedures were not fully up to date. However, the reason for this could be because the department was new and hence the policies might not yet be fully updated. It was also noted that staff would possibly bypass rules if they had considered better ways in which to do things. In this case, they would normally refer it to the auditors.

The head of the department stated that in ABC UK, it is considered quite a serious breach if staff members fail to follow the rules set by the bank. The auditors also pointed out that employees at ABC UK generally take the rules seriously. Furthermore, staff members doing day-to-day business are under scrutiny by their managers. Managers will also review and update their key operating procedures. Therefore it was found that in ABC UK if managers agreed to a particular

approach, practice would be adjusted accordingly. UK auditors commented that normally practice would reflect policy.

In summary, both business department employees and the internal auditors at ABC UK agreed that the key operating procedures were considered to be very important to the internal control systems of the bank. Rules and policies at ABC Bank are quite clear, and where issues are complicated, staff members are expected to be able to interpret those rules. At the London branch this is especially true for the trading and operational staff, where qualifications and experience allow them to rise to these expectations.

*ABC Thailand*

As mentioned earlier, although there is an overall global policy specified by head office, it is the responsibility of the local branch to review it for local office practices, making sure it complies with local regulations. As such, the set of the key operating procedures is an essential element of the auditing process that ensures procedures are properly updated and in place.

These circumstances arise frequently in Thailand as the head office's formal procedures are quite broad and do not provide enough specificity on local issues. The reason for this broadness is simply that the bank processes are too complex for everything to be set in stone. In such situations, ABC Thailand is obliged to fill in these gaps by providing its own interface with the local market and regulators. The nature of the culture, regulators and other local factors thus necessitates the introduction of these local key operating procedures. Whenever exceptions arise the regional head office in Singapore is consulted, and in the majority of cases local key operating procedures are introduced to suit the local Thai environment by adapting them from ones already existing in Singapore.

One particular department (referred to here as XYZ)[30] at the Thai branch of the bank was responsible for the dissemination, when necessary, of the key local operating procedures and their modification to reflect local practices. This role of modifying global policy to fit local imperatives placed the XYZ department at an advantage, allowing them to maintain a broader view of the bank, in particular of the product portfolio, and allowing them to see how updating procedures within one department might impact on another.

The introduction of the new matrix system at ABC has seen the elimination of XYZ, and this has caused many problems for the bank. One area that has suffered, from the staff's point of view, is that with a lack of a designated co-ordinator it has become more difficult for some departments to work with other departments. Additionally, rules and regulations in many departments have ceased to be updated formally. Staff members found it difficult to modify certain guidelines to reflect local practice, and as a result ended up having to rely on personal judgement. Also, as noted previously, the XYZ department used to refer to the regional head office in Singapore for the discussion of exceptions to the guidelines, but with the elimination of the department local Thai staff have found it more difficult to work with Singapore to find solutions.

---

[30] Not the real name of the department
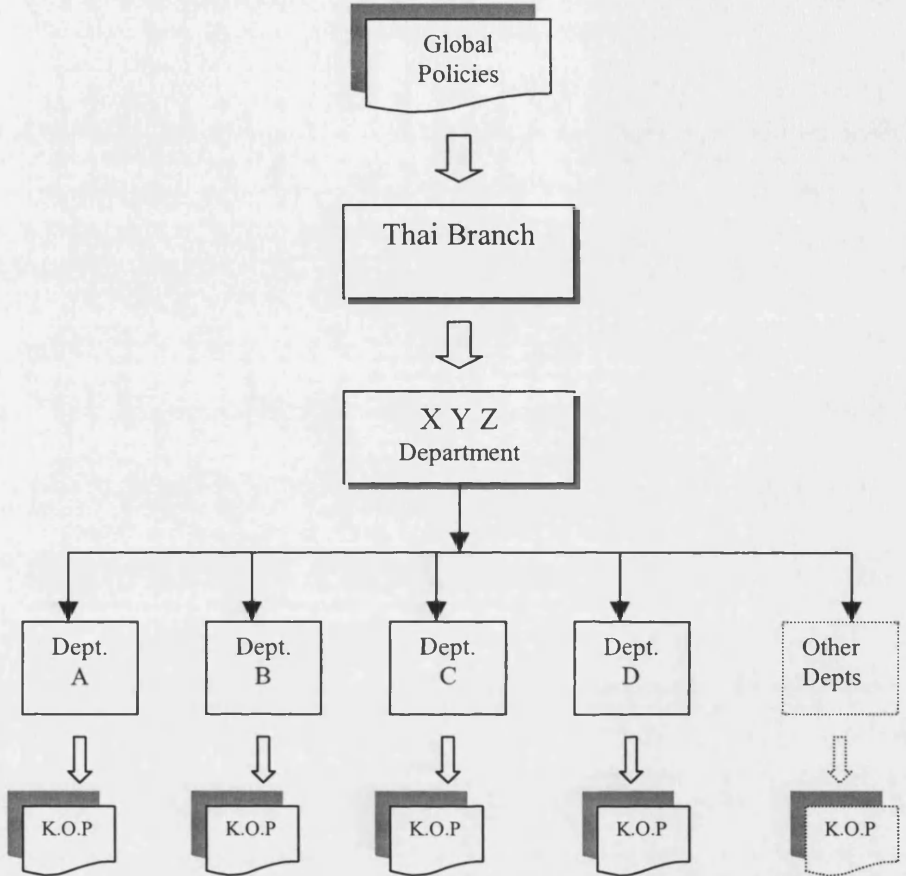
**Figure 5.1**: The function of XYZ department before the introduction of the matrix system

However, one cannot put the blame entirely on the elimination of the XYZ department as a reason for the failure of ABC Thailand to follow key operating procedures, as in many cases employees simply ignore guidelines regardless of whether or not they are up to date. As an example mentioned by a Thai auditor, employees were often known not to check the validity of each and every signature on the cheques they received, using the excuse that they were familiar with the signatures of known customers. In this case, the guidelines were being wholly ignored because there was no one able to check the signatures on each and every

one of hundreds of trading confirmation tickets that came in every day. As the auditor noted:

> *" I do not think it is possible to check every single document from customers, but there should be some spot checks, especially with the new accounts or the accounts where the authorised signature recently changed."*

However, operating staff, particularly in the business department, have argued that it should come down to personal judgement, placing greater value on the experience of people than on strict adherence to the guidelines. As one Western staff member working in Thailand mentioned:

> *"I think the guidelines are useful as a reference source, but at the end of the day, someone who knows their job won't really need the guidelines. They can think creatively, conceptually and rationally. There may be a reference where something needs to be clarified, but this should be the exception rather than the rule and the other way the guidelines are useful is for somebody new coming to the business."*

In addition, staff members in business and trading departments argued that as long as the bank has good internal control systems, staff experience was more important than adhering to key operating procedures. One Thai interviewee, the head of one area of the back office, stated that his job was to ensure that formality was strictly adhered to, but wherever possible he would use his own personal judgement in order to ensure that informality had equal weight with formality. He argued that in practice it is rather difficult to follow the formal rules in every situation:

> *"...people do not go back and consult the formal rules every time. They think this is right or wrong, doing that based on their judgement/expertise, culture. That's why banks employ people to be department heads. If all jobs could be done according to rules, regulations and formality, it wouldn't be necessary to hire department heads to work to solve the problems."*

The same department head added that it is impossible in practice to follow everything assiduously, but that in very high-risk cases, one would go and ask for advice from head office. As noted by a staff member:

*"Yes, they give me freedom to exercise judgement, but in some cases where quite high risk is involved, I have to inform them. I can exercise the risk within my limit. However I have to ensure that it has been used properly. With respect to the department we want to follow the rules as much as possible."*

*"... rarely have we seen people looking at the 'bible' (rules) when they face problems. In terms of the organisation, theory says the bigger the organisation, the more it produces formalities, but in practice it is not like that."*

In addition, one head of department explained that in a developing market like Thailand some policies might not completely fit with local situations. For example, concerning the quoting of prices within the bank (internal pricing), the policy states that the pricing has to be market-based, transparent, and explicable. However, when it comes to practice, markets in emerging countries such as in Thailand cannot be as transparent as the ones in developed markets, which are wider and deeper. The market in Thailand is narrow and shallow. The management set the policy for what has to be successfully implemented offshore, but it may not be fully implementable in Thailand.

Nevertheless, some interviewees accepted that sometimes informality causes problems in doing business if everybody follows informal norms without regard to formal rules. A few factors in particular were mentioned. These include culture, the individual's expertise and interaction between people. An example of a cultural difference, which works adversely to affect communication is when new recruits come from small firms to work in a bigger and much more complex organisation, where they have to undergo a period of adjustment, which does not always happen smoothly.

Auditors considered that having local key operating procedures in every department to be very important. In contrast, the majority of the business staff members considered the key operating procedures to be just unnecessary paperwork, adding no real value to their work. They preferred to apply their personal working experience rather than spend time updating the key operating procedures. As a result some local key operating procedures were either not adequately updated, or in some cases were not in place.

It was mentioned that the main reason they were not updated was because of lack of time. When asked if the bank should keep them updated, one head of department replied:

> *"Academically speaking maybe, but I do not think people follow Key Operating Procedures (KOPs) anyway. However, if anything happens, people will go back and say this guy did not follow KOPs, so you are the one who should be blamed. At the end of the day it may be like this and that's it."*

Both auditors and employees in business areas in Thailand agreed that almost all local operating procedures are out of date, and that they did not fit their modern business and therefore were rarely used. The following are samples of comments made by the staff in business with regard to key operating procedures:

> *"...yes, I think key operating procedures have a role to play, but it is difficult at the moment. We do not have time to sit down and actually write them. I think this should be done globally, centrally, then sent out to the branch, and the branch will then tailor it to their specific needs. It doesn't make sense to me for all the branches in Asia to write their own procedures in financial controls."*

> *" We do not have time to prepare them [Key operating procedures]. Our bank is open every day and we are busy all the time."*

> *"... but to be honest, not all have been updated and some are left as a draft. There are a few reasons why we could not do it. First, maybe an excuse, but it's true that we do not have time."*

*"Second, some products are new and they are not clear enough to write the guidelines for them. And anyway, we have no time to update them."*

Furthermore, as mentioned by one auditor, out of date key operating procedures may be considered as only a medium risk, provided staff know what they are doing. However, if there is a complete lack of formal written procedures and auditors find out that there are lots of control weaknesses, then it would be considered as high risk.

*Summary*

In summary it appears that rules and regulations at ABC UK are considered to be very important by both auditors and staff, who try to follow strictly the rules and regulations. If there are any areas where written policies are not in existence, staff in those areas will make every effort to either create a new formal rule or update an existing one to reflect current practices. Similarly, auditors at ABC Thailand agreed that this procedure used at ABC UK would be of great value at ABC Thailand. Unfortunately, the reality is that although business and operating staff in Thailand also agreed that it would be appropriate to follow procedures as they do in the UK, in reality it was nearly impossible. Many reasons were given for this, including time pressures, over-work and out of date procedures.

In addition, as previously mentioned, the elimination of the XYZ department under the new matrix system has caused many problems for the bank. From the employees' point of view, it has become more difficult for some staff members to work with other departments because there is no longer a co-ordinator. The impact of the matrix systems will be analysed and discussed in more detail in chapter 6. The next section will provide a more general review of the organisational structures.

## 5.3 Organisational structures

*Matrix System*

With the shift a few years ago to a more product-oriented approach in ABC bank, additional resources were required to support its staff. ABC bank re-organised its staff by product area, each one spanning all branches of the bank across the globe. As a result, employees have begun to refer, regardless of location, to colleagues in their specialised area. An advantage of this is that good co-ordination is maintained - if the head office makes a certain decision with regards to an internal policy, then employees will comply, with no questions asked. With this change to a matrix organisation, all decisions have passed directly to Singapore, London or Frankfurt, in line with their respective direct reports. The transition to this new organisational process was achieved smoothly enough at ABC London.

*The Impact of the Matrix system at ABC Thailand*

The introduction of the matrix system[31] at ABC has had varying impacts on staff at the bank, especially in Thailand. The overall effect has been quite dramatic, and it is worthwhile taking some time to detail the perceptions and feelings of staff there about this new system. Interestingly, in contrast to ABC Thailand, very few interviewees at ABC UK mentioned the introduction of the matrix system, and those who did said it had little impact on their work.

On the other hand, in the case of ABC Thailand the previous three years has seen a period of important improvements and change, with the launch of many new product lines. This change has had an important impact on staff at ABC Thailand, with many interviewees expressing their dissatisfaction with the matrix system. It is worth exploring in more detail this particular impact, in particular to the role of the branch manager, which was seen as a major change at ABC Thailand.

---

[31] The matrix system is the product oriented approach; the product-wise in the sense that responsibilities are now spread across regions, with individuals reporting to another regional office, rather than concentrated within one branch.

*Role of the Branch Manager in Thailand*

It was pointed out that in Thailand, before the introduction of the matrix system, the branch manager acted as the caretaker of the shop, giving as much care as if he/she were the owner and trying to achieve the best profit levels. The role of the branch manager has changed dramatically. He is now the only liaison between the regulators and the customers. For example, if the business or operations department of the local bank presents new product ranges to the Bank of Thailand, then the branch manager will come along to these presentations. As such, he always contacts the Bank of Thailand when thereare any significant issues to deal with. As for the internal controls within departments, the branch manager now acts simply as co-ordinator, ensuring the smooth running of all activities.

In addition, his role has changed in other ways and although he holds a senior position and he can raise issues or questions, he no longer has direct authority. For example, credit has become an independent function. Previously the branch manager had the authority for credit approval, but now the process has been brought into the corporate centre, with no need to report to the country manager. As a result, the country manager may not know some issues that are happening in the branch, because for example, if staff members report directly to the Singapore, London, or Frankfurt office for their product line, the branch manager may not know the issues, conflicts or problems that are developing in the branch. There is a good probability that information will not be shared with him. Under this system the branch manager plays a much less important role in day-to-day operations and decision-making than previously.

| Before | After |
|---|---|
| - Branch manager had direct authority in making decision for the bank. | - Branch manager acts as co-ordinator. |
| - Branch manager had final say in solving any problems with in his branch. | - Branch manager has no direct authority in making decision on major issues for the branch. |
| | - Some issues and information may not be reported to the branch manager. |

**Table 5.1**: Roles of the branch manager at ABC Thailand before and after the introduction of the matrix system

Staff members have also felt the impact of this change in role for the branch manager. One auditor commented that as a result of the change to the matrix system, she finds that she now has much less support from the local office. Whereas in the past she could go directly to the branch manager if there were any disagreements in her auditing, as he was empowered to make changes, now she feels a certain sense of isolation, as she must often fend for herself.

At present all staff members including the internal audit department have to report to the head of the Asia Pacific regional office in Singapore. The auditors have to convince staff in business and operations to agree to the audit points beforehand. If they are not convinced, the auditors still have to send their reports through. One auditor complained that this was a tiring struggle before getting to the final stage. Had it been in the past, they would have had the support of the branch manager. She believed that it would be easier if both the auditors and auditees were to go to the branch manager who, sitting as a neutral party, would have the final say. Now,

when the auditees and auditors meet, they feel that they end up having to handle everything themselves.

Additionally, it was mentioned that as a business develops, specialisation becomes a feature of its operations and the bank therefore requires more specialised expertise and knowledge in particular market sectors and product lines. Interestingly, this has been true of the auditors as well. To complete audits in particular areas (for example equity, global market and IT), the audit team has become segmented according to area of expertise.

Following this example of the impact of the matrix system at ABC Thailand, the general advantages and disadvantages of the new matrix system are discussed in the following section.

*Advantages and Disadvantages of the Matrix System*

*Advantages*

Starting with the advantages, it was ascertained from the interviews that the majority of staff in Thailand admitted to having been affected by the changeover to the matrix system. Some said it added new work for them, such as having to arrange meetings with staff from different locations in order to maintain good dissemination of information. Some argued that this new system had the potential to be successful, but at the moment they see that it works better in some but not all business units. For instance, in trading department the matrix system has allowed channels of information to flow back and forth across borders more fluidly, thus facilitating the selling of products on a more global level. Trading knowledge from one country can be implemented in other countries easily without interruption from the branch manager. If reports have to be made to the branch manager directly, this might obstruct the flow of communication or ideas.

Furthermore, one auditor argued that in the new matrix system staff members who want to survive in the organisation have to be competent and effective, which is

good for the organisation. With the old system as long as a person could get along well with their boss or branch manager, then he or she might be able to survive-something which would not happen in the new system where personal relationships do not count as much. As one said:

> *"In those days the branch manager had the final say. If you got along very well with him, then he would not do anything to you. The old system allowed even the weak to survive. Now everything works along functional lines. Those who are weak can therefore be pinpointed."*

Another advantage noted is that the new system forces staff to acquire more knowledge of what they are doing. As one auditor commented:

> *"Well, when they put it into the system, the people in Singapore would advise, or when they trade they would contact directly with regional. Then it is as if they learn by practice."*

| **Advantages of the matrix system** |
| --- |
| • Bank develops more specialised expertise and knowledge in particular market sectors and product lines, thus facilitating the selling of products on a more global basis. |
| • Staff members have to be more competent and efficient at keeping up the standards of the bank. |
| • Knowledge is transferred more effectively from one country to another. |
| • Staff members gain more knowledge in what they are doing and develop more specialised expertise. |

**Table 5.2**: Comments on the advantages of the matrix systems at ABC Thailand

*Disadvantages*

In contrast, several disadvantages to the system have emerged, for instance, it was mentioned that in the past operations ran on an entity basis, meaning that the branch manager was solely in charge and held overall responsibility. At present, there is a trading manager who is given charge of all trading business in the bank, along with the marketing department and an office manager in charge of day-to-day responsibilities. Whilst previously, the branch manager was held responsible for everything within a single branch, nowadays this holistic view no longer holds true. This has brought about situations whereby individuals carry on with their responsibilities with few on-site guidelines. In essence, people have carried on as they did before- using the old established working instructions. As new procedures are introduced, they very rarely tend to be documented, thus leaving much leeway for deviation. As a result, when auditors come in they find many risk factors that have not been addressed.

One auditor in Thailand commented that with the new matrix system the bank has now become much more business-driven, focusing on profits more than anything else. Internal controls seemed to be gradually relaxing as people began to aim for high return and high risk. The business and operations departments see some internal control systems as excessive and would like to see them minimised. It has been mentioned that the policy of doing business within the bank has changed to be more profit driven. One auditor disagreed with this new concept and argued that staff members in business at present have more flexibility, particularly in high risk areas and this could create potential problems.

Furthermore, many interviewees agreed that under the matrix system, there are more problems of communication and co-ordination. One said:

> *"There is no one at a high level in the branch who has the final say whether one thing should be done or not because now they rely on communication - who has the best ability to make a better presentation. This is because those who have the final say are not in*

*the Bangkok branch and so they would not know the local environment."*


Most employees have complained that communication and co-ordination within the branch is generally not as good as before. Information is not given clearly and when there are questions, it is not clear whom to ask. This is a result, in part, of too many levels of hierarchy (Frankfurt - London - Singapore - Thailand). When questions arise, employees prefer to go directly to Singapore rather than trying to get advice from staff locally, as they reason that they are obliged in any case to report to Singapore and it would be easier to consult and get the direct answer from them. However, many feel that the old system was better because they had a contact point in their own local organisation: the branch manager was empowered to make decisions. As such, if auditors/auditees or the employees of that department had a problem, they could be identified and resolved which meant a faster way of solving the problem. Employees felt that they could trust one another and understood each other. With the changeover to the matrix system, people developed a "do not bother me" attitude: "My duties end here - I will do this, this way because I was advised to do so this way". Each department would have specific duties assigned to them from regional head office. Therefore, they would say "I will do only this" – anything more than these specifics are up to other people to solve the problem themselves." A senior staff member who is head of one department noted:


> *"It seems that now everyone just does whatever they think it is their job to do. They will not bother with other people's business. There is no teamwork. There is no one to help in looking at the bank as a whole, everyone only sees their own problems. Some problems may impact other departments as well, but no one will be able to see and solve them."*


Furthermore, business staff members claimed that now there were many sections to deal with, that often it was not really their job to deal with these issues at all. For instance, someone in the controlling department received an email request to

do a head count of all staff, something which should be the human resource department's responsibility not theirs. This particular incident resulted in the staff in this department being forced to do extra and irrelevant work.

Miscommunication is another impact of the change that has been mentioned many times by interviewees. Miscommunication does not mean that one is not good at talking or at presenting, but because of problems in time and space when people are not in the same place at the same time. Any amount of explaining cannot allow for a full understanding. For instance, staff members in Singapore or London are not familiar with the working environment in Bangkok, when they have to communicate, they might not fully understand each other completely.

Another problem under the new matrix system is the conflict that exists between the audit and the staff in business or trading departments. Examples mentioned include, firstly, co-ordination; at present there is no one of a higher authority in this branch. The relevant consideration and respect due to a superior is hence lost. Secondly, the hiding of information is another problem. They do not give enough of the information that should be given to each other. These problems were explained by the fact that no one has the final say in this branch any more. Therefore, the power or authority to order any one to do anything seems to have been lost somewhere.

| Disadvantages of the matrix system |
|---|
| • Branch manager might not be aware of all issues that arise in the branch. |
| • Only few on-site guidelines and supervision are available for the staff. |
| • Co-operation and communication is not good as before. |
| • Staff members develop a more "do not bother me" attitude. |
| • Fewer written guidelines are available. |
| • Local guidelines or local key operating procedures are not updated. |
| • Bank becomes more profit driven and takes more risks. |
| • Staff members have more flexibility and rely more on personal judgement rather than looking at the written guidelines. |
| • Roles and responsibilities of staff are not clearly written in the local guidelines. |

**Table 5.3**: Comments on the disadvantages of the matrix systems at ABC Thailand

When asked which system they preferred (between the old system and the new matrix system), the Thai staff who had been working in ABC Thailand long before the new matrix system was introduced preferred, the old system. This was despite the fact that the old system did not necessarily provide the solution to every problem. Only one senior staff member in operations, who had joined the bank less than a year after the introduction of the matrix system, commented that it did not make any difference to him. In his opinion, the new matrix system made things better overall as it eliminated many unnecessary processes. The old system

functioned in a vertical manner necessitating many steps before any decision could be made. Now staff can make direct contact with management. There are clear reporting paths, clarity of policy, etc. However, he added that sometimes the new system did add complexity:

> *"For example, I have 3 direct bosses; one locally (operations manager) and 2 in Singapore (head of F/X and head of money market). When I have to report or inform anything, I have to send them all to these 3 bosses."*

In summary, it was found that the majority of staff in Thailand admitted to having been affected in one way or another by the matrix system and that this resulted, overall, in more disadvantages than advantages. It is suggested that cultural and local environmental factors at ABC Thailand may be the cause of these adverse impacts. The matrix system may work well in an organisation in Western cultures environment such as ABC London, but it may not work so well in Thailand. Pragmatic and semantic analysis will play an important part in examining at the reasons behind this problem. This analysis will be presented and discussed in details in chapter 6.

## 5.4 Control structures: Internal control systems and audit functions

The previous section discussed the matrix system and its impact on staff, particularly at ABC Thailand. This section will present their opinions of the internal control systems and internal audit functions.

*Internal Control Systems*

In an organisation there must be a sound internal control system to provide reasonable assurances about the effectiveness and efficiency of operations, the reliability of financial reporting and the compliance with application laws and regulation. In order to make sure that the internal control system has been designed properly and employees comply with the control system, the organisation has to rely on the work of the internal auditors. They in turn are tasked with ensuring that good internal control systems are in place and have been

followed by all employees. Any exceptions or irregularities have to be reported immediately to top management.

Staff members in business areas are not normally as control conscious as auditors, whose work is precisely to measure control and access to the systems at all times. There may be a few cases where employees will be under pressure from budgets or tight deadlines resulting in some procedures not being followed. Occasionally staff members may not realise that they have breached the rules as they were not aware of some of them in the first place. This may be due to a lack of knowledge of where they should be looking for information, or, as is more often the case, they are simply too busy to look at the guidelines. In these cases it is the auditors who are checking their work to ensure that proper procedures have been followed, since otherwise they would carry on with what they were doing, not knowing that they had done anything wrong. Speeding up their work can often result in a greater risk of hurting the bank's reputation or of incurring financial risk, as a result of ignoring rules. However, in reality it is in question whether these benefits are recognised by the staff members in business and operating departments. The perception of staff may be different from the auditors' and management's expectations. This section will portray the perceptions of staff towards the internal control systems in ABC and their comments on the internal audit function.
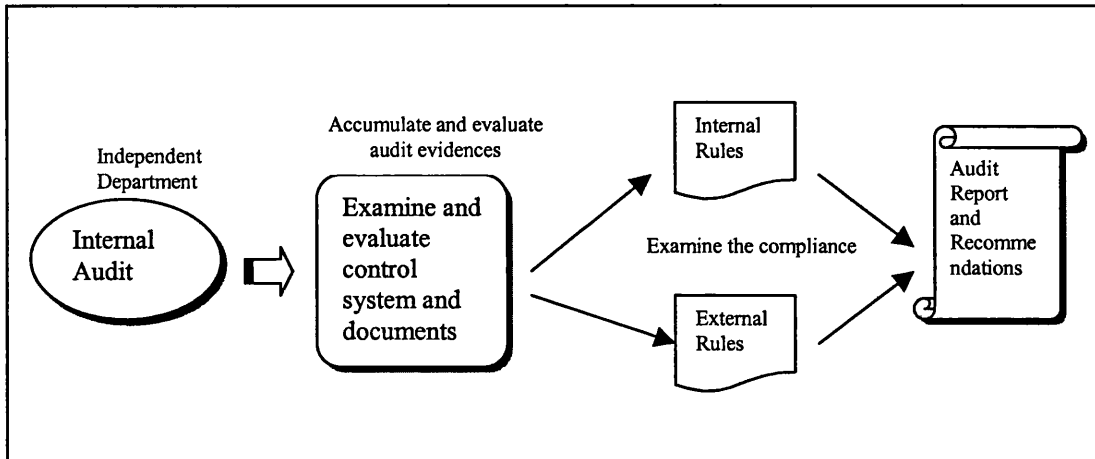
**Figure 5.2**: Internal audit function

At ABC UK staff in the business department considered the internal control systems in the bank to be quite important and were relatively satisfied with them. They always made sure that they followed the bank's rules and, when situations arose where some issues might not be referred to in writing in the formal guidelines, they would make the best decision they could in line with the control systems of the bank.

The majority of staff members at ABC Thailand in the business and operating departments were also satisfied with the existing control systems in the bank. They commented that the systems were good enough to allow the bank to run its business smoothly and minimise the risks. However, staff members in Thailand would not normally go back to check the written rules and policies on every occasion. They use their own judgements or follow their local norms more often than reading written rules. As many commented, as long as they are sure of what they are doing and as long as they exercise their judgements wisely and their

judgements do not do any harm to the bank, they consider their actions as being in line with the internal control systems of the bank.

However, there was only one comment from a member of staff in the compliance department who seemed unhappy with the internal audit department and the control system at ABC Thailand, he commented:

> "...the control system here is poor, and there are 3 internal audits here, plus another 7 from Singapore. I do not see what they do. They come to comment every year but they cannot see some weaknesses here. If it were me, I'd check them all thoroughly."

Furthermore, he commented that the job description in the bank was not clear. He added that the bank emphasised marketing more than anything else and this could be very dangerous.

The following paragraphs present the comments on audit works by both internal auditors and business and operating employees. The head office for the internal audit team in Europe is in the UK and the head office in South East Asia is in Singapore. Within the matrix system the Singaporean team is under the supervision of the team in UK, the internal audit team in ABC Thailand has to report to the team in Singapore and then Singapore will report to London. This section focuses on the comments received during the interviews from staff members in the business area with regard to the work of the internal audit teams, both locally and at head office in Singapore.

*Internal Audit Functions*

With respect to the internal audit function at ABC, it is considered to be best practice for the auditor to begin by familiarising himself or herself with the bank control systems and to make sure that business units control their risks. If the bank does not have an adequate control system or control policy then the auditors will

look to make sure that they have one in place. When auditors find weaknesses, they will tend to try and help the staff understand the risks involved and describe what control systems should be in place to overcome those weaknesses. Rules and regulations are available in the on line and off line guideline system to all staff members. Employees are required to sign off, stating that they have understood these rules and that they have applied them to their work. At the end of an audit the head of the department will normally double check on their staff and make sure that these rules and regulations have been applied.

*ABC UK*

With respect to the internal auditing function it was noted that at ABC UK there were more internal auditors compared with other branches. This was due to the size of the business and it being the main financial centre of ABC Bank. Many of the auditors are qualified accountants and have worked in the banking business for a number of years. When asked about the staff and their understanding of rules and regulations to be followed, UK auditors answered that staff generally knew what they were doing, as it would be a dangerous situation for the bank if staff members did not know and comply with the bank's rules. In most situations it was found that auditors managed to get everything agreed to directly with the auditees.

One auditor commented that generally he would find that auditees agreed with their comments and from their point of view auditors had actually created something beneficial for staff. Many auditors said that staff members in operations had their rules clearly laid out and followed them closely. They seemed to know and understand the rules and interpreted them in the way they were supposed to. Other than that, staff members did help in writing up the rules, "the Local Key Operating Procedures (KOPs)" which is a day-to-day operation.

In ABC UK it was mentioned that auditors do not only use written guidelines in their work. Often they would start, at the minimum, by looking at the formal rules in order to see what the staff should be doing. Sometimes however, auditors have

found, in practice, that these procedures could be difficult to follow. As a result, a dialogue between the auditor and auditee takes place in order to come up with the best way forward. If what the employees are doing is better in terms of control and is more efficient, then the rules should be changed – and auditors make these changes willingly. Moreover, someone might come up with better processes. In these case the auditor might be quite happy to note them down and discuss them.

To cite an example in one particular area in the operating department, where there is a great deal of money going out, authorisation is quite crucial. The bank has to make sure that the payment is going to the right person. Instruction must be obtained directly from the right party. Staff members in the bank have to talk to customers directly and get written instructions from them. Instead, in practice staff members in the business division would proceed with the instruction received by fax from customers. However, as per the bank's agreement, staff should receive the original written instruction before proceeding. From an audit point of view there may be a risk of financial loss for the bank in this case, but practically it is difficult to argue between sticking to formal rules and good practice. Sometimes employees have a set of things that are acceptable in practice, which are not in the rules. Then the auditors agree that they have to allow these practices because they work in the real world. However, practices need to be reviewed, as there may be a gap that needs to be audited. This is where the auditors come into their own.

It should be mentioned that one of the two departments that the researchers observed in London was a new business where most of the staff held senior positions. When asked if it was more difficult to undertake an audit as a result, with most staff being not only senior, but having a lot of experience, the interviewed auditor laughed and said "well, yes, but we audit the procedure and control not their decision-making." In the situation where auditors made certain suggestions or recommendations which they disagreed with, it was commented that:

*"Finally the points are always agreed. We will not make any recommendation that we think it would not be agreed upon, or not relevant."*

When auditors talk to employees at the higher level, it is harder to convince them about any recommendation. However, she added that:

*"It is alright, I think we are lucky because they think like accountants so it's easy actually. You know, more like accountant people!"*

When asked what the accountants were like, the answer was:

*"They are more conservative. They understand us when we discuss the audit issues. But if we talk to traders, it's different. They're not accountants. So they do not have any control mind. They're just interested in the money they make. So it's slightly different".*

With respect to the perception of the business and operating employees when questioned about the auditors, the head of the credit department commented that the experience that she had had with auditors was that when they made recommendations she generally tended to agree, although, occasionally, the internal auditors would come up with suggestions that were not practical at all. In general, all interviewees agreed that their department held positive views of the auditors, supporting their decisions and considering auditing issues to be extremely important to the bank:

*"..whatever your experience, no matter how intelligent you are [all laugh] we have to follow the rules and make sure that we are all capable of doing so..."*

However, it was argued that some issues raised by auditors involved rules that were not possible to follow. One auditor cited an example in the key operating procedures, whereby one rule stated that with fees over £50,000, staff must put the transaction straight through to the profit and loss account and that if it was received within 30 days, the entry should be reversed out. The commissions rarely get near £50,000, so that is why they do not pass all individual transactions into

the profit and loss account. One manager claimed that the auditors still asked them to do so. The auditors want them to put each individual item on the due date, which they believe to be impossible.

Also given as an example was the situation whereby an original written instruction is required before any payment can be made to the customer. Even though in the agreement, it is said that a faxed instruction can be considered acceptable, auditors would still say "no, you have to have the original signature" before they can make a payment. Staff members argued that when the instruction comes in, before paying any money out they have to see the faxed instruction in writing with the original signature. Internal auditing raised this with the legal department who then turned around and told the staff that for the first payment they should undertake due diligence to make sure that the account numbers are valid, and then make sure that they can make all payments to that account. Staff members commented that it was quite difficult to implement in practice. It was possible in only around fifty percent of the cases. Another manager added that although banks used to do things this way, with advances in electronic communication it had now become possible for people to be given an access code to be used over the Internet and to make direct instructions. With sometimes up to fifty other banks involved in a single transaction it was not feasible to chase them all for original documents before making payment, as it could take up to two weeks to get them delivered to the department. When they discussed this with the auditors, the agreed solution was that a fax would be considered acceptable but that staff had to make every effort to make sure they undertook the proper verifications for the first payment at least.

Furthermore, the head of the credit department mentioned that sometimes auditors had to drop some points that were not considered necessary to follow. To cite an example involving original documentation, the internal auditors were concerned because documents were being filed in a seemingly haphazard manner, some kept in the front office, some locked in the store room, and when the deal was considered very important, with the lawyer, with the result that the business

department was not aware of the location of such documents. However, the head of department argued that with many products and deals coming up every day they did not want to start creating a list of where all the original documentation was located. This was an issue they have managed to get the auditors to drop for the time being.

It was also mentioned by the interviewees in the credit department that on some occasions products can be quite complicated to audit, making it likely that the auditor might lack the expertise in that particular field, and therefore not able to comprehend fully the complexities involved (aircraft financing being a good case in point). As a result, when a disagreement arises between the auditor and auditee they have to sit down and discuss and come up with a solution.

*ABC Thailand*

With regards to internal auditing in ABC Thailand, when members of staff in auditing were asked for their opinions about the situation where some areas in the operating departments did not proceed using key operating procedures, an auditor commented that the audit function could play an important role since internal auditors had a good understanding of the controls, workflow and continuing of work in the system. She added that in the past everyone worked together in the same organisation with a branch manager as the leader. On the other hand, with the introduction of the new matrix system, a department may not know how its own work related to other functions within the business. For the auditors this has its advantages - that is, the auditors have a good background on all the functions so that if there was a high staff turnover in other departments the auditors would be able to help the new employees to understand the control systems because they audit every function. She believes that the audit function in future will play a more important role, as long as the ABC Bank provided continued support for the audit function.

The head of internal audit department in Thailand argued that the auditing role benefited the entire organisation. It helped in troubleshooting because they had all the knowledge. She cited an example when two years ago the Bank of Thailand came to inspect the bank (they had not been to inspect the bank for a long time) and it was when the staff turnover was high. At that time the bank had restructured to the matrix system and many new staff coming in would not have good knowledge of past records of the bank. Only the auditors who had been there for a long time were, in certain situations be able to help the Bank of Thailand with what they needed. In this way, she indicated that that the auditors could be of great help to the organisation.

In contrast, many interviewees in the business and operating departments commented on the perception that there was a big difference between local auditors in Thailand and the auditors from the regional head office in Singapore. The local auditors appeared to concentrate too much on the rules and regulations and on whether any had been broken, while staff in operations would have preferred positive feedback, providing them with recommendations on how to improve things, not simply to point out what was wrong.

The business staff members would rather see audit comments with possible solutions or recommendations of how to remedy the weaknesses or minimise the risks. They believed that the risks or weaknesses that the internal auditors focused on were the problems that cannot be solved anyway and the auditors already knew this. As one said:

> "...so they are not really enhancing anything. Their job is to pinpoint what are the mistakes but they do not give us how to solve the mistakes."

Whereas when the researcher asked the same senior staff person if he had to follow the audit recommendations, he argued that he might do as the auditors

recommended but it would depend on the way he implemented it. The word "can do" is subject to interpretation as stated below:

> "The words 'can do' are subject to interpretation such as if we are talking about 'operating manual', what do you mean by 'operating manual'? I may come up with something with 5 pages and call it operating manual."

The head of another department disagreed with the auditor and believed that her approach was more practical and decided to follow her own way in practice.

> " Last year there was a case that auditors recommended some things to the previous head of this department. Now in practice we are still doing what we have done before because I do not agree with the auditors. It is impossible that we can always see eye to eye."

It was mentioned by a senior staff member that sometimes auditors' requirements could not in practice be followed by staff. When the researcher asked what he had done to respond to the audit, he said that:

> "I just acknowledge the comments and say I would try to do it a little bit better. We have a target date to respond to the audit points, but we often postpone it. From my point of view, auditors have to do their job too. The essential issue is to audit to the extent of what is perfect for the bank, but in reality no one can do that."

Another senior staff member added that auditors should listen to staff in the business departments and understand that in practice staff cannot follow the rules completely. Often, the issues and problems the auditors would find had already been recognised by business staff. Some had the impression that the auditors seemed to make their points from within their own sphere of knowledge, which was limited. On the other hand, it appeared that the auditors from head office in

Singapore seemed much more prepared to sit down and discuss the issues. They appeared more open-minded than the local Thai auditors. He claimed that local auditors were less likely to understand the problems, and much less prepared to admit that they did not understand something.

When speaking about local auditors, Western staff in ABC Thailand commented that local auditors focused too much on procedures. Local auditors like to see staff do what they are told to do and to follow these unwritten procedures. As he mentioned:

> "In my opinion, the guidelines are the overall working procedures. I do not think that you can follow them step by step, otherwise, you have to find someone to sit down and write the guidelines all the time. The guidelines are only the overall operational procedures. But I feel that auditors give too much attention to them."

In conclusion, from interviewing both Western and Thai employees in business and operating departments in ABC Thailand, it emerged that the way Singaporean auditors gave recommendations differed from the Thai auditors. Singaporean auditors tended to have fewer problems with staff members because they often proposed viable solutions and the staff members normally seemed grateful for the recommendation made. Singaporean auditors had a different perspective from the Thai auditors in giving recommendations. This is due, on the whole, to their greater experience in the banking business.

A senior Singaporean auditor, whose duty was to ensure that auditing undertaken in the Asia Pacific region was properly performed, commented that auditors' judgments tended to reflect their experience as auditors. He demonstrates this by describing the differences between two auditors:

> " One is a yes [conclusion of the audit] and one is a no, the yes one may not analyse it thoroughly. The no one may have more in-depth

*approach in the same ground. We have two different opinions, one very experienced and one with not so much experienced. One may say OK! Everything is in order, the other one would say no because the more experienced one would know that they have to do much more things. So it's clearly reflected in the quality of the branch audit... "*

*Summary*

In conclusion, at ABC UK staff members considered the internal control system in the bank to be important and were satisfied with it. They normally follow the bank's rules and comply with formal guidelines. Similarly, The staff members at ABC Thailand in the business and operating departments are satisfied with the control systems in the bank. However, they would not normally go back to check the written rules and policies all the time. They use their own judgements or follow their local norms more often than reading written rules.

Additionally, it seemed that the expectations and perceptions of internal auditors and staff members at ABC UK overlap. UK auditors do not only focus on written guidelines in their work, but also consider the actual practice to be significant. When the auditors find procedures that may be difficult for staff to follow, they are often quite happy to note it and subsequently raise it as a topic of discussion with staff in the business area in order to come up with the best solution. If what the staff members are doing is better in terms of control and more efficient, then the rules should be changed and the auditors will accept this change. On the other hand, it was found that in ABC Thailand staff members in business and operating areas have negative attitudes toward internal auditors, especially the local auditors. Their comments point to the issues that the local auditors focused too much on the written rules and regulations and ignored what should be done in practice. Staff commented that the local auditors are not open-minded and not willing to discuss problems with them. As a result, it was found that many recommendations by the auditors were not responded to in practice and they were left outstanding in the audit reports. The conflict between these two stakeholders will be analysed and discussed in more detail in the next chapter.

## 5.5 Weaknesses in Control Systems

This section summarises the control weaknesses that were discovered during the research fieldwork, which included observing the auditing process and reviewing the audit reports. The similarities and differences between these two branches in terms of their weaknesses are pointed out. The main purpose of this section is to make a data triangulation to examine the possibility of bias from the interviewees.

The weaknesses are summarised into different areas in table 5.4 and are shown in the order of the most frequent errors found. Owing to confidentiality considerations, the researcher has disguised the name of the departments mentioned in this chapter.

With respect to the audit reports, it would be worth mentioning that in the Bangkok branch they are different from the ones in London. They include all audit findings, agreed and disagreed points together with comments from auditees. Some audit recommendations were not finalised and agreed with the audited departments. More details on these weaknesses are presented in appendices E and F.

| Thailand | UK |
|---|---|
| 1) Accounting errors | 1) Lack of adequate control |
| 2) Lack of adequate control | 2) Inadequate supporting documents |
| 3) Failure to exercise due care | 3) No segregation of duties |
| 4) No key operating procedures | 4) No clear distinction of the roles and responsibilities |
|  |  |

| 5) IT problem | 5) Accounting errors |
|---|---|
| 6) No consistency in performing activities | |
| 7) Lack of audit trails | |
| 8) No segregation of duties | |
| 9) No clear distinction of the roles and responsibilities | |
| 10) Poor communication | |
| 11) Inadequate supporting documents | |

**Table 5.4:** Summary of the control weaknesses at ABC Thailand and the UK

The most frequent weaknesses found in Thailand were concerned with accounting errors and lack of adequate internal control. To cite a few examples: some incorrect asset types and depreciation rates were found and some transactions were not carefully classified; one account of loss on sale of a bank car was not properly recorded in the account of loss on sales of fixed assets. In addition, internal audit commented on several occasions that some departments did not exercise due care in their activities. For instance, department X did not review the trading booking method and recognise profit and loss accounts properly. This could have a significant impact on the balance sheet and profit and loss account. The lack of comprehensive KOPs (key operating procedures) in many departments were mentioned by Thai auditors as a main reason for these control weaknesses.

On the other hand, there were only a few weaknesses found at ABC London during the auditing process. In terms of the way internal auditors grade, these

weaknesses are considered to be medium or low risk rather than high risk. The only high risk item the auditors detected was in a new business function which was in the process of implementing and introducing the control procedures.

## 5.6 Key Findings from the Questionnaires

The main findings from the questionnaires are presented in table 5.6. Data from the questionnaires were used to gain understanding of the background of the interviewees. More details can be found in Appendix F.

---

- Information technology was considered as very important to all staff both in UK and Thailand.

- All interviewees in Thailand considered the department structure as strongly hierarchical, whereas in Singapore and UK, the majority thought their departments were flexibly hierarchical.

- Interestingly, it was found that Thai employees gave more importance to educational background rather than experience as most of the Thai staff members have graduate levels of study or higher. This is in comparison with staff in London where all have obtained an A-level or less, but have 10 years working experience at ABC.

- Staff turnover in UK was shown to be lower than the one in Thailand.

---

**Table 5.5:** Summary of the findings from the questionnaires

## 5.7 Summary

This chapter has been devoted to the findings of the interpretive study undertaken at ABC UK and Thailand. The researcher reviewed some interview responses by presenting some direct quotations as well as secondary sources from her observations and participation in the internal audit departments. The findings were

obtained from two stakeholders (internal auditors and staff members in both front and back offices) who work at ABC UK and Thailand. These findings will be used in Chapter 6 where semiotics and circuits of power approaches will be applied.

Section 5.2 presented the summary background of the formal rules and regulations of ABC bank. The interviewees' perception of the bank rules and regulations at ABC, both in Thailand and in the UK, as well as the researcher's observations were summarised.

Section 5.3 discussed the organisational structures of the bank. The impact of the new matrix system that ABC has introduced in the bank was pointed out. The focus of the discussion has been on its impact on the bank and the advantages and disadvantages of this new organisational structure. Interestingly, it was found that ABC UK did not see any big difference or impact on their work, in direct contrast to the result from ABC Thailand, where the majority of employees showed a preference for the old system.

Section 5.4 presented the opinions of the internal control and auditing functions from two different stakeholders, the auditors and staff members. It was found that the perceptions of auditors and staff in ABC Thailand were different. In contrast to ABC Thailand, in the UK auditees normally agreed with the auditors' comments and from their point of view auditors were beneficial for staff.

Section 5.5 summarised some weaknesses that have been found during the audit. These findings were reviewed and summarised in the audit reports and from observation by the researcher. The purpose of this section is to help the researcher compare and contrast the weaknesses and the risks that occurred in ABC UK and ABC Thailand. The findings showed that the weaknesses found at ABC Thailand were different from the weaknesses at ABC London. At ABC Thailand the most frequent weaknesses were concerned with accounting errors, inadequate control systems and the lack of written key operating procedures. In contrast, there were

only a few weaknesses found at the London branch and it was considered as low or medium risk only.

The last part of this chapter presented the results of the questionnaires of the interviewees. The questionnaires were used only as complementary evidence to the main study and to explain the background of the interviewees.

# Chapter 6

## Discussion

### 6.1 Introduction

The objective of this chapter is to analyse the findings of the study presented in Chapter 5. The research employs semiotics, the theory of signs, as a fundamental basis for this analysis. Additionally, a circuit of power theory is applied when pragmatic analysis is performed. The analysis is based on table 3.2. There are two parts to the semiotic analysis. The first part is concerned with the formal systems, and as such, the formal relationship between rules/regulations and the behaviours of people will be investigated. The focus will be placed on the integrity and availability of formal policies and procedures within the bank.

The second area of analysis, and the emphasis for this chapter, will be on the discussion of informal systems, in particular the three levels of the semiotic approach: the business world, the pragmatics and the semantics. The analysis of the business world will help the researcher understand the high level issues relevant to the bank. In analysing the business world the impact of the global policies, particularly the new matrix system, the staff's expectations and considerations of the internal control systems will be highlighted. For the pragmatic analysis, organisational norms and the compliance of human actions to the internal control systems will be discussed. Analysis of the Thai values and internal control systems will be explored to find out if there are any relationships between them. Furthermore, the circuit of power framework will be used to explain the relationship between power and the institutionalisation of information systems security, in this case study: the internal control systems.

Finally, the semantic analysis will be presented. The focus of this section is to understand the meaning of people's actions and their interpretation. The analysis will include the interpretation of the internal control systems and the local key operating procedures of the bank that were perceived through the eyes of its staff.

Lastly, the synthesis of this interpretive case study and results from the questionnaires will be discussed. The relationship between formal and informal systems will be analysed and the key findings from the study will be presented in more detail.

## 6.2 Formality

*Formal Policy and Procedures*

According to the policies of ABC Bank, it states in the guidelines that staff members' responsibilities are to implement the rules and procedures set out in the manual and raise any compliance-related concerns with the appropriate person. Everyone is responsible for the effectiveness of these rules and procedures. All employees are personally responsible for understanding and implementing the rules and other regulatory requirements that are relevant to the effective performance of their jobs. Besides being issued in paper form, some rules and restrictions are also available on the bank's Intranet and are updated regularly.

With regards to rules and regulations the focus is placed on the bank's policy and procedures, of which the two most important ones are global and local. In this section, formal rules, guidelines and procedures, which determine the legislation and formal procedural controls applied at ABC will be examined. An investigation of the integrity and availability of internal control will be undertaken. This information will help the researcher to understand the formal systems that are used to control the organisation and develop the idea of their relationship with the informal systems and the people involved.
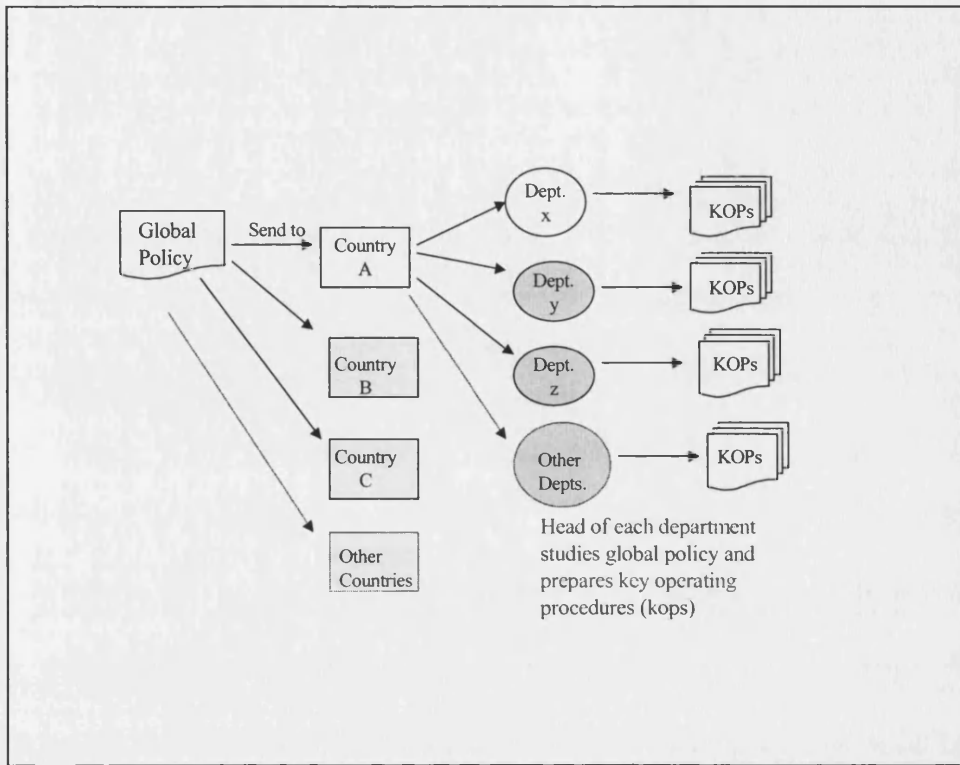
**Figure 6.1**: Flow of the global policy from head office to branches

*Integrity and Availability*

In theory, the formal guidelines, policy and procedures are supposed to be updated on a regular basis. Global policy is central to the procedures that banks have to follow in order to keep up their standards, with the policies then being disseminated to their relevant departments at branches across the world. ABC Bank has many branches around the world and is required to comply with the regulatory requirements of each of the countries through which trade passes. Often there is a great disparity between them. For instance, the products in the Thai branch are much less complex than those of Western countries; levels of trading are lower and the experience of employees in trading new products and services is less. Many financial products considered new in Thailand have actually been in operation in Western countries for many years. As a result, some rules and regulations between these two countries may be different.

157

*ABC UK*

As mentioned in chapter 5, the researcher found at ABC UK that, in reality, the key operating procedures were readily available and updated within each of the departments. Only in one instance, where a particular department had just been set up, were the key operating procedures not yet in place. Overall, there were very few problems found at the London branch of ABC Bank. Both auditors and staff members in the business area confirmed that the key operating procedures were updated or reissued twice a year, or as necessary.

It was mentioned that some controls are written down and some are on the bank's Intranet. The local key operating procedures are updated on a regular basis and are written in-line with the bank's policy in each department. For the areas that do not have written policies, staff members do what they think best for the bank, subject to the approval and supervision of the department head. From time to time situations arise where things are not detailed in the written rules; they have to make the best decisions based on good control systems. The head of one department commented that her department had good procedures in place, and staff members strictly adhered to all controls. However, in practice situations might arise where, despite the best efforts and initiative of everyone concerned, the rules and guidelines could not be applied. In these cases it was left to the initiative of the staff, particularly the department heads, to come up with the solutions which the written guidelines cannot cover. At such a point, the local key operating procedures must be updated or amended to remedy these deficiencies. This is considered by auditors, staff and management at ABC UK as normal practice and acceptable (figure 6.2).
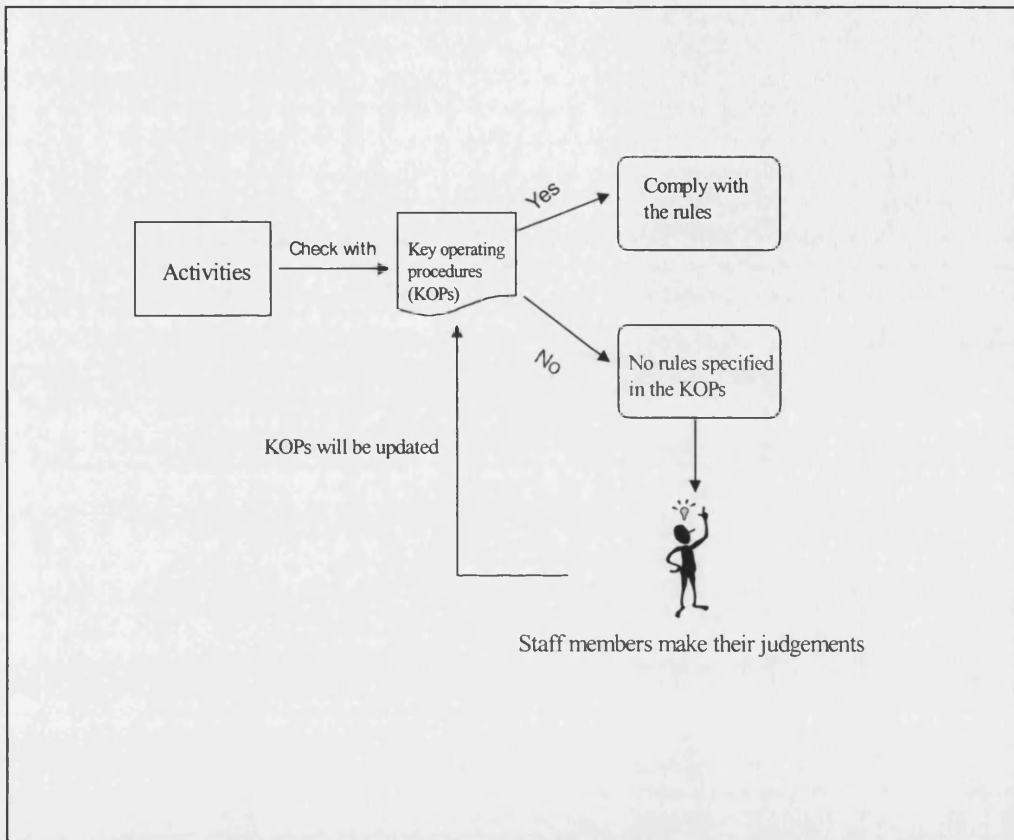
**Figure 6.2**: Formal rules and practices at ABC UK

*ABC Thailand*

At ABC Thailand, on the other hand, it was found that there were very few local key operating procedures in place and that, even when in existence, they were not fully updated. Both auditors and staff in the business areas at ABC Thailand confirmed this fact. In many situations, it was found that employees would rather use their own judgements than refer to the formal rules. A few possible reasons for this situation were advanced. Firstly, regulations in Thailand have undergone many changes. Also, the Bank of Thailand required the delivery of numerous reports and imposes many more regulations than required in other developed countries. As the local market continues to develop, the rules and regulations issued by regulators undergo continual change, thus making it difficult to keep the operating procedures up to date. In contrast to ABC UK, in Thailand the control policies are not well documented, and even when they are, they are not

159

necessarily appropriate for the Thai branch. This may be due, in part, to the bank's attempt to apply a "one-size-fits-all" policy to all the branches.

Another reason, given by members of staff for the lack of documented and updated key operating procedures was simply not having the time to do it. Employees claimed to be too busy with their day-to-day work which necessarily will be given priority. Also, and perhaps more significantly, staff members simply do not consider it important to cross-check what they do with what is set down in the guidelines. Many members of staff cannot see the significance of checking all they do with the formal rules. Formal rules in Thailand can be illustrated in figure 3.2.

```
┌──────────────────────┐      ┌──────────────┐      ┌──────────────┐
│ - Employees do not   │      │              │      │ Key Operating│
│ have time to update  │      │ Out of date  │      │ Procedures   │
│ the key operating    │ ⇒    │ Key Operating│ ⇒    │ are not      │
│ procedures.          │      │ Procedures   │      │ referred to. │
│ - Employees do not   │      │              │      │              │
│ consider the key     │      │              │      │              │
│ operating procedures │      │              │      │              │
│ important.           │      │              │      │              │
└──────────────────────┘      └──────────────┘      └──────────────┘
```
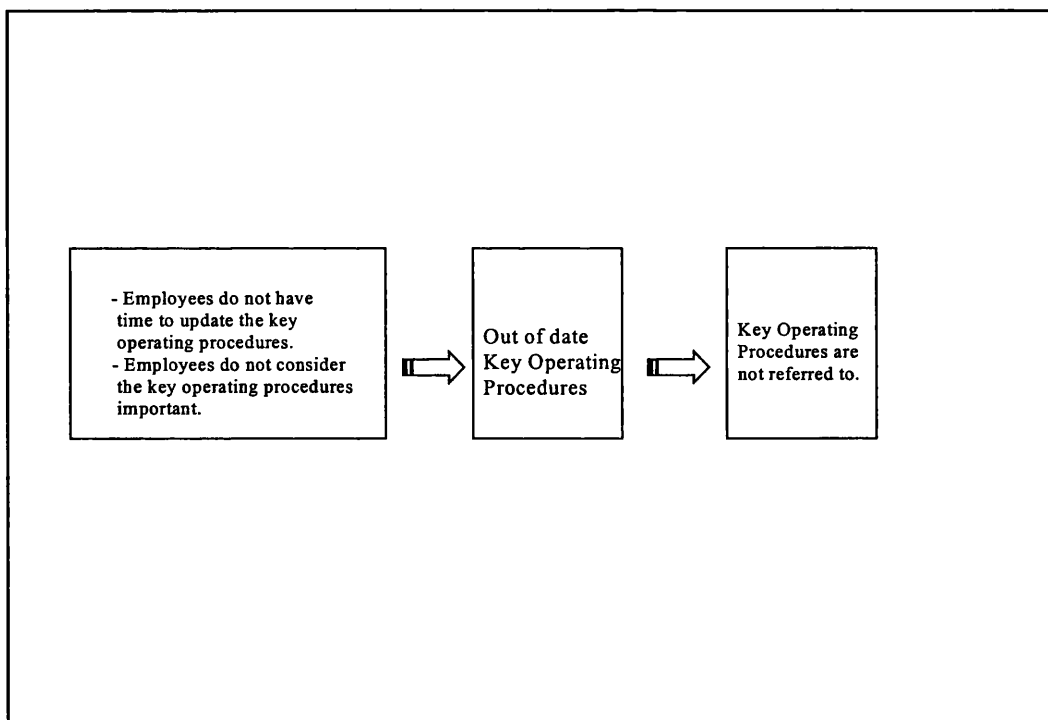
**Figure 6.3**: Formal Rules at ABC Thailand

*Summary*

We can see from the research presented thus far that there are problems in the internal control systems at ABC Bank, more specifically at ABC Thailand where there are some weaknesses in the formal systems. In comparing the situations in the UK, where operating procedures and guidelines are smoothly and systematically referred to and updated, in Thailand owing to a variety of factors these procedures and rules are simply disregarded. It is clear that analysis of the formal system alone cannot reveal the whole picture when it comes to the implementation of global policies and internal control systems. As such, in order to draw out the factors causing these problems and to explore the phenomenon, it is important to consider the analysis of informal systems where the main focus is on the interpretation and cultural aspects in ABC Bank. These analyses will be discussed in the next section.

## 6.3 Informality

### 6.3.1 Analysis of the Business World

The analysis of the 'business world' of ABC Thailand and UK will help to draw out various aspects relevant to the bank. In analysing the business world of ABC Bank, the global policies are discussed. The emphasis is placed on organisational change and the expectation and considerations of the internal control systems. This will help highlight the implications for the internal control systems in the bank.

### Change in Organisational Structure

As mentioned in chapter 5, ABC bank changed its organisational structure to the matrix system a few years ago. Owing to the launch of many new product lines and higher competition in the global market, the bank had to change its business strategy to be more product-oriented, with ABC re-organising its staff by product line. It was expected that with the new matrix system, staff would begin to refer to their colleagues in their specialised area, regardless of location, resulting in

better co-ordination and knowledge transfer taking place at ABC in a global dimension.

However, in reality whether this can apply in every branch is in question. From the point of view of policy, local regulations may be one factor that limits the benefit of the matrix. Sometimes what has been implemented in one country cannot be fulfilled in another country because of different policies or regulatory requirements in place there.

From the findings of this research, it was found that at ABC UK there was little evidence of adverse impact from this change and the management's expectations from the new matrix system of staff's operations and expectations were well met. This may be because ABC UK is based in an already well-established and important financial market. Many products have been traded in London for many years and many new products have been launched there. Co-ordination and communication would also have been good before the introduction of the matrix system. From the interviews with staff at ABC in London, it was noted that they generally have not seen much impact on their work. As mentioned earlier, this may be because the focus of power and authorisation was already in the UK, even before any organisational change took place.

The benefits of the new matrix system may be for the branches in less developed markets such as in Thailand. However, from the interviews, the researcher found that, in contrast to ABC London, the organisational change has had an important impact (perhaps even negative) on the staff at ABC Thailand. With the changes to a matrix organisation, all decisions have passed directly to Singapore, London or Frankfurt, in accordance with their respective direct reports. In other areas internal controls seem to be gradually relaxing as people begin to aim for high return and high risk. The branch manager's role and responsibility has been lessened. He no longer has direct authority in the branch. As a result the branch manager might not be aware of certain issues that arise in the branch. Under the matrix system,

business staff members find that roles and responsibilities are no longer clear and therefore are often not sure who must be informed when issues arise; i.e. between their direct report, the branch manager, or one of their colleagues in the same business line abroad. Use of personal judgement is therefore generally regarded as the norm, it is assumed, therefore, that staff members are good enough to know what is right and wrong. In order for this to work though, the bank has to have a certain amount of faith in their staff to do their work properly, as it is not possible for every step in every activity to be controlled by a set of formal rules and regulations. One senior staff member mentioned that he tended to use informal rules in practice rather than the formal procedures, in order to ensure that everything was abided by.

However, the impacts are not only on the negative side, it was found that there were a few advantages from the new system. All details were discussed in Chapter 5. The table below is the summary from details in "Advantages and Disadvantages of the Matrix System" in Chapter 5:

| Advantages | Disadvantages |
|---|---|
| • Bank develops more specialised expertise and knowledge in particular market sectors and product lines, thus facilitating the selling of products on a more global basis. | • Branch manager might not be aware of all issues that arise in the branch. |
| • Staff members have to be more competent and efficient at keeping up the standards of the bank. | • Co-operation and communication is not as good as before. |
| • Knowledge is transferred more effectively from one country to another. | • Staff members develop a more "do not bother me" attitude. |

| | |
|---|---|
| • Staff members gain more knowledge in what they are doing and develop more specialised expertise. | • Fewer written guidelines are available. |
| | • Local guidelines or local key operating procedures are not updated. |
| | • Bank becomes more profit driven and takes more risks. |
| | • Staff members have more flexibility and rely more on personal judgement rather than looking at the written guidelines. |
| | • Roles and responsibilities of staff are not clearly written in the local guidelines. |
| | • Only few on-site guidelines and supervision are available for the staff. |

**Table 6.1**: Advantages and Disadvantages of the matrix system at ABC Thailand

As mentioned in Chapter 5, when staff members at ABC Thailand were asked which system they preferred, between the old system and the new matrix system, the majority of the Thai employees (both auditors and staff members in the business areas) chose the old system. This was despite the fact that the old system had its fair share of problems and did not necessarily provide a solution to every problem. This shows that staff members' willingness to co-operate with the new structure had failed to meet the expectations of management.

In summary, although the matrix system has the potential to be successful in both developed and less developed markets, at the moment it may work more clearly in some branches than others. A matrix system has both advantages and disadvantages. An analysis of the formal side alone, such as the written audit reports and financial statements, cannot allow for a full understanding of the problems caused by the changes. Hence it is also important to understand the behaviour of employees and their expectations. The next section presents the other main issue, in this case the staff members' considerations and expectations of the internal control systems of ABC Bank.

*Considerations and expectations of the internal control systems of different stakeholders*

From the management's viewpoint, internal control systems are developed to ensure that the management policies are being followed and that the risk of frauds or mistakes can be minimised. The company's policies are written in a general guidelines manual, a kind of bank's bible that the staff members must refer to and follow. The local key operating procedures are a closer reflection of day-to-day activities and works that are written down and kept in each department.

For auditors, these formal guidelines of the control systems are an essential part of the auditing process which ensures that properly updated policies are in place. From the auditor's point of view, banks should have local key operating procedures covering every area. One reason is that the roles and responsibility of employees can be clarified. Staff members' responsibilities are to implement the rules and control procedures set out in the manual. Everyone is responsible for the effectiveness of these rules and procedures. All employees are personally responsible for understanding and implementing the rules and control procedures and the other regulatory requirements that are relevant to the effective performance of their jobs.

However, when we look at the reality, even though the bank has in place the written guidelines that have details for each operation, it is impossible for the bank to write every step of each operation. This is why there are general guidelines and procedures that the employees should follow. There are also individual procedures on local key operating procedures. It is still possible that certain things do not get written down in the guidelines.

From the research it was found that UK staff, both auditors and staff members in business and operations, consider the internal control systems, the written guidelines and local operating procedures to be very important. The guidelines and local key procedures have been updated and revised on a regular basis when there are any changes. In contrast to ABC UK, for business staff in ABC Thailand the guidelines are considered to be just paperwork, adding no real value to their business. Consequently, some of the guidelines will not be prepared for these formal procedures. It has been found that in some areas local key operating procedures are not in place. Almost all local operating procedures in ABC Thailand are out of date. They do not fit their modern business and therefore are rarely used. As a result, staff members tend to rely on their personal judgements or expertise rather than strictly adhere to the bank's internal control policies. Nevertheless, Thai auditors at ABC Thailand have a different opinion from the staff members in the business areas. Thai auditors consider the written guidelines an essential part of their auditing process and will ensure that appropriately updated policies are in place in each department.

The analysis thus far has seen that the organisational change within ABC Bank may have a significant impact on the expectations and obligations of the internal control systems and more specifically of the guidelines. Management at ABC had an expectation and vision that the matrix system would change the culture and attitude of the people within the bank. The management wanted to see the bank develop more specialised expertise and expected that under the new system, it would allow the channel of information and knowledge to flow back and forth

166

across borders. All the guidelines would be adapted and applied to all branches without exception. Staff would be able to communicate and co-ordinate better than before.

However, this expectation cannot be fulfilled in every branch. In the case of ABC Thailand, for example, staff considered this new organisational structure to be of no added value to the existing system. The attitude toward the written guidelines became more "do not bother to check it". As a result, many local key operating procedures have not been updated. In addition, from their point of view, under the matrix system, people tended not to co-operate very well with each other, as they would only want to concentrate on fulfilling regional/head office mandates or requirements. Thus they are much less concerned with what is happening in other departments locally. The earlier system tended to produce much better co-operation within the organisation, with people taking a genuine interest in what was going on around them. The differing expectations are an indication of a mismatch between the management's perspective and the views of the staff, especially the ones in different cultural and environments to the bank's management. This points to the fact that management may have been looking only at the physical and logical control issues (formal system), while ignoring the deep impact from the pragmatic aspects. The next section will discuss this in greater detail.

| Head Office — | ABC UK ≠ | ABC Thailand |
|---|---|---|
| - Bank's policies are followed strictly. | - Bank's policies are followed strictly. | - Some employees prefer to use their own judgements |
| - Bank's guidelines are updated regularly. | - Bank's guidelines are updated regularly. | - Many local guidelines are not updated. |
| - Information and knowledge can be transferred from branch to branch more effectively. | - No evidence of any changes was found. | - Employees develop attitude "Do not bother me". |
| - Employees can co-ordinate communicate better than before. | - No evidence of any changes was found. | - Staff members do not co-ordinate or communicate well as before. |

**Figure 6.4**: Different views on bank internal control systems under matrix structure

### 6.3.2 Analysis of the Pragmatic Aspects

People in different cultures are believed to have different notions of reality. To interpret the context of their communication, the assumptions, norms and beliefs of people have to be taken into consideration. In this section, cultural implications for internal control systems and security are discussed. Analysis of the Thai values and related control subjects is undertaken to find out if there are any relationships between them. Furthermore, the circuits of power framework is used to explain and analyse the relationship between power and the institutionalisation of the global policies. The forces and factors at work in the process of institutionalisation are also discussed.

Dhillon (1997) stated that in understanding the function of information systems within an organisation, the emphasis should be placed on how different people within an organisation behave and interact with information, not on how people understand and use the formal rules or technology. This implies that basic human attributes such as behaviour, attitudes and values are a key to interpreting the use and misuse of information. This research was conducted in Thailand and UK, two countries which operate within completely different social and cultural environments. It would therefore be worthwhile to explore the cultures of the two different branches of ABC Bank.

The following section present findings from the interviews at ABC UK and Thailand. The information is concerned with the employees' attitudes and behaviours on different issues, mainly internal control systems and the global policies which include the new matrix system and the internal audit function.

*Organisational Culture*

The UK auditors mentioned that there were differences between auditing departments in the branches of different countries. Some audit issues they found were different but some were the same global issues. Some issues occurred in London, New York and other branches, but some occurred only in London. The global issues tend to be a higher risk. Very often, local processing and control issues in less developed countries would be a higher risk in the back office.

One particular auditor, who had joined ABC UK less than a year previously and had worked in the internal audit departments with an American bank previously, commented that the US bank had a different cultural approach. He also mentioned that the awareness of the content of the formal documents in the American bank was less than at ABC. This comment confirmed the notion that culture may affect organisational policies and practices differently from country to country. Several scholars have commented that there is no culture-free context for an organisation (Bartlett and Ghoshal: 1989, Royle (1995), Enderle: 1997, Wasilewski: 2002,

Thorne and Saunders: 2002). Even if the organisational contexts are similar, they are always culturally constructed and very imperfectly interpreted as the reaction to certain constraints. Culture enters organisations in many ways such as business policy, finance, work relations, education, training and many other factors (Sorge:1980; Child:1981; Sekaran and Snodgrass:1986).

Barrett and Walsham (1995) also highlighted the influence of national culture on the shared values and attitudes of people within an organisation. Their study described how the culture of IS development was different in India and Jamaica. They found that while occupational cultures for Indians and Jamaicans alike originated from software development, the impacts of the local work culture in India and Jamaica were significantly different and that the norms of Indian workers were different from those of Jamaican employees. Failure to understand these variances led to a breakdown in their software development. It is not overstating things to say that cross-cultural issues are important and that they need to be managed effectively and properly. The next section discusses the views of the cultural context in Thailand, where the environment was significantly different to the UK and the ABC head office. The discussion will help highlight those cultural differences in the bank between the Thailand and the West.

*Thai Culture and Staff Practices*

One Western employee stated that UK employees displayed more experience than the local employees in the developing market in Thailand. This is may be because UK staff members have worked for many years within established markets where controls and procedures have been established for many years. They have therefore a better overall understanding of the bank's products and businesses. Consequently, staff members who go over to work in the developing markets in Asia have tended to generate more respect than the locals. On the other hand, local employees will generally not have worked very long within their market areas and would therefore not have as much product knowledge. Some Westerners have even found that they get more respect than in their own country. This is

particularly true within Thailand where the Westerners may get respect simply for being foreign.

It has been mentioned that Western employees have had to learn to understand the Thai way of doing things. For instance, when someone is asked to do something, in an Asian culture they will automatically say yes. So, asking a question, or something which could have negative connotations will elicit the response that the Thai employees think is preferred rather than a true opinion. One Western staff member said that rather than saying can you do XYZ, they have to be more open and say "explain to me how do you do this". Thai employees do not like to say "I can't do this, I do not understand it." They prefer to hide the problems.

Another problem pointed out was that sometimes the Western manager would ask his Thai staff for some help to which they would readily agree even though they knew they would either not be able to do it, or simply could not find the time. This is a feature of their culture, which makes it very difficult to say "no" to people especially if that person is their boss. Therefore, on some occasions Thai people will not show their true feelings to others.

In addition, the same Western manager mentioned that not being Thai meant that in certain areas local staff would not come to talk to him because he is not Thai. Thai employees may feel uncomfortable discussing with foreigners and will prefer talking with one of their local people. Furthermore, he added that Thailand has many regulations required by the government and many reports are prepared by manual input that take up a lot of staff time.

A British employee working in Thailand made a few observations as to the differences between the two cultures. To begin with, Westerners are generally considered to be a lot moodier than Asians: when they are happy, they are very happy, but when they are sad, they are very sad. Secondly, Western culture relies much more on facts. They are more open-minded if they make a mistake

they will accept the consequences and try to solve the problem. Finally, an important difference is that when things go wrong Westerners tend to concentrate on solving the problem and moving on, while Asians tend to be more pre-occupied with not losing face, and therefore will distance themselves personally from the problem.

An interviewee of a Singaporean auditor also suggested that Thailand may be more bureaucratic than other countries such as the UK and Singapore. For instance, the Bangkok branch of the bank tended to maintain more rules, more paper work, more reports to be produced, than in Singapore and the UK.

Language had become another problem in the back office of ABC Thailand. While the bank has tried to recruit people with very good English-speaking skills, Western senior staff in the business mentioned that they would rather have someone with good spoken English and average intelligence rather than someone with good intelligence and average English.

The staff turnover in ABC Thailand was quite high and when asked for the reason, the head of one department explained that it was due to low staff morale and the lack of staff training. Western staff working in Thailand added that there was another factor: people in Thailand tended to lack creativity and initiative. They wanted to be told what to do. The same staff added that in investment banking the bank cannot afford to be telling somebody what to do every time new products are introduced. Many people in his department come to ask him for advice on how to do things, often coming back two or three times. He gave the opinion that this may work fine in less dynamic environments such as manufacturing, where employees do the same things over and over, and everybody knows his or her roles, and where very little creativity is needed, but in the banking environment this was not acceptable. He tries to encourage his staff to learn to solve their own problems and be more creative and develop their own ideas.

It was revealed that Thai staff would feel embarrassed about asking a question or imposing themselves on somebody else. It was pointed out that this is a fundamental difference from the Western working environment. A Western staff member in Thailand mentioned an example of when someone came to him to ask for additional staff to help on a project. In the environment that he used to work, an employee would not necessarily come straight to him. They would first asked their colleagues to help, but the way it seemed to work in Thailand was that the request came straight to him as a boss first, then he had to go to his other staff and ask them to help their colleague. Then this person would come back and say to him "yeah, that's a good idea" and ask his permission to go ahead and help out.

Another problem pointed out by the same staff member was that as a boss he could not afford to keep track of everything his staff members were doing.

> " It becomes so inefficient. I end up spending a lot of my time reading emails of what people tell me they are doing, like "oh, I posted this invoice". In the majority of cases I do not need to know. "

He commented further that if the bank tried to enforce change and introduce different ways of doing things in the bank, it could sometimes cause low motivation and general unhappiness.

**Cultural Implications**

This section describes some cultural values in the UK and Thailand by referring to the empirical research database developed by Hofstede (1984,1991) and the results of other culture researchers (Hall: 1976, Hofstede and Bond: 1988, Komin: 1991).

It is evident that much of literature concerned with cultural and cross-cultural issues in the information systems filed has referred to Hofstede's work (Myers

and Tan: 2002). Walsham (2002)[32] criticised some weaknesses in Hofstede's studies: 1) the assumption of cultural homogeneity; 2) no significant analysis of detailed work patterns; and 3) inadequate attention to the dynamic nature of culture. However, Walsham accepted that there is a shortage of both rich descriptions of cross-cultural interaction and theoretical explanations in the cross-cultural research in information systems. More research in this area is therefore required.

The researcher was aware of these weaknesses and therefore included the empirical research from other researchers in the analysis of this section. Hofstede (1984, 1991) identified four constructs that have been the foundation of much cultural research: power distance, uncertainty avoidance, individualism and masculinity. Hall (1976) identified a communications context construct. Hofstede and Bond (1988) identified a time perspective construct. Komin (1991) also suggested face saving, criticism avoidance and Kreng Jai values of Thai values. These cultural variables are defined as follows:

*1. Power distance*: the extent to which members of a society accept that power is unequally distributed in organisations.

*2. Uncertainty avoidance*: the degree to which members of a society feel uncomfortable with uncertainty and ambiguity, which leads them to seek conformity.

*3. Individualism*: the extent to which members of a society believe that individuals are supposed to take care of themselves and their family as compared with a collectivist society where there is unquestioning loyalty given to a larger group.

---

[32] From Walsham's presentation at the Social Study of Information Technology (SSIT) workshop at London School of Economics and Political Science (LSE), 22/4/02

*4. Masculinity*: the extent to which a society is achievement-oriented, assertive and competitive as opposed to femininity, which is the extent that a society values relationships and caring for others.

*5. Time perspective*: Hall defined this as either monochronic, which characterised a society with a preference for sequencing tasks and working without interruption, or polychronic, which is characterised by the simultaneous occurrence of many things, and involvement of many people in addressing things simultaneously. Hofstede and Bond (1988) and Hofstede (1991) refer to this construct as either short term or long-term orientation.

*6. Communication context*: low context means information is stated directly and reflects a preference for hard, quantifiable detail as compared with high context, which reflects a preference to draw conclusions from implicit information via intuition.

*7. Face-saving*: the value occurs whenever there is any problem to be solved that would directly or indirectly involve people. The first criterion to consider is, therefore, saving face for themselves or sometimes the persons involved.

*8. Criticism avoidance*: this value means that criticism of any type is a social affront and an insult to the person. Strong criticism of ideas is often automatically taken as criticism of the person holding those ideas.

*9. Kreng Jai*: the attitude means "feeling considerate for another person, not wishing to impose or cause the other person trouble, or to hurt his/her feelings", "to be considerate, to feel reluctant to impose upon another person, to take another person's feelings into account, or to take every measure not to cause discomfort or inconvenience for another person". Kreng Jai refers to such an attitude, predisposed to one's resulting behaviour towards someone else.

*Analysis of the Western and Thai Values and the related internal control subjects at ABC Bank*

The aim of this section is to try to see the relation between the cultural values based on the 9 dimensions mentioned in the last section and the findings from this study. The findings from the interviews concerning staff members' attitudes and behaviours at ABC UK and Thailand are summarised and analysed. The analysis of the cultural values and the related internal control subjects at ABC Thailand is also concluded in table 6.5.

Analysis of the cultural values and employees' attitudes and behaviours at ABC UK

| ABC UK | Cultural Values |
|---|---|
| • Staff members consider bank's rules and regulations very important and they follow and update their local key operating procedures seriously on the regular basis. | (6) Low communication context |
| • Most staff members consider their organisational structure as flexible hierarchical structure. | (1) Small power distance |
| • Members of staff have an opportunity and are willing to learn new things regularly. | (4) Weak uncertainty avoidance |

**Table 6.2**: Analysis of the attitudes and behaviours of staff at ABC London

Analysis of the cultural values and employees' attitudes and behaviours at ABC
Thailand

| ABC Thailand | Cultural Values |
|---|---|
| • The local key operating procedures are not fully up to date. Employees tend to follow the social norms rather than the formal rules. | (6) High context |
| • Most staff members consider their organisational structure as strong hierarchical structure. | (1) Large Power distance |
| • Some staff members lack creativity and initiative. They want to be told what to do. | (1) Large Power distance |
| • Some staff members feel embarrassed about asking a question or imposing themselves on someone else. | (2) Strong uncertainty avoidance<br><br>(7) Strong Face-saving |
| • Some staff members prefer reporting everything they do to their boss and ask for permission before doing anything. They prefer to work in a team more than individually. | (1) Large Power distance<br><br>(2) Strong uncertainty avoidance<br><br>(3) Collectivist<br><br>(5) Polychronic |
| • When the bank tries to change or introduce different ways of doing things, it can sometimes cause low motivation levels and general unhappiness to Thai staff. | (7) Strong Face-savings<br><br>(8) Strong criticism avoidance |
| • Westerners get more respect simply for being foreign. | (4) Femininity |

| | |
|---|---|
| • Thai employees do not like to say "I cannot do it", so sometimes people will not get the straight answer or true opinion. | (7) Strong Face-savings<br><br>(9) Strong Kreng Jai |
| • Thai employees sometimes may feel uncomfortable discussing issues with foreigner colleagues or their boss. | (2) Strong uncertainty avoidance<br><br>(7) Strong Face-savings |

Table 6.4: Analysis of the attitudes and behaviours of staff at ABC Thailand

Using the analysis described above from the ABC Case study in the UK and Thailand and from other culture researchers, the dissimilarity in cultural values of the two countries can be summarised in table 6.5.

| Culture values | UK | Thailand |
|---|---|---|
| 1. Power Distance | Small | Large |
| 2. Uncertainty Avoidance | Weak | Strong |
| 3. Individualism | Individualism | Collectivism |
| 4. Gender Focus | Masculine | Feminine |
| 5. Time Perspective | Monochronic and short term | Polychronic and long term |
| 6. Communication Context | Low context | High context |

| 7. Face Saving | Weak | Strong |
|---|---|---|
| 8.Criticism Avoidance | Weak | Strong |
| 9. Kreng - Jai | Weak | Strong |

Table 6.4: Culture values of two countries based on Hofstede's, Hall's and Komin's dimensions

The analysis above shows that there are differences in cultural values between ABC UK and ABC Thailand. The analysis of the ABC case study displayed similar results to the cultural values in Western and Eastern countries conducted by other culture researchers. For example, staff employees in Thailand were criticised for their lack of creativity and initiative. They wanted to be told what to do. This was because in a large power distance country like Thailand, people are willing to accept inequality of power between a subordinate and a superior. Thai employees, therefore, would be afraid to express disagreements with their manager. As a result, staff members prefer to be told what to do by their boss. An attempt by a multinational firm to impose a participatory working environment (as a Western boss tried to do) in a high power distance country as in Thailand is therefore likely to fail.

At this point, it is worth mentioning that an understanding of differences in cultural values can help explain why people act or behave differently in respect of internal control systems. Cultural differences add complexity to organisational control in multinational firms such as ABC. Firms attempting to standardise their policy and procedures around the world should put more effort in responding to cultural differences through both training sessions and design of internal control systems. Failure to understand these cultures can lead to possible negative consequences. The next section will discuss the potential security risks that can occur at ABC Thailand, where it is evident that global policies from ABC ignored

the cultural differences with Thailand. Being aware of and understanding these risks would help ABC design a more appropriate global policy and procedures.

The following table shows the analysis of some Thai values and the organisational norms that may lead to possible negative consequences.

| **Values/Cultures** | **Organisational norms** | **Possible Negative Consequences** |
|---|---|---|
| 1.Large Power Distance | Employees lack creativity and initiative. They want to be told what to do. | An attempt from management to impose a participatory working environment is likely to fail.<br><br>Employees will not express their true opinion to their manager. |
| 2.Strong Uncertainty Avoidance | Some staff members prefer reporting everything they do to their boss and ask for permission before doing anything. They prefer to work in a team more than individually. | Employees have high resistance to innovation. |
| 3. Collectivism | Staff members prefer to work in a team more than individually. Preferential treatment is always extended to the in group. | There may be a failure to "blow the whistle" on staff to force a correction of the problem in a timely manner. |

| | | |
|---|---|---|
| 4. Femininity | Westerners get more respect simply for being foreign. | Employees may not express their disagreement to their Western boss. They will not show their true opinions. |
| 5.Time Perspective-Polychronic | Some staff members prefer reporting everything they do to their boss and ask for permission before doing anything. They prefer to work in a team more than individually. | Employees are too dependent on their boss and will therefore lack creativity and initiative. |
| 6.High Communication Context | The local key operating procedures are not fully up to date. | Roles and responsibilities are not clear. Employees will prefer to use their own judgements more than consulting the rules. This may cause high risk for the bank. |
| 7.Face Saving | Some staff members feel embarrassed about asking a question or imposing themselves on someone else. | Employees will not share their new ideas with their boss or colleagues. When they do not understand some rules, they may use wrong judgement. |
| 8.Criticism Avoidance | Thai employees like to avoid any criticism and confrontation. They do not want to change the way they do things because they do not like to hear negative comments. | When the bank tries to change or introduce different ways of doing things, this can sometimes cause low motivation levels and general unhappiness to Thai staff. |

| 9. Kreng - Jai | Thai employees do not like to say "I cannot do it". | True opinion or straight answers will not be received from Thai staff. |
|---|---|---|

Table 6.5: Interpreting the implication for security at ABC Thailand

In conclusion, it is evidence that the cultural values and employees' attitudes and behaviours at ABC Thailand are considered to be vastly different from the ones at ABC UK and ABC head office in Europe. The assumption of ABC management that management policies and practices from head office should be addressed in a co-ordinated and similar way in every branch has proved to be wrong, at least in the Thai branch. Different cultural backgrounds lead to different ways of perceiving the world and cultural differences affect employees' attitudes and behaviours. As such, differences in social and cultural environments should call for differences in management practices. 'One-size-fit-all' policy should not be applied within the multinational companies.

In the following paragraph a circuits of power framework is adopted to explain the relationship between power at ABC and the process of institutionalisation of the bank's internal control systems[33].

## The circuits of power

The circuits of power framework is applied in this section to view the process of institutionalisation of the internal control systems that can explain the security culture at ABC UK and Thailand. As explained in Chapter 3, there are three circuits of power described as: episodic, social integration and systemic integration. Each circuit is defined by a different type of power: causal in the episodic circuit, dispositional for social integration and facilitative for systemic integration.

---

[33] The primary control systems that are discussed in this study include the application of the matrix systems, the compliance to key operating procedures and the function of the internal audit.

*Episodic circuit*

The analysis begins by looking at the episodic circuit. The power relationships of As and Bs have to be identified. In this study, As are the management at the head office and Bs are the employees at ABC UK and Thailand. The course of action that the management wants the employees to follow is to comply with the bank's internal control policies and procedures. The standing conditions of the management is given by its official authority, whilst the condition of the employees are clearly stated in the bank's rules and regulations that employees have to comply with all the bank's standards and policies.

In this case study, the causal power exercised by the management over staff members at ABC UK was effective. The results so far show that the UK employees considered the controls to be very important and they always made sure that they followed the bank's rules and guidelines. In contrast, there was resistance to the compliance of internal control policies in some areas in ABC Thailand. Staff members were not happy with some global policies from head office, such as the application of the new matrix system and the update of the local key operating procedures. In many situations it was found that Thai employees would rather apply their own judgements than refer to the global policies. Consequently, the management could not make the employees comply with all internal control systems.

*Social integration*

The main task of social integration analysis is to identify how the internal control systems are related to the rules of meaning and membership of the bank. Social integration would be achieved when the system is in agreement with these rules. To achieve social integration the internal control systems need to be aligned with the rules of membership. At ABC UK, the internal control systems as institutionalised reinforced the rules of meaning and membership of the organisation. It is a source of dispositional power as it empowers the management to be able to deal with the global operations. Employees at ABC UK had a

positive attitude toward the internal control systems and they understood that they had to comply with the bank's rules strictly. In contrast, staff members at ABC Thailand complained of some internal control procedures within the bank. Their attitudes toward the internal control systems in some areas were negative. Social integration was disrupted at the Thailand branch because the employees considered the use of some internal control systems a waste of time and they did not always comply with the bank's rules and regulations.

*Systems integration*

The systems integration circuit considers power as facilitative. The management's power is facilitative because it is the management who decides the goals that are to be achieved by the employees' actions. In other words, it is the management's facilitative power that keeps the employees working together. The circuit focuses on the mechanisms and techniques of discipline drawn on by the management to ensure the employees' compliance with the global control policies. At ABC UK the institutionalised internal control systems have become a fundamental discipline in the bank. The control system is a source of facilitative power since the system allows the bank to operate without interference from the head office. In contrary, systems integration at ABC Thailand is disrupted because the control's procedures were in contradiction with the working practices in some areas. To cite an example, as mentioned in Chapter 5, in many situations it was found that there were very few local key operating procedures in place and most of them were not updated.

In conclusion, the circuits of power theory provides a coherent basis for explaining the power relationships in information systems, particularly in this case, the explanation of how internal control systems have become institutionalised. The results showed that the internal control systems at ABC UK have become institutionalised in which all the control systems were aligned with the bank's strategies. In other words, the control systems have been incorporated into the disciplinary practices of the employees at ABC UK. In contrast, the

institutionalisation of internal control systems at ABC Thailand has not yet been fulfilled. The management cannot make the employees comply with all the internal control policies and procedures as happened in the UK. The analysis thus far shows that the level of institutionalisation between ABC Thailand and ABC UK is divergent as presented in table 6.6.

| | Episodic Circuit | Social Integration | Systemic Integration |
|---|---|---|---|
| **ABC UK** *The internal control is institutionalised.* | Staff employees at ABC UK generally comply with global policies as part of their routines. | The internal control systems reinforced the rules of meaning and membership of the bank. | The internal control systems have become a technique of discipline in the branch. |
| **ABC Thailand** *The internal control is in the process of being institutionalised.* | The management tries to make the employees follow the control systems, but the management cannot make them comply with all the bank's internal control policies and procedures. | Social integration is disrupted as the employees regard some internal control polices as a waste of time and they do not comply with the rules. | Systemic integration is disrupted because some of the control's procedures were in contradict with the working practices in reality. |

**Table 6.6**: The circuits of power and the institutionalisation of the internal control systems at ABC, adapted from Backhouse and Silva (1999), p. 29

From table 6.6 the analysis suggests that the difference at the level of institutionalisation between ABC UK and ABC Thailand should have been considered when the global policies are designed. This implies that local factors such as culture and social issues of the branch should be highlighted to explore the ways to institutionalise the internal control systems. Failure to acknowledge this fact can lead to problems in implementation of the internal controls in the bank.

The next section will analyse the ABC Bank from a semantic point of view. It considers the semantic content of human actions and interpretations towards the internal control systems and new matrix structure and draws out the consequences for the security and control systems of the bank.

### 6.3.3 Analysis of the Semantic Aspects

The focus of this section is to try to understand the meaning of people's actions and their interpretation. The usefulness of understanding the content and meaning of different organisational actions will be significant in designing the proper internal control structure in the bank. The considerations focus on the actions and interpretation of two stakeholders; internal auditors and staff members at ABC. The reactions of these stakeholders have consequences for the success of the smooth operations in the bank. Positive reactions can determine the correct policy from the head office. On the other hand, the negative ones can cause problems in the organisation. In this section, various organisational actions and manners in which these two stakeholders have reacted to the organisational change and the local key operating procedures are reviewed in order to gain a better understanding of the meaning of the staff members' reactions and their interpretations towards these issues. Problems arising from the mismatch between actual practice and formally designed internal control system at ABC are also discussed in this section.

**Actions and Interpretations**

*Issues and Concerns in Internal Control Systems at ABC UK*

UK employees of ABC have shown no problem in following the bank's rules and regulations. In their opinions, rules are quite clear, where they become more complicated, staff members seem to be able to interpret them satisfactorily, as their qualifications and experience allow them to rise to these expectations. In the credit department, where the research has been conducted, most of the staff members had been working there for over ten years. The department head

explained that one of the reasons for this was that in her department members of staff cover such a variety of products. When someone gets bored, they have the opportunity to do other things and even though some work in the same area, as new products come in every day; learning never stops. Additionally the department individuals are close, one manager pointed out "well, we are all like family basically", and another reiterated, "yes, we are all like family. We need each other." The interviewees all agreed that there were no problems with people working together for such a long period of time, that, as a result there was a lot of respect for each other and therefore they do not want to let others down by doing something against the rules. The employees' attitude towards the bank's control systems and policy was highly positive.

Concerning their understanding of the rules and regulations to be followed, UK employees generally knew what they were doing, as it is universally acknowledged that it would be a dangerous situation for the bank if members of staff were not familiar with the bank's policy. An auditor confirmed that the rules and policies at ABC UK are made quite clear, and employees seem to know and understand the rules and interpret them in the way that they are supposed to. Other than that, staff members also help in writing up the rules, the Local Key Operating Procedures, which was a day-to-day operation. At the London branch this is most true of the trading and operational staff, where employees' qualifications and experience are most important.

There is no evidence of conflict between auditors and staff in the business sector of ABC London. It was found that the issues raised by auditors have generally been agreed to by the auditees and from the staff members' viewpoint the auditors had actually been beneficial to the staff. Occasionally auditors may come up with suggestions which may not be practical at all. When such a disagreement arises, both parties are happy to sit down and come up with an agreed solution. Generally, members of staff in this sector have had positive views of the auditors and consider auditing issues to be important to the bank.

Furthermore, with respect to internal control systems at ABC UK, within one of the biggest established financial markets, comments concerning the lack of key operating procedures, or the introduction of the matrix system never surfaced during the interviews and observations. This may be due to the fact that with the heads of each of the business lines being based in Europe, lines of communication are clearer and there are fewer differences in culture to contend with. This change may not have much impact to the way they work in the London branch compared with the Bangkok branch. This could be because the focus of power and authorisation would already have been in the UK, a major financial centre, even before organisational change had taken place.
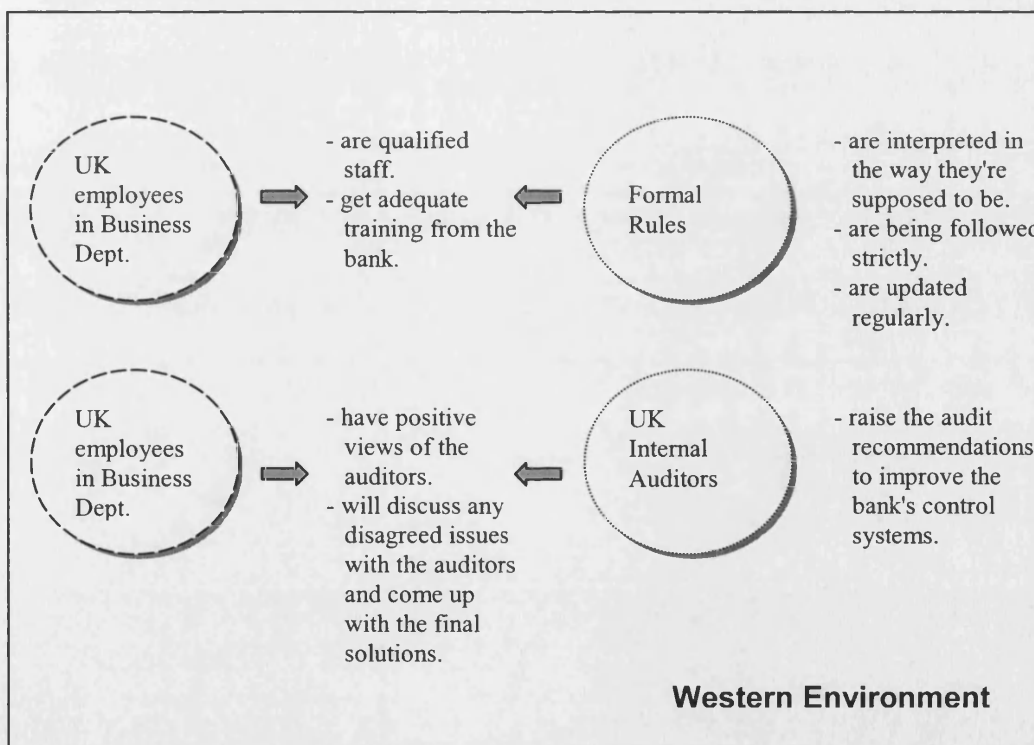


**Figure 6.5**: UK employees' perceptions towards formal rules and internal auditors

*Different perceptions between auditors and business and operating staff at ABC Thailand*

In contrast, in ABC Thailand it was mentioned that there was a problem in perception between auditors and the business staff with respect to the internal control system and the bank's written policy. From the auditor's point of view, they consider that staff in business focus mainly on making more profits. On the other hand, from the staff members' point of view, they see auditors as being too conservative and emphasising only the rules without considering the practical issues. This is a problem of perceptions differing between auditors and staff. The business area perceived auditing as blocking progress within their business. Auditors give their comments occasionally when they see that the bank should not embark on certain business ventures, while business staff members believe that the bank should proceed with these business ventures. Auditors argued that sometimes staff members were too flexible in doing business and were willing to take large risks. From the auditors' point of view, auditing work is very beneficial to management in pinpointing these problems and in protecting the bank from potential financial loss or criticism, which may arise as a result of staff breaching regulations.

Furthermore, as previously noted in Chapter 5, many interviewees in the business and operational department commented that Thai auditors seemed to concentrate too much on the rules and regulations, while staff would like to see more positive feedback. For instance, the auditor should provide them with recommendations on how to improve their control systems and not simply to point out what is wrong. Staff would much rather see these audit comments raising possible solutions on how to improve weaknesses or minimise risk in the future. Staff also felt that the risks or weaknesses highlighted by internal auditors were problems that the auditors would already have been familiar with, knowing that these problems could not be managed or handled by the staff. However, the auditors had to report to the management, as it was part of their job. Additionally, the staff members felt that the auditors' recommendations were not practical and this was

a result of the auditors' lack of knowledge in the area. As a result, recommendations by the internal auditors have been ignored by the staff members.

It was also shown that there is a problem of interpretation between the internal auditors and the staff in the compliance department, with a distinct lack of understanding between them. A compliance officer held the perception that if he helped the auditors, he never got any appreciation. On the other hand, an auditor declared that the compliant officer at ABC Thailand was not qualified and this might cause problems for the bank, as all the rules must be reviewed through compliance.
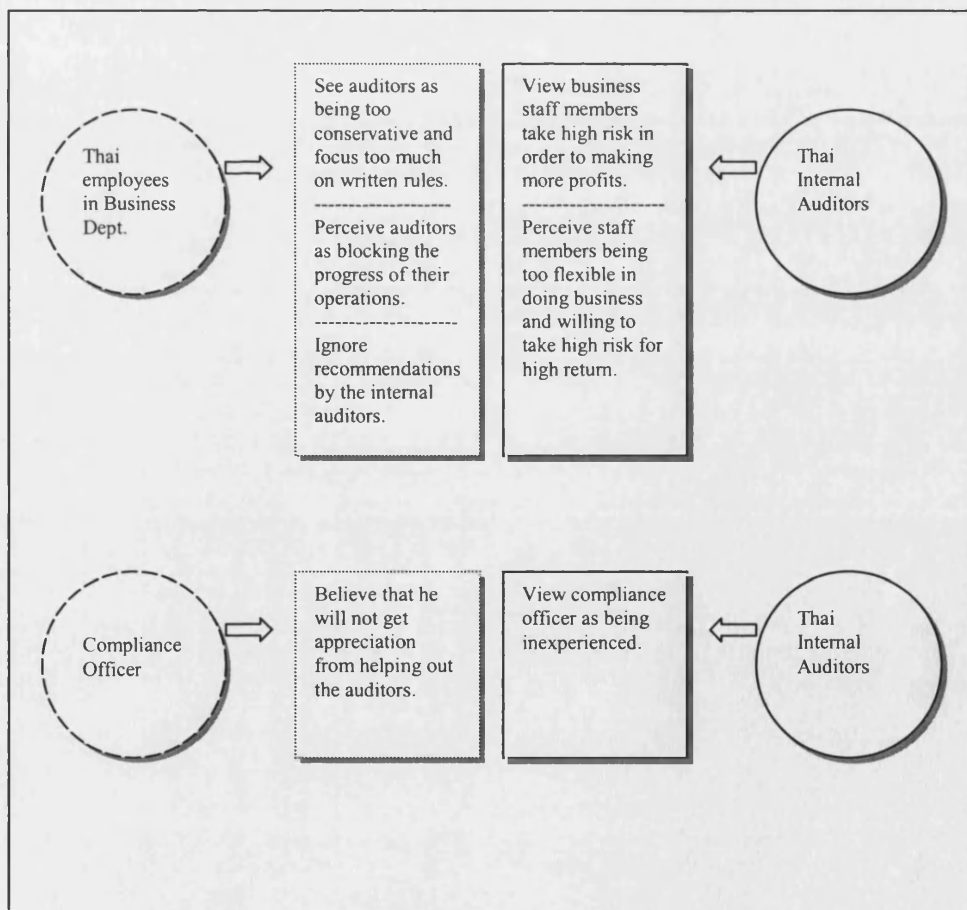


**Figure 6.6**: Summary of the conflicts among different stakeholders at ABC Thailand

*Different views on key operating procedures*

As previously mentioned in Chapter 5, management and the internal auditors consider having local key operating procedures in place in every department to be very important, with the rules and written policies being updated to reflect current practices. Management considers it vital that every department in every branch study the global policy and updates their local key operating procedures on a regular basis. However, it was found that many areas at ABC Thailand had not updated their local key operating procedures and in some areas they were not even in place. When members of staff were questioned as to the reasons for this negligence, most answered that they had no time and could not be bothered to update them. This answer was particularly true of staff in the business division where the focus was mainly on making profit for the bank. The majority of staff members in business and operations consider the key operating procedures to be unnecessary paperwork, adding no real value to their work. They prefer to apply their personal working experience rather than spending time updating the guidelines.

Findings so far have revealed that the matrix system and the key operating procedures have been perceived differently by the management, auditors and staff in the business divisions in Thailand. The reactions of staff at ABC were in conflict with the intentions of management. Management expected to see the new matrix being applied successfully across all branches. The system should allow channels of information to flow back and forth across borders more fluidly, thus facilitating the selling of products on a more global level. Trading knowledge from one country should be implemented and transferred from one country to another more efficiently. However, in reality, it does not happen in the way the management expected it would. There has been much conflict simmering at ABC Thailand which management had failed to recognise. This in turn has caused problems in the organisation. These will be discussed in the following section.

*Problems in informal norm based environment at ABC Thailand*

From the organisational actions and interpretations of the Thai employees it became apparent that the introduction of new policies and procedures through the introduction of the matrix system, driven by management, had not been universally acknowledged as being necessary. The appropriateness of new policies was a subjective issue and the changes within the bank had certainly affected the norm structures of Thai employees at ABC Thailand. In this situation, the intentions of the management with regard to the new matrix system could be perceived as having been thwarted. In addition, the sets of control structures that determine organisational behaviour could also be considered to have been misunderstood and misapplied. This demonstrated that there were information systems security analysis and design problems at ABC Bank.

The following section will describe some of the problems which developed at ABC Thailand and which failed to be recognised by management.

*Unqualified Staff*

One Singaporean auditor commented that what he found from his experience was that Thai employees sometimes had a limited view of transactions, particularly at a lower level, and that this was a dangerous situation. Staff training was therefore seen as being very important. It would beneficial if the bank focused on recruiting staff with initiative, ones who had an interest in managing a holistic view of their work. This would lead naturally to higher job satisfaction levels, and a better overall quality of work produced.

*The wrong job to the wrong person*

When asked about the experience and qualification levels of Thai staff, some auditors replied that the bank did not always give the right job to the right person and did not provide adequate training— and that those that lacked the training did not necessarily compensate by asking for instructions. This has resulted in unacceptable levels of mistakes.

*Not enough training*

Many interviewees stated that the bank did not provide enough training for staff. As one local senior auditor noted, Thai employees would continue to do what they were used to and sometimes did not realise when they were getting it wrong. When asked about training courses in the bank to help staff to understand more about new products, the auditor replied "they do not have them anymore."

*No succession plan*

In addition, the head of compliance pointed out that the hand-over of work at ABC Thailand was not good. There was also no succession plan for the staff and that this could be considered quite dangerous with high staff turnover in the branch and with the written guidelines not being fully up-to-date.

*Communication and co-operation not good as before*

Concerning the communication and co-operation within the new matrix system across time and space, one staff member of the back office declared that when she needed to ask someone about the interpretation of some particular rules, she had to go and ask someone from head office in Singapore. However, sometimes staff in Singapore complained that she asked too many questions. As noted below:

> *"...they asked me why I did not use my common sense. Actually I wanted my work to follow the global standard, that's why I asked them. I do not want to use my own interpretation."*

Under the matrix system, employees would rely more on inter-departmental co-operation and understanding of certain transactions. If this understanding failed to link proper communication then the result might be someone going off and doing something contrary to what the bank expected. A senior staff in the front office confirmed this problem:

> *" Communication is the problem. Not only between us but I mean for the whole bank. For example, in the regional office sometimes they do not understand what we are doing in Bangkok. But we do not*

*understand what are they doing in Singapore either. We have our own world in Bangkok which they cannot entirely understand since we have to deal with local regulators in Bangkok, internal issues in Bangkok..."*

*Language barrier*

A few Western staff members working in Thailand remarked that the language barrier could be considered another problem particularly when the junior staff members are not given the opportunity to express themselves and therefore prefer to deal with the local colleagues.

*Rely on personal judgement*

Staff members of the back office whose job is routine do not experience many problems in interpretation as only a few rules need to be interpreted. On the other hand, front office employees seem to have to make many more judgement calls as they have to deal directly with clients, and it is often more difficult for them to follow every step laid out in the company policies. Staff in the front office and marketing department stated that it was impossible to follow everything to the letter. As a result, they seem to have relied on their norms rather than the rules.

*Too much focus on profit*

It was mentioned by the Thai internal auditors that the business policy at ABC Thailand had become more business-driven, with more flexibility in certain areas where there was high risk. As an example of this, when the guidelines from the Bank of Thailand were not clear, instead of confirming with the central bank, staff members would rather use their own judgement in these grey areas in order to generate more profit. In these cases, the internal auditors would be in disagreement with the business staff. However, as one head of department mentioned, he believed that the ultimate direction of the bank should come from the business side. They were willing to take the necessary risks and disregard the recommendations of the internal auditors.

The table below summarises the problems and conflicts mentioned at the ABC Thailand.

| ABC Thailand |
| :--- |
| • Job descriptions are not clear. |
| • Bank emphasises marketing more than anything else. |
| • Bank becomes more profit-driven and takes more risk in doing business. |
| • There is a distinct lack of good co-ordination and understanding between compliance and audit department. |
| • The hand-over of work is not good. There is no update and succession plan. |
| • The right man is not put in the right job. |
| • There is no training plan for staff. Therefore, there are often problems in interpretation with some members of staff not clearly understanding their jobs. |
| • There is a differing perception between local auditors and staff in business. |
| • Staff members in business areas held that local auditors concentrate too much on rules and regulations, and not on practical issues. Viable solutions or guidelines from an audit's point of views are not provided. |
| • Following the previous issue, some staff members, therefore, ignore the audit recommendations and still continue previous practice. |
| • In developing markets such as in Thailand, some policies from head office may not be able to fit completely with local situations. |
| • Personal judgement is generally considered the norm, as sometimes staff members do not know whom they can go to for advice. Therefore, they have |

to use their own judgement.

- Under a profit-driven philosophy, some staff members tend to use informal rules in practice rather than formal procedures, in order to achieve their targets.

- Key operating procedures are not updated because staff members do not have the time to do so – and in some areas they do not exist at all.

- From the previous point, employees will rarely refer to rules or guidelines when they are faced with problems.

- Staff turnover is high owing to low staff morale and lack of staff training.

- Communication within the bank is not as good as it used to be.

- Staff members do not ask when they do not know something and do not get adequate training.

- Co-operation across time and space is not as good as it used to be.

Table 6.7: Summary of problems and conflicts at ABC Thailand

In summary, rules and regulations at ABC UK are considered to be very important by both auditors and staff in the business areas. There was no evidence of conflict between the management's expectations and staff members' intentions. The lack of key operating procedures, or the dissatisfaction with the introduction of the matrix system, never surfaced during the interviews. UK employees seemed to be satisfied with the system they had. In contrast, the analysis has shown that there was a conflict between auditors and staff in the business areas at ABC Thailand and this could be seen as a result of the introduction of the new organisational structure and control structure. Under the new matrix system, the bank has become more profit driven, with staff having to become more competitive. Problems also arose as a result of certain rules not being updated,

requiring additional interpretation. Co-ordination and communication became much poorer. Furthermore, when a final decision must be arrived at, many employees felt that there was no one available with the necessary authority to decide one way or another.

This may be attributed, in part, to the weakened position of the branch manager, who is no longer enabled to make decisions. It can be said that informal organisational norms in Thailand are weak. It is in the informal environment where the management's objective and the branch's objective do not support each other. There is a mismatch between actual practices and the design of the internal control structure at ABC Thailand. ABC Bank has had an over-reliance on their global vision while ignoring the branch culture and environment. This mismatch leaves large areas where there is no clearly defined responsibility for staff involved. The perception of different stakeholders is significantly different and this has resulted in a lack of mutual understanding and communication gaps among the stakeholders. There is a conflict among the members of the organisation and the management. This will eventually affect the bank's performance.

*6.3.4 Summary and discussion*

The analysis of informality in this study so far has sought to provide a better understanding of business practices in which an informal system plays an important role. The analysis of the "business world" of ABC Thailand and UK has helped to draw out various aspects relevant to the bank. In analysing the business world of ABC Bank, the organisational change, the expectations and the considerations of the control systems were discussed in order to help highlight the implications for the internal control system in the bank. The analysis demonstrates that the benefits of the matrix system are not the same in every branch, with some branches deriving more benefit from it than others.

From the point of view of formality, an analysis solely conceived in formal terms cannot allow for a full understanding of the problems caused by this change. In addition, the pragmatic analysis has also proved to be important to this case study, as it has helped to describe the context of activities and characteristics of UK and Thai staff. Its focus has been to understand the organisational norms and the compliance of human actions with the organisational control structure and the written rules. The research has demonstrated that staff members in different cultures hold differing notions of reality. Consequently, to interpret the context of their behaviours and actions, the assumptions, norms and beliefs of people have to be taken into consideration.

The analysis demonstrated that there were differences in cultural values between ABC UK and ABC Thailand. The analysis from the ABC case study revealed similar results to those of other researchers into the cultural values of Western and Eastern countries. It can be said that cultural differences add complexity to organisational control in multinational firms such as ABC Bank.

Additionally, the circuits of power framework is applied to view the process of institutionalisation of the internal control systems that can explain the security culture at ABC UK and Thailand. There was evidence from this study that firms attempting to standardise their policy and procedures globally should put more effort in responding to cultural and social differences within their organisation, through both training sessions and the design of internal control systems. Failure to understand these differences can lead to potentially negative consequences, as happened at ABC Thailand.

On a semantic level the concern lies with the meaning and knowledge of communication. The considerations focus on the actions and interpretations of different stakeholders. The reactions of these stakeholders have consequences for the success of smooth operations in the bank. Positive reactions can determine the correct policy from head office. On the other hand, negative ones can certainly

cause problems in the organisation. The analysis so far has shown the impact of various organisational actions and interpretation on organisational structures and formal control systems. Problems with the current control structure at ABC Thailand were also revealed. It became evident that there was a mismatch between what the formal systems (rules and regulations) were supposed to do, and how they actually functioned, and the different perceptions of the various people involved. The semantic analysis has helped to point out that a fuller understanding of this is needed.

## 6.4 Key Findings

The objective of this section is to reflect on the key findings from the semiotics analysis that has been discussed so far in this chapter. These will be related to managing the internal control systems and policies globally across the bank. Five themes can be identified as follows:

- Organisational structure

- Control structure

- Globalisation and cultural context

- The Relationship between formal rules and informal norms

- Managing information systems security

*Organisational structure*

As mentioned in chapter 2, the organisational structure of a multinational company can change over time according to the growth strategy of the firm. Companies may adopt a variety of forms when they implement an international strategy (Egelhoff: 1988, Dunning: 1993, Pla-Barber: 2002). When product diversity and foreign market sales increased, firms may adopt a matrix structure as occurred at ABC Bank. In an increasing global business environment, changes and adaptation are inevitable and it is vital for the survival of the organisation (Winklhofer: 2002). It seems that management at ABC also had an expectation and vision that this matrix system would change the culture and attitude of the

people within the bank. The management wanted to see the bank develop more specialised expertise and expected that under the new system, the bank's operations and communications would be more effective and efficient. It was expected that staff would be able to communicate and co-ordinate better than before.

However, this expectation cannot be fulfilled in every branch as happened at ABC Thailand. Interviews with staff and auditors revealed negative attitudes towards the matrix system. Staff viewed this new organisational structure as adding no value to the existing system. From their point of views, under the matrix system, people tended not to co-operate very well with each other, as they would only want to concentrate on their own requirements. Thus they are much less concerned with what is happening in other departments locally. The differing expectations are an indication of a mismatch between the management's perspective and the views of the staff, especially the ones in different cultural and environments from the bank's management.

The findings demonstrated that these differences, between the subjective considerations of management and the objective reality of the staff seem to have contributed to the discomfort that some Thai employees feel in relating to the new organisational structure and the control systems of the bank. This underlines the view that management may have overlooked impact of the new organisational structure from the pragmatic and semantic aspects.

In addition, the findings from the research affirm that the inability of ABC to develop a shared vision amongst the staff can lead to communication breakdown. In this study, the management failed to share the organisational vision with employees at ABC Thailand when there was a change in its organisational structure. As a result, Thai employees were unhappy with the new organisational structure and the formal rules were ignored. The attitude towards the written guidelines became "do not bother to check it", and as a result, many local key

operating procedures have not been updated. Staff did not have time to update their local guidelines and as a result of that, ignored them. This may lead to future problems in security and control systems where rules are not available and roles and responsibilities are not identified. In the next section the control structure of ABC under the new matrix system will be reviewed.

*Control structure*

The previous section described the organisational change at ABC Bank and the impact of the new matrix system on the staff at the Thai branch. This section reviews the impact of the matrix system on the control structure. The results from the interviews and observations show that organisational change did not have much impact on the control structure at London branch compared with the Bangkok branch. This could be because the control structure at ABC UK has not changed substantially. The same focus of power and authorisation was already there in the UK, before organisational change had taken place.

In contrast, major concerns in internal control systems emerged from the sudden change of breaking up strong hierarchical structures at ABC Thailand. Many staff members felt that they did not have support or back-up from the management in the branch, and power or authority within the branch seemed to be lost. This may be attributed, in part, to the weakened position of the branch manager, who is no longer enabled to make decisions. The result was demotivation and low general morale of the staff. Little consideration from management was given to this awareness. This in turn has caused problems at the Thai branch as mentioned in section 6.3.3.

The differing impacts of organisational change on the control structure in ABC UK and Thailand confirm the emerging assumptions of transnational organisation researchers in which they believe that managers in multinational companies should be responsive to individual companies and to different cultural contexts (Bartlett and Ghoshal: 1989, Royle: 1995, Pla-Barber: 2002, Wasilewski: 2002).

This implies that management practices should not be universal and local factors of each branch should be highlighted to explore the various possible ways of implementing the bank's policies and procedures and internal control systems The next section will discuss the globalisation and cultural context based on this study.

*Globalisation and cultural context*

As mentioned in chapter 2, in a competitive global market, one of the most difficult challenges facing multinational companies is how to manage global policies with an appropriate consideration of the specific norms of various cultural contexts (Bartlett and Ghoshal: 1989, Enderle: 1997, McDonald: 2000, Thorne and Saunders: 2002). As this study confirms, the policy of 'one size fits all' from management to their subsidiaries seems to be invalid. The results from this research show that the global policies of a multinational firm such as ABC Bank, with embedded values of a Western country, may not necessarily be easily applied to other countries such as ABC Thailand, which hold their own deeply-held beliefs and attitudes. Furthermore, the circuits of power analysis confirms the difference at the level of institutionalisation of the internal control systems between ABC UK and ABC Thailand. Failure to acknowledge the existence and nature of cultural diversity within the organisation across national boundaries can lead to problems in implementation of the control systems in the bank as happened in the Bangkok branch.

ABC tried to standardise their policies and procedures globally, but did not put sufficient effort in responding to cultural and social differences within their branches. As a result, the formal rules were ignored and out of date in the Thailand branch. Based on this analysis, it is suggested that multinational firms should consider implementing different strategies and policies in each of its branches, in order to shape the best overall global strategy, while continuing to respond to national social and cultural environments (Bartlett and Ghoshal: 1989, Jarillo and Martinez: 1990, Newman and Nollen: 1996). This idea has been

supported by many researchers (for example Kochan et al: 1997, McDonald: 2000, Thorne and Saunders: 2002, etc.)

*The Relationship Between Formal and Informal Systems*

The objective of this section is to investigate the relationship between formal rules and informal norms by using the interpretive case study of ABC Bank. The question is how do these systems interact and impact on one another and how different organisations interact through formal and informal systems. The interest is to find out what factors there could that might influence the interaction of these two systems and what would be the performance effect resulting from the interaction. More understanding of this issue could help the organisations in managing information systems security, more specifically, its internal control systems, more effectively.

From semiotic analysis it was found that since the adoption of the matrix system at ABC, organisational structure has changed from one which was functionally or bureaucratically-based, to one where power, communication, responsibility and reports, went through to the functional lines. This change in organisational structure has had a direct impact on the formal and informal norms. However, the impact varied from culture to culture. ABC London is a rule-based environment and it has the same common culture as the head office. The normal practice is that members of staff follow rules and update their guidelines frequently, as expected by the management. When any ambiguous situations arise which are not reflected in the written rules, staff members will use their personal judgements in order to make the best decision. In some areas where there are no rules and when the norms have become accepted, the guidelines or formal systems will be updated. This framework of the relationship between formal and informal systems is considered to be common practice at ABC London, and seems to function perfectly at ABC London where the routine behaviour is influenced by Western culture and where staff training is always provided. This is illustrated in the figure 6.7.
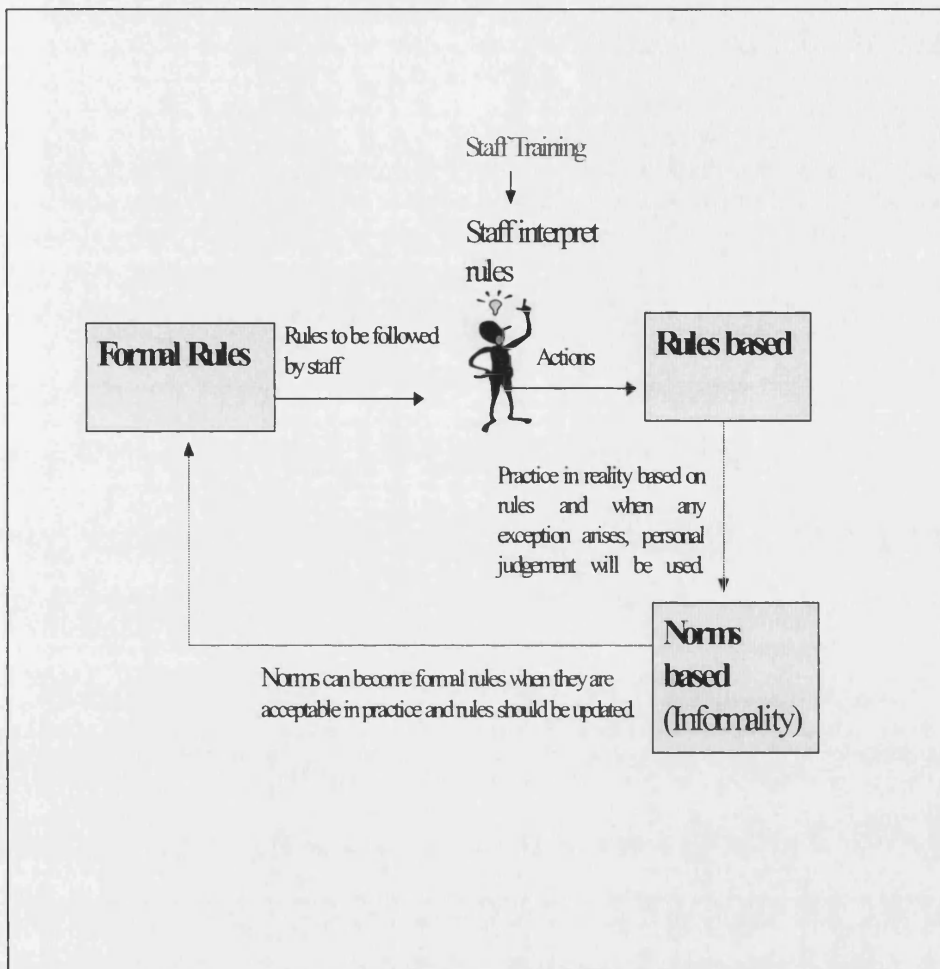
**Figure 6.7**: The relationship between formal rules and informal norms at ABC London

At ABC Thailand, on the other hand, the cultural and social environments were quite different from ABC London. The smooth relationship shown in figure 6.7 was far from the reality experienced at the Thai branch of the bank. When the organisation changed over to the matrix system, the impact on Thai employees and their norms and behaviours proved to be significantly different. When the matrix was introduced, the management ignored the pragmatic and semantic issues. The management lacked a clear understanding of the cultural and social environments at the Thai branch. As mentioned in the previous section, in developing markets such as Thailand, some policies from head office may not be able to completely fit

with local situations. One standard set of formal rules cannot fit all branches. The staff values, behaviours and attitudes toward the changes were not considered. Consequently, many employees at ABC Thailand have been unhappy with the new matrix system.

In addition, the management failed to increase awareness and sensitivity to the impact of this change toward their employees. As a result, there was de-motivation and low morale amongst Thai employees. Where there was low motivation and low morale, formal rules became affected. It was found that many formal rules and guidelines were not updated or in some areas they were not in existence at all. Staff did not see the formal rules as important any more, and they tended to use their personal judgements when working, thus increasing the potential risks or problems for the bank. Moreover, many employees did not understand their work, and management did not provide ongoing education and training for staff. This could also be a cause of low morale. In the case of ABC Thailand, it has been shown that informal norms were affected negatively by changes in organisational and control structures.

From the research it was found that in the norm-based environment at ABC Thailand the informal systems had a strong negative impact on the formal systems. The formal rules were ignored and not updated because people tended to rely on norms and on their personal judgements. In many ways this low morale and demotivation has been as a result of the changes in the control and organisational structure. This relationship between rule-based and norm-based actions at ABC London as presented in figure 6.7 is different from the one at ABC Thailand and could not be applied completely in Thai branch.
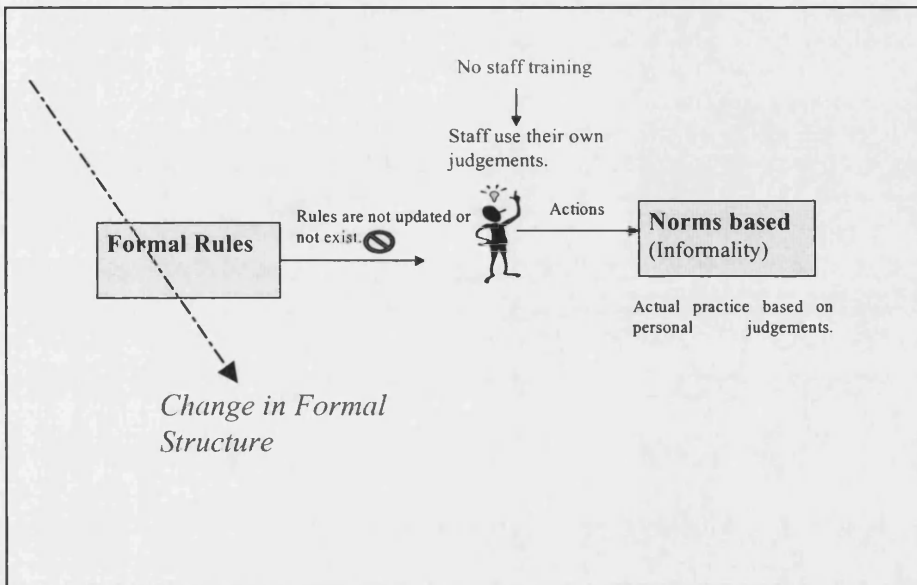
**Figure 6.8**: Informal norm based environment at ABC Thailand

The analysis so far shows that there is differing relationship between formal rules and informal norms between ABC UK and Thailand. It would be therefore be advisable for the management of the bank to focus firstly on the analysis of the informal systems, in order to be in a position to more smoothly apply global policies, across all branches of the bank. Along the same lines cultural awareness should be considered equally important with the bank aiming to build an organisational sub-culture where employees have a better understanding of the intentions of management. Finally, one must not underestimate the benefits of ongoing education and training for staff. Failure to acknowledge all these facts may lead to negative consequences as happened at ABC Thailand (figure 6.8).

The next section will suggest some key principles necessary for bringing about successful implementation of the information systems security in a multinational company.

*Managing information systems security*

Internal control systems can be considered as part of information system security, in particular with respect to the controlling activities of the organisation. Information systems security is viewed in term of minimising risks arising because of inconsistent and incoherent behaviours of actors with respect to the compliance of internal control systems within organisations. The key findings so far confirm the fact that internal control systems should be examined with respect to both formal and informal analysis. Understanding the relationship between these two systems can help the organisation to design and plan a better control structure. Management in transnational organisations should be more responsive to local culture and social norms of their subsidiaries especially where these cultures and norms are distinctive from those of the head office.

In summary, the management of transnational companies should consider the following principles when designing and implementing their internal control systems.

1. **The first step in building an effective system of multinational organisational control is an understanding of the existence and nature of cultural diversity within the organisation across national boundaries.** To develop a better control structure in a global company, more concentration on pragmatic and semantic issues are required when planning and designing the internal control systems.

2. **Successful implementation of internal control systems can happen if management considers the informal norms before the formal rules.** The management should not assume that one global policy can be applied smoothly to every branch. The relationship between formal rules and informal norms should not be assumed to be the same everywhere. Differences in national cultures should herald differences in management practices. The greater the difference between the head office culture and the branch's

culture, the more management needs to adapt the global policies to the local culture.

3.  **Sensitivity to local norms and values is needed.** Multinational companies should increase their awareness and sensitivity to the impact of organisational change and control structure change on their employees. These changes resulting from implementing new internal control structures are not only about technological outcomes or changed work practices, but also about changes in attitudes and the ways of thinking of the employees. It is impossible for transnational companies to attempt a successful implementation of internal control systems without a good understanding of the employees' norms and behaviours. As such, it is important that the organisation should concentrate on providing education programmes, on-going training to their staff especially in the branch where the cultural background is very different from the one at head office. This training should aim to teach new values and introduce new norms structures to increase conformity throughout the organisations.

## 6.5 Summary

This chapter has attempted to analyse the findings of the study presented in Chapter 5. The research employs semiotics as a fundamental basis for this analysis. Starting with section 6.2 the formal rules, guidelines and procedures, which set down the legislation and formal procedural controls applied at ABC were examined. Integrity and availability of internal control procedures was investigated. This information has helped the researcher to develop a better understanding of the formal systems that are used to control the organisation and develop the idea of its relationship with the informal systems and the people involved.

Section 6.3 presented the second area of analysis where the emphasis for this study was placed on the discussion of informal systems. Three levels of the

semiotics approach were taken: the business world, the pragmatics and the semantics. In analysing the business world the impact of the new matrix system to the bank and the staff's expectations and considerations of the control systems were included. For the pragmatic analysis organisational norms and the compliance of human actions to the formal control system were discussed. The relationship between Thai values and internal control systems was explored. In addition, the circuits of power framework was applied in this analysis. The aim was to explain the process of institutionalisation of the internal control systems in ABC UK and Thailand. Finally, the semantic analysis was presented, where the focus was to understand the meaning of people's actions and their interpretation. The analysis included the interpretation of the internal control systems and the local key operating procedures of the bank that were perceived through the eyes of its staff.

Lastly, the key findings were described in section 6.4. These findings were presented to reflect the emergent issues from the semiotics analysis that had been discussed so far in this chapter. These will be related to managing the internal control systems and policies globally across the bank. Five themes were identified: organisational structure, control structure, globalisation and cultural context, the relationship between formal rules and informal norms and managing information systems security. It was argued that the internal control systems should be examined with respect to both formal and informal analysis. Understanding the relationship between these two systems will help the organisation to design and plan a better internal control system.

# Chapter 7

## Conclusion

The purpose of this research work has been to develop a better understanding of the relationship between formal rules and informal norms in a multinational company. The researcher has adopted a semiotics framework in this analysis, with the focus being placed on informal systems, where both the cultural aspects and its interpretation or meaning, played an important part. In developing an understanding of the cultural aspects of information systems security, the local culture and its value system have to be taken into consideration. In this chapter the first section will present an overview of the research. Section 7.2 summarises the main findings and contributions from the research in theory, method and practice. Section 7.3 discusses the limitations of the research. The final section suggests possible future research areas.

### 7.1 Overview of the Thesis

The first chapter presented an introduction to the objectives of the study and the motivation behind this research. The researcher described how her interest in this particular area of research arose when she discovered, through work experience as an auditor, differences in the integration of internal control systems. For instance, it became evident that formal rules and control policies are followed quite differently from organisation to organisation and that important differences in the interpretation of identical rules applied to their decision making, with those differences reflected in the informal systems. As a result, this research has had as its aim to provide a coherent and integrated source for an interpretive approach to understanding the relationship between these two systems. More focus has been placed on the study of the groups of people who have played a significant role in the control systems in the organisation.

In addition, more detailed consideration of each of the studied areas was presented in order to provide a foundation from which to consider the work presented later in this thesis. The chapter concluded by stating the objective of the study, the main research questions and details of the structure of the thesis

Chapter 2 presented previous studies and research in internal control systems and discussed their research perspectives. The first section of this chapter reviewed literature relevant to the internal control systems. Definitions of internal control systems and their common features were summarised. The overall concepts of formal and informal systems were discussed. The classification of the control forms distinguished by various researchers was also reviewed.

The second section discussed relevant literature on transnational companies with a focus on managing business strategies across different countries. Literature relevant to organisational structures, control strategies and globalisation and cultural contexts were also reviewed.

The third part of this chapter discussed Thai culture and Thai values. Some of the main characteristics of Thai people and their culture were summarised. This has helped the researcher in the pragmatic analysis, providing the necessary contextual aspects of the bank.

The final section reviewed and suggested research perspectives suitable for the study of internal control systems. This recent research, presented in this thesis, has been concerned with the application of internal control systems in a global bank in two different branches. This review has shown that there was few research in the area of information systems and accounting research based on cross-national studies of internal control systems. In general, much research has employed a social approach, however, the social approaches adopted in these two areas of study are still in their infancy. In addition, there has been evidence that a new perspective, one that relies on a more social approach, for information systems

and accounting studies has begun to emerge. This has seen a move away from functionalist paradigms to a more subjectivist approach. As such, the emphasis is now less on techniques and formal areas of the system and more on the roles and interpretation of the actors in the system. In addition, there has been much discussion of the empirical findings in cross- national studies. It has been argued that the theoretical development in this area of study is still considered weak, with the methodological appropriateness in question. Therefore, in the last part of this chapter a gap in the literature review was discussed to describe the need in information system security research and to point out the significance of this research in presenting a new method of analysis.

In Chapter 3, the methodology of the research has been reviewed. It began with the presentation of the fundamental and theoretical assumptions underlying the study, followed by the illustration of how the methodology had been developed. The research design was then summarised. This was followed by a discussion of the five traditional research methods. The case study, which adopted the open-ended interview format for data collection together with documentation, observation and archival records, was described and justified as a suitable method in the application of this research.

Furthermore, the research was discussed as being influenced by a subjective paradigm and interpretive approach. Semiotics, the theory of signs, was introduced and also employed as a mode of analysis in this thesis. Additionally, the circuits of power theory was presented as a research framework that was applied when pragmatic analysis was conducted.

In the last section of this chapter, the pilot study was introduced. A pilot study of the credit department in three hotels of the same management company was conducted. This study helped the researcher refine a data collection plan and research strategy. The results from the pilot study suggested that the interview techniques alone were insufficient when applied to the case study on internal

control issues, with the interviewees not always fully co-operating in answering questions concerning their activities and performance. As a result, other sources of evidence including documentation, archival records and direct observation were used.

In addition, the results from the pilot study confirmed that there was a variance between formal rules and norms in practice in the organisation across different cultures and social environments. The result of the pilot study confirmed that when formality and informality were studied in distinct organisations in different cultures, the ways in which employees were controlled by either formal or informal systems in their behaviours and activities were divergent. Formal systems seemed to control the majority of activities in organisations, but on closer inspection it was the informal norms which played the crucial part.

Chapter 4 presented a background on ABC Bank and its control systems, including a brief history and business overview, with the main objective to gain a better understanding of ABC Bank. ABC was described as one of the largest banks in Europe and has many branches worldwide. Recently the bank had changed its organisational structure to the new matrix system, with a more product-oriented approach. The internal control systems in ABC were described. The bank's policy was described as it was set to be followed by employees in every branch.

Chapter 5 was devoted to the findings of the comparative study undertaken at ABC Thailand and UK. The researcher reviewed some interview responses by presenting some direct quotations, as well as secondary sources from her observations and participation in the internal audit department. The findings were quoted from two stakeholders (auditors and staff members in business areas) in ABC Thailand and in the UK where their cultures were significantly different.

The second part of the chapter presented the summary background of the formal rules and regulations of ABC bank. The interviewees' perception of the bank rules and regulations at ABC, both in Thailand and in the UK, as well as the researcher's observations were summarised. Following from this the introduction of a global policy, the new matrix system at ABC, was discussed. The focus of the discussion was on its impact on the bank and the advantages and disadvantages of this new organisational structure. Interestingly, it was found that ABC UK did not see any big difference or impact on their work, in direct contrast to the results from ABC Thailand, where the majority of employees showed a preference for the old system.

In the third part, the opinions of the internal control and auditing functions from the auditors and business staff were presented. The results showed that the perceptions of auditors and staff at ABC Thailand were different. In contrast, the UK auditees normally agreed with the auditors' comments and from their point of view auditors had actually created benefits for the staff.

In the fourth part some weaknesses found during the audit were summarised. These findings were reviewed in the audit reports and from observation by the researcher. The purpose of this section was to help the researcher compare and contrast the weaknesses and the risks that occurred in ABC UK and ABC Thailand. The last part of this chapter presented the results of the questionnaires of the interviewees. The questionnaires were used only as complementary evidence to the main study and to explain the background of the interviewees.

Chapter 6 analysed the findings of the study presented in Chapter 5. The research employed semiotics as a fundamental basis for this analysis. In the first section, formal rules, guidelines and procedures, which determine the legislation and formal procedural controls applied at ABC, were examined. Integrity and availability of internal control procedures was investigated. This information helped the researcher to understand the formal systems that were used to control

the organisation and develop the idea of its relationship with the informal systems and the people involved.

The second section of chapter 6 presented the focus of the research analysis where the emphasis was placed on the considerations of the informal system. Three levels of the semiotics approach were analysed: the business world, the pragmatic and the semantic. In analysing the business world the impact of the new matrix system on the bank and the staff's expectations and considerations of the control systems were included. For the pragmatic analysis organisational norms and the compliance of human actions with the formal control system were discussed. Thai values and internal control systems were also analysed.

Additionally, the circuits of power framework was applied to analyse the relationship between the power and the institutionalisation of the internal control systems in the bank. The results showed that that the divergence of the level of institutionalisation between ABC UK and ABC Thailand should be considered when the global policies are designed. This implies that local factors at each branch should be considered. Failure to acknowledge this fact can lead to problems in the implementation of the internal control systems globally.

Finally, the semantic analysis was presented. The focus was to understand the meaning of people's actions and their interpretation. The analysis included the interpretation of the internal control systems and the local key operating procedures of the bank as perceived through the eyes of its staff.

In the last section of chapter 6, the key findings were explained. These findings were presented to reflect on the issues emerging from the semiotics analysis that had been conducted. These were related to managing the internal control systems and policies globally. The findings showed that there were problems in implementing internal control systems globally across the bank. Five themes are identified: organisational structure, control structure, globalisation and cultural

context, the relationship between formal rules and informal norms and managing information systems security. It was argued that the internal control systems should be examined with respect to both formal and informal analysis. Understanding the relationship between these two systems will help the organisation to design and plan a better internal control system.

## 7.2 Contributions

### 7.2.1 Theoretical and methodological contributions

The theoretical contributions of this thesis centre on the new research perspective in auditing and information systems security studies, particularly in the internal control systems area. For many years now, the majority of research in information systems security has placed emphasis on purely formal systems and information technology. In particular, the studies on internal control systems have been conducted from an accounting perspective utilising economic or accounting theory as the research framework. Much traditional research in information systems security has been based on a functionalist paradigm. Little attention has been given to the study of people who play a crucial part in an organisation. This research, therefore, has introduced an alternative approach focussing on the analysis of organisational actors' subjectivities.

This research has proposed an interpretive approach to understanding information system security in the organisation. Semiotics was used in this study, with a highlight placed on the importance of understanding deep-seated pragmatic and semantics aspects of organisations for designing the internal control structure. This is an approach yet to be adopted in internal control systems research and as such this research contributes a new perspective on the area of study.

The findings from this research suggest that even though the policies and control systems from head office were introduced with good intention, an inadequate understanding by staff may have resulted in increased risks and negative consequences. For a multinational company to manage their business globally,

management must have in place the appropriate mechanisms to evaluate the nature of the organisational environment before considering whether to implement any new global policies. The considerations should be focused more at the informal level where pragmatic and semantic concerns should be addressed. The results so far suggest that semiotics theory is an appropriate approach in addressing these issues.

In addition, the results from this research affirm that the TNCs traditional "one size fits all" theory should be supplanted with the knowledge that actors' attitudes, values, norms, behaviours and efficacy differ across borders. There is no one best way to manage a business. Differences in national cultures should call for differences in management practices.

With respect to the methodological contributions, the study at ABC UK and ABC Thailand confirms that the qualitative approach is an appropriate way to conduct research in cross-cultural studies in information systems security. Additionally, the case study is proved to be a highly appropriate research method for this study. The case study has helped the researcher to understand the nature and complexity of organisational processes and provide insight into the topic studied. It has helped the researcher in understanding the stakeholders' organisational context and the informal aspects of their organisational norms.

Furthermore, owing to the nature of this research which focused on the study of internal control systems in two banks in different cultural and social environments in the same multinational firm, the results from interviews or from any single source in this comparative case study proved to be insufficient. The study has suggested that conclusions should be drawn from multiple sources of evidence with data needed to back them up. It provided the opportunity to examine the continuous processes in context and to draw on the importance of various interconnected levels of analysis. Results derived from different sources, such as

documents, archival records and observation were shown to be more reliable than those from a single one.

## 7.2.2 Management contributions

Based on the findings of the comparative study at ABC Bank in UK and Thailand, a set of principles for the global management of a multinational firm was established. The findings from this research note that it is impractical to assume that the global policy from the firm will always come to be internalised and interpreted in the same way in every branch. The view that global policy will lead to simple homogeneity of culture and approach is invalid.

The research suggests that increased recognition by the multinational firm of cross-cultural issues is required. Failure to understand the cultural differences can lead to negative consequences as occurred at ABC Thailand. Authorities in a multinational company, from management, internal auditors, and systems security managers need to address the more pragmatic and semantic concerns when designing, implementing, and auditing internal control systems and global policies respectively. It is neither feasible nor desirable for them to ignore the diversity of culture in the workplace today. Greater understanding of the issues is significant for the design, analysis and implementation of sound control systems in the organisation.

The study also suggests that in an increasing global business environment, transnational organisations need to develop their strategies and policies to be responsive to individual branches and to different cultural backgrounds.

In addition, going into more detail, it has become evident that the introduction of the bank's new matrix policy was presented to the staff in a form that was beyond their understanding. This certainly resulted in low morale and demotivation of the staff in accepting the new policies and procedures. As such, employees should be made aware of all new features, supported through an ongoing education and

training programme, particularly in the branches located in different cultural and social environments different from those of the head office. Inadequate understanding has as a consequence increased the vulnerability of the organisations, which may then lead to increased risk.

The research also shows that the inability of the organisation to develop a shared vision amongst its employees can lead to communication break down. The multinational company should try to build an organisational sub-culture that supports the staff in gaining a better understanding of the intentions of management. A working environment should also be created that will help to develop a common belief system amongst the employees. This system can then help members of the organisation become more committed to their day-to-day activities.

Furthermore, the results affirm that the relationship between formal rules and informal norms differs between ABC UK and Thailand. It would be advisable for the management of the bank to focus firstly on the analysis of the informal systems, in order to be in a position more smoothly to apply global policies, across all branches of the bank. The relationship between formal rules and informal norms should not be assumed to be the same everywhere. The more different is the head office culture from that of the branch, the more management needs to adapt the global policies to the local culture.

## 7.3 Limitations

The intention of this research has been to introduce a new approach to the study of internal control systems through the adoption of semiotics as the theoretical research framework. The main objective of this study has been to increase the understanding of formality and informality in the security and control systems among different organisations in different cultural and social environments. The semiotics approach was used in this research to compare formal rules and informal norms between two branches in a global bank. However, the researcher

did not attempt to delve deeply into other theoretical issues that might apply to semiotic analysis, particularly on pragmatic and semantic levels. Only the circuits of power framework was applied in the pragmatic analysis. Views from a more critical perspective and related theories should be considered in the future.

Another issue was concerned with the approach adopted in this research. The research was considered as an interpretive approach. One of the limitations of this approach has been that the interpretations and personal judgements of the researcher were applied whilst conducting the research. The benefit of the researcher's having been born and lived in Thailand for many years has led to a well-informed interpretation of Thai people in the interviews. However, since this research was conducted between two banks in the UK and in Thailand, lack of in-depth knowledge of Western culture was considered as one of the researcher's limitations.

Lastly, this comparative study was conducted in ABC UK and Thailand. Ideally the research should have been carried out in the same departments between the two countries. However, owing to difference in timing for the audit plans between the London and Singaporean audit teams, the researcher had to join both teams by following their plans. In addition, ABC Thailand is much smaller in size and business compared with the London branch, therefore, the department that the researcher joined in the UK audit team for auditing did not exist in ABC Thailand. The limitation was as a result of the two banks being based in different departments. However, this research can be considered as a starting point for more sensitive cross-cultural study in information systems security. Further development will thus be beneficial.

## 7.4 Future Research

As discussed in the previous section, this research was conducted in different departments in different branches. Further comparative research within the same

departments between two or more different social and cultural organisations will be crucial in confirming the results from this research.

Secondly, Semiotics can be applied in any type of organisation, and not limited only to the banking business. Future work in other fields is required to enhance the development of this theory and to check the validity of the research findings.

Thirdly, the researcher believes that the semiotics approach is beneficial to the study of information systems security and accounting fields where pragmatics and semantics are highlighted. The approach, however, needs further development. The theoretical issues which are related to semiotics analysis, especially in pragmatic and semantic levels should be explored. Further research is therefore needed to develop a more critical perspective.

Fourthly, in this study the internal control system is considered as information communication where formal rules and informal norms play a part. Internal control systems are viewed as signs from the head office to the branches where the interpretation of the management's intention takes place. The findings show that where internal control systems were implemented, people from differing social backgrounds followed formal rules and policies differently. This demonstrates that the global policies of a multinational firm may not necessarily be easily applied to other branches in other countries. More understanding of pragmatic and semantic issues and their relationships with the formal systems may be essential to the new development of the control systems in global organisations. Further development of this idea is therefore possible and desirable.

Finally, in developing internal control strategies, transnational companies need to develop means to overcome the trade-offs associated with the external flexibility from national responsiveness and the internal efficiencies from the global integration. Further studies are needed to develop the means to overcome these trade-offs.

# Appendix A

**Credit Policy- Banqueting customers**

A)   All credit must be assessed and approved by the credit manager.

B)   Credit application and approval forms should be prepared and kept in credit department as evidence.

C)   The credit manager should then assess whether customers must pay deposits or not and may make any comments regarding deposits.

D)   Once the contract is issued, responsible staff should chase the deposit.

E)   The signed contract between the organisation and customers should be sent to the credit office with the deposit, if applicable.

F)   If the credit department receives the deposit by post, the banqueting department should be informed.

G)   The meeting or discussion regarding doubtful accounts should be carried out regularly between the credit manager and the banqueting manager.

H)   All functions arranged by the group that depends on the collection of fees, social function organised by unfamiliar companies or agents, religious groups, etc. must be prepaid unless approved by the general manager.

I)   If there are any changes from the agreed contract prior to or during the function, the amendment form should be prepared as evidence.


**Credit Policy- Group customers**

J)   Similar to banqueting customers, all credit must be assessed and approved by the credit manager.

K)   Once the group sales staff agree details with the customers, the credit manager should be informed. The group sales then will be advised if full-prepayment is required.

L) Credit application and approval forms should be prepared and kept in credit department as evidence.

M) signed contract should be copied to the credit manager, who will then copy Group sales on deposit as received.

## Appendix B

**Questionnaire**

Name: ...................................(optional)  Date: .................

Job Title: ...............................

1) What is your position in the organisation?

Top Management                    Senior Management

Middle Management                 Operational Staff

2) What is your educational background?

Post Graduate                     Graduate

A' level                          Below A' Level

Professional Training (Specify) ....................................

3) How long have you been in your organisation?

Less than 1 yr.                   1-3 yr.

4-5 yr.                           6-10 yr.

More than 10 yr.

4) How long have you been in your current position?

Less than 1 yr.                   1-3 yr.

4-5 yr.                           6-10 yr.

More than 10 yr.

5) In which age group do you belong?

Less than 20                      20-29

30-39                             40-49

Over 50

6) How would you describe the structure of your department?

Strongly Hierarchical             Flexibly Hierarchical

Flat                              Autonomous Group-based

Other (Specify) ........................................................

7) How important is computer- based information in the operating of your work?

Very important       Important

Not so important      Irrelevant

**Appendix C**

**Guideline: Interview Questions**

- What is your role in your organisation?
- Describe major functions or works that you perform in your role.
- What is the control risk in your organisation and more specifically in your department?
- Describe the internal control system applied in your department.
- How important is the internal control system in the performance of your job?
- How much do you consider that your apply the rules and regulations specified in the control system to your practices?
- Have you ever had any problem in the interpretation of rules as described in the control system? If yes, what were they and how did you overcome these problems?
- How much do you take for granted that the real practices function as defined in the rules?
- Describe situations, if any, where formal structures, guidelines, rules in place on paper, but they were not being followed in practice. What are the normal practices in these situations? What will be your suggestions to overcome these variances between formal rules and reality?
- How important is IT used in your department?
- How does the IT infrastructure relate and assist in the internal control policy in your department?

**Appendix D**

# Results from Questionnaires

## Group 1 Auditors – Thailand

| | | |
|---|---|---|
| 1. Position in the organisation? | Senior Management | / |
| | Middle Management | / |
| | Operational Staff | |
| 2. Education background? | Post Graduate | / |
| | Graduate | / |
| | A' level | |
| | Below A'Level | |
| | Professional Training | |
| 3. No. of years working in the bank? | More than 10 yr. | |
| | 4-5 yr. | |
| | 6-10 yr. | // |
| | 1-3 yr. | |
| | Less than 1 yr. | |
| 4. No. of years working in current position? | Less than 1 year | |
| | 1-3 yr. | / |
| | 4-5 yr. | |
| | More than 10 yr. | |
| | 6-10 years | / |
| 5. Ages | 20-29 | |
| | 30-39 | // |
| | 40-49 | |
| | Over 50 | |
| 6. Department structure described by interviewee | Strongly Hierarchical | // |
| | Flexibly Hierarchical | |
| | Flat | |
| | Autonomous | |
| | Group-based | |
| 7. The important of IT | Very important | // |
| | Important | |

# Group 2 Auditors – Singapore

| | | |
|---|---|---|
| 1. Position in the organisation? | Senior Management<br>Middle Management | ///<br>/// |
| 2. Education background? | Post Graduate<br>Graduate<br>Professional<br>Training | /<br>///<br>// |
| 3. No. of years working in the bank? | More than 10 yr.<br>4-5 yr.<br>Less than 1 yr. | ///<br>/<br>// |
| 4. No. of years working in current position? | Less than 1 year<br>1-3 yr.<br>More than 10 yr.<br>6-10 years | ///<br>/<br>/<br>/ |
| 5. Ages | 30-39<br>40-49<br>Over 50 | ///<br>//<br>/ |
| 6. Department structure described by interviewee | Strongly Hierarchical<br>Flexibly Hierarchical<br>Flat<br>Autonomous<br>Group-based | /<br>///<br>/<br>/ |
| 7. The important of IT | Very important | ////// |

## Group 3 Auditors – London

| 1. Position in the organisation? | Senior Management<br>Middle Management | ///// |
| --- | --- | --- |
| 2. Education background? | Post Graduate<br>Graduate<br>Professional<br>Training | /<br>/<br>/// |
| 3. No. of years working in the bank? | More than 10 yr.<br>4-5 yr.<br>6-10 yr.<br>1-3 yr.<br>Less than 1 yr. | <br><br>//<br>//<br>/ |
| 4. No. of years working in current position? | Less than 1 year<br>1-3 yr.<br>More than 10 yr.<br>6-10 years | //<br>//<br><br>/ |
| 5. Ages | 20-29<br>30-39<br>40-49<br>Over 50 | //<br>/// |
| 6. Department structure described by interviewee | Strongly Hierarchical<br>Flexibly Hierarchical<br>Flat<br>Autonomous<br>Group-based | ///// |
| 7. The important of IT | Very important<br>Important | ////<br>// |

## Group 4 Staff – Thailand

| 1. Position in the organisation? | Senior Management<br>Middle Management<br>Operational Staff | /<br>////<br>/ |
| --- | --- | --- |
| 2. Education background? | Post Graduate<br>Graduate<br>Professional Training | /<br>////<br>/ |
| 3. No. of years working in the bank? | More than 10 yr.<br>4-5 yr.<br>1-3 yr.<br>Less than 1 yr. | //<br>/<br>//<br>/ |
| 4. No. of years working in current position? | Less than 1 year<br>1-3 yr.<br>More than 10 yr.<br>6-10 years | ///<br>/// |
| 5. Ages | 20-29<br>30-39<br>40-49<br>Over 50 | /<br>//<br>/// |
| 6. Department structure described by interviewee | Strongly Hierarchical<br>Flexibly Hierarchical<br>Flat<br>Autonomous<br>Group-based | /////<br>/ |
| 7. The important of IT | Very important<br>Important | ////<br>// |

## Group 5 Staff – London

| 1. Position in the organisation? | Senior Management | //// |
| | Middle Management | // |
| | Operational Staff | |
| 2. Education background? | Post Graduate | |
| | Graduate | |
| | A' level | //// |
| | Below A'Level | // |
| | Professional Training | |
| 3. No. of years working in the bank? | More than 10 yr. | ///// |
| | 4-5 yr. | |
| | 6-10 yr. | / |
| | 1-3 yr. | |
| | Less than 1 yr. | |
| 4. No. of years working in current position? | Less than 1 year | / |
| | 1-3 yr. | // |
| | 4-5 yr. | / |
| | More than 10 yr. | // |
| | 6-10 years | |
| 5. Ages | 20-29 | |
| | 30-39 | /// |
| | 40-49 | /// |
| | Over 50 | |
| 6. Department structure described by interviewee | Strongly Hierarchical | / |
| | Flexibly Hierarchical | ///// |
| | Flat | |
| | Autonomous | |
| | Group-based | |
| 7. The important of IT | Very important | ///// |
| | Important | / |

**Appendix E**

**Control weaknesses:**

**Thailand**

- It was commented by the internal audit that department X had not exercised due care in reviewing the booking method and profit and loss recognition. This could have a significant impact on the balance sheet and profit and loss account. However, the head of department X argued that it is not fully under his department's control and it would need to be directed to department Y. This will not have a material impact on the bank's account and he believed that the risk of material misstatement as such is low.

- Reconciliation of profit accounts between two accounts was not performed in a regular manner.

- Department X had not properly reviewed and maintained complete audit trails for supporting the profit and loss figures provided by Singapore. Department X disagreed and commented that with respect to the audit trail, these are available from Singapore if needed. They do, however, feel that the audit of these numbers would be best done by both external and internal audits in Singapore where the controls and audit trails reside.

- There is no segregation of duty of cost account in Department Z. This person has been assigned the input, control and upload functions in one programme. Some transactions were captured, uploaded and checked by only one person.

- One account of loss on sale of one bank car was not properly recorded in the account of loss on sales of fixed assets.

- Some incorrect asset types and depreciation rates set up were found and some transactions were not carefully classified.

- Premiums on bond purchases for non-trade purpose had not been amortised to reflect the interest income according to the local accounting standards and the Bank of Thailand regulation on accounting for debt instruments.

- Information in the bank system is not sufficient for monitoring the Bank of Thailand requirements. Currently the branch still does not have a central

systems database for control and monitoring of local-based portfolios to give confidence on appropriate levels of provision for regulatory compliance

- There is no clear distinction of the roles and responsibilities between Department U and Department V in some tasks.

- There is no evidence of prior credit approval in some areas.

- New product approvals are not obtained for the major products traded by the desk resulting in substantial issues in the support areas.

- Daily position reconciliation was not performed between a number of front and back office systems.

- Long outstanding items due to overpayment in working account reversed as revenue without authorisation; no escalation of long outstanding items.

- Lack of documented procedures and work flow to facilitate the transfer of knowledge from Singapore.

- Unexplained differences in management reports

- Outstanding issues disputed with local external auditors

- General lack of comprehensive KOPs (key operating procedures) in certain departments.

- Inaccuracies noted in the risk report which reported 7 year positions when there were none.

- Creation of IT user- IDs is performed by the application team without proper application forms; no standard naming conventions used for the user- IDs.

- User's password in some applications does not expire and passwords for the on-line deal entry were not encrypted.

- No contingent entries have been posted in the books of the Bangkok Branch with respect to underwriting obligations. In one case, there was no recording of the underwriting obligation, which lasted more than a month. This is not in line with the accounting policy of the bank and has caused the Branch's exposures to these issuers/customers to be understated. This may be attributed to a lack of communication between the front and back office.

- The original underwriting agreements were kept by Department T in the front office and were not in a fireproof cabinet. These documents should be kept in a

fireproof cabinet in the credit admin/operations area in line with the group policy on the safekeeping of important documents of customers.

- The department does not have any documented compliance policies and procedures as regards: client adoption; conflict clearance; watch/ restricted lists; and other Chinese wall matters. These are issues, which require clear compliance guidelines and procedures to be in place in order to support the development of the local business and the expansion of the capital markets' business in the region.

- Poor communication between business and support and control functions, together with unfamiliarity of existing accounting and credit policies. These problems should have been addressed in a New Product Approval procedure whereby all parties would have been required to review and document any issues relating to their functions. No adequate "New Product Approval" process has been undertaken in Bangkok with respect to this business. The results of a "New Product Approval" procedure would also have assisted in the drafting of adequate key operating procedure manuals.

- There are general policies and guidelines in Department Y, however, there is no key operating procedure on how to undertake their daily tasks in many areas. Key tasks and controls not documented may result in lost knowledge in case a key staff member leaves the bank.

- Some reports submitted to the Bank of Thailand were not prepared with due care. They have not been fully completed. Some issues have not been addressed. Five out of twenty reports sampled were not despatched within the reporting deadline of five working days. Further efforts should be made to ensure that the Bank of Thailand reporting is complete, accurate and timely.

- Some Interest Rate Swaps were reported in the wrong types of counter-parties and some figures were incorrectly reported and these are repeat findings.

- Corrections of incorrect postings or wrong postings on allocated income and expense accounts made by Department Z were not always approved according to the Bank of Thailand's regulation.

**UK**

Most of the weaknesses are in Department Z where it is a new business line; less than one year old.

- The operations payment process is not robust. The record of payments due was incomplete, payments are processed based on inadequately authorised supporting documentation, and the record of the verbal confirmation of payments is not retained. Settlement instructions are not always obtained independently of the front office

- There is no segregation of the controlling and operations functions.

- The project does not include a business impact analysis. In particular, changes in the day-to-day controlling and operational controls both during and post-implementation together with the additional controlling and operational risks resulting from the planned incremental implementation of the system have not been identified, analysed and documented.

- The level of the person providing the approval and the scope and nature of the approval required in each jurisdiction affected by the transaction has not been fully defined and agreed.

- There is no process to document that all approvals required have been obtained and that any conditions or limits imposed have been satisfactorily cleared. All internal approvals are obtained by e-mail prior to the execution of a transaction.

- The memorandum is sent by email and printed and signed by the business manager. There is however no second signature to indicate that it is an accurate reflection of the final transaction executed in line with the four eyes principal.

- Procedures for the trade capture process performed by the business management group have not been drafted and incorporated into the front office Global Key Operating Procedures manual.

- Original legal documentation relating to Z business is not retained in a secure environment. It is archived using the bank archiving agent.

- Operations make deal-related payments on the basis of deal memoranda signed by only one person in the front office.
- The department head of Z operations has not been appointed.
- Accruals for expenses were not made as required by GAAP accounting.
- The responsibility for developing and preparing credit exposure reports should be moved to credit risk management to ensure independence, not with the sales group.
- A Global Key Operating Procedures manual has been drafted but not approved by senior management.

.

**Appendix F**

**Summary: Control weaknesses:**

**Thailand**

1) **Accounting errors**

The most frequent weaknesses found were concerned with accounting errors. To cite a few examples; some incorrect asset types and depreciation rates set-up were found and some transactions were not carefully classified; one account of loss on sale of a bank car was not properly recorded in the account of loss on sales of fixed assets; Premiums on bond purchases for non-trade purpose had not been amortised to reflect the interest income according to the local accounting standards and the Bank of Thailand regulation on accounting for debt instruments.

2) **Lack of adequate control**

There were some weaknesses found owing to lack of adequate control, for instance, daily position reconciliation was not performed between a number of front and back office systems; creation of IT user- IDs was performed by the application team without proper application forms; user's password in some applications did not expire and passwords for the on-line deal entry were not encrypted.

3) **Failure to exercise due care**

Internal audit commented on several occasions that some departments did not exercise due care in their activities. For instance, department X did not review the booking method and profit and loss recognition properly. This could have a significant impact on the balance sheet and profit and loss account; there was no evidence of prior credit approval in some areas. Some reports submitted to the Bank of Thailand were not prepared with due care. They had not been fully completed. Some issues had not been addressed. Five out of twenty reports sampled were not despatched within the reporting deadline of five working

days. Further efforts should be made to ensure that the Bank of Thailand reporting is complete, accurate and timely.

## 4) No key operating procedures

General lack of comprehensive KOPs (key operating procedures) in certain departments. To cite an example; department Y did not have any documented compliance policies and procedures as regards: client adoption, conflict clearance, watch/ restricted lists and other Chinese wall matters. These are issues which require clear compliance guidelines and procedures to be in place, in order to support the development of the local business and the expansion of the capital market business in the region. There were general policies and guidelines in Department Y, however, in many areas there were no key operating procedures on how to undertake their daily tasks. Key tasks and controls not documented may result in lost knowledge in case a key staff member leaves the bank.

## 5) IT problem

It was mentioned by interviewees that information in the ABC system is not sufficient for monitoring the Bank of Thailand requirements. Currently the branch still does not have a central systems database, for control and monitoring of local-based portfolios, to give confidence on appropriate levels of provision for regulatory compliance.

## 6) No consistency

Some activities were not performed consistently as they should have been. For example, reconciliation of profit accounts between some accounts was not performed in a regular manner.

## 7) Lack of audit trails

One particular department had not properly reviewed and maintained complete audit trails for supporting the profit and loss figures provided by ABC in

Singapore. It should be noted that the head of the department disagreed and commented that with respect to the audit trail, these were available from Singapore if needed. They did, however, feel that the audit of these numbers would be best undertaken by both external and internal audits in Singapore where the controls and audit trails reside.

## 8) No segregation of duty

There was no segregation of duty of cost account in Department Z. This person had been assigned the input, control and upload functions in one programme. Some transactions were captured, uploaded and checked by only one person.

## 9) No clear distinction of the roles and responsibilities

There was no clear distinction of the roles and responsibilities between Department U and Department V in some tasks.

## 10) Poor communication

On one occasion no contingent entries had been posted in the books of the Bangkok Branch with respect to the underwriting obligations. In one case, there was no recording of the underwriting obligation, which lasted more than a month. This was not in line with the accounting policy of the bank and has caused the Branch's exposures to these issuers/customers to be understated. This may be attributed to a lack of communication between the front and back offices.

## 11) Inadequate supporting documents

It was commented that in some areas there were no documented procedures and work flow to facilitate the transfer of knowledge from Singapore.

## 12) Dispute with external auditors

Some issues disputed with local external auditors are outstanding.

**UK**

**1) Lack of adequate control**

There were some weaknesses found due to lack of adequate control including 1) the memorandum were sent by email and printed and signed by the business manager. There was however no second signature to indicate that it was an accurate reflection of the final transaction executed in line with the four eyes principle;[34] 2) operations made deal-related payments on the basis of deal memoranda signed by only one person in the front office; 3) internal approval was obtained by e-mail only prior to the execution of a transaction. There was no process to document that all approvals required have been obtained and that any conditions or limits imposed had been satisfactorily cleared.

**2) Inadequate supporting documents**

There were a few comments in department Z with respect to the lack of supporting documents.

**3) No key operating procedures**

Procedures for the trade capture process performed by the business management group in department Z had not been drafted and incorporated into the front office Global Key Operating Procedures manual. However, this was simply because the department was new and there had been a change in structure and it is in the process of putting a control procedure together.

**4) No segregation of duty**

It was mentioned that there was no segregation of the controlling and operations functions in ABC New York in department Z.

**5) No clear distinction of the roles and responsibilities**

---

[34] It is one of the control systems where the work of one person will be reviewed by other person.

The authority level of the person providing the approval and the scope and nature of the approval required in each jurisdiction affected by the transaction had not been fully defined and agreed in department Z.

## 6) Accounting errors

On one occasion it was found that accruals for expenses were not made as required by GAAP accounting in credit department.

# References

Adler, N.J. (1991). *International dimensions of organizational* behavior (2$^{nd}$ ed.). Boston: Kent Publishing.

Ahrens, T. (1996). Styles of Accountability. *Accounting, Organizations and Society* 21:139-174.

Ahrens, T. (1997). Talking Accounting: An Ethnography of Management Knowledge in British and German Brewers. *Accounting, Organizations and Society* 22:617-637.

Ahrens, T. and Dent, J. F. (1998). Accounting and Organizations: Realizing the Richness of Field Research. *Journal of Management Accounting Research* 10:1-38.

Alavi, M., Carlson, P. and Brooke, G. (1989) "The Ecology of MIS Research: A Twenty Year Review," in *Proceedings of the Tenth International Conference on Information Systems*. Edited by J.I. DeGross, J.C. Henderson and B. R. Konsynski.

Alderfer ,C.P. (1987). "An Intergroup Perspective on Group Dynamics," in *Handbook of Organizational Behavior*. J. Lorsch edition, Prentice Hall.

Allsop, J. and Mulcahy, L. (1996). *Regulating Medical Work: Formal and Informal Controls*. Buckingham: Open University Press.

Anderson, R. J. (1977). *The External Audit I: Concepts and Techniques*. Toronto: Cropp Clark Pitman.

Ansari, S. and Bell, J. (1990). "Symbolic, Behavioural and Economic Roles of Control in Organizations and Societies," in *Accounting Control Systems: A Technical, Social and Behavioural Integration*. Edited by J. Bell. New York: Wiener Publications.

Ansari, S. and Bell, J. (1994). Symbolism, Collectivism and Rationality in Organizational Control. *Accounting, Auditing and Accountability* 13 (1), 44-79.

Antón, A. I. And Earp, J. B. (2000). A Multidisciplinary Electronic Commerce Project Studio for Secure Systems, *4$^{th}$ National Colloquium for Information Systems Security Education (NCISSE)*, Washington D.C., USA, unnumbered pages, 23-25 May.

Angell, I. O. (1994). The Impact of Globalization on Today's Business, and Why Information System Security is Strategic, *Proceedings of the 1994 Annual Congress of the European Security Forum,* Hyatt Regency, Cologne, October 10th.

Angell, I. O. (1996). Economic Crime: Beyond Good and Evil. *Journal of Financial Regulation and Compliance* 4:1.

Appadurai, A. (1990). "Disjuncture and Difference in the Global Cultural" in *Global Culture: Nationalism, Globalization and Modernity.* Edited by M. Featherstone, pp. 295-310, Newbury Park: Sage.

Appadurai, A. (1996). *Modernity at Large: Cultural Dimensions of Globalization.* Minneapolis: University of Minneapolis Press.

Archer, S. (1988). "Qualitative Research and the Epistemological Problems of the Management Disciplines," in *Competitiveness and the Management Process.* Edited by A. Pettigrew. Oxford: Basil Blackwell.

Arens, A. A. and Loebbecke, J. K. (1994). *Auditing: An Integrated Approach.* New Jersey: Prentice- Hall International, Inc.

Atkinson, J.W. (1957). Motivational determinants of risk-taking behavior. *Psychological Review* 64: 359-372.

Avgerou, C. and Madon, S. (2002). "Framing IS Studies", Working Paper Series 112, Department of Information Systems, London School of Economics and Political Science.

Backhouse, J. (1991). "The use of semantic analysis in the development of information systems". PhD thesis, London School of Economics and Political Science, University of London.

Backhouse, J. (1996). Information @ Risk. *Information Strategy* Dec/Jan:33-35.

Backhouse, J. and Dhillon, G. (1995). Managing Computer Crime: A Research Outlook. *Computers & Security* 14:645-651.

Backhouse, J. and Dhillon, G. (1996). Structures of Responsibility and Security of Information Systems. *European Journal of Information Systems* 5:2-9.

Backhouse, J., Liebenau, J. and Land, F. (1991). On the Discipline of Information Systems. *Journal of Information Systems* 1:19-27.

Backhouse, J. and Silva, L. (1999). "Circuits of Power: a framework for studying the dynamics of power in the field of information systems development" submitted September to *Information Systems Research*.

Barnouw, V. (1963). *Culture and Personality*. Homewood, IL: Dorsey Press.
Bartlett, C. A. and Ghoshal, S. (1989). Managing Across Borders.
Boston, MA: Harvard Business School Press

Barrett, M., Cooper, D. and Jamal, K. (1997). "That's Pretty Close" and "Friction of Space": Managing A Global Audit, Proceedings of Workshop." *Understanding: Information, Technology, Globalization, and Changes in the Nature of Work, Faculty of Business, University of Alberta, Canada, 23-25 July 1997*.

Barrett, M. and Scott, S. (1999). "The Emergence of Electronic Trading in Global Financial Markets: Envisioning the Role of Futures Exchanges in the Next Millennium", Working paper, London School of Economics and Political Science, University of London.

Barrett, M. and Scott, S. (2002). Electronic Trading and the Transformation of Futures Exchanges in Global Work Times, $2^{nd}$ *Social Study of IT Workshop, ICT and Globalisation*, London School of Economics and Political Science, 22-23 April.

Barrett, M. and Walsham, G. (1995). Managing IT for Business Innovation: Issues of Culture, Learning and Leadership in a Jamaican Insurance Company. *Journal of Global Information Management* 3:25-33

Barron, T. M., Chiang R. H. L. and Storey, V. C. (1999). A Semiotics Framework for Information Systems Classification and Development. *Decision Support Systems* 25(1) 1-17.

Bartlett, C. and Ghoshal, S. (1989). *Managing Across Borders: The Transnational Solution*. Boston: Harvard Business School Press.

Baskerville, R. (1991). An Interpretive Feasibility Tool in Justifying Information Systems Security. *European Journal of Information Systems* 2: 121-130.

Baskerville, R. (1993). Information Systems Security Design Methods: Implications for Information Systems Development. *ACM Computing Surveys* 25:375-414.

Benbasat, I. 1984. "An Analysis of Research Methodologies," in *The Information Systems Research Challenge*. Edited by F. W. Mcfarlan. Boston: Harvard Business Press.

Benbasat, I., Goldstein, D. and Mead, M. (1987). The Case Research Strategy in Studies of Information Systems. *MIS Quarterly* 11:369-387.

Bentzien, I. (1991). "EDP Safety and Usages," in *Computer Security and Information Integrity*. Edited by K. Dittrich, S. Rautakivi, and J. Saari. Holland: Elsevier Science Publishers.

Berger, P. and Luckman, T. (1967). *The Social Construction of Reality: a Treatise in the Sociology of Knowledge*, London: Penguin Publishers.

Bhimani, A. (1999). Mapping Methodological Frontiers in Cross- National Management Control Research. *Accounting, Organizations and Society* 24:413-440.

Birch, D. and McEvoy, N. (1992). Risk Analysis for Information Systems. *Journal of Information Systems* 7: 44-53.

Birnberg, J. and C. Snodgrass. 1988. Culture and control: A Field Study. *Accounting, Organizations and Society* 13(5): 447-464.

Birnbaum, P. H. and Wong, G. Y. Y. (1985). Organization Structure of Multinational banks in Hong Kong from A Culture Free Perspective. *Administrative Sciences Quarterly* 30:262-277.

Boland, R.J. (1991). "Information System Use as a Hermeneutic Process," in *Information Systems Research: Contemporary Approaches and Emergent Traditions*, H-E. Nissen, H.K. Klein, R.A. Hirschheim (eds.), North Holland, Amsterdam, p. 439-464.

Boockholdt, J. L. (1987). Security and Integrity Controls for Micro Computers: A Summary Analysis. *Information and Management* 13:33-41.

Bourdieu, P. (1977). *Outline of a Theory of Practice*. Cambridge: Cambridge University Press.

Bhaskar, R. (1979). *The Possibility of Naturalism*. Brighton: Harvester.

Breakwell, G. M. (1995). "Interviewing," in *Research methods in psychology* Edited by G. M. Breakwell, S. Hammond and C. Fife-Schaw, pp. 230-242, London: Sage.

Broad, G. (1994). The Managerial Limits to Japanisation: A Manufacturing Case Study. *Human Resource Management Journal* 4(3): 52-69.

Brooke, M. and Remmers, H. (1970). *The Strategy of Multinational Enterprise: Organisation and Finance*. London: Macmillan.

Bruggink, A. (1989). Performance Control in Banking: Theory and Application. Thesis, The Netherlands.

Burn, T. and Stalker, G.M. (1961). *The Management of Innovation*. London: Tavistock Publications.

Burrell, G. and Morgan, G. (1979). *Sociological Paradigms and Organisational Analysis*. London: Heinemann.

Caplan, D. H. (1994). The Expectation GAP: Understanding Auditors' Efforts to Detect Fraud. Thesis, University of California, Berkeley.

Carr, C. C. and Tomkins, C. (1998). Context, Culture and the Role of the Finance Function in Strategic Decisions: A Comparative Analysis of Britain, Germany, the USA and Japan. *Management Accounting Research* 9: 213-240.

Carrol, M. P. (1982) "Culture", in *Introduction to Sociology; A Canadian Focus* Edited by J. Freeman, J., Scarborough, Canada: Prentice Hall.

Carruthers, B. (1995). Accounting, Ambiguity, and the New Institutionalism. *Accounting, Organizations and Society*. 20: 313-328.

Carter, R. A., Antón, A. I., Dagnino (2001), A. and Williams, L. Evolving Beyond Requirements Creep: A Risk-Based Evolutionary Prototyping Model, *IEEE 5th International Symposium on Requirements Engineering (RE'01)*, Toronto, Canada, p. 94-101, 27-31 August.

Cerullo, M. J. (1985). General Control in Computer Systems. *Computer & Security* 4:33-45.

Changchit, C., Holsapple, C. W. and Madden, D. L. (2001). "Supporting Managers' Internal Control Evaluations: An Expert System and Experimental Results", *Decision Support Systems*, 30(4): 437-449.

Child, J. (1981). "Culture, Contingency and Capitalism in the Cross- National Study of Organizations," in *Research in Organizational Behaviour*, vol. 3. Edited by L. L. Cummings and B. M. Staw. Connecticut, NH: JAI Press.

Child, J., (1984), *Organisations: A Guide to Problems and Practice,* 2nd edition, London: Harper Row.

Child, J. and Tayeb, M. (1983). Theoretical Perspectives in Cross- National Organizational Research. *International Studies on Management and Organization* XII: 23-70.

Choi, J. (1988). A Constructive Approach to Building a Knowledge- Based Internal Control Evaluation Review System. PhD Thesis, University of South Carolina.

Chokhani, S. (1992). Trusted Products Evaluation. *Communications of ACM* 35: 66-76.

Chow, C. W., Y. Kato and Shields, M. (1994). "National Culture and the Preference for Management Controls: An Exploratory Study of the Firm-Labor market interface," *Accounting, Organization and Society*: 381-400.

Chau, W. (1986). Radical Developments in Accounting Thoughts. *Accounting Review* 61(4): 601-632.

Clegg, S. and Dunkerley, D. (1980). *Organisations, Class and Control*. London: Routledge and Kegan Paul.

Clegg, S. R. (1989). *Frameworks of Power*. London: Sage Publications.

Cohn, E. S. and White, S. O. (1990). *Legal Socialization: A Study of Norms and Rules*. New York: Springer- Verlag.

Coller, X. (1996). Managing Flexibility in the Food Industry: A Cross-national Comparative Study in European Multinational Companies. *European of Journal of Industrial Relations* 2: 153-172.

Committee of Sponsoring Organisations of theTreadway Commission (COSO). 1992. *Integrated Control- Integrated Framework, Executive Summary*. COSO.

Cooper, C. L. and Cox, C. J. (1989). "Applying American Organizational Sciences in Europe and the United Kingdom: The Problems," in *Organizational Science Abroad, Constraints and Perspectives* , C.A.B. Osigweh (ed.), 57-66, New York: Plenum Press.

Cooper, D. J., Brown, J., Greenwood, R. and Hinings, C. R. (1997). *Globalization in a Multinational Accounting Firm: The case of Opening New Market in Eastern Europe*. Faculty of Business, University of Alberta.

Covaleski, M. A. and Dirsmith, M. W. (1988). The Use of Budgetary Symbols in the Political Arena: An Historically Informed Field Study. *Accounting, Organizations and Society* 13(1): 1-24.

Covaleski, M.A., Dirsmith, M.W. and Michelman, J.E. (1993). An Institutional Theory Perspective on the DRG Framework, Case-Mix Accounting Systems and Health-Care Organizations. *Accounting, Organizations and Society* 18(1): 65-80.

Creswell, J. W. (1998). *Qualitative Inquiry and Research Design: Choosing Among Five Traditions*. London: Sage Publications.

Czarnecki, G. M. (1982). Internal Controls: Executive Management Responsibility. *Magazine of Bank Administration* 58:20-24.

Davidson, W. and Haspeslagh, P. (1982). Shaping a Global Product Organization. *Harvard Business Review* 60(4): 125-132.

Dhillon, G. (1995). Interpreting the Management of Information System Security. PhD Thesis, London School of Economics and Political Science, University of London.

Dhillon, G. (1997). *Management Information System Security*. London: Macmillan.

Dhillon, G. and Backhouse, J. (2001). "Current Directions in IS Security Research: Towards Socio- Organizational Perspectives," *Information Systems Journal* 11:2.

Dierstein, R. (1991). "The Concept of Secure Information Processing Systems and Their Basic Functions," in *Computer Security and Information Integrity*. Edited by S. Dittrich, S. Rautakivi, and J. Saari. Holland: Elsevier Science Publishers.

DiMaggio, P. and Powell, W. (1991). "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields," in *The New Institutionalism in Organizational Analysis*. Edited by W. W. Powell and P. J. Powell. , pp. 63-82. Chicago: The University of Chicago Press.

Dobson, J. D. (1998). ORDIT Modelling Techniques. The University of Newcastle, Newcastle Upon Tyne: Unpublished paper.

Dobson, J. E. (1991). "A Methodology for Analysing Human and Computer Related Issues in Secure Systems," in *Computer Security and Information Integrity*. Edited by K. Dittrich, S. Rautakivi, and J. Saari. Amsterdam: Elsevier Science Publishers.

Dominelli, L. and Hoogvelt, A. (1996). Globalisation, The Privatisation of Welfare, and the Changing Role of Professional Academics in Britain. *Critical Perspectives on Accounting* 7:191-212.

Donaldson, L. (1995). *American Anti-Management Theories of Organizations*. Cambridge: Cambridge University Press.

Dore, R. (1959). *British Factory – Japanese factory*. London: George Allen and Unwin.

Doz, Y. and Prahalad, C. K. (1992). "Controlled Variety: A Challenge for Human Resource Management" in *MNC Globalising Managers*. Edited by V. Pucik, et al. New York: Wiley.

Duncan, J. B., Flesher, D. L. and Stocks, M. H. (1999). Internal control systems in US churches. *Accounting, Auditing and Accountability Journal* 12(2): 142 – 164.

Dunning, J. H. (1993). *Multinational Enterprises and the Global Economy.* Wokingham: Addison-Wesley.

Dyas, P. G. and Thanheiser, T. H. (1976). *The Emerging European Enterprise: Strategy and Structure in French and German Industry.* London: MacMillan Press.

Edstrom, A. and Galbraith, J. R. (1977). Transfers of Managers as a Coordination and Control Strategy in Multinational Organisations. *Administrative Science Quarterly* (22): 248-263.

Edwards, P. K., Ferner, A. and Sisson, K. (1996). The Conditions for International Human Resource Management: Two Case Studies. *International Journal of Human Resource Management* 7: 20-40.

Edwards, T. (1998). Multinationals, Work Organisation and the Process of Diffusion: A Case Study. *International Journal of Human Resource Management* 9: 696-709.

Egelhoff, W. G. (1982). Strategy and Structure in Multinational Corporations: An Information Processing Approach. *Administrative Science Quarterly* (27): 435-458.

Egelhoff, W. G. (1988). Strategy and Structure in Multinational Corporations: A Revision of the Stopford and Wells Model. *Strategic Management Journal* (9): 1-14.

Enderle, G. (1997). Five Views on International Business Ethics: An Introduction. *Business Ethics Quarterly* 7(3): 1-5.

Engel, D. M. (1978). "Code and Custom in a Thai Provincial Court: The Interaction of Formal and Informal Systems of Justice," in *Monographs of the Association for Asian Studies no. 34.* Edited by D. M. Engel and F. Reynolds. Tucson: Publishing for the Association for Asian Studies: University of Arizona Press.

Farmer, R. N. and Richman, B. M. (1965). *Comparative Management and Economic Progress*. Homewood, IL: Irwin.

Ferner, A. and Edwards, P. K. (1995). Power and the Diffusion of Organisational change within Multinational enterprises. *European Journal of Industrial Relations* 1: 229-258.

Filipe, J., Liu K. (2000) The EDA Model: an organisational semiotics perspective to norm-based agent design, Workshop on Norms and Institutions in Multi-agent Systems, in conjunction with Autonomous Agents, Barcelona, 3-7 June.

Fincham, R. (1992). Perspectives on Power: Processual, Institutional and Internal Forms of Organisational Power. *Journal of Management Studies* 29:741-759.

Fischer, M. J. (1996). "Realizing The Benefits of New Technologies as a Source of Audit Evidence: An Interpretive Field Study," *Accounting, Organizations and Society* 21:219-242.

Franko, L. G. (1974). The Move toward a Multidivisional Structure in European Organizations. *Administrative Science Quarterly* December, 493-506.

Frenkel, S. (1994). "Patterns of Workplace Relations in the Global Corporation," in *Workplace Industrial Relations and the Global Relations*. Edited by J. Be langer, et al. Oxford: Blackwell.

Frye, N. (1981). The Bridge of Language. *Science*, pp. 127-132.

Gadamer, H-G. (1976). "The Historicity of Understanding," in *Critical Sociology, Selected Readings*. Edited by P. Connerton. Harmondsworth: Penguin Books Ltd, p. 117-133.

Galliers, R. (1991). "Choosing Appropriate Information Systems Research Approaches: A Revised Taxonomy," in *Contemporary Approaches and Emergent Traditions*. Edited by H. E. Nissen, H. K. Klein, and R. Hirschheim. Amsterdam: Elsevier Science Publishers.

Galliers, R. and Land, F. F. (1987). Choosing Appropriate Information Systems Research Methodologies. *Communications of the ACM* 30:900-902.

Galliers, R.(1999) "A Manifesto for Information Systems as a Topic of Study" in *Information, Systems and Organisation*. Edited by P.Finnegan, P. and C. Murphy .Blackhall Publishers.

Ghoshal, S. and Nohria, N. (1987). Multinational Corporations as Differentiated Networks. INSEAD Working Paper, Vol.87, no. 13.

Gibbons, M. T. (1987). "Introduction: The Politics of Interpretation," in *Interpreting Politics*. Edited by M. T. Gibbons. New York: New York University Press.

Gibbs, J. and Gibson, S. (1998). Organizational Effectiveness. *Internal Auditor* 55:34-36.

Giddens, A. (1976). *New Rules of Sociological Method: A Positive Critique of Interpretive Sociologies*. London: Hutchinson.

Giddens, A. (1979). *Central Problems in Social Theory: Action, Structure and Contradictions in Social Analysis*. London: Macmillan.

Giddens, A. (1984). *The Constitution of Society*. Cambridge: Polity Press.

Giddens, A. (1990). *Consequences of Modernity*. Cambridge: Polity Press.

Goerdeler, R. (1981). "International Practice: Auditing Standards and Quality Controls," in *The International World of Accounting: Challenges and Opportunities*. Edited by J. C. Burton, pp. 155-176. Virginia: Council of Arthur Young Processors.

Goles, T. and Hirschheim, R. (2000). The Paradigm is Dead, the Paradigm is Dead...Long Live the Paradigm: The Legacy of Burrell and Morgan. *The International Journal of Management Science* 28: 249-268.

Gray, R. N. (1983). How to Prevent Fraud in a Small Association. *Association Management* 35:127,129.
Gutting, G. (1980). *Paradigms and Revolutions*. South Bend: University of Notre Dame Press.

Habermas, J. (1972). *Knowledge and Human Interests*. Boston: Beacon Press.

Hall, E. T. (1973). *The Silent Language*. New York: Anchor Press.

Hall, E. T. (1976). *Beyond culture* Garden City, NY: Anchor Press.

Hall, E. M. (1998). *Managing Risk*. Boston: Addison-Wesley.

Hamill, J. (1984). Labour Relations Decision Making in Multinational Corporations. *Industrial Relations Journal* 15(2): 30-40.

Harbison, G. and Myers, C. A. (1959). *Management in the Industrial World*. New York: McGraw- Hill.

Harrison, G. L. and Mckinnon, G. L. (1986). Culture and Accounting Change: A New Perspective on Corporate Reporting Regulation and Accounting Policy Formulation. *Accounting, Organizations and Society* 11:233-252.

Harrison, G.L., McKinnon, J.L., Panchapakesan, S. and Leung, M., (1994). The Influence of Culture on Organisational Design and Planning and Control in Australia and the United States Compared with Singapore and Hong Kong. *Journal of International Financial Management and Accounting* 5( 3): 241-261.

Harrison, G.L., McKinnon, J.L., Panchapakesan, S. and Leung, M. (1994). The Influence of Culture on Organisational Design and Planning and Control in Australia and the United States Compared with Singapore and Hong Kong. *Journal of International Financial Management and Accounting* 5(3): 241-261.

Hickson, D. J., Hinings, C. R., McMillan, C. J., and Schwitter, J. P. (1974) The Culture-Free Context of Organization Structure: A Tri- National Comparison. *Sociology* 8: 49-80.

Hickson, J. D., McMillan, J. C., Azumi, V. and Horvath, D. (1979) "Grounds for Comparative Organization Theory: Quick sand or hard core?" in *Organizations Alike and Unlike: International and inter-institutional Studies in the Sociology of Organizations*. Edited by C.J. Lammers, and D.J. Hickson, pp. 25-41. London: Routledge & Kegan Paul.

Hickson, D. J. and McMillan, C. J. (1981). *Organisation and Nation: The Aston Programme*. Westmead, UK: Gower.

Hill, S. (1981) *Capitalism and Control at Work*. London: Heinemann.

Hinnings, C. R. and Badran, M. (1981). Strategic of Administrative Control and Contextual Constraints in a Less Developed Country. *Organization Studies* 2(1): 3-22.

Hirschheim, R. and Klein, H. (1994). "Realizing Emancipatory Principles in Information Systems Development: The Case for ETHICS," *MIS Quarterly* (18:1), March, p.83-109.

Hofstede, G. (1980). *Culture's consequences: International differences in work-related values*. Newbury Park, CA: Sage.

Hofstede, G. (1981). Culture and Organizations. *International Studies of Man and Organization* 14:15-41.

Hofstede, G. (1984). *Culture's Consequences: International Differences in Work-Related Values*. Beverly Hills: CA: Sage.

Hofstede, G. (1987). "The Cultural Context of Accounting," in *Accounting and Culture*. Edited by B. E. Cushing, pp. 1-11: American Accounting Association.

Hofstede, G. (1991). *Cultures and Organization- Software of the Mind*. London: Mcgraw- Hill.

Hogler, R. L. and Hunt, H. G. (1993). Accounting and Conceptions of Control in the American Corporation. *British Journal of Management* 3(2): 177-190.

Hopper, T. and Powell, A. (1985). Making Sense of Research into the Organizational and Social Aspects of Management Accounting: A Review of its Underlying Assumptions. *Journal of Management Studies* 22(5): 429-465.

Hughes, J., King, V., Rodden, T. and Andersen, H. (1994). "Moving Out from the Control Room: Ethnography in System Design, in Proceedings of CSCW'94, Chapel Hill, ACM Press, October, 429-439.

Inkeles, A. (1960). Industrial Man: The Relation of Status to Experience, Perception and Value. *American Journal of Sociology* 65(1): 1-31.

Jain, S.C. and Tucker, L.R. (1995). The Influence of Culture on Strategic Constructs in the Process of Globalization: An Empirical Study of North American and Japanese MNCs. *International Business Review*. 4(1); 19-37.

Jamieson, I. M. (1983). The Concept of Culture and its Relevance for an Analysis of Business Enterprise in Different Societies. *International Studies of Management and Organization* 12(1): 71-105.

Jones, M. (1999). "Structuration Theory" in *Rethinking Management Information Systems*. Edited by W. L. Currie and B. Galliers. pp.103-135. Oxford: Oxford University Press.

Kailay, M. and Jarratt, P. (1994). RAMeX: A Prototype Expert Systems for Computer Security Risk Analysis and Management, *Proceedings of the Tenth IFIP International Symposium on Computer Security, IFIP Sec' 94*, Curacao (N.A.).

Kallinikos, J. (2002). "Recalcitrant Technology: Cross-contextual Systems and Context-embedded Action" *Working paper series 103, Information systems department*, London School of Economics and Political Science.

Kidwell, L. A. and Kidwell, R.E. (1997). Toward a Multilevel Framework for Studying Electronic Control Systems. *Journal of Accounting and Public Policy* 16: 89-109.

Kinney, W. (2000). *Information Quality Assurance and Internal Control*. Burr Ridge, IL: Irwin/McGraw-Hill.

Klein, H. and Lyytinen, K. (1985). "The Poverty of Scientism in Information Systems," in *Research Methods in Information Systems*. Edited by E. Mumford, et al., pp. 131-161. Amsterdam: Elsevier Science Publishers.

Klein, H. and Truex, D. (1996). "Discourse Analysis: An Approach to the Investigation of Organizational Emergence," in *Signs of Work Semiosis and Information Processing in Organizations*. Edited by Holmqvist, pp. 228-268. Berlin: Walter de Gruyter.

Kling, R. and Iacono, S. (1984). Computing as an Occasion for Social Control. *Journal of Social Issues* 40:77-96.

Kling, R. and Iacono, S. (1989). The Institutional Character of Computerized Information Systems. *Office, Technology, and People* 5:7-28.

Kling, R. and Scacchi, W. (1982). The Web of Computing: Computer Technology as Social Organisation. *Advances in Computers* 21:1-90.

Kochan, T. A., Lansbury, R. D. and Macduffie, J. P. (1997). *After Lean Production*. Ithaca: ILP Press.

Komin, S. (1991). *Psychology of the Thai People: Value and Behavioural Patterns*. Bangkok: Research Centre, NIDA.

Krippendorff, K. (1980). *Content Analysis: An Introduction to its Methodology*. Beverly Hill: Sage Publications.

Krueger, K. H. (1993). "Internal Controls by Objectives: The Functional Control by Objectives," in *IFIP/Sec' 93, Computer Security: Discovering Tomorrow*. Edited by R. G. Dougall and D. Jones. Deerhurst, Ontario, Canada.

Lane, C. (1989). *Mangement and Labour in Europe: The Industrial Enterprise in Germany , Britain and France*. Hants, UK: Edward Edgar.

Lane, V. P. (1985). *Security of Computer Based Information Systems*. London: Macmillan.

Lau, D.C. and Murnighan, J. K. (1998). Demographic Diversity and Faultlines: The Compositional Dynamic of Organizational Groups. *Academy of Management Review* 23: 325-340.

Laurence, J.W. and Lorsch, P.R. (1967). *Organization and Environment*. Boston: Harvard University Press.

Lebas,M. and Weigenstein, J. (1986). Management Control: The Roles of Rules, Markets and Culture. *Journal of Management Studies* 23(3): 259-271.

Lyytinen, K. and H. Klein (1985). "The Critical Theory of Jurgen Habermas as a Basis for a Theory of Information Systems", in *Research methods in information systems*. Edited by E. Mumford, R. Hirschheim, G. Fitzgerald and A. T. Wood-Harper. Amsterdam: Elsevier Science Publishers.

Lyytinen, K. and Hirschheim, R (1989). "Information Systems and Emancipation: Promise or Threat", in *Systems Development for Human Progress*. Edited by H.K. Klein and K. Kumar. Amsterdam: Elsevier Science Publishers.

Leksell, L. (1981). *Headquarter-Subsidiary Relationships in Multinational Companies*. Stockholm: Stockholm School of Economics.

Levitt, T. (1983). The Globalization of Markets. *Harvard Business Review* 3:92-102.

Liebenau, J. and Backhoues, J. (1990). *Understanding Information: An Introduction*. London: Macmillan.

Liebenau, J. and Backhoues, J. (1989). *Information Systems and the Misguided Emphasis on Technology*. London School of Economics and Political Science.

Liebenau, J., and J. Backhouse. (1989). "A Need for Discipline," in *The Times Higher Education Supplement*.

Lincoln, J. R., Hanada, M., and McBride, K. (1986). Organization structures in Japanese and U.S. manufacturing. *Administrative Science Quarterly* 31: 338-364.

Littler, C.R. (1982) *The Development of the Labour Process in Capitalist Societies: A Comparative Study of the Transformation of Work Organisation in Britain, Japan and the USA*. London: Heinemann.

Liu, K., Sun, L., Dix, A. and Narasipuram, M. (2001). Norm Based Agency for Designing Collaborative Information Systems. *Information Systems Journal* 11: 229-247.

Liu K and Dix, A. (1997) Norms Governed Agents in CSCW, Workshop on Computational Semiotics, Paris-La Defense-France, 26-27 May.

Loch, K., H. Carr, et al. (1992). Threats to Information Systems: Today 's Reality, Yesterday 's Understanding." *MIS Quarterly* (June): 173- 186.

Longley, D. (1991). "Formal Methods of Secure Systems," in *Information Security Handbook*. Edited by W. Caelli, D. Longley, and M. Shain. New York: Stockton Press.

Loveridge, R. (1990). "Footfalls of the Future: The Emergence of Strategic Frames and Formulate" in *The Strategic Management of Technology Innovation*. Edited by R. Loveridge and M. Pitt, pp. 95-126. Chichester, UK: Wiley.

MacDermott, M. (1998). Investigating Trouble Within. *Business Insurance* 32(2): 29.

MacLatchie, K. P. (1997). Take Control. *Journal of Property Management* 62:64-67.

Madon, S. (1991). The Impact of Computer-Based Information Systems on Rural Development: A Case Study in India. PhD Thesis, University of London.

March, J. G. and Simon, H. A. (1958). *Organizations*. New York: Wiley.

Marginson, P., Armstrong, P., Edwards, P. and Purcell, J. (1993). The Control of Industrial Relations in Large Companies, Warwick Papers in Industrial Relations, no. 45, University of Warwick.

Marginson, P., Armstrong, P., Edwards, P. and Purcell, J. (1995). Extending Beyond Borders: Multinational Companies and the International Management of Labour. *International Journal of Human Resource Management* 6: 702-719.

Markus, M. L. (1983). Power, Politics and MIS Implementation. *Communications of the ACM* 26(6): 430-444.

Martinez Lucio, M. and Weston, S. (1994). New Management Practices in a Multinational Corporation: the Structuring or Worker Representation and Rights? *Industrial Relations Journal* 25: 11-21.

Maurice, M. (1979). "For a Study of the "Societal Effect": Universality and Specificity in Organization Research," in *Organizations Alike and Unlike*. Edited by C. J. Lammers and D. J. Hickson, pp. 42-60. London: Routledge and Kegan Paul.

McDonald, G. (2000). Cross-cultural Methodological Issues in Ethical Research. Journal of Business Ethics 27(1/2): 89-104.

Merchant, K.A. (1985). *Control in Business Organizations*. Cambridge, MA: Balinger Publishing Company.

Meyer, J. W. and Rowan, B. (1977). Institutionalized Organizations: Formal Structure as Myth and Ceremony. *American Journal of Sociology* 83(2): 340-363.

Meyer, M. and Rigsby, J. T. (2001). A Descriptive Analysis of the Content and Contributors of Behavioral Research in Accounting 1989-1998. *Behavioral Research in Accounting* 13: 253-278.

Mezias, S. J. (1994). Financial Meltdown as Normal Accident: The Case of American Savings and Loan Industry. *Accounting, Organizations and Society* 19(2): 181-192.

Mingers, J. (1995). Information and Meaning: Foundations for an Intersubjective Account. *Information Systems Journal* 5: 285-306.

Moran, J. (2001). Applying Best Practice Internal Control in the European Commission. *Accountancy Ireland* 33 (4): 8-11.

Morris, C. W. (1956). *Varieties of Human Value*. Chicago: University of Chicago Press.

Morgan, G. (1983). *Beyond Method*. Beverly Hill: Sage.

Mueller, F. and Purcell, J. (1992). The Europeanisation of Manufacturing and the Decentralisation of Collective Bargaining. *International Journal of Human Resource Management* 3: 15-34.

Mueller, F. (1994). Societal Effect, Organizational Effect and Globalization. *Organization Studies* 14:407-428.

Myers, M.D. (1994). "A disaster for everyone to see: an interpretive analysis of a failed IS project," *Accounting, Management and Information Technologies* 4:4, p. 185-201.

Myers, M. D. (1997). Qualitative Research in Information Systems. *MIS Quarterly*, 21 (2): 241-242.

Negandhi, A. R. (1987). *International Management*. Massachusetts: Allyn and Bacon.

Newman, K. L. and Nollen, St. D. (1996). Culture and Congruence: The Fit between Management Practices and National Culture. *Journal of International Business Studies* 27(4): 753-779.

Ngwenyama, O.K. (1991). "The Critical Social Theory Approach to Information Systems: Problems and Challenges," in *Information Systems Research: Contemporary Approaches and Emergent Traditions*, Edited by H-E. Nissen, H.K. Klein, R.A. Hirschheim pp. 267-280. Amsterdam: NorthHolland.

Ngwenyama, O.K. and Lee, A.S. (1997). Communication Richness in Electronic Mail: Critical Social Theory and the Contextuality of Meaning. *MIS Quarterly* 21(2): 145-167.

Nissen, H. E. (1989). "Information Systems Development for Responsible Human Action", in *Systems Development for Human Progress,* Edited by H. K. Klein and K. Kumar, Amsterdam: Elsevier Science Publisher.

Oberg, W. (1963). Cross- Cultural Perspectives on Management Principles. *Academy of Management* 6: 129-143.

Orlikowski, W. (1992). The Duality of Technology: Rethinking the Concept of Technology in Organizations. *Organization Science* 3:398-427.

Orlikowski, W. and Baroudi, J. (1991). Studying Information Technology in Organizations: Research Approaches and Assumptions. *Information Systems Research* 2:1-28.

Ouchi, W.G. (1980). Markets, Bureaucracies and Clans. *Administrative Science Quarterly* 25: 129-141.

Parker, B. (1998). *Globalization and Business Practice: Managing Across Boundaries*. London: Sage.

Pedersen, J. S. and Sorensen, J. S. (1989). *Organizational Cultures in Theory and Practice*. Aldershot, UK: Gower Publishing.

Peltier, T. (1999). "Practical applications of risk analysis", Technical Dimensions of Network Security- NETSEC '99, St Louis, Missouri.

Pettigrew, A. (1985). "Contextualist Research: A Natural Way to Link Theory and Practice," in *Doing Research That is Useful in Theory and Practice*. Edited by J. M. Pennings. Sann Francisco: Jossey- Bass.

Pettigrew, A. (1990). Longitudinal Field Research on Change: Theory and Practice. *Journal of Organizational Science* 1:207-292.

Pla-Barber, J. (2002). From Stopford and Wells's Model to Barlett and Ghoshal's Typology: New Empirical Evidence. Management International Review 42(2): 141-156.

Powell, W. W. and Di Maggio, P. J. (1991). *The New Institutionalism in Organizational Analysis*. Chicago: University of Chicago Press.

Powell, P. and Klein, J. (1996). Risk Management for Information Systems Development. *Journal of Information Technology* 11: 309-319.

Power, M. (1997). *The Audit Society: Rituals of Verification*. Oxford: Oxford University Press.

Prahalad, C.K. and Doz, Y. (1981) An Approach to Strategic Control in Multinational Companies. *Sloan Management Review* 22 (4): 5-13.

Prahalad, C. K. (1990). Globalisation. *Human Resource Mangement* 29: 27-37.

Prasad, P. (1997) "Systems of Meaning: Ethnography as a Methodology for the Study of Information Technologies," in *Information Systems and Qualitative Research*, Edited by A.S. Lee, J.Leibenau, and J.I. DeGross, pp. 101-118, London: Chapman and Hall, 1997.

Radnitzky, G. (1970). *Contemporary Schools of Metascience*, Goteborg: Scandinavian University Books.

Reason, P. and Rowan, J. (eds.) (1981). *Human inquiry: A sourcebook of new paradigm research*. Chicester: John Wiley and Sons Ltd.

Robertson, R. (1992). Globalization: Social Theory and Global Culture. London: Sage.

Rosenzweig, P. M. and Nohria, N. (1994). Influences on Human Resource Management Practices in Multinational Corporations. *Journal of International Business Studies* 25: 229-251.

Royle, T. (1995). Corporate versus Societal Culture: A Comparative Study of Mc. *International Journal of Contemporary Hospitality Management* 7: 52-59.

Sassen, S. (1999). Global Financial Centers. *Foreign Affairs* 78(1): 75-95.

Scapens, R. W. and Macintosh, N. B. (1990). Structuration Theory in Management Accounting. *Accounting, Organizations and Society* :455-477.

Scapens, R. W. and Macintosh, N. B. (1996). Structure and Agency in Management Accounting Research: A Response to Boland's Interpretative Act. *Accounting, Organizations and Society* 21:675-690.

Schein, E. H. (1996). Culture: The Missing Concept in Organizational Studies. *Administrative Science Quarterly* 41(2): 229-240.

Sekaran, U. and Snodgrass, C. (1986). A Model for Examining Organizational Effectiveness Cross- Culturally. *Advance in International Comparative Management* 2: 211-232.

Sides, M. A. and Grosso, C. B. (2001). Reviewing Internal Controls: A Fresh Approach. *Strategic Finance* 83(2): 29-35.

Silva, L. (1997). Power and politics in the adoption of information systems by organisations: The case of a research centre in Latin America, PhD Thesis, University of London.

Simmons, M. R. (1997). COSO Based Auditing. *Internal Auditor* 54:68-73.

Sheridan, T. T. (1995). Management Accounting in Global European Corporations: Anglophone and Continental Viewpoints. *Management Accounting Research* 6(3): 287-294.

Solms, R., Solms, S. H. and Carroll, J. M. (1993). "A Process Approach to Information Security Management" in *Proceedings of the ninth IFIP International Symposium on Computer Security, IFIP/Sep' 93*. Edited by E. G. Dougall and D. Jones. Ontario, Canada: Deerhurst.

Solms, R., Solms, S. H. and Caelli, W. J. (1994). A Framework for Information Security Evaluation. *Information and Management* 26(3): 143-153.

Sorge, A. (1977). "The Cultural Context of Organization Structure: Administrative Rationality, Constraints and Choice" in *Organizational Choice of Constraints*. Edited by M. Warner. Farnborough, UK: Saxon House.

Sorge, A. (1991). Strategic Fit and the Societal Effect: Interpreting Cross-National Comparisons of Technology. *Organization Studies* 11(2): 161-190.
Stamper, R. (1973). *Information in Business and Administrative Systems*. New York: John Wiley and Sons.

Stamper, R. (1991). "The Semiotic Framework for Information Systems Research" in *IFIP TC8/WG8.2 Conference on Information Systems Research Arena of the*

*90's*. Edited by H. E. Nissen, H. K. Klein, and R. Hirschheim, pp.515-527, Copenhagen, Denmark.

Stamper, R. (1994). "Social Norms in Requirements Analysis and Outline of MEASURE. In *Requirements Engineering: Technical and Social Aspects*. Edited by M. Jirotka and J. Goguen. New York: Academic Press.

Stamper, R. (1996). "Signs, Information, Norms and Systems" in *Signs of Work: Semiotics and Information Processing in Organisations*. Edited by B. Holmqvist, P. B. Andersen, H. Klein and R. Posner, pp.349-397, Berlin: Walter de Gruyter.

Stamper, R., Liu, K., Hafkamp, M. and Ades, Y. (2000) Understanding the Role of Signs and Norms in Organisations - A Semiotic approach to Information Systems Design. *Journal of Behaviour and Information Technology*. 19(1): 15-27.

Stopford, J. M. and Wells, L. (1972). *Managing the Multinational Enterprise: Organization of the Firm and Ownership of the Subsidiaries*. New York: Basic Books.

Swindler, A. (1986). Culture in Action: Symbols and Strategies. *American Sociological Review* 81:273-286.

Talmor, S. (1998). Regulators Unite on Risk. *Banker* 148: 69-70.

Taylor, C. (1976). "Hermeneutics and Politics" in *Critical Sociology, Selected Readings*, Edited by P. Harmondsworth. Connerton Penguin Books Ltd, 153-193.

Thorne, L. and Saunders, S. B. (2002). The Socio-Cultural Embeddedness of Individuals' Ethical Reasoning in Organisations. *Journal of Business Ethics* 35(1): 1-14.

Trompenaars, F. (1997). *Riding the Waves of Culture: Understanding Cultural Diversity in Business*. London: Nicholas Brealey Publishing.

Truex, D. (1996). "Text- based Analysis: A Brief Introduction", ICIS 1996, Cleveland.

Urry, J. (1982). Duality of Structure: Some Critical Issues. *Theory, Culture and Society* 1(2): 100-106.

Van Maanen, J. and Pentland, B. T. (1994). "Cops and Auditors: The Rhetoric of Records," in *The Legalistic Organization*. Edited by S. Sitkin and R. J. Bies, 53-90, Thousand Oaks, CA: Sage.

261

Walsham, G. (1993). *Interpreting Information Systems in Organisations*. London: John Wiley & Sons.

Walsham, G. and Han, C. K. (1991). Structuration Theory and Information Systems Research. *Journal of Applied Systems Analysis*. 17: 77-85.

Walsham, G. (1995). Interpretive Case Studies in IS Research: Nature and Method. *European Journal of Information Systems* 4: 74-81.

Walsham, G. (2000). "IT, Globalisation and Cultural Diversity" in *Information Technology in Context Studies from the Perspective of Developing Countries*. Edited by C. Avgerou and G. Walsham, pp. 291-303, Aldershot, UK: Ashgate Publishing.

Walsham, G. and Waema, T. (1994). Information Systems Strategy and Implementation: A Case Study of a Building Society. *ACM Transactions on Information Systems* 12:150-173.

Warman, A. R. (1993). *Computer Security within Organizations*. London: Macmillan Press.

Wasilewski, N. (2002). An Empirical Study of the Desirability and Challenges of Implementing Transnational Marketing Strategies. *Advances in Competitive Research* 10(1): 123-149.

Washington, M. T. (1987). Auditor Evidence Evaluation and Aggregation As a Cascaded Inference Task. PhD Thesis, University of Southern California.

Webber, R. A. (1969). *Culture and Management: Text and Readings in Comparative Managment*. Homewood, IL: Irwin.

Weick, K. E. (1979). *The social psychology of organizing*. Reading, MA: Addison-Wesley Publishing.

Wynn, E. *Office conversation as an Information Medium*. PhD thesis, University of California, Berkeley, 1979.

Yin, R. K. (1994). *Case Study Research: Design and Methods*. Thousand Oaks, CA: Sage Publications.

Yip, G. S. (1995). *Total Global Strategy: Managing for Worldwide Competitive Advantage*. Englewood Cliffs, NJ: Prentice Hall.

Youssef, S.M. (1975). Contextual Factors Influencing Control Strategy of Multinational Corporations. *Academy of Management Journal* March: 136-145.

Zaheer, S. (1995). Circadian Rhythms: The Effects of Global Market Integration in the Currency Trading Industry. *Journal of International Business Studies* 26(4): 699-728.

Zan, L. (1995). Interactionism and Systemic View in the Strategic Approach. *Advances in Strategic Management* 12(1): 261-283.

Zucker, L. G. (1987).Institutional Theories of Organization. *Annual Review of Sociology* 13: 443-464.

Zyl, P.W. J. , et al. (1994). MOSS II – A Model for Open System Security, *Proceddings of the Tenth IFIP International Symposium on Computer Security, IFIP Sec' 94, Curacao (N. A.).*