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THE DESIGN OF MANAGEMENT CONTROL SYSTEMS IN FINANCIAL ACCOUNTING OUTSOURCING

Abstract

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The Design of Management Control Systems in Financial Accounting Outsourcing

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The objective of this study is to design a management control system for outsourcing of financial accounting. Financial accounting covers external accounting processes, which are purchase invoice process, sales invoicing process, travel-, and expense invoice process, payments transfer and cash management processes, asset accounting, general ledger, reporting processes, archiving, and payroll.

Outsourcing represents a planned organizational change. To be able to create a management control system for outsourcing, first, management actions to support the change, are analyzed. Change supporting actions are analyzed on the strategic as well as operational level in both organizations of the strategic alliance. Managerial actions are then interpreted through management intervention ideal types (Huy, 2001), which have special assumptions about the organizational circumstances they are suitable for. These interventions can be classified, on the basis of their underlying assumptions, into four separate intervention ideal types: (1) commanding interventions, (2) engineering interventions, (3) teaching interventions, and (4) socializing interventions.

After the intervention type analysis, all managerial actions are interpreted using the control archetype classification to deepen and verify the analysis. The management intervention analysis has earlier been used for organizational changes within a single organization. This research raises the method into an inter-organizational strategic alliance level. The control archetype analysis is integrated into the intervention type analysis to be able to seek information about the contractual aspect of management control design in the inter-organizational context.

The case of financial accounting outsourcing is analyzed using data collection on several organizational levels and from a variety of sources: service contracts, takeover chart, minutes of the

steering group and operational level meetings, definitions of outsourced electronic financial accounting processes, service specifications, interviews and informal discussions.

The tools to create management control in this kind of business process outsourcing vary on the basis of management level and the process to be outsourced. The takeover project as a whole and the outsourcing of payroll as a single process and general ledger including reporting calls for commanding intervention either on the executive level on the outsourcer management, or as a joined intervention by group level of the outsourcer and the executive level of the service provider towards the subsidiary of the outsourcer. These interventions clearly stand for hybrid arm's length control archetype (Spékle, 2001) On the operational level the formulation of the strategic development teams and the definition of process-flow charts represent clearly engineering and teaching type management interventions and stand for hybrid exploratory control archetype.

Keywords: Outsourcing, financial accounting, management control, change

Preface

Erkki (born in 1997), my first son, was 6 months old as I took the first course of post graduate studies organized by Kataja, the Finnish Doctoral School for Post-Graduate Students. The first research topic was “The role of price in the outsourcing of the housing of elderly people in Finnish municipalities”. I had written my master’s thesis in marketing five years earlier. The discussions with the lecturers of the first two courses, Rauno Tamminen and Petri Vehmanen, made me for some reason change my topic as well as my major subject. The second try was “The role of management accounting in municipal organisations”. During this project I gave birth to my two other children, Esko (born in 1999) and Erja-Stiina (born in 2000). The research was published by my supervisor. I decided to concentrate on my children for a while, since I almost lost my daughter in the delivery.

During the following years my life seemed to be a total disaster. I went through two major operations (cancer and prolaps), gave birth to a dead child, and my marriage ended up in a divorce. At the same time my mother got Alzheimer disease. After these dramatic experiences I gave my life to Jesus Christ, and this project of completing the research started once again. I also found new supervisor for my work, which had a tremendous impact on my life as a whole. I praise the Lord that my new supervisor, my current husband, did not let me give up my dream of writing this thesis, even though we have altogether six children in our new-born family.

In 2008 I lost my mother and 2009 my father died. At the same time we moved to another city after job, and it took a while to be able to concentrate on the research again. During these tough years of my life I was fortunate to have a possibility to follow a tremendous project of outsourcing of financial accounting as I worked as a Business Unit Manager in an accounting service providing company. Even given the new optimal framework in my life, the research was hard work, lonely hours in the nights, and quite often extremely frustrating. The faith in Lord and the most supporting love from my husband kept me continuing the work.

“If God is with us, who can be against us?”

Romans 8, 31.

Ristiina, 5 October, 2012

Arja-Leena Saastamoinen

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I also wish to thank my children, Erkki, Esko and Erja-Stiina, who always went to bed early and often played the quiet games letting me concentrate on this thesis during the evenings. Many colleagues and friends have supported my research process in many ways, some of them even without knowing it. First, I want to express my gratitude to Tiina Tervaniemi and Eeva Virtanen with whom I have discussed the study during the first crucial year. They always filled me with positive attitude in front of my “mission impossible”.

During the most hectic period of writing, I had just started as the Vice President, CFO and CIO in South Savo Education Ltd. Thus, special thanks belong to my own working team, Kari Ahonen, Mika Pynnönen, Kristiina Leso, Arja Silonsaari and Virpi Rönkkö, since I might have been a bit absent, sometimes. Despite of that you all made our team work effective and productive, and being so great team you enabled me to complete this milestone in my life.

I express special thanks to one accounting professors, Rauno Tamminen, who gave me some fruitful ideas on accounting theories and some concepts of accounting at the beginning. These ideas gave me the ground to build this thesis further.

Finally, after losing my mother for the Alzheimer disease, my mother-in-law, Paula Saastamoinen, supported me in many ways to meet the everyday duties having sometimes altogether six children, requiring work, and time-consuming hobbies. You always had the time to discuss the things I would have shared with my own mother. You cannot imagine how much power and female energy you have given me during these months.

During 2008 I changed to the University of Kuopio, and Mervi Niskanen started as the real supervisor for my work. She was the one, who really concentrated on my work and welcomed me to a group of researchers with her husband, and the other supervisor of mine, Jyrki Niskanen. Without the belief in me by these wonderful two professors, I would never have made it. I kind of started for the third time, and for the first time, I was able to put it all together.

The final step, the proofreading of the text, was done by a very good friend of mine, who does not want to be mentioned here. She showed me, what a real friendship means, and I look forward to be able to share the next step, writing the Ph.D. articles, with her, too.

Sisällysluettelo

ABSTRACT

PREFACE

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1. Introduction

Business processes management and reengineering have their original roots in the management of manufacturing processes. Research in this area focused first on process optimization and operations management. Techniques such as linear programming were used to reduce cycle time and inventory levels. Especially the Japanese automobile industry quickly adopted concepts into its manufacturing process, and brought to popular acceptance ideas such as just-in-time manufacturing and supply chain management. After these early studies, research and experimentation extended into business process reengineering and the principles of core competencies. Management leaders urged their organizations to redesign their business processes in the way that they would retain the key competitive differentiators in-house, and outsource the processes with low value-addition or the ones that were core competencies of their suppliers they had easy access to. The outsourcing of business processes in service sector such as financial accounting services has rapidly followed a very similar path. The financial services as well as the information technology services, have traditionally thought conceptually in terms of front and back offices, and outsourcing of back-office business processes has occurred across both service sectors. (Tas & Sunder, 2004)

Outsourcing is a very carefully planned change in an organization. There are several studies, which analyze the role of management control systems in planned organizational change.

“Make or buy calculus is centered upon too restrictive a model of inter-organizational interaction. This arises because the origins of the make or buy decision calculus are embedded within an ideology of dichotomous choice between the invisible hand of market based transacting and the hierarchical control of vertical integration. However, when issues of technological advancement and specialization are prominent it shall be argued that other intermediate (plural) forms of organizational interaction need to be considered. Moreover, when flexibility is an important consideration, non-contractually established modes of behavior become important.” (Giezmann 1996, 216)

When outsourcing financial accounting in an electronic format, very specific technological solutions are used. In this kind of context with technological advancements, according to Giezmann (1996), hierarchical contract-based control mechanisms are not enough to achieve control in vertical cooperation with suppliers.

The existing literature concerning management control systems facilitated change focus either on rational and technical change principles or more social and political aspects of management control systems facilitated change. Secondly, these researches only focus on changes taking place within one single organization.

In the fall 2008, the researcher was fortunate to start as a business manager in a bookkeeping agency employing around 100 accountants. The company provided totally outsourced electronic accounting services with an innovative on-line reporting system for over 300 small and medium sized enterprises. In September 2008 a large corporation took over the whole company. At the same time there were signs of downswing in the air and even large corporations saw the total outsourcing of their accounting departments as means to adapt into the declining markets situation.

1.1. Objectives of the study

The objective of this research is to design a management control system for outsourcing of financial accounting. Financial accounting processes only cover external, financial accounting as a whole covering the following areas:

Purchase invoice process

Purchase invoice process includes stages from purchase order to purchase invoice payment including the general ledger statements. If an electronic ordering system is used, also purchase orders and stock receiving are integrated into the purchase invoice process.

Sales invoicing process

Sales invoicing covers all stages from sales order to invoicing, payment receiving, and general ledger statements. Accounting receivables management as well as clearing are essential areas of sales invoicing process.

Travel-, and expense invoice process

Travel- and expense invoice process includes the handling of payments due to travelling of the employees as well as minor purchases external to the purchase invoice ledger.

Payments transfer and cash management processes

Payments transfer process covers the handling of currency transfers, recording of transactions from the bank statements, like rents, tax payments. In addition, payment transfer essentially includes different payment channels - credit cards, other payment cards, cash management and cash payment - handling, as well as mobile- and Internet payments.

Assets accounting

This accounting process covers the valuation and depreciations of the company's fixed assets, like machinery and equipment and again the general ledger statement in the end of each reporting period.

General Ledger

There are still several sub-processes to be identified in the general ledger process, especially in big corporations, and it is sometimes necessary to treat them as individual processes. These are for example matching of some payments, matching of accounts receivable and account payable ledgers, and closing and opening of the accounting periods (typically months), as well as handling of recordings coming from other ledgers or sub-processes.

Reporting process

Reporting process includes the providing and delivery of several reports. Reporting process digs information from all other accounting processes and always starts where the other sub-processes end.

Archiving

Archiving is connected to all previous processes. The trustworthy and well-functioning archiving is the backbone of digital accounting. (Lahti & Salminen, 2008: 15-16)

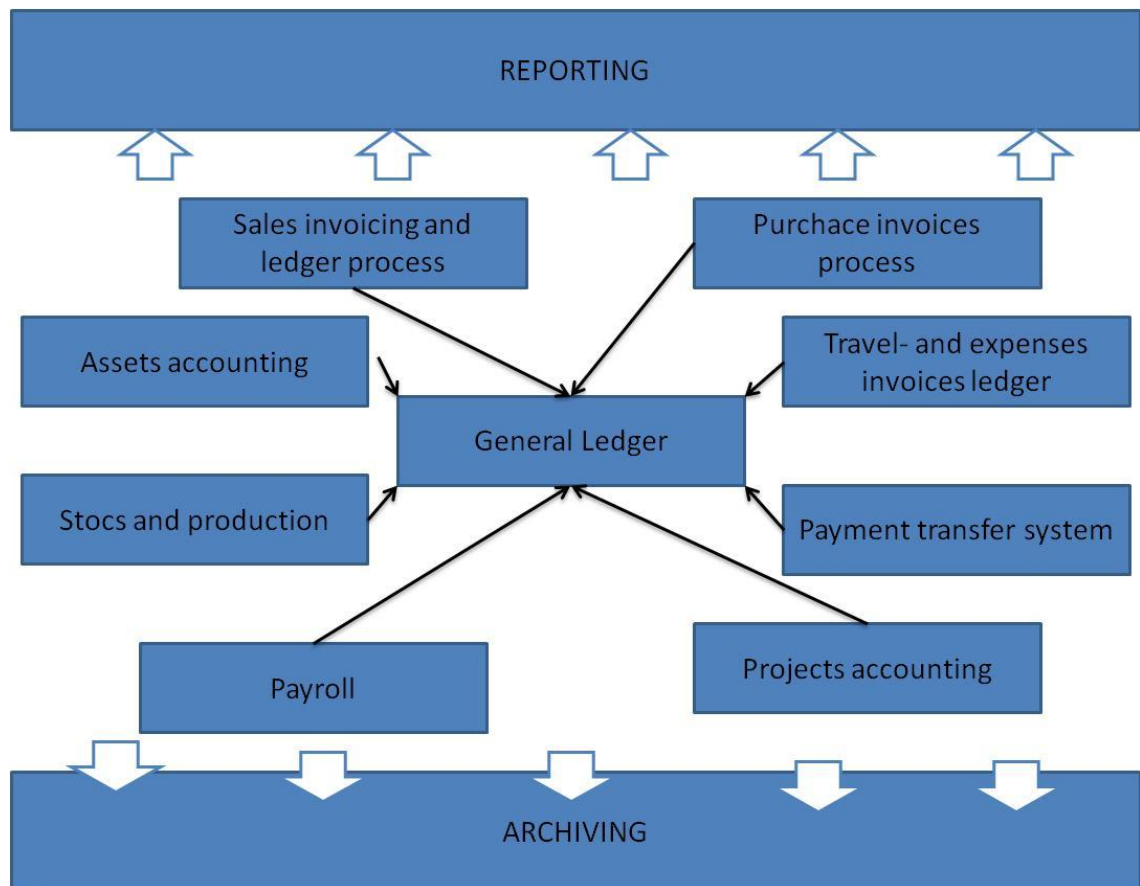


Figure 1: Accounting consists of General Ledger, its sub-processes and finally reporting and archiving. Adapted from Lahti & Salminen 2008, 17.

The taxonomy of financial accounting processes follows the organizing of accounting work processes in most organizations as well as the engineered structure of accounting software houses. In this research, also the payroll is covered as one of the sub-processes of financial accounting. The phenomenon studied in this research covers all legal-based external accounting in an organization.

In most cases, the economies of scale, are first searched by centralizing accounting (or information systems management) as an in-house shared service for the whole corporation. (McNurlin and Sprague 2002) There are already several in-house financial accounting service centers in Europe. This has been the trend throughout the whole past decade, especially during the last years of 1990's and the first couple of years of the 21st century. Next stage in total outsourcing of both financial and partly management accounting is to outsource accounting personnel and accounting information systems by either

1. Buying the service from an outside supplier
2. Transferring the accounting department to a experienced eAccounting provider

The objective of this study is to analyze the design of management control system in a planned organizational change in a strategic alliance. The case analyzed is the outsourcing of financial accounting.

The research question, thus, could be written as follows:

How are control mechanisms used to achieve control in outsourcing of financial accounting services in a single case study of an engineering industry system supplier?

There are three ways in which this research extends the existing literature. First, rational and technical aspects of management control mechanisms are combined with more social and political interpretations of management control facilitated change. Secondly, the management interventions that support the change (classification by Huy, 2001) are analyzed in an inter-organizational context. And finally, interventions used in this single case are interpreted through the framework of Spékle's nine archetypes of control, which has never been used in an empirical research before.

1.2. Outline of the thesis

Chapters 2, 3, and 4 review the theories applied in the formulation of the theoretical framework for this research. In chapter 2 the literature related to planned organizational change are reviewed. Organizational change theories are applied to understand how organizations adapt to the changes, especially the planned ones. (Chenhall, 2003; Chenhall and Euske, 2007; Greiner, 1972; Minzberg and Westley, 1992). The focus is on the rational and technical change principles as well as the behavioral, social and more political approaches to the change.

It is stated in the information systems management literature, that the main driver behind business processes outsourcing and concentration to the core business, is the seeking for better corporate performance. (Tas and Sunder, 2004; Harmon 2003; Gilley and Rasheed 2000; Holcomb and Hit, 2007; Windolph, Moeller, 2012). Business process outsourcing theories are introduced in chapter 3.

Finally, in chapter 4, the theoretical framework used in this study is introduced. It integrates the interventions used to control the planned organizational change in inter-organizational context with the control archetypes by Spékle (2001) to be able to formulate the creation of control in the outsourcing of financial accounting processes.

Chapters 5 and 6 consist of empirical investigations. The case company and the whole corporation are introduced in chapter 5. Chapter 6 focuses on the eight months case study on the financial accounting outsourcing process. The planning of transferring the financial accounting processes to the service provider was completed both on the operational level with people actually providing and ordering the financial accounting services as well as the people having provided the former in-house accounting services, and on corporate level where the processes and the service specifications were agreed upon on a contractual level.

Chapter 7 concentrates on defining the model of control applicable for outsourcing of financial accounting. The chapter starts by analyzing management control systems applied in this case of outsourcing of financial accounting. In the end of this final chapter, the model of control mechanisms for outsourcing of financial accounting is constructed. It also draws the conclusions of the thesis and makes some suggestions for future studies.

1.3. Contributions and limitations

The main contribution of this thesis is the construction of model to achieve control in outsourcing of financial accounting. By constructing the model this study extends the existing literature of management control systems in three explicit ways:

1. it combines the rational and technical aspects of management control systems facilitated change with social and political approaches to the change principles
 3. it raises the change theories of management control systems into inter-organizational level
 4. it validates the management control interventions (Huy 2001) with the nine archetypes of control (Spékle, 2001) and at the same time tests for the first time this Spékle's classification of control in empirical research.

Patton (1990) states in his guide for qualitative evaluation and research methods, that the qualitative analysis is heavily shaped by the theoretical framework within which the study is conducted. Thus, the main limitation might be the choice of theories to form the framework for analyz-

ing the enormous amount of data collected during the outsourcing process. Still, it can be assumed, that the integration of several theoretical aspects to the analysis of one single case, should increase the possibility of constructing a model for further development to achieve control in outsourcings of financial accounting in general.

2. Approaches to management control systems in planned organizational change

Organizational change theory has long been central in studying how organizations transform themselves through time (Colville, Dalton & Tomkins, 1993; Greiner, 1972; Lewin, 1951; Minzberg & Westley, 1992). There is a growing interest in the role of management control systems in planned organizational change. (Hofer & Schendel, 1978; Kotter & Heskett, 1992; Porras & Robertson, 1992; Burns, 2000; Burns & Vaivio, 2001).

Outsourcing of financial accounting services as a whole represent a very carefully planned change in an organization. In this chapter, the existing literature related to management control systems in organizational change, are reviewed. The focus is on the rational and technical change principles as well as the social and political interpretations of management control systems facilitated change. The purpose of this research is to extend the integrated analysis of both technical and rational aspects as well as the social and political aspects of management control systems facilitated change from the organizational level to the inter-organizational level to help in analyzing how control mechanisms are used to achieve control in outsourcing of financial accounting. The ultimate aim is then to construct a model of control in the outsourcing of financial accounting in general.

2.1. Previous research of management control systems facilitated organizational change

This chapter gives an overview of literature related to the role of management control systems in planned organizational change. Most of the studies capture the change within one organization. There are a couple of studies that compare the changes made in two separate organizations (Chenhall and Euske, 2007). There is very limited set of research that covers the role of management control system in outsourcing. One of them concentrates on how the control mechanisms and trust are used to achieve control in a single outsourcing case of IT operations. (Langfield-Smith & Smith, 2003). Several studies have analyzed the rational and technical aspects of management control systems facilitated change. (Anderson, 1995; Ahrens & Chapman, 2004)

2.1.1. Rational, technical change principles

There are several perspectives that have been used to analyze the role of management control systems in organizational changes that have been planned beforehand. The rough distinction could be done between functional logic of management control systems driven change and more political and social concerns that either help or hinder the way in which management control systems should facilitate the change (Chenhall and Euske, 2007).

There are several studies that examine how changes in management control systems should be implemented to achieve desired outcomes. These changes typically involve changes in cost management practices, where change outputs are related to reengineering to gain cost efficiency, product selection and financial success. (Anderson, Hesford & Young, 2002; Anderson & Young, 1999; Chenhall 2004; Kennedy & Affleck-Graves 2001). The prescriptive approaches study the logic of technical innovation in management control system. These innovation applications studies are activity-cost –management (Shank & Govindarajan, 1993), target costing (Ansari & Bell, 1997); life cycle costing (Shields & Young, 1991), quality costing (Clark, 1985), and balanced scorecards (Kaplan & Norton, 1996). These new innovations provide a platform to develop and implement new strategies and advanced technologies and new human resource management initiatives.

Implementing management innovations usually involves project and development teams. This kind of innovation-oriented project and development teams should be cross-functional; comprised of engineers, cost analysts, designers, operators, functional managers and others who together perform non-routine tasks. By including a diverse set of perspectives, development teams have

the potential to generate new ideas or derive novel solutions to existing problems. (Anderson, Hesford and Young, 2002)

The research by Anderson, Hesford and Young considered activity based costing implementation in one organization, but the same can be assumed to be true in an outsourcing of financial accounting. However, to make the change happen in the working processes, the development teams should cover both service provider as well as service buyer parties and also accounting and operational level considerations an all organizational levels. And this might be the only way to create cross-functional project and development teams in a strategic alliance.

Chenhall (2004) examined the extent to which cognitive and affective conflicts are involved in the relationship between activity based cost management behavioral implementation factors and the usefulness of ABCM right after the implementation phase. The successful implementation required top management support, which included links to competitive strategy and resources of ABCM; clarified objectives of the change and training.

Unquestionable top management support as well as clear links to company's competitive strategy and resources management related to innovation could also be essential for a successful outsourcing of financial accounting processes. In the case analyzed in this research, there were two technical innovations applied simultaneously in the company site in Europe; new enterprise resources planning software and totally electronic and outsourced financial accounting processes. The totally electronic financial accounting in this research is defined as follows:

All the purchase invoices (even the ones achieved in a paper format) are scanned and put through an electronic approval process. Standardized electronic purchase invoices are requested from most of the suppliers. All the sales invoices are made in a standardized electronic format. Accounts receivables and accounts payables are controlled in an electronic format in separate ledgers. Accrued ledgers are automatically read into the general ledger on a daily basis minimum. Bank statements are read into general ledger in an electronic format. Payroll statements are read into general ledger in a standardized format. Assets are listed in an application and write-off definitions are programmed into the system and realized automatically into general ledger. Most of the pre-described processes are automatized, which means that they are timetabled in the accounting software. Also postings, including financial as well as cost accounting aspects, are automatized based on sender of a purchase invoice or receiver of sales invoice.

Given the fact, that reasonably high technology innovations were taken into use at the same time in the research site, it could be assumed, that the top management support and control of both buyer and service provider organizations as well as the clarified objectives of the change including resources management, would be essential to support the organizational change. This idea is supported by Gottfredson, Puryer and Phillips (2005, 132):

“Globalization, aided by rapid technology innovation, is changing the basis of competition. It’s no longer a company’s ownership of capabilities that matters but rather its ability to control and make the most of critical capabilities, whether or not they reside on the company’s balance sheet.”

The conclusion of the aspects of management control systems facilitating organizational change through theories with rational and technical approaches can be listed as follows:

1. innovation-oriented project and development teams should be cross-functional; comprised of engineers, cost analysts, designers, operators, functional managers and others who together perform non-routine tasks (Anderson, Hesford and Young, 2002)

2. the successful implementation required top management support, which included links to competitive strategy and resources of ABCM; clarified objectives of the change and training (Chenhall, 2004)

The list of findings with identifiable numbers is used to be able to integrate all the essential findings from several theoretical approaches with the final constructed model for creating a management control system in outsourcing of financial accounting.

2.1.2. Social and political approaches

Empirical evidence shows that quite often change outcomes include the possibility that organizations drift in indeterminate ways rather than following the rules, norms or routines related to rational prescriptions or some institutional conception of organizational reality. (Burns & Vaivio, 2001; Quattrone & Hopper, 2001). Thus, researchers have examined, how social and political issues affect management control systems facilitated change in the organizations. These studies inevitably indicate that the effects of the technical aspects of management control systems in facilitating change cannot be understood without considering how the systems respond to the social context within which they operate.

The studies covering social and political interpretations of the management control systems facilitated change may be grouped into four categories (Chenhall & Euske, 2007):

1. Studies that examine the external context, often investigating the development of the organization over a longer period of time, and how the organization responds to external contingencies and how management control systems are affected by them and, in turn, affect the way organizations change.
2. Studies that focus on internal issues of the organization to identify how management control systems help integrate the different information needs of managers for change depending on the hierarchy level of these managers.
3. Studies that examine the importance of management control systems in developing and supporting management networks to help diffuse and integrate change across the organization.
4. Studies that investigate the employees involved in the change and how their commitment to change is mobilized by the management control systems.

2.1.2.1. History and external factors

The case study of the car industry company Renault (Bhimani 1993) illustrated how factors external to the enterprise influenced internal accounting practices. Management control systems evolved as a response to the information needs derived from external forces operating over a long period of time (1898 – 1938), involving the implementation of scientific management and statistical thinking and not as a response to an immediate organizational information need. Also Littleton (1933) has explored the effects of “expanding commerce and changing economic conditions” on accounting concluding that:

“Accounting is relative and progressive. . . Older methods become less effective under altered conditions; earlier ideas become irrelevant in the face of new problems. Thus surrounding conditions generate fresh ideas and stimulate the ingenious to advise new methods . . . Accounting originated in known circumstances in response to known needs....it came from definite causes; it moves toward a definite destiny.” (Littleton, 1933, p.362)

Some of the studies in this category analyze how management control systems assist in the change of strategic orientation. Management control systems help in changing the focus from traditional values embedded in their histories to more economical values like efficiency, quality and a customer focus. Ezzamel and Bourn (1990) studied how a management control system, developing from financial controls based one to more extent management control system covering also some new formal and informal controls, was used in the different stages of changes, as a UK university recovered from a financial crisis. In the early stages the management control system highlighted the political dimensions to manage the uncertainty by facilitating compromises and helping generate new ideas. On the contrary, during the later stages of the change, new ideas were critical to managing the change and the management control system could not help to respond to uncertainties by means of examining strategic possibilities.

Burns and Vaivio (2001) point out in their research on management accounting change how the facing of broad change in their environments and the emergence of new information technology has led companies to transfer the role on accountants from “controller or “score-keeper” to “business support” or “internal business consultant”. (Coad 1999). At the same time especially new information technology is driving so called routine accounting tasks (like processes of financial accounting studied in this case) into centralized or outsourced positions, and a great deal of management accounting is done by the business managers rather than by the “traditional accountants”. (Granlund and Lukka, 1998a; Lukka and Shields 2001)

“In recent years, many firms have been experiencing significant change in their organizational designs, competitive environments, and in information technologies. For instance, business environments exhibit a variety of structures and processes - including flat and horizontal organizational forms, multidimensional matrix structures, networks of “virtual” organizations, and self-directed work teams....advances in information technology have

driven innovation and change in the collection, measurement, analysis, and communication of information within and between organizations, facilitated in particular by such technologies as enterprise resource planning systems, e-commerce, the internet, electronic data interchange and electronic meetings.”(Burns & Vaivio 2001, 389)

When financial accounting is planned to be outsourced, there might be a need to create trustworthy connection between the two organizations to make sure the business unit managers get enough accurate information from the outsourced accountants and also, even outsourced, the accountants could still be considered as “internal business consultants”.

Dent (1991) has shown in his study how management control systems were used in a railway organization in this kind on focus shifting from government management to a business culture with new organizing modes, patterns of authority and shorter planning time horizons. Llewellyn and Northcott (2005) examined British hospitals as they used cost data to provide comparisons of efficiency. According to this study management control system encouraged behaviors and practices to be categorized in a standardized way, and it led to averages in measurements. Soin, Seal and Cullen (2002) examined the transfer of a UK bank into more business orientated operational activities with the help of an ABC introduction. The research was concerned with the interplay between management accounting and other agents of organizational change that drew rationalities and legitimations from operations and human resources management. ABC institutionalization was successful and links between costs and products were demonstrated, but all this did not affect the strategic thinking. The inability to change the strategic thinking level was due to conservatism, the desire to maintain the managerial discretion and the ultimate lack of technical understanding of the potential of activity base costing to help in the strategy transition. Henri (2006) used survey-based methods to show that performance measures can focus organizational attention, support strategic decision making and legitimize action in organizations, where flexibility values dominate over control values. Performance values were seen as stimulants and guides towards innovation, creativity, learning and change. The essence of management control systems is to manage the tension between creative innovation and predictable objectives achievement, and to balance the traditional organizational dilemma between control and flexibility (Simons, 1995).

To shortly conclude, what was found in the category of research, where the focus was on how organizations reflected the external change and how the change developed the management control system of the organization, the following aspects could be highlighted:

3. *management control systems needed to reflect to the information needs of external forces (Bhimani 1993; Littleton, 1933)*
4. *the rise of scientific thinking has led to work process analyzing also in financial accounting (Bhimani, 1993)*
5. *information technology has driven innovation and change in the collection, processing and communication of accounting information within and between the organizations (Burns & Vaivio, 2001; Coad, 1999; Granlund & Lukka, 1998a; Lukka & Shields 2001)*
6. *accounting information is closely integrated with the operational information of the business units (Soin, Seal and Cullen, 2002)*
7. *accountants are seen as internal consultants rather than financial controllers (Burns & Vaivio, 2001)*
8. *new information technology is driving routine accounting tasks to be centralized or outsourced (Burns & Vaivio, 2001)*
9. *need for trustworthy connections to maintain former in-house business consultants as current outsourced business consultants (Burns & Vaivio, 2001; Coad, 1999; Granlund & Lukka, 1998a; Lukka & Shields 2001)*
10. *performance measures can focus organizational attention, support strategic decision making and legitimize actions (Henri, 2006)*
11. *flexibility values dominate over control values (Henri, 2006, Simons, 1995)*
12. *performance values stimulate and guide innovation, creativity and change (Llewellyn and Northcott, 2005; Dent, 1991)*

2.1.2.2. Integration of information needs in different organization levels

The second branch of more social and political approaches to management control systems facilitated change focuses on the integration of information needs in different levels of organizations. Roberts (1990) studied an acquisition and the use of profit centered structures and a financially based management control system. Managers used conferences as an alternative form of accountability to overcome a preoccupation with myopic financial concerns of production activity and a distancing from strategic issues. Conferences also helped to engage employees in difficult decisions of cuts in production volume and the workforce. This also helped to develop a sense on interdependence be-

tween profit or production units within the organization. The key role of the management control system according to the study of Roberts is the integration of individual action and mutual dependence.

Ezzamel and Bourn (1990) explored the roles of accounting information systems in situations of externally generated financial crisis. Crisis usually has a huge impact on participants within the organization, but also on suppliers, customers, competitors as well as the whole society at large. These kinds of situations also have effect on management and information systems. The analysis reveals that the model offers important, but only partial explanations of the roles of the accounting information systems in organizations. In particular, during the early phases of the crisis the accounting information system did not appear to possess the requisite qualities for effective pro-active nor responsive crisis management.

Euske and Riccaboni (1999) studied the role of management control systems in an Italian bank over a long period of time including its privatization. The purpose of the study was to contribute to the understanding of the influence and the roles of management control systems in the management of interdependencies, both external and internal ones. The Chief Executive Officer had the key role in the definition of internal and external interdependencies as well as in the employment of the management control systems. The study shows how a well developed management control system helped in transforming the public bank to the private sector.

Seal (2001) examined management accounting in a company that had a highly diversified conglomerate that was implementing a new strategy of product market focus combined with a more multinational scope. The firm changed from diversified products to a more limited set of industries and moved at the same time to a more innovative organizational culture. Formerly subject to a simple but rigorous form of financial control, the new organizational identity of becoming a high-growth, high-technology company posed fresh challenges for its control style and for the role of management accounting. The study draws self-referential systems theory to analyze the paradox of organizations focusing on particular markets and technologies, their management accounting seems to become more diffuse and differentiated. The management control system evolves to integrate the changes by combining a shareholder value approach at central management level with more local innovative management control system. This combination is not done in any coherent way. Both authors conclude in their articles that, while it was not clear whether the different types of management control systems were effective in new strategy implementation, management control systems need to be sensitive to trade-offs between strategic, financial and operational matters, innovation and economic viability to be able to help effect the change.

Collier (2001) describes in his study the introduction of management accounting change in the form of local financial management in a police force. Management system integrated traditional financial control for external constituencies with more local information needs. The field study explains how the devolution of budgets on governmental level was accompanied by a shift in power that helped to reconcile the interests of those pursuing a legitimating accountability with those who prioritized operational policing. Ideals of loose coupling provided the basis to explain the integration between external and internal users' needs.

The short conclusion of this branch of research where the focus of management control system is on the integration of information needs in different levels of organizations:

13. *when spreading new type of financial control across the organization, a good way of keeping to the strategic level instead of very myopic aspects, is to use conferences within and between different levels of the organization (Roberts, 1990)*
14. *CEO and his understanding of the external and internal interdependencies as well as the developed management control system help in transforming organization into a totally or partly different form (Euske & Riccaboni, 1999)*
15. *Management control systems need to be sensitive to trade-offs between strategic, financial and operational matters, and innovation and economic viability to be able to help effect the change (Seal, 2001)*
16. *local aspects should be taken into account in the reporting (Collier, 2001)*

2.1.2.3. Development of management networks to diffuse and integrate change across the organization

The third social and political approach to management control systems facilitated organizational change highlights the development of management networks to diffuse the change across the whole organization. Ansari and Euske (1987) found out in their study on US defense organization that improved cost information did not lead to efficiency gains, but it provided legitimacy, caused managers to call for better accounting systems and new forms of dialogue, and finally led to conferences, where all cost information was discussed.

Abernethy and Chua (1996) examined one large teaching hospital in Australia that went through material changes in its governance structure, culture, and accounting control system. The study analyzed the role of accounting control system (ACS) as part of an interrelated control "package," in which other control systems function either as substitutes or complements. The authors argue in the study that this control mix is not only contingent on the organization's technical environment but also on its institutional environment. In addition, the paper demonstrates how the design of the "control package" is actively shaped by the strategic choices of its dominant coalition. The value focus changed from the physicians-based ones to more managerial-based values. Management control system did not generate efficiency gains, but instead, it generated symbolic values supporting strategic resources management.

Llwellyn (1998) showed how management control system integrated the need for financial and social legitimacy with local operational needs. Organizational boundaries were used in the study to explain how welfare professionals used costing information to make value for money assessments while at the same time maintaining boundaries between the new financial role and the caring culture. At the first phase the welfare professionals were engaged in boundary-work to distinguish between caring activities and cost information. Consequent upon the initial study the social services departments were re-visited two years later. By that time there was already some engagement between costing and caring. Sue Llwellyn argues in her study, that processes of alignment between costing and caring and the reconstitution of organizational tasks have allowed social work professionals to accept some costing work. The major themes of this paper are: the exploration of the responses of operational social services personnel to their new financial roles, and the interpretation of change in the social services context through the ideas of boundary-work.

Briers and Chua (2001) analyzed in their study how an Australian mining company improved the quality of its cost information by implementing activity based costing. The new management control system ensured that existing products kept their market share and new profitable products could be developed further to the market. Change was supported by involving networks of parties interested in activity based costing who strengthened the implementation by using common databases as boundary object to assure different parties of the usefulness of cost information gained through the new management control system. This similar approach can be found in Nørreklit's (2003) analysis of the means by which the authors of The Balanced Score Card had created the great attention towards the method. Nørreklit argues, that balance scorecards' key role is in integration of all interested parties within the network of the whole organization.

Modell (2001) explored how the properties of institutional processes associated with public sector reforms in the Norwegian health care sector impinge on the extent of pro-active choice exercised by senior management in the development of multidimensional performance management reflecting the interests of a wider range of institutional constituencies. Modell drew his study on Oliver's (1991) conceptual framework, based on a continuum of responses characterized by a varying degree of pro-active choice. The study thus provides a more detailed analysis of the managerial tactics in developing organizational performance management than most earlier research informed by neo-institutional sociology. This case study of a hospital indicated the proactive use of management control systems, such as diagnosis related groups, based performance measures, provided legitimacy but also helped managers to have more financial control.

Dechow and Mouritsen (2005) analyzed how two companies pursued integration of management and control through enterprise resource planning systems. Quest for integration is an unending process produced concurrently and episodically. It is not only about mere visibility and control at a distance. Management control systems do not define what integration is and how to develop it, but they incur a techno-logic that conditions how control can be performed through financial and non-financial representations because they distinguish between an accounting mode and a logistics mode. This study stresses the importance of boundary objects, how management control systems enable individuals to take into account issues across the organization and demand information both from official management control systems and also elsewhere, concerning integration across the organization. The study points out that management control in an ERP-environment is not a property of the accounting function but a collective affair where local control issues in different parts of the organization are used to create notions of global management.

Quattrone and Hopper (2005) have also studied enterprise resource planning showing how this kind of management control system can provide different modes of control between different levels of the organization. It may stick to the conventional accounting controls and maintain the status quo and an incremental process of change. But it also can provide real time information in matrix form, thus breaking down the conventional control mechanisms, providing a sense on minimal control, especially in the case of more dramatic change.

To be able to understand the design of management control system in the outsourcing of financial accounting, the effects of management networks in the management of change could be concluded as follows:

17. *improved cost information did not lead to efficiency gains, but it provided legitimacy, caused cost managers to call for better accounting systems and new forms of dialogue, and finally led to conferences, where all cost information was discussed (Ansari & Euske, 1987)*
18. *interrelated "control package" is actively shaped by the strategic choices and other control systems function as substitutes or complements to the core one (Abernethy & Chua, 1996)*
19. *Change can be supported by involving networks of parties interested in new technology who strengthen the implementation of outsourcing of financial accounting by using common databases as boundary object to assure different parties of the usefulness of the new information gained through the new management control system (modified from Briers & Chua, 2001)*
20. *Balance Score Cards could be seen as similar common databases to share the understanding of the usefulness of new management control system (Nørreklit, 2003)*
21. *management control in an ERP-environment is not a property of the accounting function but a collective affair where local control issues in different parts of the organization are used to create notions of global management (Dechow & Mouritsen, 2005)*

2.1.2.4. Management control systems mobilizing employee commitment

In this set of studies technical concerns with management control systems practices are integrated with the extent to which employees embrace the management control systems and the change initiatives. Employees are considered at an aggregate level from industrial perspective.

Bougen (1989) studied a UK engineering company and how a management control system was used to justify new profit sharing with employee collaboration. This led to improvements in competitive positioning and performance in general. However, employees experienced accounting data being unreliable and strengthening the managers' domination over the interactions focused on rights and privileges. Finally employees did not believe to get their fair share on the economic benefits.

Chenhall and Langfield-Smith (2003) also studied the profit sharing scheme in encouraging change. Their case was an Australian manufacturer. This gain sharing scheme succeeded in improving working practices, but after the introduction of self-managed teams it failed to develop mature teams with the high level of cooperation and trust.

Ezzamel, Willmott and Worthington (2004) examined the role of accounting in management-labor relations within the context of contemporary moves to reorganize manufacturing processes in a UK manufacturing company. The study shows how new manufacturing and accounting discourses are received by employees, and how their responses to such initiatives shape the route of their introduction. The more adequate understanding of accounting's presence and significance in the working place does not only require more attention to the production process but also makes its positioning at the centre of analysis. Shifts in market conditions and ownership structure lead to change initiatives in production methods, management style, and accounting techniques introduction by senior management. Furthermore, shop floor workers interpreted these initiatives as intensifying labor by reducing head count, leading them to resist these initiatives over a period of 13 years. Ezzamel, Lilley and Willmott (2004), in a contrasting study, reported a successful role of management control system and new performance measures to regulate and transform organizational practices. New performance measures transferred the management focus from cost-plus defense regime to the focus on cost, quality and delivery. Management control system enhanced change through team-based organizational structures. It helped in defining the corporate mission and shifted power from engineers to accountants providing the whole organization with cost awareness and a new commercial agenda.

Short conclusion of the management control systems mobilizing employee commitment:

22. *profit sharing systems might increase employee commitment (Bougen, 1989)*
23. *team-based organizational structures usually enhance change, this could be applicable to inter-organizational relationships as well (Chenhall & Langfield-Smith, 2003)*
24. *more adequate understanding of the presence and significance accounting in the working place does not only require more attention to the production process but also makes its positioning at the centre of analysis (Ezzamel, Willmott & Worthington, 2004)*
25. *management control systems enhanced change through team-based corporation structures, which affected the definition of corporate mission, and led into shifting of power from engineers to accountants, and cost awareness increased throughout the organization (Ezzamel, Willmott & Worthington, 2004)*

Chenhall and Euske (2007) have shown in their study about activity based cost management application in two military organizations, how management control system helps integrate the intent of change and the various social and political factors that may inhibit the change. They tried to capture both rational and technical change principles and more social and political interpretations of management control systems facilitated change in their article where they analyze two military organizations as they transfer themselves from a military to a more business-like, managerial organizations. They examined the role of management control systems in planned organizational change by using the management interventions framework of Huy (2001). The framework captures earlier in this study analyzed two types of dimensions of managing the change, which were rational, technical aspect and more social and political aspect, by identifying four idealized intervention types:

- commanding
- engineering
- teaching
- socializing.

In this research the objective is to extend this approach so, that it also covers the whole strategic alliance in an outsourcing case. There are no former studies, which would have combined the change theories and outsourcing theories to create a model of understanding the design of management control system in an outsourcing of financial accounting processes.

Huy (2001) argues that there are four ideal types of planned change interventions:

- commanding interventions, that are related to formal structures
- engineering interventions, that are related to work processes
- teaching interventions, that are related to beliefs, and finally
- socializing interventions, that are related to social interrelationships

Each type of control is described by identifying specific practices and the nature of implementation procedures. In planned change it is essential to combine these ideal intervention types, deciding on the sequences of the types and the timing of this sequencing. Matching of these ideal control types to suit the context of the organization and individuals involved in change affect straight the effectiveness of the change.

The commanding intervention involves examination of the external and internal organizational factors. It applies analytical frameworks to make changes in tangible attributes, like organizational structures, acquisition of people, assets and information systems. Leadership style is power-coercive and typically assisted by external consultants. Clear orders and sanctions typically ensure the compliance of agreements. Changes are usually rapid to prevent the resistance and outcomes are measured in linear clock-time, which is the same for individuals at all organizational levels. Highly visible outcomes in tangible factors are achieved quite rapidly, but long-term changes in basic beliefs and values are unlikely to be fostered (Huy, 2001).

The engineering intervention refers to change agents' actions of analyzing, understanding, and redesigning work processes to improve the speed and quality of production. Total quality management and process engineering are typical approaches in this type of control. Skilled work process analysts lead the change by guiding and developing employees' technical skills. Processes and skills take some time to be understood and developed, so pacing is usually medium-term. Successful change calls for employees' acceptance and actual use of new working practices (Huy 2001). The engineering intervention is partly rooted in the work of Taylor (1947), who focused on improving the execution of work tasks.

The teaching intervention includes a formal analytical and guided learning approach to change. Individuals seek to change their basic beliefs with the help of change agents, who guide them throughout the process. Change agents bring to the surface the targets' deep beliefs, which constitute the background against which things make sense or not. These outside intervention agents undertake cognitive diagnoses that lead to change in behaviors that enable individuals to learn and to accept new values and beliefs. Individuals compare the changing situation to their past. Thus, the change initiative recognizes an individual's inner time. So, the change agents need to be patient. (Huy 2001)

The socializing intervention is a kind of contract to the teaching intervention, as it includes an assumption, that change in behavioral interactions among individuals will lead to change in beliefs and organizational culture. This type of intervention refers to change agents' actions to enhance quality of the social relationships among organization members to be able to understand organizational tasks. Social relations involve both individual emotions and concerns about power and politics. The time concept included in the socializing approach is the qualitative, social time. (Bate et al., 2000; Westley, 1990, Huy, 2001)

Table 1 presents the assumptions underlying the change intervention types into more details. (Huy, 2001) This framework is used to examine the role of management control to induce the planned change, the outsourcing of financial accounting to an international service provider.

Assumptions	Commanding intervention	Engineering intervention	Teaching intervention	Socializing intervention
Methaphor of organization	* Mechanical clock * Top management as operators: others are tightly coupled parts	* Machine organization * Thinkers (analysts) versus doers (workers)	* Psychic prison * Members are well meaning but cognitively deficient	* Organism * Organic open system
Concept of time	Quantitative	Quantitative	Qualitative (inner time)	Qualitative (social time)
Analytical frameworks of diagnostic models	* Design and positions schools of strategic management (Andrews, 1987; Porter, 1980) * Strategic implementation (Ansoff, 1988; Bourgeois & Brodwin, 1984)	* Scientific management (Taylor, 1947) * Quality management (Juran, 1967) * Process re-engineering (Hammer & Champy, 1993)	* Cognition-focused organization development action research principles (Argyris, 1993; Schein, 1992; Senge, 1990)	* Social-technical systems (Emery & Trist, 1973) * ESM (Quinn et al., 1997) * Social learning theory (Hendry, 1996)
Entrainment factors	Outside the organization	Inside the organization (logic of work processes)	Inside the organization (individual psychology)	Inside the organization (interpersonal relationships; shared norms)
Time perspective	Near term	Medium term	Moderately long-term	Long term
Pacing	Abrupt, rapid	Moderately fast	Gradual	Gradual
Ideal organizational state or goal	Portfolio of organizational units to achieve superior performance	Highly-productive, efficient work processes to achieve superior performance	Community of responsible and mingful individuals learning in an open climate; innovative and adaptive to uncertain environments	Democratic community of semi-autonomous workgroups learning continuously; innovative and adaptive to uncertain environments
Intervention theory	Competitive analysis; strategic planning and repositioning; top-down imposed, comprehensive organizational change	Work-process analysis, redesign and re-engineering, and quality management	Exposing shared tacit assumptions and taken-for-granted cause-effect relationships in organizational beliefs and behaviors	Participative experiential learning and workplace redesign around social-technical principles
Role of change agents	Commander	Analyst	Teacher; philosopher-psychologist	Facilitator; role-model
Typical change actions	Demand strict compliance, eliminate (downsize, outsource, divest)	Analyze, design work systems, and develop task-based skills	Probe, reveal, teach	Facilitate, emphasize, self-monitor
Change tactic	Power coercive	Normative re-educative	Empirical rational	Empirical normative
Typical identity of main change agents	Top executives, with analysis aided by external consultants	Work design analysts and external consultants to transfer knowledge to employees	Outside process consultants and action researchers	Ordinary organizational members

Table 1: Assumptions of change intervention ideal types. (Huy 2001, 611)

Huy (2001) focuses especially on time and content of change as he develops the theory of planned change. Time is inherent in the definition of change itself, but it has remained largely implicit and unexamined in organizational change theories. According to Pettigrew (1990), also content represents one of the three critical dimensions of change, together with context and process. In planned change practice, time and content are often interrelated, since some organizational elements can generally be changed faster than others. Formal structures, for instance, can be changed faster than ingrained beliefs and values. (Huy, 2001; Pettigrew, 1990)

In this research this framework of Huy (2001) is used in a slightly different context, as the purpose is to explain how the interventions of the managers of the organization, which is outsourcing its financial accounting activities, are used to create control over the organization offering these outsourced services. In the following chapter 3, previous studies about control in inter-firm relationships are shortly represented. Specklé's (2001) control theory, which is based on transaction cost economics, has never been used in empirical tests. One of the purposes of this study is to use this theory, which is created partly for this kind of inter-firm relationships. Another contribution is to integrate this inter-firm control model with the aspects of successful organizational change management represented in the previous chapter. To be able to analyze how control mechanisms are designed to achieve and keep control with the financial accounting supplier, Specklé's (2001) transaction cost based control archetypes are integrated with the intervention ideal types to achieve control represented by Huy (2001). Specklé's nine archetypes of control are introduced in the following chapter 3, and after that, both aspects – change interventions and control archetypes – are integrated and the theoretical framework to analyze in a holistic way, how control mechanisms are used to achieve control in outsourcing of financial accounting, is introduced.

3. Outsourcing theories applicable in outsourcing of financial accounting

Management control theory has come a long way in addressing the control structure variety. This has always been the focus of contingency theory as one of the more prominent streams of management control thinking (Fisher, 1995). Agency theory has also highlighted this aspect of management control (Baiman, 1990; Baiman & Rajan, 2002). However, the exiting literature does not coherently and inclusively answer on the following questions:

- Why is it, that some organizations use extensive, formal planning to direct their efforts, whereas other organizations seem much more deliberate in their aims and actions?
- Why do some organizations count on rules, standards and procedures to achieve control, whereas others rely largely on individual judgement to guide behaviour? (Spékle, 2001)

This similar duality of aspects could be found in the previous chapter, where management control systems facilitated change studies were analyzed. In this research the objective is to analyze the design of management control in outsourcing of financial accounting. Spékle has identified nine archetypes of control that also try to capture both rational and behavioural aspects of control. Literature about transaction cost economics and its relation to outsourcing of financial accounting is shortly presented next. After that Spékle's nine archetypes of control are analyzed in detail. Spékle recommends two of the control archetypes for outsourcing situations. Spékle's model has never before been used in empirical investigations. In this research it is integrated into the control related to organizational change and tested how applicable this integration is for the analysis of control design in a strategic alliance, which is represented by an outsourcing case in this research.

3.1. Transaction cost theory and outsourcing

There is a growing interest towards the outsourcing of accounting and finance activities. It is assumed that by introducing electronic outsourced accounting enterprises could increase their efficiency. This can be analysed through transaction costs of reorganized processes and the possible reduction in the costs compared to the in-house carried processes.

Transaction cost theory was originally developed by R.H. Coase as early as in 1937 in his famous article “The Nature of the Firm”. Transaction costs are costs of carrying out an exchange of goods or services. They arise in any form of economic organization. Transaction cost economics (TCE) determines vertical co-operation by the nature and level of transaction costs.

The complementary between the firm and the market can be explained through the existence of transaction costs. The firm exists because the cost of achieving specific transactions is lower within an organization than on the market. (Phan & Sommer 1999). The organization of the industry is dependent on the relation between the cost of carrying out transactions on the market and the cost of organizing the same operations within the firm which can perform this task at the lowest cost. (Coase 1988)

Institutions with the technology employed determine the cost of transacting and producing. Ronald Coase (1937) made the connection between institutions, transaction costs and neo-classical theory. The neoclassical result of efficient markets only obtains when it is costless to transact. Institutions matter always, when it is costly to transact. And since a large part of the national income is devoted to transacting, institutions and especially property rights are crucial determinants of the efficiency of markets. (North 1992)

Despite the increasing practical significance of the outsourcing as a phenomenon, the academic literature is limited to a handful of studies concerned with the delegation of accounting functions to outsourcing vendors. (Widener and Selto, 1999; Wood et al., 2001) Most of the studies concentrate on so called onshore outsourcing, where accounting and finance activities are totally or partly delegated to outsourcing vendors within the same country.

Jones, Bowonder and Wood (2003) have used transaction cost framework in their study of a remote service providing context.

“New technologies such as video conferencing, digitisation of images and electronic data exchange protocols have provided mechanisms for instantaneous and near costless data exchange, whether between two departments in the same organizations or between departments in two separate organizations.” (Jones et al. 2003, 49)

“Exploiting any cost differentials between internal and external supply is also easier with services than manufacture. A knowledge and protocol base of the type used in financial and travel services can be straightforwardly transferred to an external, remote supplier, whereas manufacturing outsourcing often involves the relocation of capital assets and specialist skills. Initially global companies exploited cost differences to transfer services to low cost locations via internal, subsidiary governance relationships, but increasingly the range of insourcing and external outsourcing options have created an increasingly globalised market for service provision. (Jones et al 2003, 49)

It can be assumed, that being non-asset-intensive, low-cost and highly technology driven, electronic financial accounting is a lot easier to outsource to a remote or even global vendor, than many other services or manufacturing activities.

Nicholson, Jones and Espenlaub (2006) have adopted transaction costs and management control theoretical framework to create understanding of offshore outsourcing of all, or just some elements of, the accounting function. They have defined outsourcing as follows:

“we define outsourcing as the contractual delegation to an outside supplier (vendor) of a service or an activity that is normally, but not always, performed in-house” (Nicholson, Jones and Espenlaub 2006, 239)

The study by Nicholson, Jones and Espenlaub examined the mechanisms and practices adopted in accounting and finance processes in offshore outsourcing. They rationalized the observed mechanisms and practices as optimal responses designed to minimize transaction costs, and they interpreted them as illustrations of control mechanisms predicted by theory (including Spekke, 2001). When categorizing different types of outsourcing, offshoring, onshoring and nearshoring can be distinguished. They can be defined as follows:

Offshore outsourcing is the transferring of work that has been done in-house to a strategic partner abroad.

Onshore outsourcing occurs, when accounting and finance activities are totally or partly delegated to outsourcing vendors within the same country.

Nearshoring occurs as firms transfer work that has been done in-house or by a strategic partner in the same area, to the strategic partner in the same country, but in area with lower salary and real estate costs, for instance.

3.2. Archetypes of control

A fundamental contracting problem is the fact that transactions are completed between imperfect human beings that are irrational or at least have bounded rationality, and seek for their own best thus being relatively opportunistic. Transaction cost economics assumes that some individuals are opportunistic some of the time, that differential trustworthiness is quite seldom transparent ex ante, and that actual behavior of contracting parties can productively be described as presuming the presence of opportunism to be able to avoid unpleasant surprises after words (Williamson, 1985).

Given the circumstances of bounded rationality and opportunism, the contracting problems depend on the characteristics of the transactions in question. Transactions can be grouped into three dimensions: (1) the degree of asset specificity of the transaction; (2) its uncertainty; and (3) its frequency. The challenge of contracting is to overcome impediments to adaptation. If there is no need for adaptation, most of the contracting problems would vanish. Uncertainty and bounded rationality determine the rise of the need to adapt. Asset specificity and opportunism, then, explain when successful adaptation cannot be taken for granted. Thus, uncertainty inhibits the ex ante specification of the required performance. Bounded rationality increases this problem. Contracts are therefore bound to be incomplete, especially in the circumstances with high uncertainty. Usually, however, information on the desirable properties of the transaction become available during the process of contract execution. New information helps in filling the contractual gaps. This may, however require renegotiations, which are not necessarily cooperative. Spékke (2001), based on transaction cost economics, proposed a framework that explicates the link between various archetypes of control devices and the activities they are expected to control. These control archetypes vary depending on three dimensions:

- the extent of programmability
- the degree of asset specificity
- the intensity of ex post information impactedness

Spékke specifies altogether nine control archetypes, which are represented in the following table 2. These archetypes are then integrated with the controlling interventions and the roles of management control systems to support the desired change, which both were presented in the previous chapter 2. Spékke argues that, in the situation of opportunism and bounded rationality,

“the specific nature of the required contribution – to be expressed in terms of programmability, asset specificity, and ex post information impactedness – gives rise to distinctive and predictable contractual problems that need to be solved in organization. These same attributes also affect the viability of control devices available to cope with these problems.”
(Spékke 2001, 438)

The extent of programmability has an effect on the availability of norms and standards to direct the behaviour. This also has effect on the feasibility and the strength of prescriptive control. Asset specificity defines access to market-based incentives and the mechanisms to cope with opportunism. And finally, the degree of ex post information impactedness effects the possibility to transform in the process of contract employment from uncertainty into a shared understanding. These three variables and their impact on different control instruments are used to identify nine control archetypes, which are introduced into more details in table 2.

Spéké's nine control archetypes and their characteristics.	
Control archetype	Characteristic features
Market control	Competition-induced standards and compliance
Hierarchical arm's length control	Significant autonomy; control is mostly achieved through market exposure Little attempt to fix performance standards in advance Performance related compensation Little hierarchical involvement as long as performance conforms to ex post market standards
Hybrid arm's length control	Detailed, reasonably complete contracts Hostage arrangements to ensure compliance to contractual provisions Arbitration to resolve conflicts
Action oriented machine control	Standardization of behaviour Codified norms, rules, instructions, and the like Detailed monitoring and supervision to ensure compliance Low tolerance of deviations from norms of instructions
Result oriented machine control	Predefined and codified performance targets Task-defining budget targets Performance dependant bonuses Budget-constrained style of evaluation
Hierarchical exploratory control	Information sharing entrenched in organizational structure and process design, vague responsibilities and mutual dependencies Performance evaluation based on emergent standards Rewards through promotion including periodic salary revisions, based on long-term performance Little emphasis of formal instruments of control
Hybrid exploratory control	Relatively unspecific general thrust contracts Latent but easily activated or endogenized competition to ensure commensurate performance Performance assessment based on broad, emergent standards Information sharing self-enforcing because of the participatory, interactive nature of the process of contracts execution
Hierarchical boundary control	Proscriptive codes of conduct/ boundary systems Budget -> authorization of maximum expenditure Tie of agents through hostages External audits
Market-based boundary control	Market procurement of goods or services Reliance on reputation effects to avoid substandard performance

Table 2: Spéké's control archetypes. Spéké 2001, 437

Economic factors try to solve contractual gaps by means of organizations. In general, transaction cost economics defines three explicit modes of governance: (1) markets; (2) hybrids; and (3) hierarchies of internalization. These distinct governance structures differ in their control mechanisms to be employed to guarantee the contract execution and to achieve successful adaptation. Free competition gives the basis for control in market governance. The hybrid form of governance derives control from explicit, long term contracts. Authority, internal incentive structures and monitoring form the control basis in the hierarchical governance. (Spékle, 2001)

3.3. Business process outsourcing

In information systems management literature business process outsourcing is defined as follows:

“business process outsourcing (BPO) is defined as outsourcing all or most of a reengineered process that has a large IT component. (McNurlin and Sprague 2002, 249)

In this research, the definition of financial accounting outsourcing is combined from the definition above with the definitions presented in the former chapter as follows:

Outsourcing of financial accounting is a contractual delegation of re-engineered financial accounting processes, that has formerly – normally, but not necessarily always - been performed in-house , to an outside supplier.

There has been an increasing interest in outsourcing and opportunities provided by strategic alliances over the past decade. (Langfield-Smith and Smith 2003; Weerakkody et. al., 2003). Already in 1989, Kodak outsourced its well-run Information Systems department to become a more competitive company. That surprising move caused top executives around the world to consider the use of outsourcers. (McNurlin and Sprague 2002; Yang & Huang, 2000). At the moment, there is increasing competition and signs of declining markets in almost every field of business in Europe. Both increasing competition and declining markets force companies to focus on core business. In accounting, this means transferring the scarce resources from routine accounting transactions into strategic business support activities. (Everaert, Sarens & Rommel, 2010)

Business processes management and reengineering were the focus of early researchers in manufacturing. The main interest was in process optimization and operations management to reduce cycle time and inventory levels. (Tas and Sunder, 2004). It can be assumed, that standardized, repetitive, and routine tasks of accounting could be treated like any other transactions. It is quite often, that in the outsourcing of financial accounting there is also an accounting software to be outsourced.

Windolph, and Moeller (2012) suggest inter-firm accounting techniques such as open-book accounting (OBA) as an important means for effectively managing costs in buyer-supplier relationships and for improving relationship quality. However, disclosing cost data also implies for the supplier the risk that the buyer uses the data during price negotiations to pressure the supplier's profit margin. To date, there is sparse empirical evidence addressing the extent to which cost-data

disclosure does affect the supplier's perception of the exchange relationship. The study by Windolph, and Moeller (2012) addresses this gap by investigating the impact of OBA on supplier relationship satisfaction. The findings indicate that OBA may negatively affect supplier relationship satisfaction and thus represents a potential risk to cooperation. The results further suggest that effective safeguards against opportunistic behavior, such as relational social norms, significantly attenuate the negative effect of OBA on supplier relationship satisfaction.

4. Introduction of the theoretical framework

This research constructs the design of control mechanisms used to achieve control in a single case study of an engineering industry system supplier outsourcing its financial accounting processes.

First, there is a change in the organization, as its financial accounting activities originally were conducted in-house, then reorganized as the in-house providers were outsourced to a local service provider (near-shoring), and finally, as all financial accounting was outsourced to an international off-shore service provider. To be able to explain the use of control mechanisms, the following findings from literature related to management control in organizational change are taken to be integrated into the control model:

1. *innovation-oriented project and development teams should be cross-functional; comprised of engineers, cost analysts, designers, operators, functional managers and others who together perform non-routine tasks (Anderson, Hesford and Young, 2002)*
2. *The successful implementation required top management support, which included links to competitive strategy and resources of ABCM; clarified objectives of the change and training (Chenhall, 2004)*
3. *management control systems needed to reflect to the information needs of external forces (Bhimani 1993; Littleton, 1933)*
4. *the rise of scientific thinking has led to work process analyzing also in financial accounting (Bhimani, 1993)*
5. *information technology has driven innovation and change in the collection, processing and communication of accounting information within and between the organizations (Burns & Vaivio, 2001; Coad, 1999; Granlund & Lukka, 1998a; Lukka & Shields 2001)*
6. *accounting information is closely integrated with the operational information of the business units (Soin, Seal and Cullen, 2002)*
7. *accountants are seen as internal consultants rather than financial controllers (Burns & Vaivio, 2001)*
8. *new information technology is driving routine accounting tasks to be centralized or outsourced (Burns & Vaivio, 2001)*
9. *need for trustworthy connections to maintain former in-house business consultants as current outsourced business consultants (Burns & Vaivio, 2001; Coad, 1999; Granlund & Lukka, 1998a; Lukka & Shields 2001)*

10. *performance measures can focus organizational attention, support strategic decision making and legitimize actions (Henri, 2006)*
11. *flexibility values dominate over control values (Henri, 2006, Simons, 1995)*
12. *performance values stimulate and guide innovation, creativity and change (Llewellyn and Northcott, 2005; Dent, 1991)*
13. *when spreading new type of financial control across the organization, a good way of keeping to the strategic level instead of very myopic aspects, is to use conferences within and between different levels of the organization (Roberts, 1990)*
14. *CEO and his understanding of the external and internal interdependencies as well as the developed management control system help in transforming organization into a totally or partly different form (Euske & Riccaboni, 1999)*
15. *Management control systems need to be sensitive to trade-offs between strategic, financial and operational matters, and innovation and economic viability to be able to help effect the change (Seal, 2001)*
16. *local aspects should be taken into account in the reporting (Collier, 2001)*
17. *improved cost information does not necessarily lead to efficiency gains, but it provides legitimacy, caused cost managers to call for better accounting systems and new forms of dialogue, and finally led to conferences, where all cost information was discussed (Ansari & Euske, 1987)*
18. *interrelated "control package" is actively shaped by the strategic choices and other control systems function as substitutes or complements to the core one (Abernethy & Chua, 1996)*
19. *Change can be supported by involving networks of parties interested in new technology who strengthen the implementation of outsourcing of financial accounting by using common databases as boundary object to assure different parties of the usefulness of the new information gained through the new management control system (modified from Briers & Chua, 2001)*
20. *Balance Score Cards could be seen as similar common databases to share the understanding of the usefulness of new management control system (Nørreklit, 2003)*
21. *management control in an ERP-environment is not a property of the accounting function but a collective affair were local control issues in different parts of the organization are used to create notions of global management (Dechow & Mouritsen, 2005)*
22. *profit sharing systems might increase employee commitment (Bougen, 1989)*

23. *team-based organizational structures usually enhance change, this could be applicable to inter-organizational relationships as well (Chenhall & Langfield-Smith, 2003)*
24. *more adequate understanding of accounting's presence and significance in the working place does not only require more attention to the production process but also makes its positioning at the centre of analysis (Ezzamel, Willmott & Worthington, 2004)*
25. *management control systems enhanced change through team-based corporation structures, which affected the definition of corporate mission, and led into shifting of power from engineers to accountants, and cost awareness increased throughout the organization (Ezzamel, Willmott & Worthington, 2004)*

When integrated with the assumptions of the change intervention ideal types (Huy,2001) , aspects 1-4- and 10 - 12 of management control systems facilitated change can be seen as supporting elements of commanding intervention, where top management is defined as operators of a tightly coupled organization. Role of change agent is a commander and he usually is top executive or consultant.

Aspects 5-9 found from management control systems facilitated change literature refer to Huy's guided learning culture metaphor of organization. Accountants could be seen as consultants transferring the financial management responsibility into the tasks on business unit managers. The typical change actions are probe, reveal and teaching. This calls for a teaching intervention.

Aspects 13-17 may be combined with either commanding or teaching intervention types. Conferences used in the delivery and formation of common understanding of the relevant accounting information can be seen as teaching intervention types of managing the change. The influence of bottom-down requirements on management system and the information it provides refer to organic open system, where interpersonal relationships and shared norms are the entrainment factors of the intervention type.

The last three aspects highlighted from the change management literature emphasize the importance of profit- sharing system as a mean to commit employees with the change in the organization. It could be seen as socializing intervention, where the ideal organizational state is a democratic community of semi-autonomous workgroups. On the other hand, it is quite often stated, that in the long run, employees loose the trust on top management and they do not see their share as equal to the one that managers get.

Next, the management interventions are integrated with the control archetypes. This codification is presented in table 3. Spékle analyses applicable control types to solve contractual problems, whereas Huy's approach is the interventions to support the desired change. These both approaches are essential in the case of outsourcing accounting. Thus, management control actions should be interpreted through both aspects.

Management activities supporting the organizational change and the corresponding control archetype		
Management action	Intervention type (s)	Control archetypes by Spékle 2001
Cross-functional, innovation oriented project / development teams to perform non-routine tasks (Anderson, Hesford and Young, 2002)	Engineering: analyzing and reengineering of work processes (Taylor, 1947; Juran, 1967; Hammer & Champy, 1993)	Hierarchical exploratory control (information sharing entrenched in organizational structure and process design, vague responsibilities and mutual dependencies) Hybrid exploratory control (information sharing self-enforcing because of the participatory, interactive nature of the process of contracts execution)
Top management support with links to competitive strategy, clarified objective of the change and training (Chenhall, 2004)	Commanding: Design and position schools of strategic management, Strategic implementation (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984)	Result oriented machine control: target-setting, accountability and reward structures (Ouchi, 1977)
Control system reflecting the information needs of external forces (Bhimani 1993; Littleton, 1933)	Teaching intervention: cognition-focused organization development action research principles (Argyris, 1993; Schein, 1992; Senge, 1990)	Hybrid exploratory control (information sharing self-enforcing because of the participatory, interactive nature of the process of contract execution) (Marginson, 1999; Mouritsen, 1999)
Rise of scientific thinking has led to work process analysis (Bhimani, 1993)	Engineering: analysis of work processes (Taylor, 1947; Juran, 1967; Hammer & Champy, 1993)	Action oriented machine control: control achieved via codification of actions and supervising observance of rules and instructions (Merchant, 1982; Merchant, 1985)
Accounting information closely integrated with the operational information in business units (Soin, Seal and Cullen, 2002)	Teaching intervention: cognition-focused organization development action research principles (Argyris, 1993; Schein, 1992; Senge, 1990)	Hybrid exploratory control (information sharing self-enforcing because of the participatory, interactive nature of the process of contract execution) (Marginson, 1999; Mouritsen, 1999)
accountants are seen as internal consultants rather than financial controllers (Burns & Vaivio, 2001)	Socializing : Social-technical systems, social learning theory (Emery & Trist, 1973; Hendry, 1996)	Hybrid exploratory control (information sharing self-enforcing because of the participatory, interactive nature of the process of contract execution) (Marginson, 1999; Mouritsen, 1999)

Management activities supporting the organizational change and the corresponding control archetype		
Management action	Intervention type (s)	Control archetypes by Spékle 2001
Performance measures can focus organizational attention, support strategic decision making and legitimize actions (Henri, 2006)	Commanding: Design and position schools of strategic management, Strategic implementation (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984)	Result oriented machine control: target-setting, accountability and reward structures (Ouchi, 1977)
Performance values stimulate and guide innovation, creativity and change (Llewellyn and Northcott, 2005; Dent, 1991)	Socializing : Social-technical systems, social learning theory (Emery & Trist, 1973; Hendry, 1996)	Hybrid exploratory control (information sharing self-enforcing because of the participatory, interactive nature of the process of contract execution) (Marginson, 1999; Mouritsen, 1999)
Use of conferences to gain mutual understanding of the interdependencies (Roberts, 1990)	Teaching intervention: cognition-focused organization development action research principles (Argyris, 1993; Schein, 1992; Senge, 1990)	Hybrid exploratory control (information sharing self-enforcing because of the participatory, interactive nature of the process of contract execution) (Marginson, 1999; Mouritsen, 1999)
local aspects taken into account in reporting (Collier, 2001)	Teaching intervention: cognition-focused organization development action research principles (Argyris, 1993; Schein, 1992; Senge, 1990)	Hybrid exploratory control (information sharing self-enforcing because of the participatory, interactive nature of the process of contract execution) (Marginson, 1999; Mouritsen, 1999)
common databases (BSCs) to assure the usefulness of new system	Socializing : Social-technical systems, social learning theory (Emery & Trist, 1973; Hendry, 1996)	Hybrid exploratory control (information sharing self-enforcing because of the participatory, interactive nature of the process of contract execution) (Marginson, 1999; Mouritsen, 1999)
profit sharing system to commit employees	Socializing : Social-technical systems, social learning theory (Emery & Trist, 1973; Hendry, 1996)	Hybrid exploratory control (information sharing self-enforcing because of the participatory, interactive nature of the process of contract execution) (Marginson, 1999; Mouritsen, 1999)

Table 3: Integration of management activities, intervention types and control archetypes on a theoretical level.

The theoretical framework is thus built by integrating three distinctive approaches to management control system in an outsourcing case: (1) managerial actions that support the planned organizational change, (2) the management intervention types that have special assumptions about the organizations they would be suitable in, and (3) control archetypes and the analysis of activities they are expected to control.

Actually, the two first approaches are both related to the organizational change and the support needed to push it through, whereas the control archetypes approach are more concerned about the contractual aspect of the inter-organizational relationship. Both of these aspects are essential in the construction of the theoretical model to capture the phenomenon of designing management control in the outsourcing of financial accounting.

5. Research method and data collection

This chapter gives a report of a case study of electronic financial accounting outsourcing process at a European subsidiary on an international engineering industry system supplier. The question of understanding the total process of electronic financial accounting outsourcing is approached via an eight month period of actual observation of the phenomenon during spring and fall 2008. The outsourced service started in January 2009. During the intensive stay at the research site a set of distinctive materials were analyzed concerning all the essential processes and sub-processes of financial accounting.

5.1. Introduction of the case company

The case company is an eastern European subsidiary of an international corporation, which is an engineering industry system supplier. The total turnover of the consolidation is approximately 120 million euros, and the number of employees around 1200. The eastern European subsidiary employs 500 professionals serving the customers. Customers of the company include international companies operating in the vehicle, machine engineering, power transmission and defence industries. The company's history goes as far as to the year 1925, but with the current business structure started in 2002 as an international corporation.

Between 2002 and 2007 the company faced several separate company and business acquisitions, and between 2007 and 2010 still a couple more. During the period of five years just before the case study took place, the turnover had grown by 2000 %. According to the CFO the company concentrates on growing businesses like wind energy.

*“It is a benefit for the company, that we do not provide engineering industry systems for just one industrial branch. **Flexibility** is an essential part of daily operations.” (CFO)*

The strategy of the Group is to transfer the production of heavy component near to the customer. CFO states, that

“it wouldn't be a surprise, if most of the operations of the company would be located abroad in the future.”(CFO)

The group level has outsourced its financial accounting and partly also management accounting and controlling functions already in 2002. When asked about the driving forces behind the outsourcing decisions, the CFO mentions the following ones:

“Outsourced financial accounting makes it easier and quicker to take over the new acquisitions. The service concept is more professional compared to in-house developed ones. And now we have the possibility to concentrate to the success factors.”(CFO)

“Flexibility and cost-savings have been achieved especially in reporting, which is essential to the growth company. Processes get quicker as the income statements, prognoses and other necessary reports are available on-line through a web based reporting software. We save days, as nobody has to collect the information from several excel-files.”(CFO)

“Domestic service provider brings reliability and conformity, especially to the controlling functions. Also going international has succeeded together as the service provider had office also in XXX (the location country of the subsidiary studied).”

The case subsidiary is located in Eastern Europe. The share of export is over 90 % of the company's turnover. The business is based on the manufacturing of frames and other metal structures for the manufacturers of earthmovers. This is the largest group of the company's customers.

5.2. Research approach and perspective

Choosing case study as the research method was quite self-evident in this study. It is quite often stated that case studies should be easier to complete than so called hard quantitative studies. After completing this in-depth analysis of outsourcing process as a case study I totally agree with Yin (1984: 26) : "Case study research is remarkably hard, even though case studies have traditionally been considered to be 'soft' research. Paradoxically, the 'softer' a research technique, the harder it is to do."

Research methods literature (Scapens , 2004; Yin, 1992) distinguishes between five types of case studies:

1. Descriptive case studies. The purpose of this type of case studies is to describe accounting systems, techniques and procedures used in practice.
2. Illustrative case studies. The main objective, especially in management accounting research, in this type of case studies has been to illustrate new innovative practices developed by particular companies. According to Kaplan (1986, 1998), accounting researchers are able to learn a lot by studying the practices used in innovative companies.
3. Experimental case studies. The target of this kind of case studies is to develop new accounting procedures and techniques for accountants. Research could be used to examine implementation problems as well as to evaluate the potential benefits of new way of completing the accounting procedures.
4. Exploratory case studies. This type of case studies have faced the critics that the findings cannot be generalized without larger scale studies.
5. Explanatory case studies. This type of case studies attempt to explain the reasons for accounting practices observed. The focus is on a specific case. The purpose of theories is to create the understanding of the phenomenon rather than produce generalizations. To provide satisfactory explanations for the practices observed, the researcher needs to modify

and partly integrate existing theories and also to extend the scope of accounting theories.

Since the main aim of this study is to analyze the design of management control system in a business process outsourcing, case of financial accounting outsourcing, the type of case study applied, is an explanatory case study. The study also integrates existing theories to construct a framework for creating control in this kind of strategic alliance.

5.3. Data collection

There are several types of case materials analyzed in this case:

- Service Contracts (2)
- Takeover chart
- Operational level meetings, 10
- Steering group meetings, 3
- Definitions of outsourced electronic financial accounting processes (AP, AR, AA, Payroll, GL, Reporting, etc.)
- Service specifications of the outsourced financial accounting services (appendixes of the service contract)
- Interviews and non-formal discussions during the process

There were two service contracts in this case, one on the local level between the local customer and service supplier and the other on the group level of both sides.

Takeover chart is a list of duties and responsible actors throughout the whole transition process. It includes the duties of the service supplier as well as the duties of the customer. The scope is from verbal approval of the agreement until the first invoice concerning the service package. The chart includes also the legal aspects like the minutes of the executive board of the client to transfer the right to use bank accounts to the service supplier. The service supplier is responsible for checking that each step concerning all of the main- and sub processes are completed in legally acceptable order. The takeover chart is a transparent tool that is updated by the service supplier and discussed in the negotiations throughout the transition on the operational level meetings.

There were altogether 13 official meetings kept during a quite rapid transition process, three on the strategic level and 10 on the operational level. The empirical data includes the minutes and presentations of all the official meetings.

The process definitions were made on the operational level by representatives from both service supplier and customer side. These definitions consist of responsibility clarifications as well as real process charts that also define the applications and data flows of all the main- and sub processes of financial accounting:

- **purchase invoicing process**
- invoice payment and purchases ledger process
- payments outside purchases ledger –process
- cash management
- **payment transfer processes**
- **payroll process**
- social security payments and information to authorities process
- **sales invoicing and ledger process**
- posting of payments and ledger control
- **bookkeeping process**
- general ledger
- reporting process

In this case the responsibilities concerning each of the processes listed above were divided by the local customer, the local service provider, and the international service provider.

Service specifications actually are the final appendixes of the group level service contract. There all the legal responsibilities concerning every accounting process, and the very carefully defined data flows between the two contracting as well as the third parties involved in the processes, are identified.

Several interviews and non-formal discussions during the outsourcing process gave the researcher the possibility to deepen the understanding based on the more formal material analyzed. The persons, that were mostly involved in the discussion are the following:

Customer side:

- CFO, group level
- CEO, local level
- Service Support Manager, group level
- Controller, local level

Service provider side:

- Deputy Managing Director, group level
- Director of Strategic Development, group level
- Director of Production, group level
- Production Manager, group and local level
- Service Unit Manager, General Ledger, Assets Accounting and Reporting, international service center
- Service Unit Manager, Sales Invoicing and Ledger, including payment transfers, international service center
- Service Unit Manager, Purchases Invoices Ledger, international service center
- Service Unit manager, Payroll, international service center

The analysis is made on the strategic and operational level to be able to analyze the differences in the interventions and control archetypes used and also their effectiveness. The empirical study on the operational level consists of several sections that focus on explicitly defined processes or sub-processes of the electronic financial accounting service package. Each part provides new information about the financial accounting outsourcing process as a whole and especially on how to achieve control in the process. During each section, the approach is both interventions to support the change and the control archetypes to achieve contractual control of the strategic alliance, is used. (Huy, 2001 and Spékle, 2001)

6. Outsourcing of financial accounting processes

The fact that majority of the production of the subsidiary is sold abroad and the decision to apply a common enterprise resource planning system to handle purchase invoices more effectively, might have been one of the reasons why the CFO on the group level and the Business Support Manager started to seek for external service provider for financial accounting required by the local legislation.

At the beginning the CFO called up a meeting to negotiate the possibility that the service provider would take over the financial accounting activities of the local subsidiary. CFO wanted to apply the whole electronic financial accounting package of the service provider.

The materials analyzed in this empirical investigation are the following:

- Service Contracts (2)
- Takeover chart
- Steering group meetings, 3
- Operational level meetings, 10
- Definitions of outsourced electronic financial accounting processes (AP, AR, AA, Payroll, GL, Reporting, etc.)
- Service specifications of the outsourced financial accounting services (appendixes of the service contract)
- Interviews and non-formal discussions during the process

6.1. Service contracts and takeover chart

The service contracts were made both on group and local level, since the accounting policy is quite different in the countries represented in the case. The group level agreement was signed in the early stage of the process on the strategic level. As in intervention the detailed contracts refer to commanding intervention. On both group and local levels top executives of the customer acted as change agents. Also the local controller could be included into these agents. The rate of change was attributable to factors external to the organizations, the anticipated competitive pressures and unsatisfactory financial performance. (Tichy & Sherman, 1994; Miles, 1997)

According to Huy (2001), top executives, as change agents use analysis provided by external consultants to support the power coercive change. As those external consultants, production manager and service unit manager of accounting from the international service center and production manager from the local service provider, were used. Since, on local and group level, extremely detailed contracts were used, the control archetype inevitably is the hybrid arms' length control. (Spékle, 2001). Hybrid governance structures refer to “long term contractual relations that preserve autonomy but provide added transaction-specific safeguards compared with the market” (Williamson 1996, 378)

The takeover chart specifies all the steps in the outsourcing process from the verbal approval of the contract until the invoicing of the takeover process and starting of the electronic financial accounting services. During the takeover, or actually the transition of the providing of financial accounting, quite a lot is explicitly defined at the beginning of the strategic alliance. The following table 4 shows in detail, which duties and aspects are clarified before even starting to define the working processes included in external financial accounting.

Responsible	Action	
The service for client begins		Signature
Seller	Verbal approval of the agreement	Ok
Reception	Agreement sent to customer for signing	Ok
Reception	Signed agreement received from the customer	Ok
IT department	Binding IT project plan of interfaces and partnership systems	Ok
Seller	Customer approves (literal confirmation) binding IT project plan	Ok
Unit Manager	Setting the accounting team, informing the seller, implementation responsables, team leaders	Ok
Professional services	Filling in the accounting team -form	Ok
Seller	Information on new customer to production manager	Ok
Professional services	Implementation meeting with the customer	Ok
Professional services	Implementation training for the customer	Ok
Seller	Implementation invoice sent to customer	Ok
Seller	Due date of Service price chart into customer's folder	2009

Table 4: Actions before starting the transition analysis.

The takeover chart and the actual use of it can be interpreted as a teaching intervention, where a community of responsible and mindful individuals are learning in an open climate, and have to be innovative and adaptive to uncertain environments. (Huy 2001, 611). Process is totally run by outside consultants from the service provider international service center. The analytical framework in this teaching intervention is based on cognition-focused organizational development action research principles. (Argyris, 1993; Schein, 1992; Senge, 1990) The control archetype is here Hybrid exploratory control, where information sharing is self-enforcing because of the participatory, interactive nature of the process of contract execution (Marginson, 1999; Mouritsen, 1999)

6.2. Cross-functional accounting team and official meetings

Already at this very beginning of the transition process, the cross-functional accounting team in the service provider side is set up, and this team includes members representing the following processes and sub-processes of electronic financial accounting (Anderson, Hesford & Young, 2002):

- general ledger, assets accounting, reporting, and archiving
- accounts payable, payments transfer and cash management processes
- accounts receivable, and invoicing processes
- payroll, travel-, and expense invoice process

The teams were connected with the corresponding ones on the customer's side. These inter-organizational teams refer to both engineering and teaching interventions. The work process analysis, redesign and quality management are the signs of engineering intervention, whereas the individuals' innovative and adaptive approach towards the uncertain environment clearly is a sign of teaching intervention. (Engineering: Taylor, 1947; Juran, 1967; Chumpey, 1993; Teaching: Argyris, 1993; Schein, 1992; Senge, 1990).

The duality of management control in the team-building action also affects the interpretation of the control archetype. Engineering intervention could be coupled with the action oriented machine control archetype. (Merchant, 1985; Ouchi, 1977). On the other hand, teaching intervention and its underlying assumptions with learning individuals could easily be integrated with the information sharing and participatory, interactive process of contract execution. Since there seemed to be an extremely strong emphasis on information sharing between suppliers, too, the control archetype coupled with the teaching intervention here, is the hybrid exploratory control. (Giezmann, 1996; Cooper & Yoshikawa, 1994).

Right after the set-up of the accounting team, there was a meeting with the service provider. At that point, it could be assumed, that the strategic alliance on both operational and strategic level of accounting was established. The operational level started the collection of data about the customer's current accounting processes right after the outsourcing agreement. The type of information affecting the transition process is collected using a structured questionnaire. The main denominators for service price and thus also the control mechanisms in that sense seem to be the vol-

umes of purchase invoices, volumes of sales invoices, and the level of automatization in the invoice handling as well as invoice ledger processes. Of course, also the number of customers and suppliers, as well as the number of applications in use, are significant in designing the takeover process and the control types used to keep in touch with these legal based external accounting processes. The main fact that effects the control over general ledger seems to be the number of items in assets accounting and the depreciation methods. The second most effective denominator for controlling general ledger is the number of bank accounts and their localization, and the number of currencies used in the business.

The detailed analysis of transaction volumes on inter-organizational level can be analyzed as commanding intervention and hybrid exploratory control archetype. Commanding intervention interpretation here lies on the fact, that the typical change action is the demand of strict compliance and elimination of all the un-necessary stages of the processes in terms of actual volumes. From control archetype point of view, there is a remarkable reliance on close interaction, joint responsibility, and the resultant information flows to achieve cooperation and behavior congruence. (Huy, 2001; Spékle, 2001)

The following table 5 indicates all the meetings on both strategic and operational level to give the overview of the management control throughout the outsourcing project.

Table 5: Chronological list, status and objectives of meetings kept during the whole process

Date	Status	Participants	Objective
26 Aug 2008	Strategic project development	Service provider: Production manager and project manager Outsourcer: Group level Business Support Manager	Scope of outsourcing Analysis of the risks and proposals on how to solve them
1 Oct 2008	Strategic project definitions	Outsourcer: Group level, Business Support Manager Subsidiary level, General Director, Controller, and Accounting Manager Service provider: Global Production Manager, Project Manager, and local Production Manager	Accounting policy, software used –to be used, integration with ERP project, tasks delegation during the transfer, reports required by managers, transaction volume analysis
3 Nov 2008	Operational and strategic level	Service provider: Global Production Manager, Project Manager, and local Production Manager	List of application used/to be used Agenda Interfaces, usernames and passwords Trainings Polish GAAP Migration Set-up fees Contract Scope of service
6 Nov 2008	Operational level meeting	Outsourcer: Group level Business Support Manger Subsidiary Level, Controller, Accounting Manager Service Provider: Local Production Manager and Accounting Consultant	Responsibility specification during the takeover
10 Nov 2008	Strategic Steering Group Meeting	Outsourcer: CFO, Business Support Manager, Service Provider: Chair of the board, Managing Director, ICT department leader, Production manager, project manager	Analysis of the financial situation in the Polish subsidiary Checking the budget for takeover as well as the timetable for transition of the services Some technical checking
19 Nov 2008	Operational	Ict department leader, project manager, service supplier accounting team	Applications testing meeting

21 Nov 2008	Operational	ICT department leader, project manager, service supplier accounting team	Applications testing meeting
28 Nov 2008	Strategic steering group	Outsourcer: Group level: CFO, Business Support Manager, Service Provider: Chair of the board, Managing Director, ICT department leader, Production manager, project manager	Status of the project as a whole Application development status HR and Payroll, responsibility definitions Contract between local service provider and local customer level (Group level pricing card already completed) Risk analysis (distant use of applications that are installed in the corporate level country, different payroll software in local level country than in corporate level country)
28 Nov 2008	Operational level meeting	Outsourcer: Local level Managing Director and Business Controller Service provider: Local level production manager and the accounting team	Critical analysis of the work, responsibilities during the transition
8-9 Dec 2008	Operational Training for new service providers	Service provider: Local accounting team and project manager	Analysis of all the processes in the service concept GL,AA, AP,AR,Payroll
15 Dec 2008	Strategic steering group	Outsourcer: CFO, Business Support Manager, Service Provider: Chair of the board, Managing Director, ICT department leader, Production manager, project manager	Specific takeover plan step by step Contract from euros into local currency Content of the second training period
17 to 18 Dec	Operational Training for new service providers	Service provider: Global production manager and local level accounting team, together with one global accounting team	The whole process once again Special entries
12 Jan 2009	Operational	Service provider:	Situation analysis and

	level meeting on transition state	Global production manager and local level accounting team, together with one global accounting team	tasks delegation to be able to complete the closing of accounts in Poland, Partly done by former accountants, partly by the new ones with new technology
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As seen from the list of meetings kept during the outsourcing project, several types of change intervention can be identified. Steering group meetings clearly stand for commanding interventions, since they represented from buyer's group level side service buyer driven (related to top-down within the same organization by Huy, 2001) change towards the service supplier and at the same time strict top-down management towards the local subsidiary. This can be interpreted from the minutes of a steering group meeting:

” Project is led by the service provider's global site. Steering groups should be kept more often to make sure that the local subsidiary of the outsourcer and the group level executives are aware of the project state. Development project continues until the end of February to make sure, that service is properly supplied by the local service provider. The group level executives inform their local subsidiary about the outsourcing process.” Minutes of the steering group meeting on 10 Nov 2008

As also the transaction volumes and the pricing method of the service production are discussed into details at the beginning of the process, it also refers to commanding intervention as well as the hybrid arm's length control defined by Spékle, as it is based on extremely detailed, reasonably completed contracts.

On the other hand, the strategic steering group used also engineering and teaching type of change interventions. This is documented also in the minutes of the steering group.

“ Payroll process needs to be clarified with the local production manager (service provider representative) so that it is clear to both the local service provider representative and local subsidiary representing the outsourcer's local site, what are the responsibilities of each party to avoid black spots during the application process compared to the current

payroll processes. The global project manager of the service provider connects the local production manager to draw the payroll process” Steering group meeting 28 Nov 2008

This quotation from the minutes represents the engineering type of change intervention. Processes definition on the global level could be interpreted as hierarchical exploratory control (Marginson, 1999; Mouritsen, 1993). Also on the strategic steering group level of the outsourcer relied on the operational leaders of the service provider on the global and local sites as well as their own operational leaders on the local subsidiary site. At this stage the operational project leaders became analysts and the designers of work processes. This could be interpreted as the hybrid exploratory control, since the performance assessment is based on broad, emergent standards, and information sharing plays the key role in the interactive process of contract execution.

“Local production manager’s team should be trained for the second time during 17 to 18 Dec. On 15 Dec application process, as well as special entries are gone through in the steering group.” Steering group meeting 15 Dec 2008

The quotation above clearly refers to teaching intervention, where actually the representatives of service provider have become the change agents for the outsourcer’s Group level concerning their local subsidiary. The local service provider team is asked to teach the whole process also on the local outsourcer site. This could be interpreted as hybrid exploratory control archetype, as the contract execution is interactive and participative.

6.3. Information technology involvement

Information technology has played a key role in driving innovation and change in the collection, processing and communication of accounting information within and between the organizations. (Burns & Vaivio, 2001; Coad, 1999; Granlung & Lukka 1998a; Lukka & Shields, 2001). Therefore, it is essential also to analyze, how the information technology, or actually software development and implementation processes, were involved in this organizational change, the outsourcing of financial accounting.

The rough project plan concerning the information technology involved is made at the very beginning to get a common understanding of the transition as a whole. All the processes and sub-processes were identified and the responsible leaders of each part named and discussed together with the service provider. This project plan refers to commanding type of change intervention as well as hybrid arm's length management control, since it is totally top-management driven and it relies on relatively unspecific general thrust contracts. The project plan is described in figure 2 on the following page.

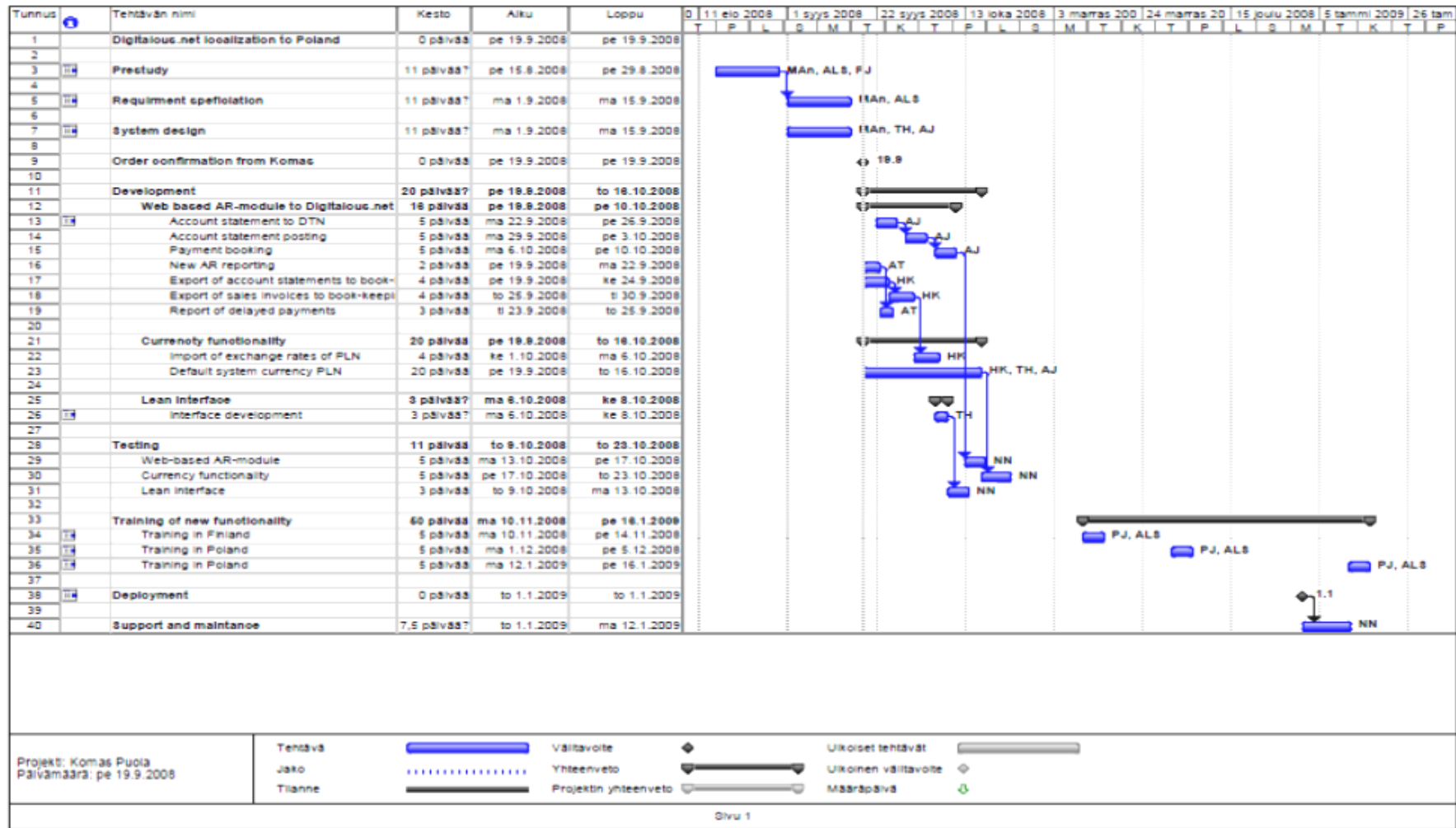


Figure 2: Rough project plan by IT department leader.

Processes designing together could be seen as an engineering type of management intervention. Even, if it seems, that everything was strictly defined in project plans and pricing cards, there was room for flexible negotiation of the contract execution.

”Managing director of service provider and the CFO of the outsourcer agree on practice to deal with exchange rate by the entry of euro-based fee of financial accounting into local currency into subsidiary’s general ledger on a monthly basis” Steering group meeting 15 Dec 2008

This could be interpreted as hybrid exploratory archetype of management control, as the focus is on information sharing self-enforcing because of participatory, interactive nature of process of contract execution. This could also be seen as a joint engineering intervention of both service provider and service buyer executive levels towards the local subsidiary.

Throughout the outsourcing process there was a tight connection and trust between the parties, since the project plan of financial accounting was reflected with the outsourcer’s own project plan to introduce new ERP in local subsidiary. All the risks of both projects were discussed by operational level leader of service provider and the outsourcer. This is probably because the programmability of the contributions was high in both change projects. The development of the technical solutions during the process was followed by the steering group in all of their meetings. The following table 6 describes the reporting of the follow-ups. With the same report also the costs of the technical take-over were followed and negotiated.

	Labour	Budget	Diff
<i>Web based AR-module to Digitalous.net</i>	193 hours	161 hours	32 hours
Account statement to DTN	20 hours		
Account statement posting	10 hours		
Payment booking	26 hours		
New AR reporting	20 hours		
Export of account statements to book-keeping	45 hours		
Export of sales invoices to book-keeping	50 hours		
Report of delayed payments	22 hours		
<i>Currency functionality</i>	65,75 hours	138 hours	-72,25 hours
Import of exchange rates of PLN	14 hours		
Default system currency PLN	51,75 hours		
<i>Lean interface</i>	36 hours	17 hours	19 hours
Interface development,sales invoices	36 hours		
Interface development,purchase invoices	-		
<i>Project coordination</i>	49 hours		
Total	343,75 hours	316 hours	27,75 hours

Table 6: Follow-up of the technical solutions development.

6.4. Price negotiations and the definition of the processes

The essential step in the process was the negotiation of the pricing. The main reason for this must have been the decrease of turnover by over 30% in the local subsidiary. This is documented in the minutes of the first steering group meeting. The self evident objective of the CFO was to transfer the former fixed financial accounting costs into variable ones.

The following table 7 presents the pricing contract between the service provider and the outsourcer concerning the financial accounting processes outsourced by the outsourcer's local subsidiary.

	PRICE CARD	For the year 2009	
Local subsidiary			
SUMMARY OF THE FOLLOWING FUNCTIONS			
Monthly cost			8 900,00 €
Invoiced once a year			2 300,00 €
Annual cost			109 100,00 €
Web-reporting annual cost (inc. 2008-09 new opened usernames)			1 700,00 €
Set-up costs to be invoiced from the local subsidiary			
Set-up costs /Group level (according to separate project plan)			40 000,00 €

Table 7: Annual pricing of financial accounting for the case company. All the prices are changed.

At the same time the Business Support Manager on the group level of the outsourcer and the Production Manager and Project Manager on service provider's global level were asked to define carefully all the processes of financial accounting and adjusting them into the local context.

Purchase invoice process includes stages from purchase order to purchase invoice payment including the general ledger statements. At the same time the local subsidiary was going to apply a new ERP application which meant that also purchase orders and stock receiving should be integrated into the purchase invoicing process. Purchase orders were made in the newly applied ERP at the outsourcer's local site.

Purchase invoices were received either in electronic standardized format, as an e-invoice, or on paper format. Cost accounting and financial accounting information was centrally saved by the service provider. All the invoices coming as an e-invoice and reflecting to a certain purchase order on the ERP, were automatically approved. The rest were either directly sent or scanned and sent to the invoices circulation application for approval. This case company also had liquidity check included in the purchase invoices process. This means that the service provider checks on-line the liquidity before constructing the payments transfer file. The definition of this process included a lot of information technology and application management, as it was the first time that the group level bank transferred automatically payment batches to the country of the local company. It was also first time, that bank statement in general were handled in an electronic format only.

Purchase invoice process definitions specify clearly the responsibilities of the service provider and the "client" in this case, which is the local subsidiary. The ideal organizational state or goal behind this kind of analytical process description is to achieve quickly "highly productive, efficient work processes" and to guarantee superior performance. As the Business Support Manager

at the Group level of the outsourcer and production manager and project manager from the service provider global side analyzed the current and future processes, the c-level management agreed on the pricing methods. The whole transition process only took 5-6 months, during which most of the fixed costs of financial accounting were changed into variable ones. The intervention of c-level managers of the outsourcer towards the service provider as well as towards the local subsidiary can be seen as a pure commanding intervention, but the joined interventions made by operational leaders, can clearly be identified as joined engineering interventions. Hybrid arm's length control best describes the control used by c-level managers of the outsourcer. When analyzing the management control archetype used by the outsourcing company, it is quite obvious on the operational level, that the control archetype is hybrid exploratory control as relatively unspecific general thrust contracts could be identified. Performance assessment was based on broad, emergent standards. Contract execution process was very interactive and included broad participation and wide information sharing.

The Business Support Manager of the outsourcer and the Production Manager of the global service provider as well as the Project Manager of the outsourcing project drew the financial accounting process as a whole and all the sub-processes to critically analyze the work-processes and to develop task-based skills needed for both parties' personnel. It was also kind of learning process for the service provider, too, since there were some essential differences both in the treatment of recording, like assets accounting, VAT, etc. and the software used, compared to the 300 earlier transactions.

The following table 8 identifies the commanding intervention and the hybrid arms' length control by the executive level management on the outsourcer's side, since it clarifies into details the transactions related to purchase invoices and ledger and their pricing methodology.

Handling of purchase invoices				
Invoice received on paper	400	3,60 €	invoice	1 440,00 €
Electronic invoice	0	2,90 €	invoice	0,00 €
Invoice paid abroad (additional cost/invoice)	20	1,50 €	invoice	30,00 €
Payment batch of invoices (2 times a week)	10	2,65 €	invoice	26,50 €
Extra work for invoice saving (input of purchase order nr, 80%)	320	0,20 €	pcs	64,00 €
Extra work for paying nad postings (partial payments, posting over 3 rows)	0	2,50 €	pcs	0,00 €
Extra work of purchase invoice ledger (reminders, <i>collection letter</i> , busy payments, copies)	0	5,30 €	pcs	0,00 €
Travel expences,global application, customer does the postings	0	2,85 €	invoice	0,00 €
Travel expences,global application, Service provider does the postings	0	3,40 €	invoice	0,00 €
Other travel expences	0	3,85 €	invoice	0,00 €
Electronic archive of invoices €/invoice	400	0,07 €	invoice	28,00 €
creating CD, 2 CDs/time	1	84,00 €		7,00 €
Setting suppliers, checking the data	20	2,10 €		42,00 €
Hour based charging of other tasks		54,00 €	hour	0,00 €
Handling purchase invoices and payment transfer				1 637,50 €

Table 8: Purchase invoice part of the price card.

Sales invoicing covers all stages from sales order to invoicing, payment receiving, and general ledger statements. Accounting receivables management as well as clearing are essential areas of sales invoicing process. The sales invoices were written into the local subsidiary's ERP, and the global service provider coded new customized invoicing application, that was totally integrated with the invoicing database of the outsourcer's local enterprise resources planning application.

Again, these working processes analyzed, with detailed responsibility clarifications, represent an engineering type of change intervention. Intervention took place on several inter-organizational management levels throughout the project. The processes were analyzed on strategic management level between outsourcer's group level and service provider's global level. On the other hand, they were gone through on operational management level of the local subsidiary with the local service provider. And finally, as part of service specifications, they were analyzed on the corporate C-level management. On c-level, it is clear, that processes, both as service specifications as well as information flow charts, could be seen as appendixes of the contracts, and thus as a sign of clear hybrid arm's length control. On the operational level it refers more to hybrid exploratory control with the information sharing and interactive process of contract execution.

There are still several sub-processes to be identified in the general ledger process, especially in big corporations, and it is sometimes necessary to treat them as individual processes. These are for example matching of some payments, matching of accounts receivable and accounts payable ledgers, closing and opening of the accounting periods, typically on a monthly basis, as well as handling of recordings coming from other ledgers or sub-processes, like credit card payments, memo vouchers, assets accounting calculations, etc.

Reporting process includes the providing and delivery of several reports. Reporting process digests information from all other accounting processes and always starts where the other sub-processes end. General ledger and reporting processes are described in figures 3 and 4, which follow:

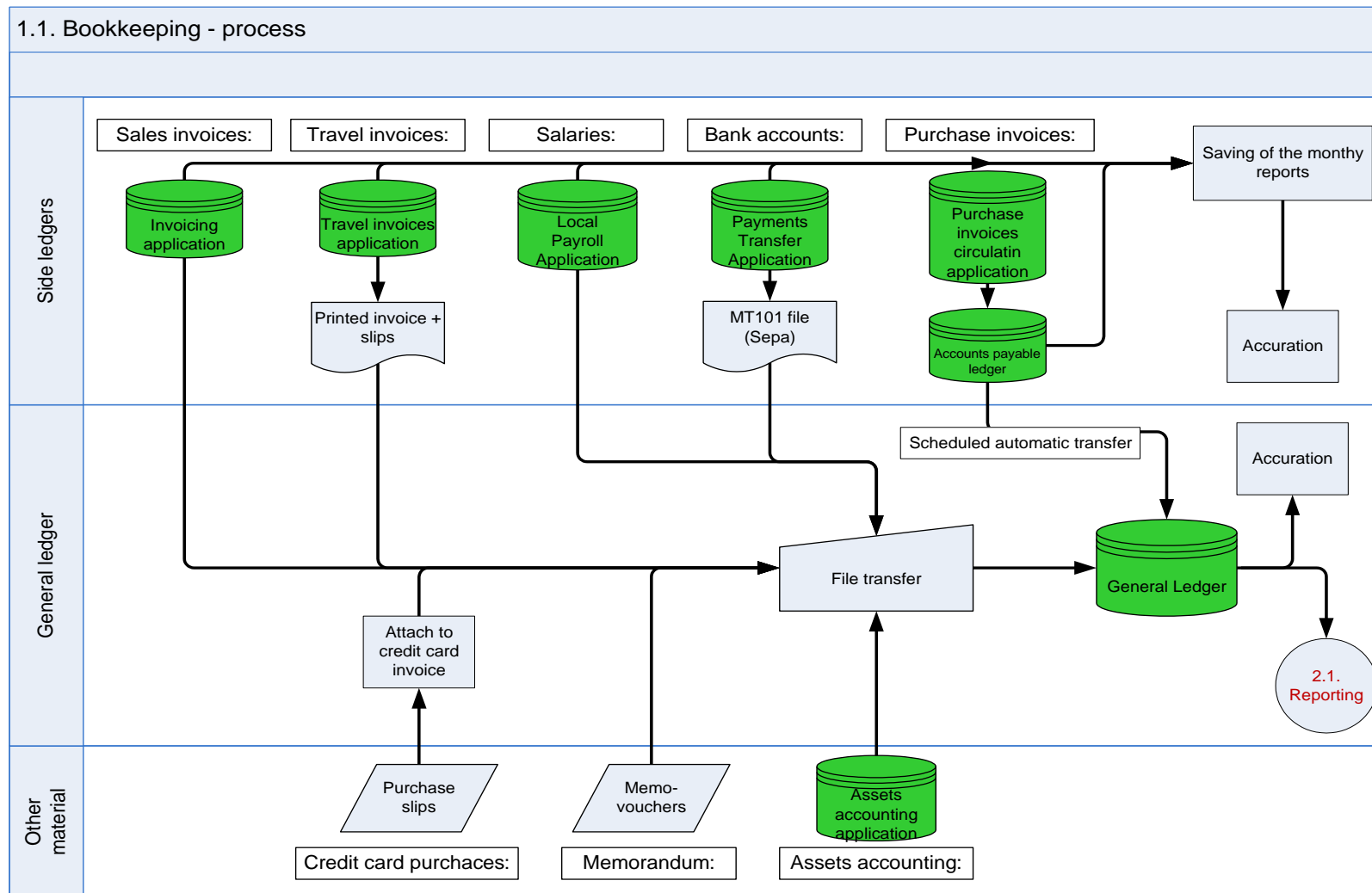


Figure 3: Bookkeeping process.

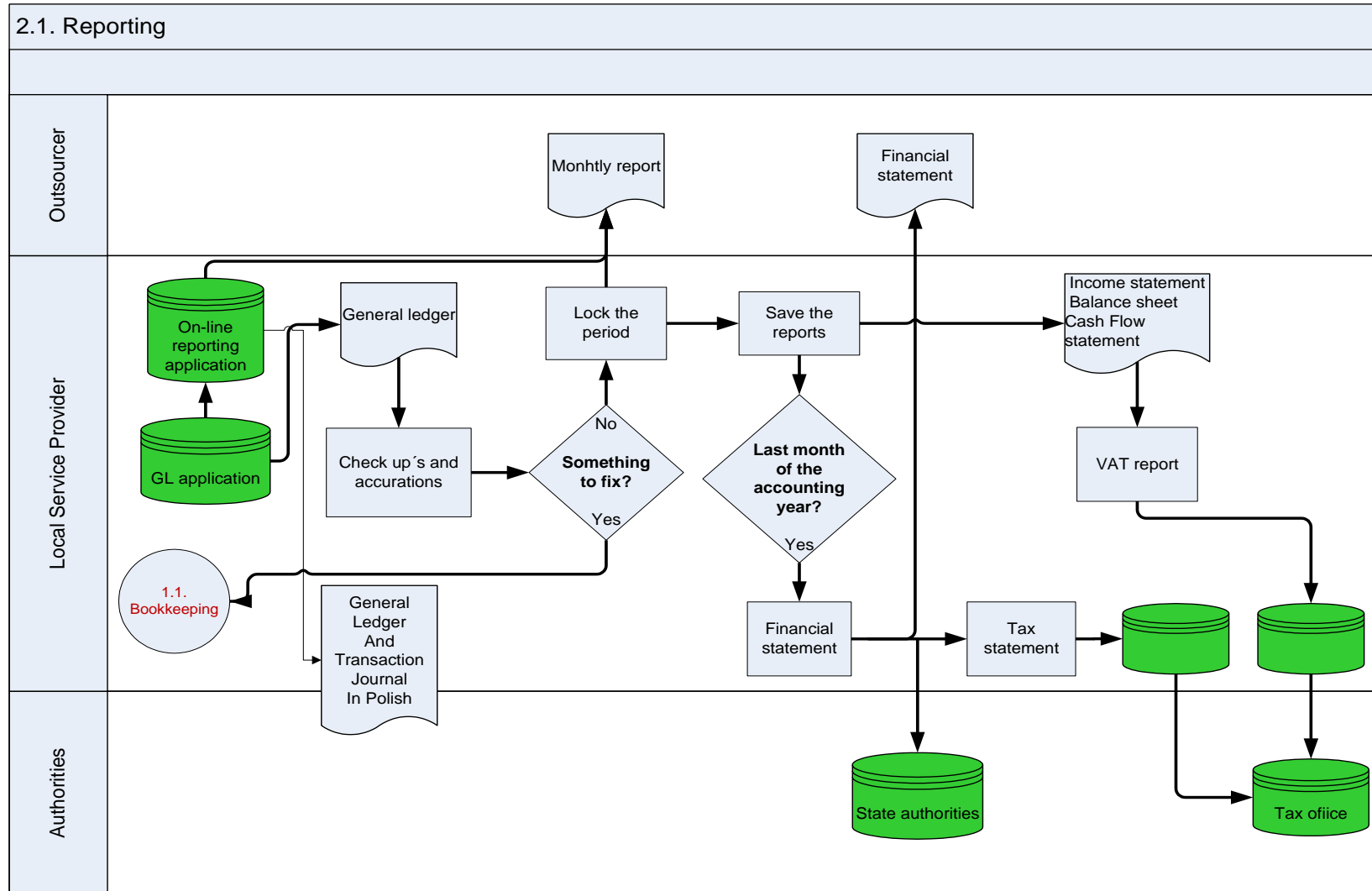


Figure 4: Reporting process.

Concerning general ledger and reporting processes, they both happened on the group level and on the subsidiary level. Thus, reporting to authorities had to be defined according to local and group country's legislation and it actually was completed on three languages.

The pricing method of general ledger and the reporting activities identified in table 9:

Accounting service fee				
Monthly fee for accounting	1	2 300,00 €	month	2 300,00 €
Includes follow-up meeting in Warsaw ,				
Reporting in customer's premises or projects	2	80,00 €	eur/h	160,00 €
Hourly fee not paid for travelling time				
Travelling costs of meetings charged				
Postings of cost centers	0	26,00 €	cost center	0,00 €
Cash accounting	50	0,60 €	€/ transaction	30,00 €
AA posting to the system	8	12,00 €	posting	96,00 €
Monthly tax clarification	1	145,00 €		145,00 €
Accounting and tax clarification				2 731,00 €
Closing of the accounts, annual fees				
Closing of the accounts	1	2 400,00 €		2 400,00 €
Archive, Journal and General Ledger	1	100,00 €		100,00 €

Table 9: General ledger pricing method.

Archiving is connected to all previous processes. The trustworthy and well-functioning archiving is the backbone of digital accounting. The archiving legislation differed a bit from the group country's one, all human resources related documents had to be archived on paper in the case country, which was quite a surprise during the process clarifications.

Concerning the sales invoices, the local accounting legislation required archiving on paper format, which was very different from the outsourcing cases, which the service provider had earlier experience of. This was solved by arranging pick-up by car from the local subsidiary by the service provider located 400 kilometers away.

6.5. Payroll process

The payroll process was discussed both on operational and strategic level meetings during the outsourcing process and it was also the main focus during both training periods. This was probably due to the fact that the whole process was taken into electronic format concerning the payroll process itself as well as the follow-up of the hours of personnel, which was earlier done on paper.

The payroll process includes all the activities from information collection about employees' salary basis via actual salary payment until the social security handlings and reporting to local and domestic authorities. The time-consumption of this process definition also could origin from the takeover of a totally new application for payroll on the local level. The legislation of payroll differs remarkably between different countries, and this also created a set of challenges to be solved. This probably raised the process definition onto the strategic level meetings.

Payroll				
Monthly salaries according to Alligator process	100	5,40 €	pcs	540,00 €
Hour based salaries the Alligator process way	380	8,30 €	pcs	3 154,00 €
Sending the payroll slips, iPost	480	0,45 €	pcs	216,00 €
Updating vacation register of employees	80	4,50 €	pcs	360,00 €
Holiday pay and money or final payment (entered manually)	0	11,50 €	pcs	0,00 €
Holiday pay and money (from holiday register)	0	0,00 €	pcs	0,00 €
Manual deductions from the salary	0	2,10 €	pcs	0,00 €
Salary payments in advance	0	5,10 €	pcs	0,00 €
Manually entered transactions	0	4,50 €	pcs	0,00 €
Handling of payroll period	1	13,50 €	period	13,50 €
Annual reporting to authorities	1	10,00 €	pcs	10,00 €
Urgent work	0	5,00 €	pcs	0,00 €
Payments and reports to authorities	0	10,00 €	pcs	0,00 €
Inteernal/external report run	0	5,00 €	report	0,00 €
Hourly based fee for other project and investigation work	0	54,00 €	hour	0,00 €
Monthly cost for payroll				4 293,50 €

Table 10: Payroll pricing method.

The most surprising observation during the whole outsourcing process was, that actually the main tool of the management control was the pricing card, and the second most used one the process definitions. The amazing thing for the researcher was, that the service specifications of several dozens of pages never were discussed on strategic or operational level meetings. This would

particularly refer to hybrid exploratory control, where the tool of control is relatively unspecific general thrust contracts. It might be, that trust between parties on strategic and operational level played a key role throughout the outsourcing process. The following table eleven concludes all the managerial actions during the outsourcing process, and their interpretation through both intervention type analysis and the management control archetype analysis. The first management control analysis refers to organizational change supporting aspect of managerial actions, whereas the latter analysis concentrates more on the contractual management of the inter-organizational relationship.

Management activities, intervention types, and control archetypes in the case		
Management action	Intervention type (s)	Control archetypes by Spékle 2001
Service contract on group level (Chenhall, 2004)	Commanding: Design and position schools of strategic management, Strategic implementation (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984) Change agents are the c-level managers of the customer. As external consultants they use operational managers of the service supplier side	Hybrid arm's length control - detailed reasonably completed contracts - arbitration to resolve conflicts
Service contract on local level	Commanding: Design and position schools of strategic management, Strategic implementation (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984) Change agents are the Service Support Manager and the local controller, the external consultant is the local production manager of the service provider (Burns & Vaivio, 2001)	Hybrid arm's length control - detailed reasonably completed contracts - arbitration to resolve conflicts
Take over chart (Bhimani, 1993)	Teaching intervention: cognition-focused organization development action research principles (Argyris, 1993; Schein, 1992; Senge, 1990)	Hybrid exploratory control (information shering self-enforcing because of the participatory, interactive nature of the process of contract execution) (Marginson, 1999; Mouritsen, 1999)
Setting up the accounting team on the service provider side (Anderson, Hesford and Young, 2002)	Engineering: analysis of work processes (Taylor, 1947; Juran, 1967; Hammer & Champy, 1993) Teaching intervention: cognition-focused organization development action research principles (Argyris, 1993; Schein, 1992; Senge, 1990)	Action oriented machine control: control achieved via codification of actions and supervising observance of rules and instructions (Merchant, 1982; Merchant, 1985) Hybrid exploratory control (information shering self-enforcing because of the participatory, interactive nature of the process of contract execution (Giezmann, 1996; Cooper & Yoshikawa, 1994; Marginson, 1999; Mouritsen, 1999)
Detailed analysis of the current accounting processes by the inter-organizational operational level team (Anderson, Hesford & Young, 2002; Bhimani, 1993)	Engineering: analysis of work processes (Taylor, 1947; Juran, 1967; Hammer & Champy, 1993)	Action oriented machine control: control achieved via codification of actions and supervising observance of rules and instructions (Merchant, 1982; Merchant, 1985)

Management activities, intervention types, and control archetypes in the case		
Management action	Intervention type (s)	Control archetypes by Spékle 2001
Analysis of data concerning the volumes of transactions in the processes -> negotiations of the price on inter-organizational, strategic and operational levels	Commanding: Design and position schools of strategic management, Strategic implementation (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984) Change agents are c-level directors, the external and internal consultants are the operational level managers and other accounting actors (Burns & Vaivio, 2001)	Hybrid exploratory control (Performance assessment is based on broad, emergent standards) (Spékle, 2001)
Steering group meetings, 3 (Chenhall, 2004; Roberts, 1990)	Commanding: Strategic planning and repositioning, top-down imposed comprehensive organizational change (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984) Concerning payroll process there were also engineering and teaching interventions analyzed	Hybrid arm's length control - detailed reasonably completed contracts - arbitration to resolve conflicts Payroll: Hierarchical exploratory control - information sharing entrenched in organizational structure and process design, vague responsibilities and mutual dependencies Hybrid exploratory control - performance assessment based on broad, emergent standards - information sharing self-enforcing because of the participatory, interactive nature of the process of contracts execution (Marginson, 1999; Mouritsen, 1999)
Operational meetings, 10	Engineering: analysis of work processes (Taylor, 1947; Juran, 1967; Hammer & Champy, 1993) Teaching intervention: cognition-focused organization development action research principles (Argyris, 1993; Schein, 1992; Senge, 1990)	Hybrid exploratory control (relatively unspecific general thrust contract, and information sharing self-enforcing because of the participatory, interactive nature of the process of contract execution) (Marginson, 1999; Mouritsen, 1999)
Information technology project planning (Burns & Vaivio, 2001; Coad, 1999; Granlung & Lukka 1998a; Lukka & Shields, 2001)	Joined engineering intervention of inter-organizational c-group towards local buyer: analysis of work processes, even if strictly defined, there was a lot of room for negotiation (Taylor, 1947; Juran, 1967; Hammer & Champy, 1993)	Hybrid exploratory control (performance assessment based on broad, emergent standards, and information sharing self-enforcing because of the participatory, interactive nature of the process of contract execution) (Marginson, 1999; Mouritsen, 1999)
Pricing negotiations	Commanding: Strategic planning and repositioning, top-down imposed comprehensive organizational change, portfolio of business units structurally well positioned in given industries to achieve superior economic performance (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984)	Hybrid arm's length control - detailed reasonably completed contracts - arbitration to resolve conflicts (Williamsson, 1996)

Management activities, intervention types, and control archetypes in the case		
Management action	Intervention type (s)	Control archetypes by Spékle 2001
Process definitions and transaction based pricing	Executive level, commanding intervention: Strategic planning and repositioning, top-down imposed comprehensive organizational change, portfolio of business units structurally well positioned in given industries to achieve superior economic performance (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984) Operational level, engineering and teaching interventions: analysis of work processes (Taylor, 1947; Juran, 1967; Hammer & Champy, 1993) Cognition-focused organization development action research principles (Argyris, 1993; Schein, 1992; Senge, 1990)	Hybrid arm's length control on the strategic level - detailed reasonably completed contracts - arbitration to resolve conflicts (Williamsson, 1996) Hybrid exploratory control on the operational level (information shering self-enforcing because of the participatory, interactive nature of the process of contract execution) (Marginson, 1999; Mouritsen, 1999)
Payroll process analysis	Executive level, commanding intervention: Strategic planning and repositioning, top-down imposed comprehensive organizational change, portfolio of business units structurally well positioned in given industries to achieve superior economic performance (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984)	Hybrid arm's length control on the strategic level - detailed reasonably completed contracts - arbitration to resolve conflicts (Williamsson, 1996)

Table 11: Analysis of the management actions throughout the outsourcing process.

7. Model for creating control in outsourcing of financial accounting

During this outsourcing process it was quite obvious, that both management interventions to support the change as well as the control archetypes used were different in different levels of the outsourcing organization and its countervailing service supplier. The interventions and the control types also differed depending on the processes or sub-processes of financial accounting.

7.1. Commanding intervention

There were altogether three steering group meetings during the whole outsourcing process. Most of them handled the overall takeover, the contractual and the pricing aspects of the service. This kind of managerial actions refer to the strategic planning and repositioning, top-down imposed comprehensive organizational change. (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984) Concerning payroll process, there were also engineering and teaching interventions analyzed, and it was amazing how detailed the analysis of payroll processes were on the group level in the inter-organizational meetings. The steering group meetings refer to the hybrid arm's length control archetype due to the detailed reasonably completed contracts, and the arbitration to resolve conflicts. (Spékle, 2001) The hybrid and hierarchical exploratory control archetypes can be seen in the handling of the payroll process on the strategic inter-organizational level. Performance assessment based on broad, emergent standards, and information sharing self-enforcing the participatory, interactive nature of the process of contracts execution refer to the former control type (Marginson, 1999; Mouritsen, 1999), whereas the typical characteristics of the latter one is the information sharing entrenched in organizational structure and process design, vague responsibilities and mutual dependencies.

The service contract was agreed on the group level of both customer and service supplier. The reason for seeking a quick saving in the costs of financial accounting was due to the fact that the turnover of the Eastern European subsidiary had decreased by 57 % between March and September. The change goal is to quickly increase the economic success. Thus, the purpose and the rate of change is attributed to factors external to the organization, in this case anticipated competitive

pressures (Tichy & Sherman, 1994), and unsatisfactory financial performance (Miles, 1997). The objectives of the change were clearly clarified, and throughout the process the top managers supported the change and linked it to the competitive strategy and resources planning. This refers to the rational and technical approach of the management control systems facilitated change (Chenhall, 2004; Huy, 2001; Chenhall & Euske, 2007). The dominating use of the commanding intervention on the top management level can be predicted on the basis of underlying assumptions of Huy's (2001) intervention ideal types. Downsizing or outsourcing represents strong strategic implementations, and therefore the top-managers usually are the actual change agents and their role is seen as commanders (Ansoff, 1988; Bourgeois & Brodwin, 1984). The actions and their interpretation refer to the design and position schools of strategic management and strategic implementation (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984).

Service contract is also completed on the local level between the service supplier and the customer. Here, the Service Support Manager of the customer's group level and the local controller are the change agents towards the subsidiary, and the production manager of the service provider can be interpreted as the "external consultant". (Huy, 2001) Information technology is deeply involved in this case, and the case company faced broad change in the environment, and an emergence of the new outsourced electronic accounting with the new ERP involvement. Thus, the role of accountants changed from controllers to internal business consultants. (Burns & Vaivio, 2001; Coad, 1999; Granlung & Lukka, 1998a; Lukka & Shields, 2001). Service contract agreement on both strategic and operational level refer to the hybrid arm's length control archetype due to the detailed, reasonably complete contracts, hostage arrangements to ensure compliance to contractual provisions, and the arbitration to resolve conflicts.

The data concerning the volumes of transactions and their specific features were analyzed in detail by inter-organizational groups on both strategic and operational levels. This was done to support the pricing negotiations. These kinds of performance measures can focus organizational attention, support strategic decision making and legitimize actions (Henri, 2006). This also refers to design and position schools of strategic management and strategic implementation (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984). Performance assessment is here based on broad, emergent standards, and thus, this kind of managerial action refers to the hybrid exploratory control archetype. (Spékke, 2001) The control archetype interpretation can also be the result oriented machine control due to the target-setting, accountability and reward structures. (Ouchi, 1977)

The pricing negotiations including the initiative process analysis to clarify the transaction based pricing, were done on the strategic inter-organizational level. This is clearly commanding

intervention and refers to the hybrid arm's length control archetype. The intervention theory behind this is strategic planning and repositioning, top-down imposed comprehensive organizational change, portfolio of business units structurally well positioned in given industries to achieve superior economic performance. (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984; Ouchi, 1977)

The mostly used control archetype on the executive level management was the hybrid arm's length control, as most of the actions were based on detailed, reasonably complete contracts right from the beginning of the outsourcing process. Between high and low asset specificity residual market discipline is here joined with hostage arrangements to safeguard the financial accounting transactions. Hybrid governance structures refer to long-term contractual relations that provide added transaction-specific safeguards compared with the market. (Williamson, 1996)

In addition to the project plan as a whole, the c-level managers wanted to clarify into details the general ledger and reporting processes. And what was a bit amazing for the researcher, also payroll processes were defined in detail by the strategic management level. Concerning payroll the service provider and the executive level managers of the outsourcer seemed to use joined commanding interventions towards the local subsidiary, where the outsourcing took place. This also clearly refers to the hybrid arm's length control archetype, and the reason probably is the use of totally new application for the local payroll process. The service provider also applied this new software for the first time, and thus the outsourcing of the payroll process was considered premature and partly undesirable. (Spékle, 2001)

7.2. Engineering intervention

During the outsourcing process, ten operational level meetings were kept. The main aim of these meeting was to analyze the financial accounting and payroll processes into details. First, the scope of the service was defined and all the possible risks involved were discussed. This process analysis clearly refers to the engineering intervention, where the metaphor of the organization is a machine organization. The mostly involved process definers were the Business Support Manager from the outsourcer's side and the Project Manager and the Production Manager from the service provider's side. They could be interpreted as the thinkers, and the rest of the operational level actors as doers

in the process. (Taylor, 1947; Hammer & Champy, 1993) The process defining part of the operational level meetings refer to the hybrid exploratory control, as it was based on relatively unspecific general thrust contract, and information sharing self-enforcing because of the participatory, interactive nature of the process of contract execution.(Marginson, 1999; Mouritsen, 1999)

Cross-functional, innovation oriented project or development teams can be used to support the organizational change (Anderson, Hesford & Young, 2002). The service provider was asked to set up an accounting team at the beginning of the outsourcing process. The main aim was the into-depth analysis of the working processes concerning all the accounting and payroll tasks. The Business Support Manager of the outsourcing company was also a member of this accounting team. The team was both inter-organizational and also operated on both group and local levels of the organizations. As the control here is achieved via codification of actions and supervising observance of rules and instructions, the control archetype can be interpreted as action oriented machine control (Merchant, 1982; Merchant, 1985). On the other hand, there are clear signs of information sharing self-enforcing because of the participatory, interactive nature of the process of contract execution, and thus hybrid exploratory control is used. (Giezmann, 1996; Cooper & Yoshikawa, 1994; Marginson, 1999; Mouritsen, 1999)

Information technology project planning during the outsourcing process can be seen as a joined inter-organizational engineering intervention by group levels towards the local subsidiary. As the local subsidiary simultaneously implemented the new enterprise resources planning system and the electronic outsourced financial accounting and payroll processes, there was a tight and trustworthy connection between the outsourcer's and service provider's group levels. They joined and analyzed together these deeply integrated business processes (Taylor, 1947; Juran, 1967; Hammer & Champy, 1993). The control archetype can be interpreted as the hybrid exploratory one.

Action oriented machine control seems to be related to the into-depth analysis of as-is accounting processes, whereas the emphasis is more on the hybrid exploratory control, as the focus is more on the future processes to-be.

7.3. Teaching intervention

The takeover chart is a good example of management control tool, that can be used as a teaching intervention in this kind of outsourcing case. Process was totally run by outside consultants from

the service provider international service center. The analytical framework in this teaching intervention is based on cognition-focused organizational development action research principles (Argyris, 1993; Schein, 1992; Senge, 1990). The control archetype is here the hybrid exploratory control, where information sharing is self-enforcing because of the participatory, interactive nature of the process of contract execution (Marginson, 1999; Mouritsen, 1999).

Partly the operational level meetings could be seen as teaching interventions, as the actors had to test the processes, correct the mistakes, test again, and teach them to others, at the same time (Argyris, 1993; Schein, 1992; Senge, 1990). People were involved in the organizational development, and the contract execution called for participation and interactivity from both the outsourcer and service provider sides.

7.4. Process-related change interventions and control archetypes

If concentrating to the future aspect of the financial accounting and payroll processes to be outsourced, there seems to be only two applicable management control archetypes, the hybrid arm's length control and the hybrid exploratory control, which were also suggested for outsourcing situations by Spékle (2001). The executive level mostly used hybrid arm's length control. This control archetype is typically reached by using commanding change interventions (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984). The only joined commanding intervention was related to the payroll process. The reason for executive level interest in the process and the use of joined resources may be explained by the high investment level in the form of new software implementations. In general, arm's length control structures are efficient when competition is too thin to purely rely on the efficacy of market control, whilst the activities are not sufficiently essential to guarantee fully fledged machine control with its bureaucratic burden (Spékle, 2001). Hybrid governance structures are defined as "long term contractual relations that preserve autonomy but provide added transaction-specific safeguards compared with the market" (Williamson, 1996, 378).

The control archetype used by the operational level was hybrid exploratory control. That was created using both engineering and teaching interventions by joining the resources of both the outsourcing and service supplying organization operational managers. There seemed to be strong trust between the parties, and that might have been the reason for this kind of joined managerial actions.

The following table 12 presents the model constructed after analyzing this one case on how to achieve control in outsourcing of financial accounting.

Financial accounting process	Level of management	Management control tools	Change intervention types	Archetype of control
Takeover project as a whole	Executive level management of the company and the service provider	Strategic, joined development groups Transition plan	Commanding intervention	Hybrid arms' length control
General ledger and reporting	Executive management of the company and the service provider	Service specifications Pricing methods Process-flow charts	Commanding intervention Engineering intervention	Hybrid arms' length control Hybrid exploratory control
General ledger and reporting and the sub-processes (AR, AP, Travel and expense invoices, AA)	Operational management	Strategic and operational joined development teams Process-flow charts Responsibility clarifications	Joined engineering intervention Joined teaching intervention	Hybrid exploratory control
Payroll	Executive level	Specifications of the responsibilities	Joined commanding intervention	Hybrid arms' length control
Payroll	Operational management	Process-flow charts	Joined engineering intervention Joined teaching intervention	Hybrid exploratory control

Table12: Model of management control in outsourcing of financial accounting.

To be able to analyze the role of management control in outsourcing of financial accounting processes, it was extremely fruitful to first create an understanding of the role of management control systems in general in planned organizational change. Outsourcing of this kinds of business supporting activities, which are clearly defined by the accounting legislation, calls for detailed and analytical description of the processes before they can partly or totally be outsourced. The main driver behind the outsourcing in this case on the group level was the quick grow of the whole consolidation, and on the local subsidiary level the dramatic decrease in the turnover.

The role of management control differed on the different levels of management, and when viewing the process through the change intervention types represented by Huy (2001), the theoretical framework could be raised into inter-organizational level. Also the change intervention types were combined with the management control archetypes represented by Spékle (2001).

It seems, that the most effective way to create control right at the beginning over the service provider when outsourcing financial accounting processes, is the formulation of strategic development groups with members from both sides and strategic as well as operational levels in the organizations.

To be able to generalize the findings of this particular research, the model should be tested with another case. This might be the suggestion for a very fruitful further study in this area.

In the following table 13 there is a bit more generalized model to create control in outsourcing of financial accounting.

Financial accounting process	Level of management	Management control tools	Change intervention types	Archetype of control
Takeover project as a whole	C-level management of the company and the service provider	Formulation of strategic development group (Steering group) Takeover project plan Budget for the takeover Pricing methods of the service production	Commanding intervention (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984)	Hybrid arms' length control (Williamsson, 1996)
General ledger and reporting	C-level management of the company and the service provider	Pricing methods Process-flow charts as appendixes of the contract Service specifications as appendixes of the contract	Commanding intervention (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984) Commanding or engineering intervention (Taylor, 1947; Juran, 1967; Hammer & Champy, 1993)	Hybrid arms' length control (Williamsson, 1996) Hybrid exploratory control (Marginson, 1999; Mouritsen, 1999)
General ledger and reporting and the sub-processes (AR, AP, Travel and expense invoices, AA) Payroll	Operational management	Formulation of strategic development teams between the organizations Process-flow charts Responsibility clarifications	Joined engineering intervention (Taylor, 1947; Juran, 1967; Hammer & Champy, 1993) Joined teaching intervention (Argyris, 1993; Schein, 1992; Senge, 1990)	Hybrid exploratory control (Marginson, 1999; Mouritsen, 1999)
Payroll	Executive level	Specifications of the responsibilities	Joined commanding intervention (Andrews, 1987; Porter, 1990; Ansoff, 1988; Bourgeois & Brodwin, 1984)	Hybrid arms' length control (Williamsson, 1996)

Table 13: Generalized model to achieve control in outsourcing of financial accounting.

8. Conclusion

According to several studies the driving force behind outsourcing is the desire to gain economies of scale. This is the fact especially in Europe, where also this case study took place. US companies are more likely to pursue more value added sourcing strategies. (Kakabadse & Kakabadse, 2002). This study strengthens the first aspect of outsourcing, but it also emphasizes the other sourcing strategies:

“Flexibility and cost-savings have been achieved especially in reporting, which is essential to the growth company. Processes get quicker as the income statements, prognoses and other necessary reports are available on-line through a web based reporting software. We save days, as nobody has to collect the information from several excel-files.”(CFO)

The emergence of partnership as an alternative to a pure transaction based contract can be interpreted here as providing for a closer level of interaction between the client and the provider (Kakabadse & Kakabadse, 2002).

The role of commanding interventions to control and drive the organization through this change was extremely dominant on the group level in the inter-organizational co-operation. This may be due to the short time horizon, the executive level managers had. They wanted to have immediate, visible results, and paid less attention to the long-term outcomes. (Das, 1987) Also Lamminmaki (2008) in his study on management of outsourcing in hotel industry made the conclusion, that outsourcing proposals rarely included long-term oriented sophisticated techniques. Also the purpose and speed of change was attributed to external factors. The financial performance had decreased dramatically and the competition had become extremely hard ((Tichy & Sherman, 1994; Miles, 1997).

On the other hand, the operational level managers concentrated on engineering and teaching interventions. The demand for redesigning all the work processes by the strategic level inter-organizational steering group may have been the main reason for this intervention type. All the actors were also very experienced in the process management, and it might be, that being closer to the actors, the managers could see the importance of the ways in which people in organizations are influenced by and in turn, attempt to influence information systems (Ansari & Euske, 1987). Considering the effectiveness of control over time in a strategic alliance like outsourcing, outcome controls and social controls are supposed to develop over time. (Langfield-Smith & Smith, 2003) The teach-

ing and engineering interventions of the operational level managers in this inter-organizational governance structure represent a longer aspect of time than the pure commanding interventions taken by the executive managers.

In recent years there has been growing awareness of the potential of outsourcing to support a range of strategies beyond that of lower cost. However, there are also some risks involved, like losing skills needed in future competition and the risk of making outsourcing decision at the least suitable moment concerning the company's evolution. (Leavy, 2004). There were no results concerning the risks of outsourcing in this research. This could be very interesting aspect to take into account in the outsourcing studies in the future.

This study has exclusively covered the theories concerning management control systems in financial accounting outsourcing. The theories were used to build a control model that grouped management interventions according processes and organizational levels. Control archetypes were used to interpret these interventions. A single large case was used to build and verify the model.

The strengths of this study are on its way to process the existing theories to build the model and on the comprehensiveness of the case study. However, the case study – focusing on single outsourcing case – is also the weakness of this study. For more solid results more profound empirical investigations are a necessity.

For a practitioner in the field, the main finding and the recommendation of this study is the urge to focus on more practical, more operational and human resource related issues to ensure a success of a financial accounting outsourcing process. This should be noted especially by the executive level managers who tend to focus too much on strategic level issues only.

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