Management control of Swedish SMEs

Swedish small and medium-sized enterprises’ management control mechanisms in the Asian business environment

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Acknowledgements

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Abstract

**Background:** The Swedish economy is dependent on exports as it represents 45% of the country's GDP. Simultaneously, Swedish exporting market shares are decreasing on a global scale. In the Swedish government's export strategy which is primarily aimed at Swedish SMEs, the goal is to benefit from future growth expected to originate from the Asian marketplace. The Asian region is expected to represent 44% of future economic growth until 2020, compared to 19% and 23% in Europe and North America respectively. More Swedish SMEs therefore need to enter the Asian market and in order to implement their strategies and operate efficiently, well-suited management control systems must be in place.

**Purpose:** This study's objective is to identify implemented features of management control systems in Swedish SMEs' located on the Asian marketplace, as to facilitate sustainable future market presence.

**Contribution:** The study identifies several management control aspects which affect a successful establishment of Swedish SMEs on the Asian marketplace, through subsidiaries or strategic partnerships, namely control tightness, communication, budgeting, incentive systems, cultural controls, and end customer controls. The extent to how and when such mechanisms are efficient are dependent on several contingent factors relating to for example national culture, type of presence, and the industry in which the SMEs operate.

**Key words:** Management control, Swedish SME, Asia, Export, Subsidiary, Partner.
Abbreviations and definitions

To facilitate understanding of this thesis, the most frequently used abbreviations are defined in the table below.

Table 1: Abbreviations and concepts defined

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<th>Concept and abbreviation</th>
<th>Definition</th>
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<tr>
<td>Management Accounting (MA)</td>
<td>Control mechanisms in place connected to processes such as budgeting and costing.</td>
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<tr>
<td>Management Accounting System (MAS)</td>
<td>System that uses MA tools in order to reach organisational goals.</td>
</tr>
<tr>
<td>Management Control System (MCS)</td>
<td>More comprehensive than MASs as MCSs also include cultural elements.</td>
</tr>
<tr>
<td>Multinational Corporation (MNC)</td>
<td>Corporations who own assets such as subsidiaries in an international setting.</td>
</tr>
<tr>
<td>Small and medium-sized enterprise (SME)</td>
<td>Companies that employ less than 250 people, have an income statement lower than €50 million per year, and a balance sheet below €43 million.</td>
</tr>
<tr>
<td>Headquarter-Subsidiary (HQS) relationships</td>
<td>Relationship between a company’s subsidiary and headquarter.</td>
</tr>
<tr>
<td>Contingency factors</td>
<td>Circumstantial factors affecting what type of management control elements are suitable.</td>
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1. Introduction

1.1 Background

Swedish GDP growth is highly dependent on exporting firms, where exports of goods and services represented approximately 45% of Swedish GDP in 2015 (Ekonomifakta, 2015). The Swedish economy is greatly dependent on export and the country’s government asserts that 1.3 million job opportunities have been created on the Swedish labour market as an indirect result of the Swedish exporting industry (Swedish Government, 2015). However, in the aftermath of the financial crisis of 2008 and 2009, Sweden's economic growth has shifted from being based on the country’s exporting industry to the country’s internal demand. The aggregated exports of the world’s economies have grown faster than Swedish exports, which currently face a decrease in exporting market shares (Ibid.). Today, 70% of importers of Swedish products and services are located on the European market (Ibid.); this may not be sustainable in the future.

There is according to the International Monetary Fund (IMF) an ongoing shift in economic growth, which has shifted to Asian economies and away from Europe (Swedish Government, 2015). After the assessment of different economic regions, the IMF has projected that Asia will represent nearly half of the world’s economic growth until 2020 (Ibid.). It is estimated that the aggregated growth in Asia will represent 44% of the total world’s growth, compared to Europe and North America, which will represent 19% and 23% respectively. Asian economies alone are therefore expected to outperform developed countries in terms of growth (Ibid.).

Runner-up to Europe’s dominating proportion of Swedish export is Asia, representing 11% of the country’s total exports, followed by North America representing 5% (Swedish Government, 2015). Swedish exporting firms’ focus markets may therefore not be well suited for future growth potential, as only 11% of firms operate in the rapidly growing Asian economies (Ibid.), which is represented by the following circle diagrams:
The Swedish Government’s (2015) newly conceived export strategy therefore focuses on increasing trade to countries which are assessed to yield high growth by 2020. Another important aspect, in addition to potential growth and income levels in choosing target countries, is the degree of economic freedom in each country (Ibid.). Asia plays a central role in the strategy where eight countries, consisting of the Philippines, India, Indonesia, Japan, China, Malaysia, South Korea and Thailand are seen as the most important economies as where to increase Swedish firms’ exports (Ibid.). A reason may be that Chinese and other Asian markets are recovering faster from the 2008-2009 financial crisis and therefore companies are, to a larger extent than in the past, erecting businesses in these areas to improve sales growth and profitability (Schaaper, Mizoguchi, Nakamura & Yamashita, 2011).

The export strategy's main focus lies in promoting small and medium-sized enterprises (SMEs) in their internationalisation process due to their potential ability to generate further growth as
well as creating job opportunities (Swedish Government, 2015). A SME is defined as a company that generates yearly sales of under €50 million, has a balance sheet valued below €43 million and employs less than 250 people (European Commission, 2005).

1.2 Problematisation

Since 2014, overall economic growth has slightly declined in the Southeast Asian area, dropping from 6.8% in 2014 to 6.4% in 2015 with additional expected deceleration until 2018 (World Bank, 2016). Simultaneously, growth possibilities for Swedish companies are projected to originate from outside of Europe, where about 40% of the world’s economic growth will emerge from Asian countries by year 2020 (Swedish Government, 2015). The Swedish government (2015) further aims to increase Sweden’s trade with high growth countries mainly through SMEs. From a SME’s perspective however, there are obstacles which need addressing to facilitate successfully establishing a business on the Asian marketplace. Strategic aspects and internationalisation are comprehensive in research (see e.g. Johanson & Vahlne, 1990; Zahra, Ireland & Hitt, 2000). Internationalisation and related initiatives have also been covered in research specifically for SMEs (see e.g. Kunday & Senguler, 2015; Laufs & Schwens, 2014; Ruzzier, Hisrich & Antoncic, 2006). That said, less is known about how to maintain and increase competitive advantage after establishing business internationally, especially for SMEs (Davila & Foster, 2007). A central factor that enables an organisation’s success in implementing a strategy is its use of management control (Macintosh, 1994). In the past, argues Hiromoto (1991), management accounting (MA) research has focused mainly on aiming to provide decision-making information for management. However, there are other elements for which MA can be used, namely for motivational and behavioural effects (Ibid.). When management accounting is used to reach organisational goals, it is defined as a management accounting system (MAS); when it furthermore includes controls concerning culture and personnel, the term management control system (MCS) is appropriate (Chenhall, 2003).

Since this thesis is affected by cultural factors due to the studied companies’ operations abroad, the definition of MCS will be used because it encompasses culture and the effects it has on company success, compared to MA and MAS which do not take culture into account (Chenhall, 2003). For a Swedish SME to maintain sustainable competitive advantage in the Asian market they need knowledge of suitable MCS components. Designing a MCS involves various elements requiring attention as they vary in type, scope, and size, depending on company strategy, location, and decision-making procedures (e.g. Chenhall, 2003; Eldridge, Iwaarden, Wiele & Williams, 2014; Fisher, 1998; Gani & Jermias, 2012). The above illustrates the difficulty of
applying an appropriate MCS depending on endless combinations of influencing factors that can become impossible to handle if not narrowed down and categorised according to contingency theory (Hofer, 1975). As a result, research related to MCSs attempts to determine certain contingent variables which simplify categorisation of MCS types (for examples, see Hofstede, 1978; Merchant & van der Stede, 2012; Miles & Snow, 2003; Porter, 1998; Simons, 1994).

One major contingent variable concerns environmental factors which partially determine what type of MCS is a well-functioning fit for a particular organisation (Otley, 2016). However, although particular environmental factors are known to benefit or harm a specific type of company, Hofstede (1978) highlights that many companies implement inappropriate MCSs. The possible misfits described by Hofstede (1978) that arise from inappropriately used management control elements can have consequences as drastic as leading to organisational failure (for examples, see Merchant & van der Stede, 2012). The above issue has facilitated development of specific MCSs which fit particular types of companies. When MCSs were defined in the 1960’s and 70’s, their aim was to provide formal feedback identifying deviations from stipulated standards (Henri, 2006b). More recently, MCSs are seen as a measure to facilitate e.g. innovation and constant organisational change in a Kaplan and Norton (1992) developed tool called the balanced scorecard (BSC). The BSC encompasses other input and factors than merely financial data as to reduce a company’s dependency on financial data that can cause e.g. short-sightedness and manipulation (Norreklit, Jacobsen & Mitchell, 2008). Moving completely from budgeting, a recent practice used by some companies called beyond budgeting is another form of management control, where research has shown that fixed performance contracts are a main cause to unwanted and unsatisfying behaviour among employees (Hope & Fraser, 2003). Above indicates that management control is a scattered subject affected by various factors depending on numerous contingent aspects.

While MCSs for all companies contain many components, international businesses address additional affecting variables that can make or break organisational success (Merchant & van der Stede, 2012). Firstly, national culture is according to Hofstede (2001) described as the common values shared by a specific group which differentiates itself from other groups. These values have an impact on the MCS of an organisation since national culture influences employees’ acceptance of a MCS with regard to the values that such a system promotes (Tallaki & Bracci, 2015). Secondly, local institutions also play a crucial role in the design of a MCS abroad, where different types of regulations and laws will influence the way organisations construct their MCSs (Balchandaran, Dossi & van der Stede, 2010). A third set of factors influencing multinational corporations’ (MNCs) implementation of well-functioning MCSs are variations of foreign business environments, such as country-specific environmental uncertainties, company growth
patterns and the transfer of skills through international joint ventures, foreign currency translation and the issue of attracting talent (Chalos & O’Connor, 2004; Merchant & van der Stede, 2012).

When SMEs establish businesses abroad, several strategic issues must be evaluated. The choice of integrating vertically or not is often crucial, since there are high costs associated with such a strategy (Madsen, Moen & Hammervold, 2012). SMEs therefore more often internationalise by contracting intermediaries on foreign markets (Ibid.). Studies conducted regarding the relationship between exporting SMEs and their foreign intermediaries, i.e. independent distributors, importing agents, and sales representatives, have concluded that well-functioning relationships strengthen a SME’s international competitive advantage (Kuhlmeier & Knight, 2010). When these exporting partners are of strategic significance for a SME, it then becomes vital for the parent company to control such a partner (Tallaki & Bracci, 2015).

Although the amount of management control research regarding SMEs has increased since the year 2000, it still lacks knowledge of detailed specifics regarding management control in SMEs (López & Hiebl, 2015). In the context of internationalisation of SMEs, the topic of management control is scarcely researched since other subjects such as strategy, marketing, and small business management have dominated the research field (Ruzzier, Hisrich & Antoncic, 2006; Schweizer, 2012). The lack of research regarding internationalisation of SMEs in combination with management control requires attention, as to facilitate the Swedish government’s goal to promote Swedish SMEs’ internationalisation attempts, and thereby facilitate future establishment of foreign SMEs on the Asian market.

1.3 Purpose

This study’s objective is to identify implemented features of management control systems in Swedish SMEs’ located on the Asian marketplace, as to facilitate sustainable future market presence.

The following research questions are answered in this paper:

- Which management control elements are used by Swedish SMEs in Asia?
- Which internal and external factors are important when implementing and maintaining management control in Asia?
- How can SMEs overcome issues that arise due to insufficient management control when expanding in Asia?
1.4 Delimitations

To limit the scope of the thesis, studied companies are Swedish SMEs established in any of the targeted Asian economies listed by the Swedish government, i.e. China, India, Indonesia, Japan, Malaysia, the Philippines, South Korea and Thailand. Since these eight countries are part of the Asian region, which will represent nearly half of the world’s future growth by 2020, it is therefore critical for Swedish SMEs to understand how to successfully remain and develop in the Asian market and stay internationally competitive. Other regions that do not possess the same growth potential are disregarded in this study.

1.5 Scientific contribution

The contributions of this thesis primarily apply to Swedish SMEs aiming to establish operations in Asia in the future, as well as already established Swedish SMEs in Asia. Several elements are identified related to management control that require attention and can affect the success of operating through a partnership or subsidiary in Asia. By addressing the elements discussed in this research, a Swedish SME can prepare and adapt its operations to create a better fit towards the Asian business environment. To a certain extent, SMEs with other cultural and national backgrounds can benefit from this study in terms of understanding the Asian business environment and implications related to establishing a partnership or subsidiary there.
2. Theoretical framework

The following framework initially discusses the use of management control and the elements that compose it, to later discuss what factors require consideration in an international context, and finally how management control is adopted by SMEs.

2.1 Implementing management control

Management accounting (MA) and management control systems (MCSs) are not a precise science, where situation-specific circumstances impact the effectiveness and efficiency of implemented management control processes (e.g. Chenhall, 2003; Langfield-Smith, 1997; Otley, 1980). According to contingency theory, control systems or packages require adaptation towards external factors such as technology, environment, and organisational size (Fisher, 1998; Otley, 1999). The contingency theory approach of management control came forward after the mid 1970’s (Otley, 1980), and has been widely used and accepted in management control research since (Otley, 2016). According to Fisher (1998) the concept of contingency theory related to MCS lies in between the idea of identifying a single and general standard that maximises management control effectiveness and the possibility of creating a specific MCS for each business; categories of alike businesses react well to similar types of MCSs (e.g. Miles, Snow, Meyer & Coleman, 1978).

Within the research field, MCS and MA lack unified definitions, where the issue of what is encompassed within the field varies. Chenhall (2003) summarises that management accounting (MA) rings in processes such as budgeting and costing, whereas a management accounting system (MAS) concerns the utilisation of MA to reach organisational goals. Management control systems (MCS) go beyond management accounting systems as they include additional factors such as cultural and personnel controls (Siska, 2015). As a result, the definition of MCS, instead of merely a MAS, will be used in this thesis as cultural and personnel controls impact the effectiveness and success of management control (Merchant & van der Stede, 2012), addressing the cross-cultural and international aspects of this study.

Management control systems can take many forms and consist of several components, where single research papers typically do not encompass an entire MCS; instead, particular elements are studied at a time (Shields, 2015). Merchant and van der Stede (2012) analyse management control and describe it to contain various components. Some distinctions are results, personnel, action, and cultural controls (Ibid.). These elements are typically not connected to each other, and thus act as stand-alone parts designed to address specific challenges in a company or
organisation (Ibid.). Due to the complexity of each individual control system, Malmi and Brown (2008) identify management control as a package instead of a system; a system implies that the components are predefined and planned, and integrated simultaneously with logical and thought through interconnections. Assuming that management control mechanisms are not implemented as an entire system but instead by different parties scattered over time, Malmi and Brown (2008) state that a management control system should instead be labelled as a Management Control Package. Even though the above distinction is made and acknowledged, to simplify further discussion in this thesis, the term management control and MCS will be used, as MCSs and management control packages are conceptually similar enough to empirically study the research area (Malmi & Brown, 2008). Although the term MCS will be used, it is important to note the complexity that such a system implies.

Compared to Merchant and van der Stede's (2012) components of a management control system, Malmi and Brown (2008) consider the following elements to be central to management control: planning, cybernetic, reward and compensation, administrative, and cultural controls. The planning, cybernetic, and reward and compensation controls are closely linked to the operations of a company and are typically completed in the order of which they are written above (Ibid.). Administrative control enables for a structure in which the above controls can be implemented (Ibid.). Finally, cultural controls are not always visible, but are underlying factors such as values and social norms which affect the behaviour of employees (Ibid.).

Conversely, although the theoretical concepts differ slightly in terms of definition, enough similarity between both concepts enables interchangeable usage of them when researching management control (Malmi & Brown, 2008). Siska (2015) argues that the management control as a package framework may even be inferior to MCS as researchers recently have returned to Simons’ (1994) levers of control framework. Ferreira and Otley (2009) argue that the term MCS is not broad enough to encompass the challenges met by management within a company, and argue performance measurement systems (PMSs) as more comprehensive. In their framework, twelve questions derive information required to establish a robust and well-formed PMS for an organisation. However, this framework lacks empirical testing (Ferreira & Otley, 2009), which is why the MCS framework will dominate the theoretical aspect of this thesis.

Although research within management control has not agreed on a unified overall definition, it is important to continue to study individual aspects of management control and doing so through various methods to provide valuable knowledge (Atkinson, Balakrishnan, Booth, Cote, Groot, Malmi, Roberts, Uliana, & Wu, 1997). From a historical standpoint, the field of MCS has developed as well; Lowe (1971) describes how a management control system should be comprised of mathematical formulas derived from information and decision systems to reach optimal
effectiveness and efficiency in reaching an organisation’s goals. MCSs in more recent years have adopted several less mathematical, less monetary, and softer control system mechanisms to steer an organisation towards reaching its goals. Examples of such controls are the balanced scorecard (Kaplan & Norton, 1996), beyond budgeting (Hope & Fraser, 2003), and cultural controls (e.g. Merchant & van der Stede, 2012; Tallaki & Bracci, 2015).

As a whole, central elements of management control revolve around measuring the performance of employees (Chenhall, 2003) as well as controlling the behaviour of an organisation’s management and subordinates to act in best interest of the organisation towards reaching its goals (Lowe, 1971; Merchant & van der Stede, 2012). The implementation of management control systems is therefore directly linked to incorporating a strategy into a business (Simons, 1990). Furthermore, it is of high importance that the management control elements implemented in a company align with the strategy, as misfits can cause major negative consequences; Hofstede (1978) describes that too many companies apply control components that do not fit with the company’s strategy. Many cases have occurred and been recorded where organisations have failed as a consequence of implementing inappropriate MCSs (see Merchant & van der Stede, 2012, for examples). Gani and Jermias (2012) found evidence to support that companies with a misfit between strategy and management control perform worse than companies who implement a matching fit.

2.2 Management control in an uncertain environment

Management control systems can be categorised and linked to various types of strategies incorporated by a company (Miles et al., 1978). Companies operating with a slim variety of products, not planning to diversify to new markets, and focusing on improving production efficiency are classed as defender companies by Miles and Snow (2003). In respect to this, defender companies typically implement tight control systems to closely monitor efficiency and quickly identify defects (Macintosh, 1994). When a company instead implements a prospector strategy, meaning that they identify new market opportunities and aim towards conquering these market shares quickly, a looser control tightness acts as fitting management control, to facilitate operations in an uncertain environment (Ibid.). Furthermore, environmental uncertainty is defined according to Govindarajan (1984) as the unpredictability that arises between a business unit and its stakeholders, which are part of the business unit’s external environment.

Simons (1994) identifies a pattern and develops a model which can be used by organisations to implement various types of strategies from a management control perspective. The model shows the importance of management control when conceiving and implementing a strategy (Ibid.).
According to Simons (1994) there are two types of management control systems which are related to strategy that can be implemented by managers:

1. **Diagnostic controls** are used within an organisation to compare organisational outcomes with pre-set standards, such as budgets or business development plans. By analysing critical performance variables, an organisation can easily track variances within different business units.

2. **Interactive controls** imply that managers involve themselves in the decision making process of subordinates. The aim of this type of control system is to promote dialogue and discussions within and between the different divisions of an organisation. By analysing strategic uncertainties, organisations can then shape this type of control system.

Two other important factors that managers must take into account when erecting a control system are the organisation’s belief and boundary system (Simons, 1994). By implementing a belief system, which is communicated through mission statements, an organisation can then effectively inform employees about its core values and consequently, in which direction the organisation must strive (Ibid.). Boundary systems are implemented in order to set restraints and limits on what is acceptable within the scope of the organisation’s operations (Ibid.). By assessing the so called risks to be avoided, managers can shape a boundary system more effectively (Ibid.)

Several researchers have assessed the implications of implementing Simon’s *Levers of Control* (LoC) framework (1994) in organisations. A lack of using diagnostic controls can result in decreased focus among business units, and at the same time restrain and discourage innovation if used too tightly (Eldridge, van Iwaarden, van der Wiele & Williams, 2014). Bisbe and Otley (2004) criticize the LoC by arguing that there are no clear connections between interactive controls and the innovation capability of organisations. The authors came to the conclusion that interactive controls inhibit innovation in high-innovation firms, as innovative ideas are removed through the sharing of information (Bisbe & Otley, 2004). The same type of controls has a positive effect on innovation when implemented in low innovation firms, where such a system fosters innovative thinking (Ibid.). Simultaneously, Ghosh and Willinger (2012) found that companies operating in an uncertain environment more intensively use budgetary controls as well as performance measurements on managers, which for example aligns with Simons’ (1994) interactive control. Ezzamel (1990) also comes to the same conclusion as Gosh and Willinger (2012), asserting that budgetary controls become important when the level of environmental uncertainty is high. Henri (2006a) argues that already established management control systems can act as a resource towards incorporating a strategic choice, from a resource-based view. The
contributions of Henri’s (2006a) study further prove that interactive controls have positive effects when strategic implementations of e.g. entrepreneurial, innovative, or market positioning characteristics are applied. Diagnostic control system elements on the other hand prevent successful strategic manoeuvres regarding the same characteristics (Ibid.).

One danger that could affect the relationship between an exporter and its intermediaries are internal and external uncertainties (Leonidou, Barnes & Talias, 2006). An example of uncertainty is of a relationship character, which refers to the inability to predict the actions of another party within the organisation (Ibid.). Uncertainty can on the other hand according to Theodosiou and Katsikea (2013) be mitigated by effectively processing information.

Control systems are according to Zimmerman (2003) one of the most important sources of information for organisations. The information that is generated by implementing a control system can be divided into four dimensions (Chenhall & Morris, 1986):

1. *The scope of information* of a control system specifies where information is gathered. Pertinent information can be gathered within or outside of an organisation. Another dimension of the scope of information is whether it is gathered from historical data or from upcoming and future events.

2. *The timeliness* of control systems refers to managers’ ability to quickly assess gathered information, called *speed*, and to the *frequency*, i.e. how often information reaches managers. A control system that provides a steady stream of important information in an uncertain environment is therefore seen as effective.

3. *The aggregation* of control systems refers to the way that the information is processed and communicated. Information could be aggregated in a way which makes the understanding and analysis of the information easier. Aggregated information becomes useful in decentralised organisations, as well as in uncertain environments.

4. *The degree of integration* concerning control systems in decentralised sub-units refers to the knowledge about the impact of decisions made throughout the company at the specific sub-unit. Such information could assist that sub-unit on setting its own targets.

More recently Asel, Posch and Speckbacher (2011) examined how firms and their management control practices changed as an effect of the financial crisis in 2008. Evidently, the control systems of many companies faced considerable changes as they challenged economic recession in combination with shareholder expectations that demanded profitability (Ibid.). As a result, changes such as more frequent employee monitoring, shorter reporting periods, and tighter controls of budget were implemented in an attempt to overcome the strains set by both an economic crisis and high shareholder expectations (Ibid.). Since the Asian market recovered
more rapidly compared to the European and North American markets (Schaaper et al., 2011), the management control systems in Asia might not have experienced a similar shift as its western counterparts.

2.3 Management control in an international context

Schäffer, Strauss and Zechter (2015) discuss the importance of management control in today’s corporate environment where fierce competition is met from around the world as firms are constantly becoming more globalised and competition increases across borders; even when a company only acts on their local market, competition is met from international entities. For example, strong cultural controls within a family-owned business which has strong ties to its local community, has proven to fail under circumstances where external pressures from competitors strain the firm’s finances; this when formal management control system elements were not implemented (Ibid.). In addition to the importance of management control, Schäffer et al. (2015) claim that currently well-established control systems can affect the difficulty to implement a new system, where personnel do not immediately adapt to the new controls.

When erecting operations in abroad locations it can become relevant to create a subsidiary at that location. In that respect, research in the context of headquarter-subsidiary (HQS) relationships has developed with strong focal shifts since the 1960’s (Kostova, Marano & Tallman, 2016). It moved from the standpoint of headquarter dominance in terms of affecting firm success, to the importance of a subsidiary and the environment in which it operates (Ibid.). A long-lasting and dominating model has not persisted in the field of HQS where constant evolution of theories has challenged prior research, and changed the perspective of HQS relationships (Ibid.).

As part of later research, Tang and Rowe (2012) have studied the closeness of HQS relationships and their effects on abroad located subsidiaries’ performance and results. A dependency was found between closeness and subsidiary performance where a closer relationship, on average, showed higher performance. However, this is only true to a certain extent, as subsidiaries performed worse when being too closely linked to its parent company, meaning that moderately close relationships performed highest (Ibid.). Causing the negative effects on foreign subsidiary performance lie factors such as cultural aspects where the headquarter style or systems do not integrate well with its subsidiary’s systems, both in terms of market conditions and internal processes (Ibid.). Another reason is that subsidiaries can become overconfident when tightly related to the larger firms’ core competencies and rely on these to a harmful extent (Ibid.).
Lin and Yu (2002) state there is an ever growing need for management control in emerging markets and countries that are less developed. Relative to the pace of emerging economic power in these countries, the need for management control is growing and little research is yet conducted within the field (Ibid.). An example of conducted research within the field discusses the People's Republic of China's move from a planning economy towards a more capitalised market (Firth, 1996). MCSs were before the shift used dissimilarly from the western world which therefore required an update to cope with the new business environment (Ibid.). Foreign investors saw great opportunity in the growth of China and Chinese authorities welcomed international investments, contributing with both monetary capital and technical expertise (Ibid.). O'Connor, Chow and Wu (2004) found that previous state-owned enterprises adapted western management accounting and control practices during the period of 1996-1999; the time-period of their research. Mainly, companies aimed to refine decision-making procedures as well as to increase accountability of performance (O'Connor et.al., 2004). Evidently, western management control practices were most strongly adopted in joint venture companies, as compared to companies not engaged in joint ventures (Firth, 1996; O'Connor et.al., 2004). The above indicates the importance of having functioning management control in place when an emerging economy integrates with the global economic challenges of today.

There is currently a lack of research in the field of management control in an Asian context, but some studies have been conducted from a Chinese organisational perspective. O'Connor, Vera-Muñoz and Chan (2011) gain an understanding of the significance Chinese companies put on MCS depending on Porter's (1998) five forces. Generally, indications show that a MCS's significance in Chinese companies is affected by the country's way of doing business, upper management leadership, and tendencies to follow MCS guidelines instead of creating value by using them as tools (O'Connor et al., 2011). In addition, O'Connor et al. (2011) state that Chinese companies' perceived importance of a MCS increases when a threat of new market entrants is high, in particular when the company is domestically focused.

When multinational corporations (MNCs) operate through subsidiaries in China, the local strategies put in place favourably affect the performance and results of that subsidiary, while the overall strategy of the MNC often negatively impacts the results of the Chinese subsidiary (Tian & Slocum, 2014). This raises the importance of adjusting a company's strategy to local environments of the subsidiary in order to reach operational success. E.g. Tian and Slocum (2014) argue that companies operating in China can have trouble when aiming for scale efficiency since financial uncertainty and competition can cause large turbulence and thereby affect a scale-focused company negatively. Another example is Björkman and Lu's (1999) who state that MNCs oftentimes struggle in regards of human resource control when operating
subsidiaries or joint ventures in China. Managing employees in China is seen as a major challenge and according to Björkman and Lu (1999) this is because the Chinese and Asian business environment create dissimilar issues compared to other countries.

2.4 Management control in small and medium-sized enterprises

Before addressing how management control is used in small and medium-sized enterprises (SMEs), the following will clarify what classifies as a SME. There are several different ways to define a SME; international standards are set by e.g. the European Commission (European Commission, 2005), while local entities can also set up own standards which vary from the European standards (López & Hiebl, 2015). According to a literature review conducted in the field of management control related to SMEs, the most common definition used is the European commission’s standard (Ibid.) which strengthens the choice of using that definition in this thesis. The European Commission (2005) states that a company is a SME when annual turnover does not exceed €50 million, the balance statement is less than €43 million, and not more than 250 people are employed.

Management control has in the field of research mostly aimed at large multinational corporations and SMEs have fallen outside of the research scope (Mitchell & Reid, 2000). López and Hiebl (2015) state that management control is used less in SMEs compared to large companies, and that SMEs use management control differently than larger companies. However, Davila, Foster and Jia (2014) argue for the importance of a MCS in SMEs as the implementation of management controls increases company value. The value difference of SMEs, as seen from an external financier’s perspective, varies more among SMEs operating in uncertain environments, where companies with a higher MCS intensity are also valued higher (Ibid.).

An important aspect to take into account when implementing an effective MCS to improve the performance of intermediaries as an exporting SME, is the communication and relationship between those two entities (Velez, Sanchez, Florez & Alvarez-Dardet, 2015). Ural (2009) and Kuhlmeier and Knight (2010) assert that good long-term relationships between SMEs and their intermediaries are seen as a key success factor in improving profitability in a competitive international environment. Due to many SMEs often lacking resources, exporting through an intermediary is seen as the most common entry mode strategy, through independent distributors, importing agents, and sales representatives, which make these relationships an important factor that affects an exporting company’s performance (Kuhlmeier & Knight, 2010). The authors (Ibid.) also develop a factor model which defines quality of communication, cooperation, trust and commitment as the most important factors for an organisation to succeed
in its internationalisation process, by creating sound relationships with its intermediaries abroad. Developing a fruitful relationship thus leads to an increase of the intermediary's performance (Ibid.). Skarmeas, Spyropoulou and Salehi-Sangari (2008) also developed a similar model including three variables, namely trust, commitment and satisfaction, which according to the authors play a significant role when analysing the effectiveness of intermediary relationships.

Trust and commitment are according to Morgan and Hunt (1994) closely linked as commitment is a direct result of trust. By adapting to the exporting market’s culture and values, Leonidou, Katsikeas and Hadjimarcou (2002) demonstrate that firms succeeding in developing an open communication with their foreign intermediaries perform better in terms of understanding foreign cultures, languages and values. In addition, Harvey and Griffith (2002) maintain that organisations need to develop a well-functioning communication strategy to build long-term relationships with international partners in order to grow internationally.

By analysing these different factors, the authors conclude that quality of communication has a critical impact on cooperation (Kuhlmeier & Knight, 2010). The exporting SME needs to effectively communicate the importance of different goals, as intermediaries often have their own interests (Ibid.). Strategic communication also has a positive impact on cooperation, as exporters can clarify what resources are needed in order to reach set objectives (Ibid.). A trustworthy relationship is in addition built up by developing effective communication strategies between exporters and their intermediaries (Ibid.).

Cooperation is an essential factor for independent intermediaries since there could be a risk of intermediaries to act opportunistically and in their self-interest (Wu, Sinkovics, Cavusgil & Roath, 2007). Kuhlmeier and Knight (2010) conclude that effective cooperation cannot be achieved without quality in communication. Increasing and improving communication between parties is according to the authors followed by cooperation as well as trust and commitment (Ibid.). Cooperation and commitment are in turn seen as important factors as to increase an organisation's intermediary performance (Ibid.). SMEs which develop trade to regions that differ both culturally and geographically, do see a rise in costs in order to coordinate sales efforts on international markets (Ural, 2009). By developing good long-term relationships with importers, which is seen as a non-monetary strategy, SMEs can then gain competitive advantage over international competitors (Velez et al., 2015).
3. Methodology

3.1 Research strategy

There are two main approaches when researching social studies: quantitative and qualitative (Johannessen & Tufte, 2003). In this study a qualitative strategy constructs the methodological base. It is chosen firstly, since it provides a suiting fit for explorative studies researching less-known phenomena (Flick, 2009). Secondly, a qualitative method enables for contributing with new observations and developing theories (Ibid.). Thirdly, a qualitative research strategy emphasises on results based on words compared to quantitative studies’ foci on data quantification (Bryman & Bell, 2003), which justifies the methodological approaches chosen. Not only does a qualitative strategy focus on words instead of data quantification, other differences compared to quantitative research are presented by Bryman and Bell (2003). For example, qualitative studies take the viewpoint of research partakers instead of the researcher and provide large amounts of in-depth data related to the research participant’s situation (Ibid.). Since management control systems adopt a contingent approach (Fisher, 1998), a qualitative strategy is a good fit for this study as it facilitates understanding of situation-specific variables affecting the design and effectiveness of a MCS, through the richness in data volume for each specific study object (Bryman & Bell, 2003). Due to a lack of research regarding SME management control addressing foreign markets, a qualitative method suits the aim of this study. The prevalent knowledge gap adds a level of uncertainty to the research as well, since e.g. certain aspects of a company’s management control may not be visible to an outside viewer until pointed out by the interviewee. Adapting a qualitative approach facilitates flexibility where primarily unconsidered factors that prove their significance can affect the research results, enabling encapsulation of new and determining factors improving the study’s quality (Bryman & Bell, 2011).

For further aim towards high research quality, we discussed various epistemological and ontological standpoints in forming this research paper, as they separate good from poor social studies (Alvesson & Sköldberg, 2009). In social sciences, epistemological standpoints requiring attention are those of positivism, realism, and interpretivism (Bryman & Bell, 2011). Positivism originates from the field of natural science and is often closely related to realism (Flick, 2009). Positivism and realism lack to encompass what interpretivism acknowledges; the effects social actions have on the researched reality (Bryman & Bell, 2011). The perception of management control in an organisation determines its effectiveness, which means that an interpretivistic standpoint functions as a fitting epistemological method.
Considering the ontological perspective, we have considered two different standpoints; objectivism and constructivism (Bryman & Bell, 2011). From an objectivist point of view, research is based on the assumption that social actors and interactions do not affect the study phenomenon (Ibid.). Constructivism on the other hand, although not cohesive, assumes that the reality we perceive is constructed by social interactions, actors, and societies (Flick, 2009). Applying constructivism to this study implies that the gathered information and conclusions drawn are interpretations of social constructions created by interviewees, as well as preceding theoretical knowledge possessed by the researchers (Richards & Morse, 2013). As a result, the findings of the research conducted by this study may not be generalizable to all Swedish SMEs exporting to Asia. However, as Flick (2009) states, it is not necessarily the goal of qualitative research to generalise its findings. Instead, this research provides understanding of current management control setups and their consequences in the targeted business environment; knowledge which in turn, to a certain extent, can create competitive advantage for Swedish SMEs operating in the Asian area. Nevertheless, potential generalisation of qualitative findings should not be excluded as they are possible (Silverman, 2011).

3.1.1 Research approach

From a research perspective there are two main approaches to conducting a study; inductive and deductive research (Jacobsen, 2002). We have not excluded either perspective as both contribute to the development of this study’s results. Firstly, a deductive approach is taken since general theoretical frameworks regarding management control, contingency theory, and cross-cultural factors, lay the base of understanding for this study before gathering empirical evidence; something Jacobsen (2002) defines as going from theory to empirical data. However, critique of a deductive approach states that the approach is limited since researchers may ignore information that is not initially encapsulated in the framework (Ibid.). Secondly, considering the lack of understanding of management control in multinational SMEs, this study requires applying elements of an inductive stance where research findings can contribute to generating new theory (Flick, 2009). Therefore, this study does not exclude either the inductive or deductive measure of gathering empirical data; neither does it entirely identify itself with either approach. That said, initially this study has originated from the approach where a theoretical base was established and the lack of management control in SMEs was identified, a method that according to Bryman and Bell (2011) classifies as deductive. Subsequently, this thesis originates from a deductive stance.
3.2 Research Design

Research design is the technique of conducting research and can thus be explained as a framework which facilitates the analysis of gathered data (Bryman & Bell, 2011). Research design differs from the research method as the latter is used to gather data (Ibid.). A widely used research design connected to business studies is the case study which stands out compared to other research designs, as its aim is to portray a wholly functioning system (Eisenhardt & Graebner, 2007 via Bryman & Bell, 2011). A case study can be planned by studying an organisation, a specific location, a person or a single event (Bryman & Bell, 2011). Due to the qualitative aspect of a case study, Knights and McCabe (1997) via Bryman & Bell (2011) suggest that several research methods can be used to gather appropriate data.

Another type of research design which is used comparing different cases to understand a reality, is the use of comparative design (Bryman & Bell, 2011). A comparative design can have a cross-cultural approach, where the aim of the study is to compare a specific subject depending on the cultural setting in which it occurs (Hantrais, 1996, via Bryman & Bell, 2011). As this thesis aims to explain how management control elements of Swedish companies differ when operating in Asian economies, a comparative design would therefore apply as a pertinent research design. Comparative designs are further associated with qualitative research, taking the form of a multiple case study (Bryman & Bell, 2011), and strengthening the case for using such a research design in this study.

The hypothesis of such a research design is that cultural differences play an important role regarding the issue that is to be analysed in the study (Flick, 2009). Flick (2009) stresses the fact that in order to conduct an applicable comparative study of cultures, other factors that are not to be compared must be as standardised as possible. This becomes relevant for this thesis as the common denominators of the different company cases in this thesis’ empirical research are their size, their national origin and their presence on the targeted markets.

3.3 Gathering of empirical data

As qualitative research is not as framed as its quantitative counterpart, by conducting interviews for a qualitative research, interviewers do not there need to stick to a specific schedule or framework (Bryman & Bell, 2011). This type of interview is also what Alvehus (2013) and Bryman and Bell (2011) refer to as a semi-structured interview. The interviewer prepares a framework of questions that are to be answered by the interviewee, who then has the opportunity to influence the content of the interview, as well as the interview process (Alvehus, 2013). Such an interview
method puts pressure on the interviewer, who has to critically listen and potentially ask follow-up questions (Ibid.). When conducting a multiple case study, Bryman and Bell (2011) stress that interviews to some degree require a structure in order to ensure the comparability of each case with one another.

Therefore, a semi-structured interview method was chosen in this study as to facilitate comparability between the various cases. With the ability to structure content of an interview to some extent, similar aspects between interviews were covered while simultaneously allowing for individual cases to bring e.g. company or industry specific elements to light due to the ability for semi-structured interviews to ask follow-up questions, which open up for in-depth knowledge (Bell & Waters, 2016). Interviews were conducted both in person and over the telephone. Telephone interviews were used when the interviewee had limited time for an in-person interview and was located inconveniently. Two out of five interviews were conducted over telephone, while the other three were in person.

For each interview the same interview guide was used, which is added as an appendix for further transparency. Depending on the extent that interviewed companies use management control the interviews varied in length. Although there were duration differences, the information gathered was valuable to this study regardless of interview length since e.g. the lack of certain control elements also contributes to answering this study’s research questions. The interviews lasted between 30 and 60 minutes; the precise length of each interview is illustrated in table 2.

3.4 Primary data
3.4.1 Selection and sampling

Bryman and Bell (2011) state that qualitative research lacks the transparency illustrated by quantitative research in terms of sampling. It is nearly impossible to remove the effect a researcher has on their sampling in qualitative research and therefore it is common to approach the matter with convenience (Ibid.). As only a limited amount of Swedish SMEs export, and since 70% of Swedish export is aimed at Europe (Swedish Government, 2015), the sample of potential companies had a natural limitation. Yin (2009) highlights that multiple case study research oftentimes cannot apply the same criteria as other research designs in terms of sampling. It is valuable to include five or more case study elements and since there is no strict sampling method a judgmental selection must be conducted to choose what cases to include (Ibid.). We therefore allocated much time towards finding suitable companies for the study. Various requirements were set to identify potential participants, where firstly, the company was required to classify as
an SME according to EU standards. Secondly, a potential company must operate in one of the targeted countries in Asia defined by the Swedish government’s export strategy. And thirdly, they were required to have implemented a business unit or partnership in the country or countries of operation. Thereafter, an ideal assortment of companies was attempted to be compiled assuming there were no limitations in resources for the study (Jacobsen, 2002). However, this was limited due to the fact that there is no publicly available overview of Swedish SMEs operating in Asia. The next logical step was to identify SMEs and examine where they operate. Due to this time-consuming method, not all companies are possibly encompassed in the selection of potential companies in this study.

Towards each targeted company we addressed our interest in interviewing highly appointed managers with insight in the subsidiary, business unit, or partnership on the Asian marketplace. As this study takes a perspective of exploring what elements of management control are implemented we argue that managers at the Swedish headquarters who are responsible for the control initiatives are most suitable to study in this research. Therefore, the interviewees representing each company have roles such as chief executive officer, chief operating officer, and executive vice president.

3.4.2 Conducting the interview

The interviews of this study are all conducted in Swedish to facilitate wealthy discussions and minimize language limitations that can affect the quality of the research. Quotes used in English in the empirical data are translated from Swedish to English and the translations are added as an appendix. Since taking notes during an interview has several negative consequences, we relied on recording each interview which gave an accurate representation and decreased potential risks where e.g. an interviewer’s ability to write and listen simultaneously may cause a misrepresentation of gathered data (Alvehus, 2013). An interviewer is then also more alert to the conversation which facilitates the asking of follow-up questions closely related to topics discussed, thus increasing the quality of an interview (Bryman & Bell, 2011). It can also lead to the interviewee feeling more secure as the recording reduces the risk for possible misinterpretations that may occur by an interviewer (Alvehus, 2013).

After each interview, the recorded audio was transcribed into text to facilitate more accurate representation of the empirical data. Even though the transcription process is time consuming, and Bryman and Bell (2011) argue that it is possible to transcribe only firstly-perceived important aspects to shorten the transcription time, we chose to transcribe entire interviews as to minimize the risk of missing important information when going back to an interview at a later stage.
3.4.3 Critique of primary data

According to Jacobsen (2002), telephone interviews have some weaknesses compared to face-to-face interviews; for example, it can be easier to establish trust when interviewing in person which may make the interviewee more comfortable (Ibid.). However, this critique is aimed mainly at open and personal interviews, meaning that our interviews which are semi-structured do not encounter identical potential negative effects (Ibid.). On the other hand, telephone interviews do have positive aspects as they reduce the effect an interviewer has on the interviewee (Ibid.). Bryman and Bell (2011) further argue that telephone interviews may be suitable since they can cause an interviewee to feel more comfortable when the interviewer is not physically present. Therefore, we have judged the impact of having conducted interviews over telephone instead of merely in person interviews as insignificant for the results of this study.

Semi-structured interviews were one potential method of gathering qualitative data. Focus groups, observations, and surveys are examples of other methods (Bryman & Bell, 2011). Observation, which together with semi-structured interviewing is the most common qualitative research method, has several advantages compared to semi-structured interviews (Ibid.); for example, underlying factors not capable of being captured in an interview can be identified, observing behaviour gives an extra dimension to analyse, and since observation occurs in a natural environment it can increase quality of the empirical data (Ibid.). However, this study would not benefit from such advantages to a large enough extent that outweighs the positive effects of semi-structured interviews. For example, interviews can give a broader perspective on the control elements encompassed in this study, historic events can be encapsulated in an interview, and some aspects can only be discussed in an interview instead of being observed (Ibid.). The time-efficiency of semi-structured interviews as opposed to observation (Ibid.) also constructed a better fit for this thesis because more cases could be studied as a result.

3.5 Presentation of companies

The following section presents background information of the participating companies of this study. The information illustrated is related to the industry, geographical location, and other vital information to create a clear understanding of each company. Two of the companies are presented as anonymous as requested from their part, named Company X and Company Z in this thesis. The interviewee from Company X and Company Z are named Interviewee X and interviewee Z respectively. The interviewee from ArcCore is presented anonymously as interviewee Y.
3.5.1 Sensys Gatso Group AB

Sensys Gatso Group AB, hereby called Sensys, is a Swedish company developing and providing traffic safety systems, which are mainly used for speed and traffic light enforcement. Sensys generates revenue by selling these safety systems but also through service offerings on existing systems. Having recently acquired the Dutch company Gatso Beheer BV in August 2015, Sensys has strengthened its international operations as well as its product offering. Sensys operates through several partners on the Japanese market and have done so since 2013.

3.5.2 Company X

Company X is a Swedish firm that manufactures and delivers products to the aircraft industry. They are headquartered in Sweden and provide their products mainly to the Chinese market but are aiming at entering other market areas as well in the future. Company X has operated in Asia since 2014.

3.5.3 ArcCore AB

ArcCore AB is a Swedish company headquartered in Gothenburg. They focus on developing automotive software according to international standards, where a subsidiary in the form of an office was officially established at the end of 2015 in Bangalore, India. They also use a partner that addresses administrative tasks in India.

3.5.4 Company Z

Company Z is a Swedish company operating in the audiovisual (AV) industry, delivering software as well as hardware, in the form of preinstalled computers to its clients. Company Z operates on a global scale through a network of partners. In Asia they cover China, Japan, Malaysia, Indonesia, Taiwan, Hong Kong, and Thailand. They have operated in Asia longer than the other companies in this study, that is more than 20 years.
3.5.5 Configura

Configura is headquartered in Sweden, operates in the software development industry and was founded almost 30 years ago. Since five years back they established a subsidiary in Kuala Lumpur, Malaysia, by opening an office there. Additionally, they are present on the North American market through a subsidiary predating the Asian subsidiary.

3.5.6 Summary of companies and interviewees

Table 2: Summary of companies and interviewees.

<table>
<thead>
<tr>
<th>Company</th>
<th>Interviewee</th>
<th>Position at company</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sensys Gatso Group</td>
<td>Johan Frilund</td>
<td>EVP Corporate Development</td>
<td>60 minutes</td>
</tr>
<tr>
<td>Company X</td>
<td>Interviewee X</td>
<td>Upper manager</td>
<td>30 minutes</td>
</tr>
<tr>
<td>ArcCore AB</td>
<td>Interviewee Y</td>
<td>Y</td>
<td>45 minutes</td>
</tr>
<tr>
<td>Company Z</td>
<td>Interviewee Z</td>
<td>COO</td>
<td>40 minutes</td>
</tr>
<tr>
<td>Configura</td>
<td>Cecilia Angbratt</td>
<td>COO</td>
<td>50 minutes</td>
</tr>
</tbody>
</table>

3.6 Secondary data

To increase the quality of our study, we have in addition to the primary data investigated and researched secondary sources as well. As a result, the two types of data complement each other and verify or contradict knowledge gathered from respective type of data (Jacobsen, 2002). The main secondary data sources used in this study are companies’ yearly reports as a means to more thoroughly understand each company, both in preparation for an interview and to verify or add to e.g. strategic discussions taken place in each interview. The annual reports provide an unbiased understanding of the company that is researched in a case study (Bryman & Bell, 2011).

3.6.1 Critique on secondary data

Scott (1990) identifies four central criteria that determine whether the studied documents are of high quality; **Authenticity, Credibility, Representativeness, and Meaning**. Such criteria question factors such as the origin of a document, if they truthfully represent what they describe, and whether the documents are accurate (Ibid.). In our research the only documents used are annual reports, which we, dissimilarly from e.g. a diary, assume accurately and justly represents the company in question. Falsification or inaccurate representations of data and numbers in such
documents can have large impact on a company such as decreased shareholder trust or legal
prosecutions; which is the reason why we assumed them as accurate.

3.7 Analysing the data
Auerbach and Silverstein (2003) describe a major issue experienced by many students who write
a thesis for the first time. Analysing the data is perceived as a large obstacle where not knowing
where to start hinders many students from initiating the analysis (Ibid.). Therefore, Auerbach
and Silverstein (2003) state that each analysis can be conducted differently and that there is not
one correct way of analysing gathered data. In turn, a method to structure the gathered data to
facilitate a good analysis is through coding the data (Ibid.). Bryman and Bell (2011) agree that
coding is essential when handling interview material, where categorising topics and central
elements facilitates the ability to generate new theoretical standpoints. Subsequently, we
identified and categorised three main areas that were prevalent in each case; the company's type
of presence in Asia, challenges that they met specifically addressed to the Asian market, and what
management control elements the company had in place in Asia. In addition, unifying terms
between the various interviews were identified to spot and highlight general central elements to
conducting business in Asia. This facilitated and improved the quality of the analytical process
of our thesis.

3.8 Quality of research
In order to ensure high quality of research, this paper is conducted according to reliability,
validity and transferability principles standardised in social science studies (Bryman & Bell,
2011).

3.8.1 Reliability
From a qualitative research point of view, Flick (2009) argues for the importance of reliability
and addresses the issue of relying on data that is collected through e.g. interviews. When a study
includes data gathering at different occasions, especially where they are not conducted by the
same interviewer or observer, Flick (2009) raises the importance of standardising notes to
facilitate a reliable base for the research to lie on. Therefore, the interviews in this study are
recorded, with consent of the interviewee, as not to disrupt the reliability of results and to
increase comparability concerning collected data. Since all interviewees agreed on recording the
interview, a standardised note structure was unnecessary. To further increase the reliability of gathered data, the interviews were conducted close to each other in terms of time, so that we as researchers have similar level of knowledge about the subject during all interviews; the interviews were all conducted after a thorough literature review of the management control field.

3.8.2 Validity

"The question of validity can be summarized as a question of whether the researchers see what they think they see" (Flick, 2009; 387).

Flick (2009; 387) lists three types of situations where potential errors may arise:

1. Finding e.g. relations and drawing conclusions from them although they are faulty.
2. Denying correct relations or conclusions.
3. Not asking the correct questions.

One main issue that arises when conducting qualitative research concerning validity regards the interpretations made by the researcher. As this research is approached from a constructionist, or interpretivist point of view, we as authors were subjective to some aspects of the study (Alvesson & Sköldberg, 2009), making it near impossible to motivate the validity of the study. However, Flick (2009) raises two main points; whether the data production was performed in a valid manner; and whether a researcher’s presentation of that data and conclusions drawn from it are valid (Flick, 2009). Richards and Morse (2013) add to this, stating that validity in a study depends on whether it is designed in accordance to the research questions and type of data required to make conclusions. In relation, this study has matched the explorative research questions with a multiple case study design to encapsulate various data from suiting companies and thereby contributing to answering the questions appropriately. Additionally, the theoretical framework provides an element to this study that sets aside the subjectivity in this research and provides an objective perspective.

3.8.3 Transferability

Transferability refers to the external validity which encapsulate the question whether results can be established as a generalisation disregarding the background of the study (Bryman & Bell, 2011). External validity becomes especially relevant to quantitative research, where research samples need to represent a specific phenomenon in order to apply to other settings which are not depicted in the study (Ibid.). In qualitative research however, transferability is problematic
as results from a specific study are oftentimes specific to its particular circumstances (Bryman & Bell, 2011). Subsequently, the results of this study are not in its entirety transferable to other companies, however, they indicate what elements of management control are applicable and can be efficient for certain companies with particular characteristics.

3.9 Methodological limitations

Some limitations related to qualitative studies ought to be considered due to the nature of this study’s methodology. Firstly, opposite to quantitative research, it is impossible to draw statistically valid conclusions from qualitative data alone, as the sample size is usually limited and the results arise from interpretations in a social context (Johannessen and Tufte, 2003). Instead, qualitative studies discuss the transferability of conclusions arisen from the research, as the results can apply on other situations with similar characteristics (Ibid.). Transferability is discussed more deeply in the quality of research section above. Van de Vijver and Leung (1997) discuss the impact of cross-cultural effects to research conducted under different circumstances in various countries. Research from the United States, describing a particular phenomenon in that culture, may not be generalizable to other cultures, and vice versa (Ibid.).

3.10 Ethical considerations

Bryman and Bell (2011; 128-137) map four ethical issues which this thesis takes into consideration; harm to participants, lack of informed consent, invasion of privacy, and, deception. Harm to participants refers to the risk of e.g. potentially jeopardizing the possibility of further career development of interviewees or inducing stress (Ibid.). To minimize the risk of harming interviewees, there should be a discussion whether or not the gathered information and the name of the interviewee should be kept confidential (Ibid.), which we have let the interviewee decide. Lack of informed consent is the second principle stating that research participants must be given as much information as possible about the study and the research process in order to decide whether or not he or she agrees on participating in the study. Before an interview, researchers must therefore state what research equipment is used, such as recording equipment (Ibid.), which we have done. Invasion of privacy is the risk of intruding on the interviewee’s personal space (Ibid.). Bryman and Bell (2011) point out that it is challenging to know what questions could be sensitive to the interviewee before conducting the interview. The interviewer thus needs to prepare for such a possibility and adapt his or her questions accordingly (Ibid.), which was prepared for during the interviews as interviewees had the possibility of not answering
our questions. *Deception* is the fourth ethical issue which refers to presenting a research study as something else than what the study originally is intended to be (Ibid.). This type of ethical issue is often hard to handle as researchers in some cases need to limit an interviewee’s and participant’s knowledge of what the research is trying to assess in order to gather unbiased data (Ibid.). This ethical issue does not apply to our study, since the aim with our study does not impact the potential answers given by the company representatives during the study’s interviews. Jacobsen (2002) states that the ethical dilemma of research predominantly regards the deceptive manner of conducting research, as people subject to e.g. observation act differently compared to when they are not. In our research we decided to inform participants of the correct research scope and questions as we evaluated the downsides of concealing that information to outweigh its prospective benefits.
4. Empirical Findings

In this section, there is a description of each company's presence in Asia as to facilitate comparison. Thereafter, challenges of operating in Asia are described for each company to highlight potential hinders and problems which need to be overcome. Thirdly and finally, implemented management control elements are identified.

4.1 Sensys Gatso Group AB

4.1.1 Type of presence in Asia

Sensys Gatso Group AB operates through partners on the Japanese market as well as through a local sales office consisting of one employee. Focusing on the partnerships, in order to initiate cooperation with a suitable partner, Sensys firstly establishes contact with a potential end customer to identify their needs. After having established a relationship with the end customer, Sensys investigates which potential local partners that the end customer would see itself cooperate with. A partner is thus chosen based on the end customer's criteria.

If the end customer does not have any preferences concerning the profile of a partner, Sensys then assesses the most critical characteristics that a partner must possess to reach Sensys' objectives, i.e. financial strength, the ability to reach out effectively to potential customers, and technical competencies. As the needs of Sensys greatly vary depending on the market, the company does not enter in exclusive contracts with one single partner in Japan, but rather with several partners where each one possesses demanded competencies, who at a later stage in the selling process complement each other combining customer contact with the knowledge in installing traffic security systems.

"We tend to work with a high concentration of partners rather than on exclusive basis, as we try to identify those that are good at what we need." (Frilund, 2016).

As of 2014, before the acquisition of Gatso, Sensys Traffic AB was present in Europe, in North and South America, in the Middle-East, as well as in China and Japan. Sensys operates on the Japanese market through local partnerships with two Japanese firms, assisting Sensys in reaching out to Japan’s 47 different police prefectures. By having developed a strategic local partnership, Sensys has managed to get its products approved by the Japanese National Police Agency, and was the first foreign company to get such an approval.
Sensys decided to enter the Japanese market after having closely evaluated the domestic competition from Japanese providers. As the number of competitors had decreased from four to one during the past twenty years and as most of the solutions provided by Japanese companies were seen as outdated or obsolete, Sensys identified an opportunity to take advantage of favourable market conditions in Japan. Sensys had pertinent contacts at the time of market entry, which assisted them to rapidly access important decisions makers. The Japanese market entry decision was therefore based on a favourable competitive landscape and on the accessibility to decisions makers. Since firstly entering the market in 2013, Sensys has in excess of the partner relationship employed a local sales person in Japan as well as colleague who has lived in Sweden and is familiar with both Sweden and Europe.

4.1.2 Challenges in Asia

Sensys has since their entrance in the Asian market faced several challenges and obstacles to overcome in order to successfully conduct business there. In Japan, the hierarchical structure of firms, governments, and ministries proves difficult to penetrate as to enable sales. Therefore, the channel of reaching top representatives at the targeted organisations is vital in order for a foreign company to reach success in Japan.

“[...] we established contact as we had good channels who took us quite high up in the Japanese hierarchy rather quickly which also is unusual and difficult to get. It was a combination of having access and that there was a need [for the product]” (Frilund, 2016).

Although entering the Japanese market is difficult, the Swedish image is valued highly as they share certain elements of company culture, where both Swedish and Japanese businesses have a longsighted time horizon in terms of conducting business, although the Japanese is longer than the Swedish time horizon. The Swedish brand then proves as a treasured asset for Sensys when operating in Japan, exemplified in the following statement:

“Then the Japanese who we work with said that ‘there is no embassy in Japan that can allure as many people as the Swedish embassy’. Sweden has an extremely good reputation in Japan. It is important, in Japan long term relationships are highly valued.” (Frilund, 2016).

There is a cultural difference between Sweden and Japan that poses a challenge as Japanese companies and their representatives typically do not question the product requirements presented by customers; in Japan suppliers tend to accept the requirements and apply them to
the product instead of discussing the underlying need and possibly presenting a different, more viable and effective solution. Sensys found that this was different compared to Swedish way of conducting business and has therefore attempted to implement the Swedish way of thinking to their sales person in Japan as well as their partners. Following is an example of the issue:

“At the start we received a technical detail that exemplifies this, where they said that ‘you have to use an infrared flash’ [...] And we received examples of pictures, which turned out to be in red spectrum, with red spectrum flash, so a visible flash [...] when we illustrated this [to the customer] our [normal] visible flash was no problem and we could demonstrate how much better the photos turned out [...] when the police said ‘an infrared flash is what is required because we have this today’ nobody questioned why this requirement appeared.” (Frilund, 2016).

The difference between customers in Sweden and Japan is significant. The Swedish customer base consists of one large national customer who orders seldom but in large amounts, while Japan has 47 various prefectures where each respective police force is responsible for the traffic safety in their prefecture. Each prefecture plans its own budget, which is reviewed every year and thereupon greatly increases the number of potential selling points for Sensys.

From an earlier experience, after Sensys established business in the Middle East in 2001, they encountered an issue with their partner who did not act in accordance with the interests of Sensys. There was no well-established control mechanism in place to follow-up and examine whether the partner acted correctly. As a result, when the end customer stopped ordering from Sensys, they investigated the matter more closely and found out that the relationship between their partner and end customer was so poor that the customer stated they refused to buy Sensys’ products as long as Sensys continued their relationship with that particular partner. Consequently, Sensys incorporated the current policy dictating that each partner of the company is evaluated through contact with the end customer. The poor relationship is difficult to detect when contact is only focused on the partner; when instead the end customer is involved, the truth comes forth more quickly. Sensys implemented the new policy before entering the Japanese market and may therefore have avoided the same issues that challenged them in the Middle East.
4.1.3 Management control elements in place

The Sensys headquarters has implemented a centralised CRM system which allows the management team of the company to follow their sales processes. Sensys Gatso Group is also currently implementing a common incentive system for its two newly merged companies, which is still in its development phase.

Sensys has changed the way it controls its partners by continuously checking how the selling process is evolving from an end customer perspective. Sensys has previously encountered problems when giving a distributor too much mandate to communicate with end customers, which resulted in poorly designed products not suited for the end customer's actual needs, and thus sharply decreasing sales. Since the company struggled in distinguishing partners from customers, the CRM system was further improved to shift the selling organisation's focus from the partner's to the end customer's perspective, to more effectively assess the specific need of each customer.

"We have rearranged the sales organisation to work towards end customers and to further work on the analysis of their needs." (Frilund, 2016).

From a decision making perspective, the local employee in Japan has little authority and is required to follow the CRM system described above. This is for several reasons, firstly, since the Japanese business is still in its pilot phase, implying that Sensys wants to have close control and insight in operations. Secondly, as the Japanese co-worker has not yet adapted to desired extent of conducting business in a Swedish manner, e.g. by questioning customer requirements, authorising him to make important decisions can have major negative effects to the company. Thirdly, the importance of decisions is very high today as product adjustments to a new market need to be made, meaning that Sensys does not desire to delegate the carried decision authority too far down in the organisation.

"We decide a lot centrally [...] the decisions are too big to be that far down [in the organisation] at this time" (Frilund, 2016).

In addition to Sensys' operations in Japan and the Middle East, subsidiaries are owned in both the US and Australia. At those locations decision authority is delegated to local managers who are responsible for reaching goals in terms of financial results, evaluated on both a profit and loss statement and a balance sheet, set by the Swedish headquarters. The main reason for the distinction between the geographical locations is not the location itself but rather the type of operations conducted at each location; the US and Australian divisions act as service centres and therefore act independently.
Throughout the organisation, English is set as the corporate language spoken. However, the local employee in Japan interacts in Japanese with the end customer and partners in Japan. Thereby, there are elements where information gaps may occur, and to mitigate any respective risks involved, Sensys takes help from their Japanese employee located in the Netherlands who translates and aids the company when Japanese is communicated verbally or written.

4.2 Company X
4.2.1 Type of presence in Asia
Company X is active in the aircraft industry and delivers its products to two Chinese customers through two Chinese partners, each collaborating with one customer. The reason why Company X considered entering the Chinese market was mainly due to its powerful network of contacts within the top management of its two customers, making it easier to close a deal with Chinese companies of considerable size.

Company X operates through an agent for one of its customers while having another company that is present in both China and Sweden, controlled by a board member of Company X, that facilitates their business with the company's second customer. The choice of operating through a partner was quite straightforward, since Company X could use the partner's network to find suitable business partners which already had business relations with Company X's current customers. Company X can therefore leverage this market channel to effectively access its two customers.

The distributors work independently to find new potential business opportunities for Company X. Aside from delivering products to current customers, distributors are free to market Company X by actively participating in several aircraft fairs.

4.2.2 Challenges in Asia
To communicate with its partner, Company X both engages with one of the partner's personnel present in Sweden while at the same time coordinating the cooperation with the partner's personnel in China. Communicating with the partner through two channels can at times become challenging according to the interviewee of Company X. The partner has exclusive communication rights with the end customer, which means that Company X do not have extensive insights on how their partner operates in China. It is up to the board member operating the partner company to make sure that the partner acts in the interest of Company X.
"It is a privilege of being a partner, as they do not need to be wholly transparent." Interviewee X (2016).

The interviewee states that it has been crucial for Company X to have strong connections through its locally employed board member. The interviewee further asserts that it would have been nearly impossible to be able to initiate a dialogue with large Chinese corporations without having a contact who could influence the decision making process in favour of Company X. Having locally employed people from China has also been seen as a way to overcome cultural deadlocks.

4.2.3 Management control elements in place

The partners independently manage the customer relationships of Company X, where company X only enters discussions with customers during later stages of the selling process. This is to make sure that technical specification requirements of customers are reasonable for Company X to meet, in order to avoid selling products which cannot be manufactured.

"We are involved in the dialogue [concerning technical requirements], so we don’t sell products we absolutely don’t have." (Interviewee X, 2016).

To ensure that the partners act accordingly to Company X's objectives, there is according to the interviewee a continuous dialogue between Company X and its partners. The different stakeholders communicate through telephone, email, and physical meetings.

Company X has also implemented an incentive system based on sales. A percentage of the total amount of each sale is paid out as a salary, inciting partners to increase sales. Budgets are currently not widely used, but one of the partners has entered a deal with one of the Chinese customers to deliver a certain number of products within a set time frame, acting as a budget.

4.3 ArcCore AB

4.3.1 Type of presence in Asia

The Asian region encapsulates several of the worlds’ most prominent vehicle construction clusters, consisting of China, Korea, Japan and India, which is why ArcCore established a subsidiary in Bangalore, India. Their global presence required them to establish a new office in this cluster to enable close relationships with customers. Despite delivering its solutions to several countries in Asia, several parameters determined the establishment of ArcCore in Bangalore.
Interviewee Y (2016) noticed that the competencies of engineers within the field of software development is relatively high in India compared to other regions; English is widely used in the industry and Indian companies often have a proven track record of doing business overseas, i.e. managing customer relations and cooperating with business units in Europe and in the US. Most of ArcCore’s customers are also present in Bangalore and require ArcCore to be close at hand to assist their software development organisations. ArcCore had previously employed Indian co-workers in Sweden before considering to invest in India, which made the establishment in Bangalore easier as the company has people with local knowledge ready to apply their experience of the Indian market.

Today the subsidiary is led by a manager located in Sweden who is part of the top management team. The manager leads two locally employed persons in India, as well as a cooperation with an Indian IT solutions provider totalling the entire employee count at the subsidiary to six.

4.3.2 Challenges in Asia

The company has faced few issues during both the implementation and operations in India. They have not met challenges that differ from establishing a business unit at a European counterpart. One main reason for the lack of encountered issues in both India and Europe is according to ArcCore because employees who were appointed to erect and maintain the ArcCore business in those areas were knowledgeable of these respective markets already. Subsequently, potential cultural issues were minimized due to the understanding and experience of both Swedish and local cultures. The way of conducting business and ArcCore’s core values were thus implemented early on in the abroad establishment, reducing potential friction that could arise due to cultural mismatches during daily operations.

Another reason why no major setbacks or challenges were met is because ArcCore has experienced that the Indian way of doing business does not differ significantly compared to that of Europe or North America. It is rather the software engineering industry that sets the challenges met today, which is not limited to the business environment of India but rather acts on a global scale. Neither has ArcCore faced major challenges in regards to language barriers as the official company language is English; in Sweden, English is the used language as well since a large part of the employees are not fluent in Swedish, being from other countries.
4.3.3 Management control elements in place

To ensure that employees in Bangalore act according to the organisational values of the company, one method put in place is individual follow-up discussions with each employee which take place at least once every year, depending on several factors. Elements influencing the follow-up frequency are e.g. the targeted personal development pace of an employee, the regularity that provided tools to facilitate this development must be updated, and external circumstances such as parenthood. Each follow-up enables ArcCore to verify the organisational fit for individual employees. However, the management team does not see the follow-ups as merely a control mechanism, rather it is used to encourage each employee’s personal development which in turn has positive effects on the company as a whole.

"For us it is not primarily a question about control but for us it is a question about facilitating development.” (Interviewee Y, 2016).

Once a year, in combination with the follow-up discussions, a review of salary raise is conducted based on the employee’s performance. However, other forms of monetary incentives are not provided on a regular or structured basis where clear guidelines would direct the incentives one receives. Incentives can be provided if for example a team works substantial overtime to complete a project and perform well, where the compensation and incentives can be provided through e.g. extra vacation days. On the other hand, while monetary incentives are not used to a large extent, the ability to work with exciting and interesting developments in technology as ArcCore does, proves as a very strong motivational factor for their employees.

" [...] interesting new technology can be at least as valuable as getting some extra money at the end of the month.” (Interviewee Y, 2016).

Due to the fast pace of development in the software industry, other forms of incentives that move away from monetary rewards also motivate employees. Making a career in the industry shows to be important for several employees according to Interviewee Y (2016). Although a steep career path can directly link to a steep pay check increase, it does not necessarily coincide. That said, providing a career path opportunity is of great value to many employees aiming to develop themselves, which is facilitated through the follow-up discussions highlighted earlier.

ArcCore highlights that the incentive layout in this manner does not differ or vary between Sweden and their foreign counterparts, including India. One reason is because they experienced that many Indian employees have similar cultural priorities as European and North American employees since the Indian workforce within software development works closely with, and have oftentimes worked at, companies in the Western world. Experiences and values learnt and
embraced abroad are subsequently transferred to their local and home environment, where other employees tend to adopt similar mind-sets. As mentioned above, ArcCore finds the opportunity to work with exciting technological advancements as a global trend within the software industry, which is prevalent in India as well. Another reason to why the company does not use personal incentive systems is due to the fact that such systems require significant resources to operate and the company’s belief that they do not necessarily benefit the company as a whole. Since a majority of the work at ArcCore is project based where each project is completed in teams, individual performance measures may hamper the success of the group and project.

ArcCore has projects that originate from the top within their organisation, where a project leader may be located at the Swedish headquarter, while sub-parts of a project are delegated to each business unit; the Indian office acts as one of these business units. Each business unit operates autonomously to a certain extent, where decisions appropriate for e.g. the level of detail concerning the decision are delegated to a specific level in the company. Major decisions related to changing elements of a service offering usually require negotiations with the customer and are handled centrally from the Swedish headquarters. Subsequently, this means that delegation is done where ArcCore finds it appropriate and at a level where each unit can apply their specialised business and technological knowledge. Geographically this means that local units which e.g. possess more knowledge about certain aspects are given the authority to make decisions regarding associated details. To ensure that progress at the detailed level are implemented correctly, where oftentimes it revolves engineers who produce new software, there are processes in place to minimize issues that could arise in relation to the developments. One process involves always having at least four eyes on new implementations enabling the company to identify faults and problems early on, reducing their vulnerability to an individual employee’s mistakes. Important to note is that this process does not differ amongst their geographical business units.

Exploring the autonomous operations in India more deeply, the subsidiary works as a unit responsible and accountable for its own profit and loss and balance sheet statements. However, although the Indian division is autonomous and responsible for their own finances and how these are handled, the head of their Indian subsidiary is physically located at the Swedish headquarters, which consequently results in the fact that the management team has good insight in the Indian business operations. This is not an intended action from ArcCore’s perspective but is rather the result of a development concerning how the Indian business was erected and random external circumstances. Some aspects of the Indian subsidiary are handled externally, where for example accounting procedures and the salary of employees in India are managed by a partner of ArcCore. Choosing this partner involved no strict processes and no strict measures in terms of comparing and evaluating potential partners. This was not needed as ArcCore had an
already established relationship with a trusted partner who could provide the services they required. To this day that partnership has worked very well and in terms of quality corresponds to similar activities conducted in Sweden, and outperforms similar partnerships at other international locations.

4.4 Company Z

4.4.1 Type of presence in Asia

Company Z operates on a global scale due to the niched products and offerings that the company is currently selling. Interviewee Z (2016) asserts that being a regional player is nearly impossible as the demand would not be high enough to sustain further activity. The Asian market represents approximately one third of Company Z’s sales. The Middle East, encapsulating Abu Dhabi and Dubai, China, Japan and Southeast Asia, comprising of Malaysia, Indonesia, Taiwan, Hong Kong and Thailand, are four regions and markets that represent an important share of Company Z’s sales in the Asian region.

Company Z manages its Asian selling activities through a network of national partners that both provide the market with Company Z’s offerings and with the installation of its products:

"We have a network of around 20 [partners] around the world who are completely independent, we do not have any ownership [in the partner companies], they [the partners] sell and support our products locally."

(Interviewee Z, 2016).

4.4.2 Challenges in Asia

The major challenges faced by Company Z on the Asian market are related to communication, where language barriers and communication channels are main issues. This is especially true in China as their partner there is large and does not adapt to the communication channels provided by Company Z; neither do they demonstrate strong English skills. In terms of communication channels, Company Z provides a forum for their partners to communicate through, but the Chinese partner does not utilize this. Another challenge regards other communication channels where the Chinese company prefers to use other software equivalents to well-established programs in Europe and North America, such as Skype. As a result, this leads to a problem where Company Z does not always know where their product ends up, as a lack of information flow to the headquarters in Sweden occurs. This leads to difficult and time consuming processes where
similar progress is made more rapidly at other geographical locations with different partners. Outside of China, there have been difficulties with successfully establishing business in Japan. Japan proves to have communication issues as well in terms of language and reaching the right people. The partner company in Japan provides a translator who facilitates interaction between the two companies. Interviewee Z (2016) notes the following:

"We sell in Japan as well and have done for a long time, where you could have thought that our products should work better than they do, but we have a partner and do an exhibition every year, so we have representation there too." (Interviewee Z, 2016).

The final major challenge encountered in Asia is that their partner who handles the South-eastern region of Asia, i.e. Malaysia, Thailand, Taiwan, Indonesia, and Hong Kong, is quite small in comparison to the scattered geographical circumstances of the region. Company Z has experienced that each country within the region differs from each other, making it difficult for the partner to cover all markets sufficiently at the same time. However, that partnership has lasted for a long period of time and considering the circumstances it works well and has been beneficial for Company Z.

4.4.3 Management control elements in place

Participating at corporate fairs and exhibitions is Company Z's main marketing channel as the company needs to be able to demonstrate their products' effectiveness in a live context in order to attract customers. Locally employed people from the Swedish office design the showcase of Company Z and assist partners during such marketing events with technical support as well as with sales efforts. Interviewee Z (2016) stated that Company Z participates in 20 to 25 fairs a year. It is the partner's responsibility to scan the market for potentially interesting fairs, which are then validated by Company Z at the office in Sweden.

Company Z assigns a marketing budget to each partner, where each respective partner is responsible and accountable for meeting the established budget requirements. In addition to this budget, a specific budget for every fair participation is set locally by Company Z in Sweden, taking into account predicted sales figures. The budgets do not encompass any bonus system or incentives related to them. Interviewee Z (2016) highlights that Company Z has fixed prices on their products and services purchased by the partners, and found that this is appreciated by the customer since they can easily calculate costs related to implementing the Company Z product into their own, complete, end product. Company Z's products thereby act as components for
partners’ comprehensive end products. Interviewee Z (2016) further focuses on the short-sightedness that can arise when bonus systems are put in place, since this for example can boost sales immensely at the end of the year, while consequently January and February face negative sale developments.

Before choosing a partner for Company Z, there are several criteria that the company follows to ensure a fruitful partnership. Important criteria when choosing a suitable partner is the partner’s experience in the audio-visual industry, the scope of each potential partner’s network combined with a viable business plan. Each partner participates in internally held workshops as to understand the technicalities of Company Z’s solutions in order to successfully roll out the products to respective markets.

To further ensure that a partner works in the interest of Company Z, legal agreements are designed. Such an agreement in itself does on the other hand not guarantee that a partner acts in the interest of Company Z, and therefore other policy documents are provided to partners where the vision of Company Z, their image, and how they conduct business are described. These softer ways of controlling partners complement the legal agreements and Interviewee Z (2016) states that constant contact with the partner is part of the softer controlling element as well, as a majority of the control is practiced through communication. Although Company Z does not take one year of poor sales harshly, there are circumstances where the legal agreement must be enforced.

”[...] if we see that a partner completely goes against our way of doing business or disregards our way of profiling ourselves, then we can terminate the entire agreement.” (Interviewee Z, 2016).

When business relations with a partner have proceeded for a substantial period of time, trust is a control mechanism that comes into play. An example of such a relationship is that of the Southeast Asian partner. However, the same control mechanisms are aimed at this partner as towards other partners; meaning that Company Z also controls their work by participating at exhibitions arranged by the partner.

Company Z mainly communicates with its partners through a developed partner forum where partners can reach out to Company Z or to discuss different aspects of the business development on respective markets. Despite the forum being one of the most important communication channels, Company Z do follow up with their partners using traditional communication methods such as phone calls, email and Skype. Interviewee Z (2016) states that there is a continuous communication between Company Z and its partners as a way of putting some kind of pressure on the partners, making sure that they actively process potential customer leads. Relating to the
problems encountered with the Chinese partner in terms of the language barrier, Company Z has a local in-house developer who is from China and can facilitate communication between the two entities. This communication typically revolves communication of a technical nature where e.g. product specific details are discussed. In regards to Japan on the other hand, this in-house capability is not possessed by Company Z.

Due to the large number of partners and end customers, Company Z do not establish contact with end customers, with the exception of larger projects. During those kinds of projects, Company Z wants to show its support to the responsible partner, assisting with sales efforts. As the scope of projects greatly vary in terms of sales, Interviewee Z (2016) states that Company Z in Sweden does not have the opportunity of finalising each sale with their end customer, i.e. being present when a deal is concluded.

4.5 Configura

4.5.1 Type of presence in Asia

Configura operates through a subsidiary in Malaysia since five years back, where the subsidiary acts as an office and consists of 25 employees. The choice of entering the Asian market was based on the previous successful market entry in the USA by erecting a subsidiary in Michigan. Expanding to Asia became a natural next step in the internationalisation strategy of Configura, as one of the company's part-owners had proven experience of doing business in Asia. Specifically, he has experience from the Malaysian region including Singapore, and is currently Configura's office manager in Malaysia. Another important aspect of establishing a subsidiary in Malaysia was the fact that the country is well developed with a talent pool of people with great English skills.

The establishment of an office in Malaysia started as a service centre, assisting the company's different divisions in developing their activities. This is still the case, but Configura has partially implemented changes and aims to develop a local client base where in the future their Malaysian subsidiary can account for their own results.

4.5.2 Challenges in Asia

The interviewee states that the encountered challenges in the region have so far been controllable. Due to the expansion to both the Americas and Asia, one problem that has arisen is the subsidiaries' view on their own office and operations where they see themselves as a small
company, rather than seeing themselves being part of the Configura group. Despite expanding on a global scale, the interviewee stresses the importance of understanding each regions challenges and opportunities in order to succeed as a business.

"[...] on the other hand they [the subsidiaries] see themselves as small companies, ‘we are a small company’, whereas we [the headquarter] feel that we are a large or medium-sized company." (Angbratt, 2016).

Configura aims to implement its Nordic corporate culture, characterised by a flat hierarchical structure, throughout its subsidiaries. The interviewee asserts that having Swedish employees developing the subsidiaries abroad under long periods of time is a great asset. However, during such a long period of time that the Swedish employee is abroad, their perception of the Configura and Swedish business culture can slightly shift. Although having Swedish personnel at an abroad subsidiary is a great advantage, the growth of Configura in Sweden impacts the central company environment which may not be reflected by the Swedish employees in Asia; this is not exclusive for Asia but also applies to Configura’s North American subsidiary and can be seen as a general challenge for a company with multiple international subsidiaries. This is not a major issue since the underlying values of Configura’s and the Swedish business culture still persist.

Despite Malaysia being an economy influenced by the English language, the interviewee stated that there have been minor challenges in fully understanding the accent of the locally employed people at the Malaysia office. The issue can on the other hand be resolved by immersing oneself in the Malaysian culture. Another challenge that Angbratt (2016) describes from establishing a subsidiary in Malaysia concerned the recruitment of local personnel, as they found the Malaysian education system to differ from e.g. the Swedish. Learning the new system therefore resulted in Configura having to spend a lot of time in order to find the right people for their company. Finally, Configura are used to providing high levels of responsibility to their employees, which differs from the Malaysian culture as junior employees there typically work on single tasks instead of taking on larger responsibilities. Angbratt (2016) states that this challenge has been mitigated over time as a larger amount of experienced employees familiar to handling larger responsibilities work at the subsidiary.

4.5.3 Management control elements in place

The majority of Configura’s customers are handled through projects lead by the Swedish headquarter and North American subsidiary. The subsidiary in Malaysia subsequently acts as support and does not yet own large enough projects or customer portfolios to independently take
responsibility to account for their own profit and loss statements. Most of the income generated from the Malaysian business is connected to customer accounts at the Swedish headquarter and North American subsidiary, and therefore the headquarter provides financial support to the Malaysian subsidiary to cover their costs. Today, Configura aims to develop the Malaysian unit to be self-sufficient in the future and handle large customer accounts by themselves. The US-based subsidiary has due to its longer presence opened, and currently owns, several major customer accounts. However, the major decisions are monitored and decided centrally with the help of an enterprise resource planning (ERP) system which is project based. Thereby the Swedish parent company has good insight in company developments and ongoing projects in both Asia and the USA, where the parent company applies cost control.

"[The ERP system] is a great tool for us, to regularly conduct these analyses or reports and follow up and have control of billed hours, project costs and so on." (Angbratt, 2016).

Another form of control enforced by Configura is through the manager who runs the Asian subsidiary, as it is operated by one of the company's part-owners who has a high level of experience level of the Asian market. The manager is from Sweden and as part-owner he has a stake in the company, incentivising him to strive for high performance at the subsidiary. In addition to the Swedish part-owner, another sub-manager from Sweden works in Malaysia to both provide control and implement the Swedish and Configura cultures into the business operations. Apart from these two Swedish employees, all other employees are employed from the Asian region, coming from various cultural and national backgrounds such as China, India and Malaysia. This creates an opportunity for Configura to establish larger understanding of marketplaces in their surroundings. Although the company employs people from many different cultures, the corporate language is English as to facilitate a smooth flow of information.

The constant flow of information is of vital importance to Configura and Angbratt (2016) states that they "work a lot with arranging personal meetings". Firstly, the constant communication is a tool used to implement the company culture to employees working there. Although Swedish people work at both the Malaysian and US offices, the Configura way of thinking and culture at the subsidiary can fade over time. Secondly, the constant communication and information flow facilitates decision making and project evaluation and monitoring, which aligns with the company's aim to control the operations in a central manner from Sweden. Finally, the constant communication reduces gaps between the subsidiaries and the headquarter which in turn leads to the business units acting in unity. The close cooperation among business units is needed as to create maximum value for the customer.
Budgets are another central control mechanism for Configura. The company has not relied on financing through external investors since its creation 26 years ago. Budgeting then becomes one important element to take into account in order for the management to control the company’s expenditures. This is to make sure that only financially feasible projects are initiated. Budgets are therefore used on company group level as well as on account level. The larger budgets are accepted once a year and are then followed up quarterly.

"It is very important to have control over the [company's] funds. We feel that it is our way to grow, we don’t invest if we can’t pay for it, the cost control becomes extremely important as we grow and as the number of subsidiaries increases." (Angbratt, 2016).

Although Configura stresses the importance of working with budgets there is no incentive system put in place directly connected to the budgeting process. There has been an incentive system in place earlier but it was removed approximately eight years ago. That particular incentive system was not directly connected to the company budget but rather depended on set up goals. The reason for its removal was due to its inefficiency and inability to motivate employees to reach organisational success. It was no longer a good fit for the organisation according to Angbratt (2016).

As Configura has recently accelerated its global presence by hiring 20 colleagues the past year, the interviewee stressed the need of standardised processes in order to manage such an expansion in the future. The interviewee wants the company to keep its entrepreneurial spirit, which is characterised by rapid decisions and bold ambitions. By focusing on improving the company’s processes, the interviewee thinks that it would be possible to keep the entrepreneurial spirit of the company despite its growing potential.

4.6 Summary of empirical data

Among the companies both similarities and differences have come to light. The first difference addresses the various geographical locations of operation in Southeast Asia. Secondly, industry specific circumstances vary and the industries represented in this study are software development, traffic control, and aviation.

The type of presence among four out of five companies in this study have one major similarity: they operate with the help of external partners. Although they operate with partners, some differences appear through the way they approach and find partners. As an example, Sensys initially create a relationship with the end customer to subsequently ask the end customer for a
recommendation of a viable partner. This method is used to mitigate the risk of collaborating with a partner that has a poor or damaged relationship with the end customer. Company Z on the other hand evaluate partners depending on three factors: industry specific knowledge, the partner's network, and whether they have a viable business plan. ArcCore, similarly to Company X, had a prior relationship with the entity who acts as their partner today. The other type of presence encountered in this study is through a subsidiary, which was the case for three of the companies; Sensys, ArcCore, and Configura.

Overall, the management control elements and mechanisms are illustrated in the table below, together with the various companies' locations in Asia and their presence type.
Table 3: Summary of companies.

<table>
<thead>
<tr>
<th>Company</th>
<th>Presence in Asia</th>
<th>Type of presence</th>
<th>Control elements in place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sensys</td>
<td>Japan</td>
<td>Partnership</td>
<td>- End customer control</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Subsidiary</td>
<td>- CRM system</td>
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<td></td>
<td></td>
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<td>- Incentive system</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>- Specification control of product</td>
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<td></td>
<td></td>
<td></td>
<td>- Controlled centrally</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- In-house employee who speaks Japanese</td>
</tr>
<tr>
<td>Company X</td>
<td>China</td>
<td>Partnership</td>
<td>- Board member insight</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Specification control of product</td>
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<td></td>
<td></td>
<td></td>
<td>- Continuous communication</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>- Incentive system</td>
</tr>
<tr>
<td>ArcCore</td>
<td>India, with customers around Asia</td>
<td>Subsidiary Partnership</td>
<td>- Follow-up evaluations</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Exciting working environment</td>
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<td></td>
<td></td>
<td></td>
<td>- Providing career path</td>
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<td></td>
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<td></td>
<td>- Central customer negotiations</td>
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<td></td>
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<td>- Peer reviews</td>
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<td></td>
<td>- P&amp;L and Balance sheet responsibility</td>
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<tr>
<td>Company Z</td>
<td>- China - Japan - Malaysia - Indonesia - Taiwan - Hong Kong - Thailand</td>
<td>Partnership</td>
<td>- End customer control</td>
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<td></td>
<td></td>
<td></td>
<td>- Legal agreements</td>
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<td></td>
<td></td>
<td></td>
<td>- Budget responsibility</td>
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<td></td>
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<td></td>
<td>- Partnership criteria</td>
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<td></td>
<td></td>
<td></td>
<td>- Constant communication</td>
</tr>
<tr>
<td>Configura</td>
<td>Malaysia, with customers around Asia</td>
<td>Subsidiary</td>
<td>- Centralised decision making</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>- ERP system</td>
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<td></td>
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<td></td>
<td>- Budgets and cost control</td>
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<td></td>
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<td></td>
<td>- Constant communication</td>
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<tr>
<td></td>
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<td>- Standardised processes</td>
</tr>
</tbody>
</table>
5. Analysis

5.1 Type of presence

According to Fisher (1998), contingent factors significantly impact the design of a management control system put in place. Subsequently, the companies encompassed in this study require characterisation depending on situational circumstances which influence the effectiveness of implemented management control elements. Regarding various types of contingency factors, all companies in this study are categorised in the same company size group, which is SMEs according to the European Commission's (2005) standard. A major difference among the companies is their choice of using partners or establishing a subsidiary at the target market. The encompassed companies in this study show experiences and knowledge concerning cultural factors that have influenced the choice of management control mechanisms. The external environment is one of the contingent factors according to Otley (1999) and Swedish SMEs act differently and apply management control differently depending on the market in which they operate. Miles et al. (1978) also state that different types of companies react differently to various management control elements, meaning that a classification of company contingencies facilitates analysis of higher quality. Therefore, the various companies' situational circumstances are accounted for and described in this section before discussing the management control elements. As a result, a distinction between operating through partners or a subsidiary is made below as there are several differences that require to be highlighted to facilitate a fruitful analysis.

5.1.1 Partners

This study covers various business units and distribution channels that facilitate operations in Asia, where four out of the five companies operate with at least one partner at the targeted market. However, it should be noted that ArcCore's partner differs from the partners of other companies. Interviewee Y (2016) described that their partner does not focus on customer relationships, instead they handle ArcCore's accounting processes in India. Approaches by which the explored companies choose partners vary, where e.g. Sensys utilises the knowledge and preferences of end customers to identify and work with potential partners. Sensys is in this study unique in that respect since other studied companies utilised an already established relationship with a partner before entering the Asian market. Additionally, Sensys expressed their use of partners on a non-exclusive basis in Japan where the market conditions promote such possibilities, which also strengthens the company's position. The reason behind Sensys'
precautions in choosing a suitable partner is due to previous experience with a partner who withheld vital information and did not act in the interests of Sensys. At the time of their poor partner experience, the control mechanisms to avoid such a problem were not in place. Since they operated in a developing country when that problem occurred, where Lin and Yu (2002) highlight that the need for intensification of management control elements is necessary, it indicates that companies benefit from having such elements in place as not to suffer from poor business relationships.

Tian and Slocum (2014) argue that MNCs must adapt their strategy when implementing a subsidiary in China, where the business environment differs from the western world. The SMEs from this case which operate in China, i.e. Company Z and Company X, have proven that their approach to conducting business changes when aiming at the Chinese market. Although the companies do not own subsidiaries, the partners, especially in Company X's case, prove their value since they have relationships with high leaders in targeted companies; something Interviewee X (2016) stated is a must in order to sell to Chinese companies. Therefore, this indicates that SMEs in Sweden most likely need to change their strategic approach in order to establish a customer base in China, where this study indicates that partnerships are valuable in that regard. This type of change in strategy has also been viable for Sensys in Japan, as the country's corporate culture is characterised by pyramidal corporate structures. Reaching decision makers high up in the organisation is crucial in Japan according to Frilund (2016) which is why they use partners there.

A common factor then is that companies in this study operating in either China or Japan, which they describe as highly hierarchical, have all used partner relationships to reach high levels within a target customer hierarchy. Although Sensys also recently implemented a small subsidiary in Japan consisting of a sales office with one local employee, the initial market entry required a partner to reach decision makers of customer organisations. Such partnerships are required to date as well, since the sales office is incapable of carrying this responsibility alone. In the case of both Sensys and Company X, their customers are state-owned organisations and companies which also may impact the need for partnerships to reach the decision makers in such organisations. Another specific contingency factor related to their products and customers is that they are typically ordered in large quantities on few occasions, causing an uncertainty that needs to be dealt with.

Finally, Company Z acts in eight Asian countries and does so through partnerships in each case. Although Company Z produces software, they do not necessarily share the same background and market characteristics as the other software developers ArcCore and Configura. The situational circumstance for Company Z that can explain the choice of using partners instead of
implementing subsidiaries is because their product is usually used as sub-part for partners’ end products. Additionally, the spread of Company Z’s operations around the globe can also indicate that establishing a subsidiary at each location is too resource-intensive for a SME. Furthermore, Company Z needs to reduce the environmental uncertainty of relying on a single market for selling its products. By diversifying geographically, Company Z spreads out its operational risks and thus decreases market uncertainty as a whole.

5.1.2 Subsidiaries

Although there is a slight partner relationship dominance in this study, another form of identified presence is through subsidiaries owned at the targeted geographical location, where three of the five studied companies each had one office in Asia; ArcCore, Configura, and Sensys. Interviewee Y (2016), Angbratt (2016), and Frilund (2016) all described that their subsidiary enabled a means to increase the company's presence and provide closer relationships to customers located in Asia. There is a distinct difference between ArcCore and Configura on the one hand, and Sensys on the other. ArcCore and Configura only conduct business through a subsidiary in Asia while Sensys uses both a subsidiary and partners. Another contingent classification between the two groups is the technology with which they work (Fisher, 1998), where ArcCore and Configura both act in the software industry while Sensys provides industrial services for traffic safety. Additionally, Sensys operates in a market that according to Frilund (2016) is characterised by its hierarchical structure. ArcCore's and Configura's cultural circumstances differ from the Japanese market that Sensys operates in, as both Interviewee Y (2016) and Angbratt (2016) state that the Indian and Malaysian business environment respectively are similar to the western way of doing business. The hierarchical structure found in Japan is not prevalent in India or Malaysia, which can account for differences in management control components described later in the analysis. In turn, Interviewee Y (2016) stated that ArcCore does not change or adapt their management control principles between their Swedish and Indian business units. Angbratt (2016) similarly highlights that Configura's Malaysian subsidiary reports similarly to the headquarters as their other international business unit located in North America. In that case the differences mainly anchor in Malaysia’s technological advancements which are in line with Europe and Northern America.
5.2 Control elements in place

Schäffer et al. (2015) discuss the large significance of implementing a MCS in today's business environment as globalisation increases and competition is met from around the globe, where merely strong cultural controls do not suffice in terms of controlling the organisation. From the interviewed companies, each entity illustrates control elements that facilitate operations at the abroad location, however, to different degrees. Compared to early premises that management control should consist of mathematical formulas which guide how to steer an organisation (Lowe, 1971), this study indicates that softer management controls are more frequently used in today's environment for Swedish SMEs in Asia. On the other hand, neither are soft control systems prevalent in the companies studied in this thesis. Soft management control systems such as the balanced scorecard (Kaplan & Norton, 1996) and beyond budgeting (Hope & Fraser, 2003) are not present in the encompassed companies. Instead management control elements are found that can be a mix of harder type mathematical and soft controls. Six major control elements are identified in this study, based on the focus of interviewees and the data gathered from their companies’ control elements in place. The elements are analysed below and consist of control tightness, communication, budgeting, incentive systems, cultural controls, and end customer controls.

Partners and subsidiaries are presented separately in the previous section to highlight the differences between them. However, since several management control elements are similar among the two types of market presence they are not separately presented below to minimize repetitiveness. Additionally, presenting them together facilitates comparison between subsidiaries and partners.

5.2.1 Control tightness

There is according to Simons (1994) a difference in the tightness of controls depending on a firm's strategy. As every company which has been interviewed in the scope of this thesis seek to grow by accessing the Asian market, one could argue that these companies would use interactive control (Simons, 1994) to a great extent as they all operate in a more or less uncertain environment from a market perspective; running business operations in China, Japan, India, Malaysia, or other Asian economies from Sweden. It is important to stress that even though a company is present on a foreign market, it does not entail that this type of environment is of completely uncertain nature. Sensys, ArcCore, Configura and Company X do mitigate the uncertainty of being present on a foreign market by employing business partners who possess a track record of having done business in the Asian region in the past, who also have a deep
understanding of how Swedish companies operate. There are both diagnostic and interactive 
control components put in place by some of the companies, as the environment they operate in is not completely uncertain. For example, yearly budgets are implemented by Company Z 
towards partners indicating diagnostic controls, while Configura checks budgets quarterly demonstrating interactive controls since they have larger continual influence on daily operations.

Regarding decision authority at subsidiary offices, neither of the subsidiary offices of ArcCore or Configura have decision authority towards the company's customer base. Instead, major decisions are made by the headquarters in Sweden, where e.g. customer negotiations are handled centrally. The above classifies as exercising tight control on business units (Macintosh, 1994). On the other hand, both companies delegate several aspects of the operations to the subsidiary in Asia, where for example ArcCore expressed their aim to delegate tasks and operations to places where the correct detailed knowledge can be applied. Thereby, decisions made at the specific knowledge areas are highly accurate and can correctly address the issue at hand. Subsequently this means that looser control tightness (Ibid.) is also present when it comes to subsidiaries in Asia for Swedish SMEs. The reason for some looser aspects of control can be explained with the help of Eldridge et al. (2014) who claim that too tight controls in innovative firms can thwart innovation initiatives. The looseness of the control systems implemented by ArcCore and Configura can also partially be explained by the trust that has evolved between the headquarters and their subsidiary managers (Kuhlmeier & Knight, 2010).

Although such a loose control mechanism is in place, the fact that both companies apply control systems where work output is followed up frequently aligns with Leonidou et al.'s (2006) relationship uncertainty in multinational firms. The processing of information by both subsidiaries’ headquarters in Sweden also aligns with Theodosiou and Katsikea’s (2013) claim that this processing reduces the uncertainty between headquarter and subsidiary, as increasing control from the headquarter can decrease the uncertainty. Tang and Rowe (2012) similarly state that moderate to high closeness of the relationship between a headquarter and its subsidiary is beneficial to the company. That closeness is evident in both Sensys and Configura, where both companies’ representatives in this study express the need to implement close controls for the business to become successful.

ArcCore also uses interactive control systems when controlling its subsidiary in India as there are frequent follow-up meetings with the locally employed people to make sure that the operations are steered in the right direction. ArcCore additionally has a control mechanism in place where project progress is registered by the person who conducted it, which is thereafter monitored by a second person to minimize mistakes. Configura uses a similar method, where the
company's ERP system is project based and thereby facilitates bottom-up information flow within the company. Management can with such a system in place more easily monitor progress and status of the entire company's progress. Such systems have tendencies from Simons' (1994) definition of interactive control where frequent monitoring guides the organisation. Sensys uses a CRM system controlling the company's different sales processes, which also can be seen as an interactive control mechanism (Ibid.) as the company had struggled in the past to follow the selling process from a centralised point of view. There is also continuous communication through discussions with the company's partners and end customers to develop products which are suited for end customers' needs, which could vary depending on region. The interactive nature of Sensys management control links back to their aim to closely monitor partners' and their subsidiary's business developments. The other companies also have different types of control systems which gives them information about the selling processes on the Asian markets. Having put in place different types of CRM or ERP systems, Sensys, Company Z and Configura do efficiently access and assess information on how their partnerships and subsidiaries are performing.

5.2.2 Communication

Leonidou et al. (2002) stress the importance of developing an open communication strategy between the exporting firm and its intermediaries and stakeholders when operating on a foreign market. Uncertainties between the exporter and the intermediaries can be diminished by processing information and subsequently improving the communication between the two parties (Leonidou et al., 2006). All companies do communicate with their intermediaries through similar communication channels being predominantly through email, phone and other types of internet based communication tools.

The openness of communication takes different forms depending on the companies in the scope of the thesis. Sensys' communication strategy is based on both communicating with the partner as well as the end customer to reduce the uncertainty in terms of technical requirements. It is by having this type of communication strategy that the company manages to minimize the risk of partners selling products that are not fitted for the end customer's needs. Company X's communication strategy comes into play in the end of a selling process where, as in the case of Sensys, going through and exploring technical requirements becomes paramount to reduce uncertainty. ArcCore mitigates uncertainty between its subsidiary in India and their headquarter by having frequent discussions with its employees as a way of making sure that the employees do feel motivated. The company also discusses with its end customers about the company's
products offerings, which can be seen as an open attitude towards its customers in order to understand their needs and to make sure that the subsidiary in India can meet those needs. By having developed a partner forum and organising workshops with their partners, Company Z manages to communicate with its partners as to remove uncertainties about the company's product offerings and which fairs that could be interesting for the company to participate in. Finally, Configura's communication strategy is also of open character, based on frequent personnel meetings between the parent company and its subsidiary in Malaysia. This type of communication easily detects potential differences in culture between locally employed people in Malaysia and their counterparts in Sweden; differences that can then be reduced as to create unity within the company.

Language barriers have been seen as a common important issue to overcome for the interviewed companies. All the companies do implement English as their main communication language between the Swedish headquarter and their partners or subsidiaries, aggregating (Chenhall & Morris, 1986) the communication in a way that subsequently inhibits potential misunderstandings and facilitates analysis of data when needed. Some of the companies also employ people with knowledge of the local language, which increases the understanding of the business processes on Asian markets. These insights in how the different Asian economies are structured, increases the quality and thus the aggregation of communication (Ibid.) towards the Swedish companies. The successful aggregation of information has however been a challenge for Company Z, where their Chinese partners do not use traditional communication channels as well as lacking English skills. As the information which Company Z do use from its Chinese partners sometimes lack conciseness as well as being communicated through other channels than those typically used by Company Z, it can potentially affect the speed (Ibid.) at which the information reaches Company Z in Sweden.

Sensys, ArcCore and Configura employ either Swedish personnel with experience from the market on which the companies are operating, or inversely employing local personnel which has great experience of working towards the Swedish or other Western stakeholders. Company X could lack timeliness of communication (Ibid.) as they give their partners free mandate to prospect new customers, which means that the flow of information in different stages of the selling process is concentrated between the partner and the prospected customer. The potential lack of timeliness (Ibid.) is on the other hand mitigated when Company X enters in discussion with its end customers, when assessing product requirements. This also applies to Company Z, making sure that their partners attend the right fairs and assist those partners during the final stages of a selling process.
The companies having erected subsidiaries in Asia have developed communication channels in a way which makes the subsidiaries in Asia aware of the impact of decisions made in Sweden. The close interdependence between the entities show that the degree of integration of erected control elements (Chenhall & Morris, 1986) is mostly high.

5.2.3 Budgeting

Although López and Hiebl (2015) argue that SME management control differs from larger corporations, the cases from this study show similarities between SMEs and larger companies. Comparing to Hofstede’s (1978) cybernetic controls, several of the companies in this study have shown such control mechanisms in place. Ghosh and Willinger (2012) further state that budgeting becomes important when companies operate in an uncertain environment, which is also the case for most of the companies in the scope of the thesis. For example, Configura frequently follow up and evaluate budgets set for their Asian business unit, which is a process of cybernetic nature; establishing pre-set standards and making alterations according to deviations (Hofstede, 1978). Budgeting becomes an important control element for Configura, since the company only grows its business through internal funding. Company Z sets budgets towards their partners, but they do not apply methods where significant consequences come into play if a partner e.g. delivers poorly for one year. The goal is to ensure that their partners participate at the right fairs and do it well. ArcCore have implemented a profit and loss as well as a balance sheet responsibility system meaning that the detailed budget responsibility is delegated to the subsidiary. The subsidiary is responsible and accountable for the entire result of its operations, instead of single posts.

The budget varieties between the studied companies that operate through subsidiaries as opposed to partners could originate from the underlying uncertainty which relates to making an investment to open an office abroad. Angbratt (2016) and Interviewee Y (2016) both discussed how they use budget controls frequently within their organisations, aimed at the foreign subsidiary. Although Company Z and Sensys also use budgets towards their partners, they are not as comprehensive as those of ArcCore and Configura. The financial uncertainty that comes with establishing a subsidiary abroad shows to align with Ghosh and Willinger’s (2012) and Ezzamel’s (1990) claims that budgets are used more frequently in companies operating in environments with higher uncertainty. For a Swedish SME to successfully operate in Asia through a subsidiary, strong budgetary controls may be required.

The budgeting process falls under Malmi and Brown’s (2008) planning element of management control. Although planning for budgets and following up on budgets is part of daily operations
in the studied companies, the reward and compensation element originating from the Malmi and Brown (2008) framework tends not to be enforced in Swedish SMEs operating in Asia, which is discussed more deeply in the following section.

5.2.4 Incentive systems

On the contrary to Malmi and Brown's (2008) reward and compensation element, neither ArcCore nor Configura have an incentive system in place. This is a deliberate decision by both companies since they believe that such a system is too expensive and inefficient and does not develop the company in the desired direction. As a result, e.g. Configura removed their incentive system eight years ago. Although ArcCore and Configura do not find an incentive system beneficial, Sensys on the other hand is working on implementing a company-wide incentive system after the acquisition of Gatso. Integrating the two businesses and uniting them to work under similar circumstances suggests that Sensys sees a benefit with implementing an incentive system. In all above cases of an incentive system, whether removed, still running, or in a start-up process, they are not limited or specific to the region of Asia. The incentives are provided throughout the company with no noticeable alterations towards Asia. Indications from earlier research suggesting that the shift in e.g. China lead to more Chinese companies adopting western management control philosophies (O'Connor et al., 2004), which may be a reason to why Swedish SMEs do not feel the need to adapt their incentive controls to the Asian market.

Furthermore, it can be argued that SMEs may not apply management control systems to the same extent as larger companies, which aligns with López and Hiebl (2015). One of the potential underlying reasons therefore can be that the administrative structure (Malmi & Brown, 2008) may not be comprehensive enough in a SME. Such administrative costs relate to Interviewee Y's (2016) argument that implementing a reward or bonus system is too expensive due to the costs of gathering and utilising the information required to make it efficient. Although a system may not be in place, several of the companies have expressed that some incentives such as extra time off, or simply facilitating personal development are cheaper and more efficient ways of motivating employees. Interviewee Z (2016) from Company Z on the other hand expressed that they do not lay great effort in operating an incentive plan since their partners earn a percentage of the sale, meaning that an increase in sales results in higher income for the partner.
5.2.5 Cultural controls

A form of control that several of the companies stated they practice frequently and depend on are cultural controls. Cultural controls consist of underlying norms and values that influence a company’s way of doing business (Malmi & Brown, 2008). As the countries where the five companies are present in greatly vary in terms of culture, different types of controls have been implemented reflecting those disparities. The various companies differ regarding the extent to which they practice cultural controls. For example, Configura intensively work to incorporate their culture into the subsidiary through continuous communication and appointing two Swedish managers to lead the Asian subsidiary.

On the other hand, Company X implement neither company nor Swedish culture into the business partnerships. Sensys illustrate that cultural differences matter on a national scale, where they attempt to implement the Swedish way of doing business into their Japanese subsidiary and partners, which is characterised by product requirement controls. Differentiating Configura and Sensys from Company X in that respect shows that Company X attempts to solely adapt towards the Asian business environment, while Configura and Sensys additionally aim to implement their own and the Swedish culture into their business in Asia. Several reasons may cause this, where a central reason could be the fact that both Configura and Sensys have operated abroad for a long period of time. They may possess the required knowledge and find it important to implement their cultural values in the business units and partnerships they have.

Another possible reason why Configura and Sensys have decided to implement a common business culture throughout their organisation could be that these two companies have already erected other subsidiaries on other markets and want to unify these different units under common corporate culture to prevent potential diverging corporate cultures depending on the subsidiaries geographical location. Such a scenario could have a negative impact on the collaboration between subsidiaries and the parent company, since each subsidiary could then have difficulties associating itself with the company group.

5.2.6 End customer controls

Wu et al. (2007) address the issue of independent partners who do not necessarily act in the best interest of the contracting company. Instead there is an uncertainty where the partner could act in their own self-interest and in an opportunistic manner which can be harmful towards the contracting company. In that regard, Sensys and Company Z have clear guidelines where they follow-up on a partner’s work and progress through external control. In Sensys’ case this involves
controlling the partner through end customers while Company Z controls through exhibit participation. Company X does not explicitly enforce partner control and lets the partners operate autonomously without concrete control elements that are put in place. Instead, the company puts trust in their board member and the board member's relationship with the partner to facilitate a well-functioning business collaboration. However, they do enter discussions with the end customer, to make sure that they can deliver a product with specifications required by the customer. This again aligns with the findings of López and Hiebl (2015) who claim that SMEs typically use management control to a lesser extent than large corporations, as well as the finding that control types oftentimes differ from typical control elements implemented in larger companies.

The tendency among companies who have operated abroad with partners for a long period of time is monitoring partners through end-customer or end-product controls. Such control systems are not covered to a significant extent in the theoretical framework of management control in regards to SMEs. However, the frequent use of partners and their importance for reaching influential persons to sell to in Asia indicates that there is a lack of research in this regard. Although many interviewees themselves showed knowledge regarding the research aspect of e.g. incentive systems when discussing the subject, none expressed such a connection between partner control and management control research.
6. Conclusion

This study identifies management control related challenges and issues encountered by Swedish SMEs when establishing business in Asia. Current management control elements put in place by the studied companies are a means to overcome the issues and challenges a Swedish SME may face at the markets targeted by the Swedish Government in their export strategy. Two main forms of establishing a business in Asia have been met, where operating through partners and subsidiaries are encompassed in this research. For both types of presence, six major management control elements that are important to Swedish SMEs in Asia have been identified in this study; control tightness, communication, budgeting, incentive systems, cultural controls, and end customer controls.

The study shows that control tightness is an important management control aspect for Swedish SMEs, where tight control appears to develop later on in an exporting phase. Specifically regarding partner relationships, several companies have indicated difficulties in controlling such a channel. Too loose control may jeopardise the company’s success abroad, while tight control can prove difficult to implement and initially obstruct operations.

The studied companies effectively aggregate information by either using English as primary communication language or by having employees in Sweden speaking the local language of the subsidiary or the partner. The communication between Swedish headquarters and their subsidiaries prove to be of open character, thus mitigating uncertainty. Some companies also expressed the importance of creating unity within the company through their communication, which is seen as a way to steer every unit of the company towards the same goals.

By operating in uncertain environments, companies do use budgeting as an important tool to control their international expansions. The assessed companies are all of small and medium size, which puts high pressure on their financing capabilities. Since an international expansion can be costly, budgeting becomes paramount to effectively develop business activities in Asia. Indications in this study have shown that budgeting is of slightly higher importance when erecting a subsidiary compared to operating through partners, due to the important financial commitments that such a strategy entails. Budgets can on the other hand be used as a follow-up tool to ensure that partners act in the interest of the company, meaning that their importance when operating through partners should not be ignored.
Management control literature focuses heavily on *incentive systems* and their benefits. Although today’s companies oftentimes do not necessarily use monetary incentives to reward employees, several Swedish SMEs consciously restrict themselves from implementing an incentive system since it does not benefit their company. The costs are oftentimes too high compared to the positive effects it can generate. Some of the companies expressed that such a management control element impedes employees from working towards reaching the organisational goals.

Naturally, due to the various national and organisational cultures encountered in the research scope, *cultural controls* are an important aspect to take into account by the studied companies. The companies that operate in Japan and China showed challenges that arise due to the hierarchical structure present in those countries. Compared to Sweden, parts of the Asian business environment are different and require adaptation for a Swedish SME to successfully operate and implement management control elements at that location.

Due to the market uncertainty in Asian economies, some of the assessed companies verify that their partners act in the interest of the company by using *end customer controls*, which is characterised by continuously following up on the selling process of partners. This type of control helps companies to detect divergences in partners’ product offerings and they can thus proceed in correcting potential conflicts of interest. It is an efficient management control element that is viable for companies of small or medium-sized nature.
7. Future research

This study is based on the Swedish Government’s exporting strategy where eight Asian economies are encompassed. The empirical data is on the other hand based on companies mainly operating in four of these targeted economies; Japan, China, India, and Malaysia. An avenue for future research is to either study other economies in Asia or more deeply explore each individual economy as there are several prevalent differences among them.

Swedish SMEs who may have attempted to operate in Asia but failed are not taken into account in the scope of this thesis. For further understanding of the issues and to facilitate future establishments of business in Asia from a Swedish SME point of view, conducting a study addressing failures in Asia is viable as to further assess which management control elements that could be of great importance. Future research could also potentially focus on further understanding management control elements specifically associated with either foreign partner relationships or with subsidiaries in Asia.
8. References


Sensys Gatso Group AB (2016). *Year-End report 2015 [PDF]*. http://www.sensys.se/storage/cms/5135ee22e5054b589c7418a64d7ef9a8/e5e4d3efee5f4d9caf0588373e0bef/pdf/-7/Year-End%20Report%202015_Q4_eng_ok.pdf?PropertyName=EmbeddedImg_c831b3f8-4497-461c-8363-660542e327a3&ValueIndex=0


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http://www.regeringen.se/contentassets/e2b2f540107143699907cbe604a87ce2/sveriges-exportstrategi.pdf


9. Appendices

Interview guide

**Before starting**

- Presentation of authors and study
- Inform that the participation is voluntary and can be discontinued at any time
- Inform that only the researchers will have access to the material
- Ask for consent to record the interview
- Ask if there are any questions before starting

**Introductory questions**

- Could you introduce yourself and your role at the company?
- Could you introduce your company briefly?

**Company structure and strategy**

- When did you enter the Asian market?
- Why did you choose to enter the Asian market?
- Are you privately owned or listed on the stock exchange?
- What type of business relationship do you have in Asia?
  - Distributor
    - How many?
    - How do you ensure that a distributor acts according to your expectations?
  - Subsidiary
    - How many employees?
  - Other?

**Management control elements**

- What language is used at the subsidiary/distributor?
  - What language is used at the Swedish headquarter?
  - Does information need to be translated when sent to the headquarter?
- What are the main channels for sharing information?
- Have you employed local workforce or are Swedish employees offered to work in Asia?
- Do you with intent change the company structure depending on location?
  - Hierarchy, titles, other?
• Do you communicate the company goals and vision similarly in Sweden and Asia?
  o If yes, is it successful?
  o If no, why not?
• Have you been able to incorporate your organisational culture into the subsidiary, or distribution channel?
• If you have one: what do you base your incentive system on? I.e. bonuses etc.
  o Has it worked well?
  o How can it be improved?
  o Is it based on trust, hard numbers, or something else?
• To what extent are budgets used?
  o How frequently are they followed up?
  o Are they used to determine previously mentioned incentives?
• What does the decision-making process look like at the sub-unit?
• Do you actively use a management control system?
  o If yes, how do you classify it?
  o What components are the most important?

**General questions regarding operation in Asia**

• What main challenges do you see with operating in Asia?
  o How have you guided your employees to address them properly?
• Have you dealt with any bumps in the road during your time in Asia?
  o If so, how have you handled them?

**Concluding questions**

• Is there anything else you want to ask or address?
• Would you like to have the final report?
• Thank you for your participation!
"Så fick vi kontakt då för vi hade bra kanaler som tog oss rätt högt upp i den japanska hierarkin ganska fort vilket också är lite ovanligt och svårt att få. Det var en kombination av att ha access och att det fanns behov [för produkten]”.

“We established contact as we had good channels who took us quite high up in the Japanese hierarchy rather quickly which also is unusual and difficult to get. It was a combination of having access and that there was a need [for the product]”.

"Då sa Japanerna som vi jobbar med att ’det finns ingen ambassad i Japan som kan locka så mycket människor som den svenska ambassaden’. Sverige har extremt gott anseende i Japan. Det är viktigt, i Japan så värderar man ju relationer och långsiktighet i relationer.”

“Then the Japanese who we work with said that ’there is no embassy in Japan that can allure as many people as the Swedish embassy’. Sweden has an extremely good reputation in Japan. It is important, in Japan long term relationships are highly valued.”

I början så fick vi ju en teknisk detalj då som exemplifierar det här, då sa dem att ”det är såhär att ni måste använda infraröd blixt” …Och så fick vi exempel på bilder, då var det ju bilder i rödspektrum, med rödspektrumblixt, alltså synlig blixt … då när vi hade visat det så var synlig blixt inget problem och så kunde vi visa hur mycket bättre bilderna blev då … när polisen sa att ”nä en infraröd blixt måste det vara för det har vi idag” så ifrågasatte men inte ens varför det här behovet dök upp.

“At the start we received a technical detail that exemplifies this, where they said that ‘you have to use an infrared flash’ … And we received examples of pictures, which turned out to be in red spectrum, with red spectrum flash, so a visible flash … when we illustrated this [to the customer] our [normal] visible flash was no problem and we could demonstrate how much better the photos turned out … when the police said ‘an infrared flash is what is required because we have this today’ nobody questioned why this requirement appeared”
Vi bestämmer väldigt mycket centralt. Det är för stora beslut för att vara så långt ner [i organisationen] i det här läget

"We decide a lot centrally ... the decisions are too big to be that far down [in the organisation] at this time".

Vi har ställt om säljorganisationen för att jobba mot slutkunder och jobba med behovsanalys med slutkunder

"We have rearranged the sales organisation to work towards end customers and to further work on the analysis of their needs."

Då jobbar vi snarare med koncentration idag då med att undvika att ha exklusiva partners, utan vi försöker identifiera de som är bra på det vi behöver.

"We tend to work with a high concentration of partners rather than on exclusive basis, as we try to identify those that are good at what we need."

**ArcCore**

För oss är det ju inte en kontrollfråga i första hand utan för oss är det ju en fråga om att vi ska möjliggöra utveckling

"For us it is not primarily a question about control but for us it is a question about facilitating development"

"[...] intressant ny teknik vara minst lika värdefullt som att få en extra krona i lönekuvertet."

"[...] interesting new technology can be at least as valued as getting some extra money at the end of the month"
Company X

"Det är lite grann ett partnersprivilegium, att de inte behöver vara helt transparanta."

"It is a privilege of being a partner, as they do not need to be wholly transparent."

"Där är vi involverade i dialogen [gällande tekniska specifikationer], så att det inte säljs saker som vi absolut inte har."

"We are involved in the dialogue [concerning technical requirements], so we don't sell products we absolutely don't have."

Company Z

"Då har vi ett nätverk av drygt 20 stycken runt om i världen som är helt individuella, vi har liksom inget ägande i dem utan dem säljer och supportar våra produkter lokalt."

"We have a network of around 20 [partners] around the world who are completely independent, we do not have any ownership [in the partner companies], they [the partners] sell and support our products locally."

"Så säljer vi också i Japan och har gjort det länge, där hade man kanske trott att våra grejer skulle funka bättre än vad de gör, men vi har en partner och gör någon mässa varje år, så vi har representation där med."

"We sell in Japan as well and have done for a long time, where you could have thought that our products should work better than they do, but we have a partner and do an exhibition every year, so we have representation there too"

"Om vi ser att en partner helt går emot vårt sätt att göra business eller inte bryr sig om vårt sätt att profilera oss, då kan vi ju säga upp hela avtalet."

"If we see that a partner completely goes against our way of doing business or disregards our way of profiling ourselves, then we can terminate the entire agreement."
Configura


"[...] on the other hand they [the subsidiaries] see themselves as small [companies], 'we are a small company', whereas we [the headquarter] feel that we are a large or medium sized company."

"Det är jätteviktigt att ha kontroll över kassan, vi känner att det är vårt sätt att växa, vi satsar inte om inte vi själva kan betala för det och kostnadskontrollen är extremt viktig, och ännu mer ju mer vi växer, och ännu mer ju fler bolag vi har."

"It is very important to have control over the [company's] funds. We feel that it is our way to grow, we don't invest if we can't pay for it [the investment], the cost control becomes extremely important as we grow and as the number of subsidiaries increases."

"[ERP-systemet] är ett stort hjälpmedel och verktyg för oss, att man regelbundet gör dem här analyserna eller rapporterna och följer upp och har kontroll på nedlagda timmar, och på kostnader på projektet och så vidare."

"[The ERP system] is a great tool for us, to regularly conduct these analyses or reports and follow up and have control of billed hours, project costs and so on."

"vi jobbar ju mycket med personliga möten."

"we work a lot with arranging personal meetings."