

FROM A GLOBAL INTEGRATION PERSPECTIVE: ACCOUNTING PROCEDURES IN DANISH-OWNED ESTONIAN SUBSIDIARIES

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Abstract. The purpose of this paper is to shed light on the integration of accounting procedures in Danish-owned Estonian subsidiaries. The paper elicits the extent to which different global integration modes are used to integrate one business function, i.e. the accounting function, and related human resource management (HRM) practices in the accounting function. The study analyses the use of four specific integration modes: people, information, formalization, and centralization. In selected Danish-owned subsidiaries in Estonia interviews were conducted with the accounting staff, using an interview guide. The related headquarters in Denmark were addressed with questionnaires eliciting their integration mode strategies. The findings indicate a differential usage of integration modes.

Keywords: global integration, integrating modes, accounting procedures, HRM practices.

Jel classification: M16, M41, M53.

1. Introduction

Since the Soviet time, several emerging markets have experienced substantial direct foreign investments (Heliste *et al.* 2007). Along with these investments requirements arose for employment of competent staff mastering market economy, because internationalization and globalization of company activities comprise the establishment of subsidiaries abroad, most frequently with local employees (Heliste *et al.* 2007). An important control measure from the HQ will be implementation of reporting systems in the foreign subsidiaries. In the host country the manager of the subsidiary will be responsible for the economy of the subsidiary and for securing that the necessary expertise is available in the subsidiary (Gertsen 1990). Recruitment of local accounting staff will be a major area of responsibility. Local accounting employees will most frequently be educated in the host country.

Therefore, it is remarkable that within the area of international human resource management, comprehensive studies of accounting rules, accounting work procedures, accounting policies and manuals in subsidiaries are almost non-existing. According to Firth it is often observed that subsidiaries are required to adopt the parent company accounting practices, performance evaluation policies and budgetary plans (Firth 1996).

A selection of 20 Danish-owned subsidiaries in Estonia was interviewed between November 2009 and March 2012. Fifty interviews were conducted on accounting, skills of accountants and overall human resource management to CFO, chief accountants and ordinary employed persons in the subsidiary on accounting issues, relevant to Danish accountancy.

In order to contrast the views of the Estonian subsidiaries, a questionnaire survey among the Danish parent companies was conducted from autumn 2010 to spring 2012 eliciting what global integration modes are used to integrate the accounting procedures and which human resource strategies exist for the accounting staff of their subsidiaries. The survey also seeks to investigate the nature and content of the reports received from the subsidiaries. This paper will concentrate on the findings from the HQs survey.

The question addressed in this paper is to which extent the accounting department of Danish subsidiaries in Estonia is a strong functional area. From the perspective of global integration, global coordination and controlling of accountancy across borders will be important for the performance of the multinational business.

Kim *et al.* (2003) assume that “(I)n a function central to global strategic implementation, there would be an incentive to develop effective integrating modes worldwide and thus a significant impact on performance”. Therefore our assumption is also that the accounting function is central to the management in the HQ in Denmark and therefore they have an incentive to develop the integrating modes centralization-based, information-based, people-based and formalization-based (Kim *et al.* 2003; Smale *et al.* 2007).

That means that we expected that such locally variables as education background should be strong, experience should be long and professional affiliation should be strong. On the contrary, we found that in the visited subsidiaries the education background of local accountants have been weak and the professional affiliation was also weak. Experiences in accounting have been long for many of the accountants, but short or rudimentary regarding knowledge of international standards.

For instance if education background is weak locally, the integration modes cannot be developed properly.

The structure of the paper is organized as follows: The next section outlines the theoretical framework. Section 3 discusses the methodology of the study. The study uses a fully structured interview survey of the subsidiaries and a questionnaire survey of the Danish headquarters. Section 4 deals with results,

section 5 concerns conclusion, and section 6 discusses limitations and suggestions for future research.

2. Theoretical framework

Global integration may be referred to as coordination and control of business operations across borders (Cray 1984). Coordination is about developing linkages between geographically dispersed units of a function, and control deals with regulation business activities to align them with expected goals. According to Kim *et al.* (2003) previous research has examined global integration at two levels, i.e. with focus on the firm level and with focus on the function level. The study of Kim *et al.* (2003) investigated global integration at the function level. They point out that ‘global integration becomes possible only through the use of organizational mechanisms for coordination and control’ (Kim *et al.* 2003). Based on a review of the control and coordination literature they identify four specific integrating modes, people, information, formalization, and centralization.

Table 1. Four integration modes (Source: Kim *et al.* 2003)

Integration Modes	Characteristics
Centralization-based integration	decision-making authority resides at the head quarter
Formalization-based integration	standardisation of work procedures, rules, policies, and manuals
Information-based integration	information flow via databases, intranets and electronic data exchanges
People-based integration	person-to-person interaction

The characteristics of the four integration modes in table 1 are expanded below:

Centralization-based integration means that decision-making authority resides at the head quarter and can be used for exercising not only behavior control (e.g. making decisions on procedures) but also to exercise output control and input control. A high degree of centralization is likely to be associated with some degree of transfer of multinational corporations (MNC) HQs practices to foreign subsidiaries as decision makers are likely to view their own practices and procedures as the most appropriate ones (Smale *et al.* 2007, Gomez and Sanchez 2005).

Formalization-based integration concerns the standardisation of work procedures, rules, policies, and manuals such as S.O.P. It is most effective if activities can be codified into identifiable rules and procedures (Kim *et al.* 2003). It is often referred to as bureaucratic control (Child 1973).

Information-based integration is effective when large volumes of information need to be distri-buted quickly (Kim *et al.* 2003). The use of information systems works through information flow via databases, intranets and electronic data

exchanges. Research has shown that information-based integration can be used either to communicate knowledge impersonally or to disseminate complex knowledge throughout the firm (Hansen *et al.* 1999; Voelpel *et al.* 2005). A contributing factor has been the advances in information and communication technology (e.g. integrated IT-platforms).

People-based integration has been examined in many studies, especially in connection with the use of expatriates. People-based integration is about person-to-person interaction which can take place in different ways: in meetings, committees, and teams, but also through transfer of people across units (Smale *et al.* 2007). Firms use people to achieve coordination and control of business functions across borders (Kim *et al.* 2003). According to Baliga and Jaeger (1984) this form of integrating mode can serve both as personal control (Child 1973) by placing personnel from the headquarter in the subsidiary for control, and as development of trust and shared vision, values and norms. Joint committees, site visits and joint training programs facilitating the socialization of foreign subsidiaries into the MNC also have positive effect on the transfer of knowledge (Gupta and Govindarajan, 2000).

Core business functions: Given the impracticality of addressing all business functions Kim *et al.* (2003) focus on R&D, manufacturing and marketing functions arguing that for multinational business these functions are regarded as the primary sources of global transfer and integration for achieving scale, scope, and learning economies (Yip 1992). Smale *et al.* (2007) adopt Kim *et al.*'s, (2003) classification of integrating modes to examine the global integration of four HRM practices on a sample of 76 European-owned subsidiaries in China, arguing that research on HRM in MNCs speaks more to the relationships between home- and host-country factors and subsidiary HRM practices than to the mechanisms through which these practices are integrated within the MNC. We argue that the accounting function has never been investigated in literature. Focus of our study is therefore the global integration of the accounting function. In our study we draw on Kim *et al.*'s, (2003) integrating modes to assess to what extent global integration of the accounting function has taken place among 20 Danish-owned subsidiaries in Estonia and their Danish HQs.

The accounting function: The accounting function involves a set of activities related to the process of identifying, measuring and communicating financial information about an entity to permit informed judgments and decisions by users of the information. Accounting can be seen as a service activity useful in many fields.

Accounting activities are relatively well structured and therefore can be codified which calls for formalizing activities and standardization of work procedures. At the same time the activities also require extensive information-sharing and communications across units. This involves international flow of information through systems such as internet, intranet and electronic data interchanges.

3. Methodology

The numbers of Danish owned companies in Estonia with a Danish HQ represent the total population for this research. The total number was approximate 200 Danish owned companies in Estonia in 2008¹. The number of Danish owned companies from the Danish Embassy list “Danish subsidiaries and joint ventures in Estonia” was 119 in 2009 (The Royal Danish Embassy to Estonia 2009). Regularly the Danish Embassy contacts the Danish owned companies in Estonia, based on the registered Danish owned companies at the Estonian Centre of Registers². Since the research group planned to approach the companies for both interviews in the subsidiaries and access to the HQs in Denmark companies were selected from the Danish owned subsidiaries, registered on the list of the Danish Embassy in Tallinn, Estonia³.

The main objective was to investigate if the accounting department in Danish subsidiaries in Estonia was a strong functional area from a globalization integration perspective. One main focus of the research therefore was to examine the accounting staff and functions in the Danish owned companies and the possible transfer of knowledge between the Danish owned company in Estonia and the HQ in Denmark. If the accounting function was performed outside the Danish owned company in Estonia, the transfer of knowledge between the HQ and the subsidiary would be rather limited, it was assumed. Therefore the accounting functions had to be in-house in the companies selected. The accounting function had to take place in the Danish owned company in Estonia and had to coordinate accounting with the HQ in Denmark. These criteria were not registered centrally as background or attribute variables for the total population of Danish subsidiaries and joint ventures in Estonia. This meant that probability sampling was not an option as a technique in this research project.

An informant interview with the chairman of the Danish-Estonian Chamber of Commerce (DECC), the chairman of Foreign Investment Chamber of Enterprises and the Danish CEO of an Estonian based company selling management systems to Estonian companies seemed to indicate, that the companies with less than 10

¹ Centre of Register and Information Systems, information from the homepage of the Embassy of Estonia in Denmark, 2009-12-19.

²“(a)ll information has either been provided or confirmed by either companies themselves”. The Royal Danish Embassy to Estonia (2009), *Danish subsidiaries and joint ventures in Estonia*

³Furthermore, comparisons between the list of the Danish Embassy and the Estonian Centre of Registers during the 1990’ies and the 2000’ies had shown that many companies on the list of Estonian Centre of Registers in excess of the list from the Danish Embassy were companies with just 1-2 persons or “dormant or sleeping” companies. These companies were not of primary interest for this study due to the selection criteria of size mentioned later. The comparison supported the relevance of the Embassy list over the population list from the Estonian Centre of Registers.

employees were most likely to have the accounting work made by an external accounting or bookkeeping firm. This was confirmed by a number of CEOs in the Danish Estonian Chamber of Commerce, DECC. The assumption of accounting functions in-house was therefore linked to the number of employees as criteria of selection.

Companies with 10 or more employees were selected, assuming that they would have at least one accountant employed. Following the size criteria a sample of possible companies to address comprised 36 companies out of 119 companies. 16 companies were production companies and 20 non-production companies. All the production companies were situated outside Tallinn. 5 interview rounds were conducted so far. A number of companies were contacted by mail before each round and most of the companies were afterwards contacted by phone before the interviews. When addressing the companies, 2 companies turned out to be owned by Norwegian and Swedish owners, respectively. During the interviews one of the companies turned out to have HQ outside Denmark, after a merger. This leaves a target group of 34 Danish owned companies. All of them were subsidiaries of Danish companies, hereafter called the subsidiaries. None of the Danish companies in the survey had more than one subsidiary in Estonia, visited by the research team. 33 companies had a Danish HQ. A total of 19 Danish owned subsidiaries with a Danish HQ out of 33 possible give a usable response rate of 58%.

The five interview rounds, resulting in interviews with 20 companies, 19 of which with a Danish Head Quarter and 1 company with a HQ outside Denmark, were conducted from summer 2009 till March 2012. Besides, the Estonian Accounting Association and the DECC were interviewed as informant interviews. 50 interviews were conducted with the CEOs, CFOs and accounting staff in each company⁴. The interview guides were tested in one of the larger production companies before the interview rounds. The collection of data can be described as iterative due to an explorative purpose with lack of studies in accountancy functions in Danish subsidiaries in Estonia.

In order to document the global integration of the Estonian subsidiaries, a questionnaire survey among the Danish parent companies or HQs was conducted in Danish and English during second half of 2010 and in the spring of 2011. During the first four interview rounds, 15 subsidiaries were visited. In the course of time 3 of these companies were sold and not Danish owned anymore or with no Danish HQ, and therefore the former Danish HQs were not contacted. This left us with 12 HQs to survey. Eleven HQs were addressed and eleven completed questionnaires were received. For the last HQ we did not get any contact person because the CFO of the subsidiary imagined that the Danish boss was too busy. During the fifth interview round end of 2011 until March 2012, 5 companies from the target group were visited, one HQ has answered the questionnaire and four HQs are remaining

⁴ In the company with a non-Danish HQ there were made only two interviews, one with the CFO and one with an employee in the accountancy department.

to be approached. Therefore the results below are based on a total of 12 filled- in questionnaires.

The questionnaire was tested on three of the HQs before the remaining HQs were approached and did not result in any changes. In order to obtain reliable data the questionnaire was addressed to the head of the Accountancy department in Denmark or responsible person for the accountancy operations in the Estonian subsidiary. The questionnaire was structured in four sections as follows: The first section had 4 questions about the respondent; the second section had 11 questions about the group, e.g. total number of employees and number of accounting staff and their education; the third section was the most comprehensive with 30 questions regarding the Estonian subsidiary and relationships; and the last section concluded with 2 questions dealing with the possibility to ask further questions, if necessary. The questions were both open and closed questions. Most questions were closed in order to easily compare the answers from the HQs in Denmark. The open questions were used when detailed information was needed. For example, a more explorative approach was necessary when information on kinds of reporting from the subsidiaries to the HQ and control measures was asked for.

The operationalization of the theory by Kim *et al.* and the variables in the questionnaire⁵ in section three are described as follows: To investigate formalisation-based integration, questions were asked about types of reports from the subsidiary and how the information is used. To investigate information-based integration, questions about reporting and information systems were asked.

People-based integration has also been considered in questions about Estonian staff visiting Denmark and Danish staff visiting the subsidiary. To investigate centralisation-based integration, questions about who has the responsibility for strategic organization policy decision making in the subsidiary were asked. Finally the interviews in Estonia showed that the major part of accountants in the subsidiaries did not have an accounting education, but education in other areas. In order to investigate the reason for this, whether this was due to lack of requirements from part of the subsidiary or the parent company, the parent company were asked human resource questions about the requirements of the parent company towards the subsidiary regarding qualifications, training and financial compensation if courses were taken by the employees. Based on the theory by Kim *et. al.*, the main part of the questions was List questions with the three answer categories Yes, No, Don't know. This was due to the need for being sure that the respondent had considered all possible responses and that the limited number of HQs did not render possibilities for meaningful statistical tests and

⁵ The contact person of the research group has been contacted but the questionnaire from the research by Kim *et. al.* is not available due to the responsible researcher's stay in Korea during 2011 and 2012. Additionally it would be difficult to compare the results of this survey due to the different foci. Kim *et. al.* compared the three different functions, this study include one function (accountancy), which was not included in Kim *et. al.*

presentations in the analysis (Hill and McShane 2008). The relevant HR questions were used from the questionnaires in the well-established comparative HRM survey, CRANET (Rogaczewska *et al.* 2003).

4. Result

As mentioned above, this paper will concentrate on the findings from the Head Quarter survey. However, the results from the interviews will be drawn on whenever feasible to contrast to findings from the Head Quarter.

In line with Smale *et al.* (2007) who hypothesised that some integration modes (mechanisms) would be more utilized to integrate one HRM practice than another, we assumed that the most important integration modes for the accounting function would be formalization based integration because it is most effective if activities can be codified into identifiable rules and procedures (Kim *et al.* 2003) and information based integration because this integration mode works through information flow via databases, intranets and electronic data exchanges which are the prevalent working tools in accountancy now. However, as will be seen also the other mechanisms are used in international integration of the accounting function, e.g. people-based integration.

We had asked the head of the accounting function of the subsidiaries to give us the name of a contact person in the head quarter. To ensure that we obtained reliable data we elicited the position of the HQ-respondent. Six or 50% were the highest ranked person in the financial function, five had lower rank, e.g. controller. The educational background of the respondents was for the major part Bachelor of Commerce degree of Management Accounting or Auditor. This was in contrast to the CFOs or chief accountants of the subsidiaries where the general picture was that the degree was in other subjects, such as economic cybernetic, merchandize economy, or learnt accounting by doing. Seven HQ respondents were also the Human Resource (HR) responsible person for the accounting function in the parent company, but only two were the HR responsible person in the Estonian company. This implies decentralization as regards HR responsibility.

One important issue from the interviews of the subsidiaries was the weak level of accounting education of the accounting staff. This implies that transfer of knowledge was only expected by the HQ from HQ to subsidiary – and not the opposite way round. (Hill, & McShane 2008; Hansen *et al.* 1999).

In order to assess the integration in this field the HQs were asked if the accounting staff in the economic function of the parent company is required to have an accounting education, and if so whether it is an additional requirement that some of the employed person(s) must have a higher accounting education (university degree). Seven HQs require an accounting education, and five of them also required a higher accounting education. One of the HQs not requiring an accounting education made this comment: “not a main requirement, but most of them have”.

The HQs were then asked if the Parent company specify qualification requirements for employees in the economic function of the Estonian subsidiary, and if so what qualities, skills, and accounting education are stressed /required. Five HQs confirmed to specify qualification requirements, “at least we influence the process” one of those said. As for required qualities there was a variety of requirements from ‘basic bookkeeping experience’ to ‘knowledge of English, team player IT flair (SAP)’ and ‘relevant higher education’. These answers indicate that formalization-based mode is used as integration mechanism, but it should be noted that less than 50 per cent of the HQs answered ‘Yes’ to whether they specified qualities.

To the issue whether the Parent company specify training and development schemes for employees in the economic function of the Estonian subsidiary 9 HQs answered ‘No’. One HQ made a comment, though: “corporate controller involved”. Only two HQs answered ‘Yes’. This means that regarding this issue there is no centralization-based integration. None the less 8 HQs stated that they would appreciate if the employees in Estonia take courses and become able to manage e.g. analyzing and budgeting tasks, and 10 were convinced that the local (Estonian) managers would do so, too.

To the question if additional courses would result in a reward only 5 answered ‘Yes’, and only 3 of them stated the type of reward: “a little extra pay in the packet”, “could be more responsibility, interesting tasks and thus also higher salary”, and “either career possibilities or as part of their personal bonus scheme”.

This impression in the headquarters of the state of training and development schemes for employees in the subsidiaries does not seem to correspond with the picture achieved during the interviews in the subsidiaries. Typical statements from the interviewees were that improvement of knowledge was not required by the company, or the company does not require participation in courses. No local training was organized, but the staff was free to choose courses at the cost of the company. The prevailing courses were tax and accounting courses arranged by the auditing company. No interviewee mentioned reward for taking courses.

We were absolutely certain that the information-based mode is used in the accounting function. This integration works through information flow via databases, intranets and electronic data exchanges. Two HQs are able to extract all needed data themselves while others receive electronically the needed information. A huge flow of reports, budgets and financial reports are received by the Parent company from the subsidiary in Estonia, e.g. monthly reporting which is mentioned by all, but also annual report, cash report, activity report and budgets based on HQ guidelines are mentioned. 10 parent companies use this information for control purposes, analysis purposes and decision-making purposes. One HQ did not answer the question. Only 4 HQs use the information for co-ordination purposes which indicates that the information flow is an example of centralization-based integration. In most groups standardized accounting systems like SAP and XAL are used. The systems are adapted to the organization by the parent company. Only one

subsidiary is free to make changes in the system, all the others are not. This confirms the centralization-based mode. The staff working with analysis and budgeting tasks in the HQs are high-level employees, such as group CFO, group controllers, chief accountants, finance controllers with experience and/or higher education like PhD, Msc. or MA(econ) and accountants with auditor background.

We also asked the following question: 'Looking into the driving mirror – or even to-day – were there any areas or issues where the supplied information on local matters was/is not sufficient for making even better decisions?' This question was based on the interview with the subsidiaries. The idea behind the question was to elicit if knowledge transfer goes from subsidiary to HQ or if there are substantial gaps, and if so in which areas. Six HQs answered this question. It was added after having received the first four answers. Four HQs had not felt any gaps, although one stated that there had been problems at the beginning of the ownership of the Estonian firm, but this changed when a new management had been installed. One HQ lacked information about budget exceeding, and one HQ experienced that it is difficult to get money.

The HQs were also asked what kind of knowledge had been transferred from the parent company to the Estonian accountancy staff. Two HQs did not answer the question, one stated "nothing – development takes place locally" and one answered "difficult to define precisely". The other 7 HQs stated different teaching in group accounting principles, reporting instructions, risk and controlling, IT-systems, the SAP system and the importance of economy to the everyday life of the staff. One of them answered: "There is continuous exchange of knowledge between the head office and the local companies, the organization develops, new accounting standards are implemented".

In order to find out to which extent people-based integration had been used, 4 questions about exchange of staff were asked. First, HQs were asked if at any time they had send out employees from Denmark to the Estonian firm and if so, who, when and for how long. Six HQs answered 'yes', four 'no' and one did no answer the question. The employees were financial controller, quality manager, IT manager, production manager since 9 months assisting with the production. One HQ had sent out a SAP teaching team, another HQ had sent out rotation accountants for six month. Estonian employees had also been in Denmark reported 7 HQs. They were for instance the local responsible persons or production staff to watch production in Denmark about 1 year ago, bookkeeper, sales and accounting staff.

The interviews with the subsidiaries also suggest some people-based integration, for example one subsidiary CEO said that the chief accountant had frequent face to face interaction with other persons in the organization.

The primary decision-making authority regarding organizational issues in the Estonian accounting function such as organizational structure, financial and management accounting seems to be evenly divided between the organization in Estonia and the parent company in Denmark. Planning and budgeting procedures as well as investment policy lies by and large with the parent company, whereas

HRM policy is mostly decided by the subsidiary – 9 HQs out of 12. The next question concerned changes in responsibility for decisions during the last three years. There seem to be two opposite tendencies: Three HQs report that responsibility is changing towards the parent company – “More active governance”; “investments due to differences in culture and values management accounting has become more strict”; “The Group has developed its processes during the last year and although the organization is still decentralized there are some centralized operation that have been developed”. Two HQs report the opposite tendency: “There is a more independent responsibility for managing the firm locally. This has been necessary along with the growing complexity that cannot be solved centrally” and “because of the regionalization a greater part of the decisions has moved from the main office (the Parent company) to the region”.

It might be helpful to add to above analysis of data which is underpinned by quotations from the answers, a condensed schematic overview. Table 2 gives this overview.

Table 2. Main results of the research (Source: compiled by authors)

Integration modes* / HRM practices	Item indicating use of mode/practice	Number of head quarters (HQ) stating use of the item	% (N = 12)
Information-based integration	Monthly reports, budgets, financial reports, cash flow statements, sales numbers, and many other reports	12 – a variety of reports are requested	100
Formalization-based integration	Systems used for reporting between subsidiary and HQ e.g. SAP R3, excel, Navision, Concorde, Axapta and others	12 – all HQs have systems	100
Centralization-based integration	Info-systems adapted to the organization by HQ	11	91,7
	Subsidiary cannot change the systems	11	91,7
	Information used for:		
	Control purposes	10	83,3
	Analysis purposes	10	83,3
	Decision purposes	10	83,3
	Co-ordination purposes	4	33,3

People-based integration	Exchange of staff		
	From HQ to subsidiary	6	50
	From subsidiary to HQ	7	58
HRM-practices in accounting function: Recruitment	Qualification requirements for accounting staff in HQ	7	58
	including university degrees	5	71,4 (5 of 7)
	Qualification requirements by HQ for accounting staff in subsidiary	6	50
	Including university degrees	6	100 (6 of 6)
Training & development	HQs specify training and development schemes for employees in subsidiary	2	16,6
Performance appraisal	Staff in subsidiary taking courses appreciated by HQ	9	75
	By local leader?	11 – HQs believe so	91,7
Financial compensation	Staff in subsidiary rewarded for taking courses	5 - HQs believe so	45,5
Personal policy	Subsidiary has responsibility for org. decisions	9 - but tendency towards HQ decision	75
Culture and values	“ “ “ “ “ “	6 in future	50

*) for characteristics see table 1

5. Conclusion

The present study sought to shed light on the head quarter usage of four global integration modes in international integration important tasks of the accounting function. Based on a sample of 12 Danish head quarter answers about the relationship with their Estonian subsidiaries regarding the accounting function, the findings show that two most widely used integration modes are the information-based integration and the centralization-based integration. All HQs report that communications systems like SAP, Excel or Axapta are used. This means that coordination through information systems (Galbraith 1973) is prevalent. At the same time the HQs state that the systems are adapted to the subsidiary by the HQ and that the subsidiary cannot change the systems. This

indicates centralization of the decision-making authority which Child refers to as the centralizing strategy of control (Child 1973). The usage of these two strategies is in line with the nature of the accounting function and confirms with our expectations.

Also the two other functions are used to some extent, i.e. the formalization-based and the people-based modes. It appears from the interviews in the subsidiaries that most of them had a manual for preparing the monthly or annual reports, and for price calculations. The people-based mode seems to depend on the hierarchical level of the staff. In many subsidiaries the common staff said that contact with the HQ was via the CFO.

The study also sought to elicit to which extent the accounting function is a strong functional area. We assumed that this would imply a strong education background and long experience. The findings could not support this assumption. We found that the education back grounds of local accountants were weak although half of the HQs state that they specify requirements for accounting skills in the subsidiaries and that they would appreciate if the accounting staff in Estonia took courses. They also felt sure that the local manager would appreciate such initiative. This is not in line with the views of the local staff. They said that their local manager was indifferent. This implies that it is not evident that the accounting function in the subsidiary is a strong functional area.

6. Limitations and suggestions for future research

The study's findings must be viewed in light of its limitations. We only have a small sample and therefore it is difficult to make generalizations, and the lack of control for non-response bias also limits the potential generalizability of the results. Especially the weak educational back grounds of local accountants were a surprising finding. It would be interesting to conduct further research into this issue. This could be done in different ways. We could probably expand the sample of Danish-owned subsidiaries, we could survey Estonian owned companies for comparison, or we could extend the investigation to other Nordic subsidiaries in Estonia, e.g. Sweden and Finland. The number of subsidiaries from these countries is much larger than that of Danish subsidiaries.

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