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Cost allocation as a part of the control package

- a comparison between theory and practice

**Bachelor thesis in Business Administration,
spring semester 2011**

Date of seminar: 31th of May, 2011

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Acknowledgements

We would like to thank Handelsbanken AB for all the help and support we have received during our study. We would especially like to thank Johanna Larsson and Martin Björnberg, top management level Handelsbanken AB, and also Lena Gillholm (Ale Torg/Vänersborg), Maria Brygg (Helsingborg), Claes Ericson (Jönköping), Inger Ågren (Vaggeryd), Staffan Svantesson (Alingsås), Olle Eksell (Avenyn Gothenburg), Mats Andersson (Huskvarna) and Michael Rimstedt (Mjölby) for their time and willingness to answer our questions. Without them, we would not have been able to write this thesis.

We would also like to express our thanks to our tutor Johan Åkesson (Gothenburg. Uni.), who have contributed to constructive criticism during the entire process. His tips, ideas and critical counter-questions have been of great help for the writing of our thesis.

Gothenburg, 29th of May, 2011

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Abstract

Bachelor thesis in Business Administration, spring semester 2011
School of Business, Economics and Law at Gothenburg University

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Title: Cost allocation as a part of the control package – *a comparison between theory and practice*

Background: An increase in global competition and the rapid technological change over the last 40 years have led to an expansion in the use of both financial and nonfinancial information in organizations. Positive and early input from controllers often leads to a more carefully prepared product. This input or evaluation can, for example, concern how the costs are allocated or whether it is possible to lower some of these costs. The question about cost allocation has been discussed for at least 50 to 60 years, and it is still going on. There are disagreements about whether or not cost allocation contributes to a more effective and productive organization or whether it has lost its relevance as a control tool. The focus in our thesis will be on cost allocation to organizational departments within a decentralized organization.

Key Question: The use of cost allocation as a part of the control package; has it lost its relevance?

Purpose: The first purpose is to describe the intentions of cost allocation within a modern decentralized organization. The thesis will focus on whether cost allocation, as a tool in the control package, gives the desired outcome or whether it has lost its relevance. Through a case study on Handelsbanken AB, we will try to describe the intentions of cost allocation at top management level. Another purpose is that, from a rational perspective, we will try to analyze whether there is a gap between the intentions at top management level and how it is perceived at lower levels, and if so, whether parts of the gap might be explained through an institutional perspective.

Delimitations: In order to contribute to a deeper understanding within the subject of relevance lost regarding cost allocation, our study will describe one organization, Handelsbanken AB.

Method: We have conducted ten interviews, two at top management level and eight with branch managers around Sweden. We have used a qualitative interview method with personal interviews, as our purpose was to get deeper knowledge about the effects experienced by the branch managers.

Conclusion: As we have chosen a descriptive approach, our main goal with the thesis was not to come up with any specific conclusions. However, we have made some interesting findings that we believe are worth highlighting. We feel that it is important to shed light upon the similarities we found, regarding opinions and thoughts at branch manager level. A great majority of the eight branch managers interviewed feel that they do not need the detailed reports containing the internal costs in order to manage their branch in a successful way. Most of them are of the opinion that they cannot influence the internal costs and that they, even if they could, do not have the time or interest in reading the report every month. However, the system, as a part of a routine, is accepted even though the report is not used in the daily work.

Suggestions for further research: One suggestion for further research is to compare Handelsbanken AB with other Swedish banks and try to describe and analyze the differences/similarities among them, related to cost allocation and decentralization and how these parts affect the employees within the banks. An additional suggestion is to study whether or not Handelsbanken AB actually works beyond budgeting, or whether they instead might be taking other actions that are comparable to the budgetary process. It would be interesting to further investigate if the budget is replaced with highly controlled cost allocation systems, for example. Our last suggestion is to investigate whether trust and freedom give honest and loyal employees or whether it just is an effect of professionally done recruiting. A comparable study between Handelsbanken AB and another organization, which is highly controlled by rules instead of trust, would therefore be interesting.

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1. Introduction

The introductory section will contain a background and a problem discussion for our research issue, which in turn will lead us to our key question. We will then define our purpose and the section will end with the delimitations of our thesis.

1.1 Background

An increase in global competition and the rapid technological change over the last 40 years have led to an expansion in the use of both financial and nonfinancial information in organizations. The changeable environment within which companies operate in demands more relevant cost information, which enables the companies to estimate the costs of activities, products, services and customers and also provides managers with economic feedback (Kaplan and Cooper, 1998).

The normative explanation from Kaplan and Cooper (1998) and Merchant and Van der Stede (2007) is that management control systems are used in the process of both controlling and evaluating the business with the financial measurements as a base.

The definition that the National Encyclopedia uses to define management control is:

“Management control refers to every intentional action taken by an organization and their executives in order to reach certain financial goals”¹ (Ax et al, 2007)

Hornigren et al (2009) argue that management control is an important input in the entire value chain. Positive and early input from controllers often leads to a more carefully prepared product. This input or evaluation concern how the costs are allocated or whether it is possible to lower some of these costs, for example.

The debate about cost allocation has been going on for at least 50 to 60 years. The question has been centered on whether shared costs and resources are going to be allocated to a specific product or division. And, if that is the case, how much of the costs from a shared resource should be allocated to each of the products and divisions (Doost, 1996). Zimmerman (1979) points out that, in order to use cost allocation as an effective management control tool, the benefits must exceed the costs.

Doost (1996) considers the fact that organizations use cost allocation in order to be able to put the price at a correct level. Without cost allocation, Doost (1996) argues, there is a larger risk that the organization understates the costs and overstates the profits of products or services.

In their famous article “The rise and fall of Management Accounting” from 1987, Johnson and Kaplan argue about the loss of relevance in management control systems. They state that control systems, such as, for example, cost allocation, lower the productivity in the

¹ Our own translation

organization because the managers have to put in a great deal of effort in order to either understand or produce the reports. This is, according to Johnson and Kaplan (1987), time that could be spent on other actions that would create more value for the organization.

According to Johnson and Kaplan (1987), another problem is that financial managers have difficulty in evaluating what numbers and measures that are relevant to the operational managers. Failure in that, Johnson and Kaplan (1987) argue, leads to an over-reporting of reports and numbers that are no longer useful, which means that the reports have lost their relevance.

1.2 Problem discussion

According to Johnson and Kaplan (1987), management control systems should be designed to support a company's operations and strategy.

Different purposes of the control systems are planning, implementation, evaluation and adapting the operations. As we can understand, the control is about making the organization achieve its objectives. However, as important as it is to formulate the organization's objectives and to follow whether they are being achieved, an even more vital part concerns the ways in which this occurs. One example is that the objectives and measurements need to be accepted by the employees within the organization in order to achieve the desired effect. The effects of management accounting are more important than the structure (Ax et al, 2007). Another vital part in order for the management control system to be successful is the employee's ability to influence. If the employees feel that they cannot influence the results, they will stop trying because they feel that no matter what they do, they will not meet the organization's objectives (Merchant and Van der Stede, 2007).

One element of management accounting that is frequently discussed and questioned is cost allocation. Doost (1996) questions whether cost allocation really is needed in modern companies. Does all the work associated with the cost allocation process really change the final outcome for the better? In the same approach, Johnson and Kaplan (1987) argue that management control systems are too complex to be useful. The fact that we can collect, organize and report a large amount of data relatively cheaply has probably also made an impact on the growing use of cost allocation and other management control systems (Johnson and Kaplan, 1987).

Siverbo and Åkesson (2009) also question whether the different management control systems really create any value for the organizations and argue that organizations uncritically overuse the large supply of management systems available on the modern market.

Östman (1977) discusses different criteria that can be used to evaluating the management control system within an organization. The top management level in an organization may believe that the system works very well, while in reality the employees do not understand it. The components of the management control systems are evaluated according to how they

affect employees' performance of actions that are desirable for the organization as a whole. The system is also evaluated with regards to how well it conforms to the organization and its operation. Furthermore, it is evaluated according to how it is perceived by the employees within the organization. The criteria are supposed to be of common characteristic so that they can be used by different individual organizations.

Handelsbanken AB is an organization that differs from others in the way that they are working beyond budgeting as well as with a high degree of decentralization. The fact that Handelsbanken AB also seems to be a healthy company makes it interesting both to describe how they are currently working, as well as to see whether there might be a risk of relevance lost in their complex organization's management control systems.

This study is a case study on Handelsbanken AB, a large and highly decentralized organization that believes that every branch should work as its own company, with their own possibilities to control costs and revenues. As a part of this structure, Handelsbanken AB is working with a highly developed system for cost allocation. Even though the distributing functions are highly developed, and that the reporting system is well established and accepted, the question of whether these systems create any value still remains. During the last years, the cost structure within Handelsbanken AB has changed due to the digitalization, for example. The fact that the internal costs have been increasing and cost allocation today is a big part of the organization's work makes Handelsbanken AB an interesting case for our study (Johanna Larsson, Handelsbanken AB). The possibility of accessible information through contacts at top management level also contributed to the choice of case object.

The background and problem discussion of our study have led us to a number of questions, which we have narrowed down to the following key question:

1.3 Key Question

- The use of cost allocation as a part of the control package; has it lost its relevance?

1.4 Purpose

The first purpose is to describe the intentions of cost allocation within a modern decentralized organization. The thesis will focus on whether cost allocation, as a tool in the control package, gives the desired outcome or whether it has lost its relevance. Through a case study on Handelsbanken AB, we will try to describe the intentions of cost allocation at top management level. Another purpose is that, from a rational perspective, we will try to analyze whether there is a gap between the intentions at top management level and how it is perceived at lower levels, and if so, whether parts of the gap might be explained through an institutional perspective.

1.5 Delimitations

In order to contribute to a deeper understanding within the subject of relevance lost regarding cost allocation, our study will describe one organization, Handelsbanken AB. This

limitation has made it possible to get a bigger picture and offered us the possibility of studying the purpose of cost allocation from different points of views. The results are not aimed for generalizing, but rather to create an understanding of the effects, outcomes and possible loss of relevance regarding cost allocation within an organization. The focus will not be on how the costs are allocated; instead, the focus will be on the perceived effects. This study concerns the allocation of costs within the organization, not the internal trade and transfer pricing.

Another important aspect in the limitation of the project to Handelsbanken AB is the information accessibility. Martin Björnberg (Personnel manager, Handelsbanken AB) held a lecture at the School of Business, Economics and Law in Gothenburg, where he talked, among other subjects, about the cost allocation within Handelsbanken AB and his thoughts about the possible loss of relevance regarding the reports. We contacted Martin and booked a meeting together with him and Johanna Larsson (Controller, Handelsbanken AB), Region West. We received positive feedback from both of them regarding our idea about writing a thesis on the subject. They could in turn help us to set up interviews with appropriate branches around Sweden. We also had an opportunity to receive information from the top management and the controlling department, allowing us to get deeper knowledge about their primary intentions of cost allocation.

2. Method

For our study, the choice of method is vital, since the purpose with our study is to elicit the real experiences and opinions from the interviewees. It is important that the interviewees are comfortable during the interview and feel that they do not have to come up with some "right" answers, since some topics discussed might be sensitive for the interviewee to talk about. We believed that this was of great importance when choosing our method.

2.1 Case studies

According to Ejvegård (1996), the purpose of a case study is to get a bigger picture from a limited number of sources. Lundahl and Skärvad (1992) define a case study as a study that embraces only one or a few cases, but where the researcher focuses more on details and tries to study more dimensions and approaches within the area.

Yin (2009) defines a case study as:

"The case study relies on many of the same techniques as a history, but it adds two sources of evidence not usually included in the historian's repertoire: direct observation of the events being studied and interviews of the persons involved in the events"

Backman (1998) explains further that a case study is useful when the object is a complex organization or situation and the focus of the research is to understand and explain. Furthermore, a case study means that the researcher works closely to the object studied (Ejvegård, 1996). In our study, the focus is to describe and analyze whether there is a gap between the intentions regarding cost allocation at top management level and how it is perceived at lower levels. In order for us to be able to experience the real feelings and opinions from the interviewees within the limited amount of time, we believe that it is important to focus on one organization and try to understand the object studied. That is why, with support from Lundahl and Skärvad (1992), Ejvegård (1996) and Backman (1998), we have chosen to take the approach of a case study in this report.

2.2 The descriptive approach

In our case study we have also chosen a descriptive approach. According to Ejvegård (1996), a descriptive approach involves describing how something is done and/or to explain how something is. Ejvegård (1996) also considers that the descriptive approach often is purely empirical but that descriptive papers are also used as an underlying report for further studies on how to improve the area on which the descriptive report is based on, and that the descriptive paper is therefore formed to match the future needs as a more problem solving paper. In this case it means that we have formed our report so that the questions answered can be used as an underlying ground for a further study on how to conclude the possible problem; whether there might be a problem of relevance lost within the area of cost allocation.

2.3 Relationship between theory and empirical study

An important part of the researcher's work, and also a central problem, is to relate theory to practice. Three alternative ways to approach this problem are by using deduction, induction and abduction. The deductive approach can be comparable to an approach where the focus is evidence. The researcher starts in theory by deriving a hypothesis, which is later examined empirically. Since the starting point lies in already existing theory the objectivity strengthens, meaning that the study is less influenced by the researcher's own thoughts and views. Another way to relate theory to practice is by using the inductive approach, where the researcher's focus is to discover. Here the researcher starts by studying the chosen objective and then, using the information collected, comes up with a theory. By not using an earlier theory it is hard for the researcher to work impartially and not to influence the study. The third approach, abduction, can be said to be a combination of the two earlier approaches. The first step is influenced by the inductive approach, meaning the researcher is studying a single object and then formulates a hypothesis. The researcher moves on by using this theory at new objects, the deductive approach, which gives the researcher the opportunity to develop and extend the earlier hypothesis. It is a process where the researcher has its starting point in the empirical data and after that moves on to the theory, and then returns to the empirical data again. An advantage with this approach is that the researcher is free and can work back and forth between the two earlier approaches (Patel and Davidson, 2003).

In our study we are influenced by the abduction approach. As Patel and Davidson (2003) describe we want to discover our objective, but we will also use earlier studies as a ground for our research. We will try to move back and forth between the two first approaches just as mentioned above. Our study started with a discussion, within our case company, about a possible gap between the intentions at top management level regarding cost allocation and how it is perceived at lower levels. We moved on by studying earlier work within the area of research, and then performed our interviews with the branch managers of Handelsbanken AB. One difference in our study compared to the abduction approach is that we have not formulated a hypothesis. Instead we have chosen to come up with a key question that we intend to investigate by studying both empirical and theoretical data. The reason for this is that we do not want to start our study with preconceptions; rather, we will try to describe and analyze feelings and thoughts within Handelsbanken AB.

2.4 Scientific approach

According to Patel and Davidson (2003) among others, there are two scientific approaches, positivism and hermeneutics. These two approaches are said to be the opposites of each other and differ in both research objectives and methodology.

2.4.1 Hermeneutic

The purpose of the hermeneutic approach is to understand the object or situation one is studying. Hermeneutics means that it is possible to understand people by interpreting their language, both orally and written, and also their actions taken. The interpretation is a central

concept of the hermeneutic approach and it is impossible to interpret the object or situation without the researcher affecting the outcome in some way. The researcher uses own insight within the area of study to interpret the object. This makes the researcher subjective, but not in a negative way. The researchers own thoughts, feelings and knowledge can help to create a deeper interpretation compared to the lack of any insight before the study. The hermeneutic approach focuses on the big picture and the researcher oscillates between parts of the problem and the problem as a whole to reach a complete understanding (Patel and Davidson, 2003).

2.4.2 Positivism

Positivism is said to be more theoretical than the Hermeneutic approach, and has its focus on verification and objectivity (Patel and Davidson, 2003). According to Backman (1998), the main difference between the two approaches is that in the traditional perspective (positivism) the researcher is a spectator of an objective surrounding, while the researcher in the qualitative perspective (hermeneutic) is instead a part of a subjective surrounding.

An important part of positivism is the hypothesis that it is the approach of chosen method that matters, not the researcher's personal qualities. This means that the result should be the same, even if the researcher is changed (Patel and Davidson, 2003). The fact that we have based our study on depth interviews makes this hard to guarantee. The result depends on the employee's thoughts and ideas and different people may give different answers based on their own opinions. Our own insight, knowledge and ability to ask follow-up questions will also affect the interviews, which in turn will affect the outcome.

Positivism focuses, compared to the hermeneutic approach, on individual parts instead of the whole picture. The researcher looks at the problem as a whole and then reduces it to its parts, studying them separately (Patel and Davidson, 2003).

It is important to understand that the researcher does not choose one of these two approaches, thus is instead influenced more by one of them. In this study we have used our insight based on earlier knowledge, and we understand that it will make us subjective in this case. We realize that we cannot choose one of the two approaches, but we believe that we might be influenced by the hermeneutic approach and we are aware that it in turn will influence our report.

2.5 Method of research

When it comes to searching for information there are two different types of sources: primary- and secondary sources. Primary sources are considered more reliable; it is the person who was there when it happened. Secondary sources on the other hand involve information that is fulfilled through other people's stories or through a compilation of already existing work (Kylén, 2004). In our study we will work with both primary and secondary sources. Our primary sources will mainly be the interviews we will perform within

Handelsbanken AB and the secondary sources will be a mixture among articles from academic journals, books, earlier studies within the area and other relevant writings.

There are two different methods when collecting and processing data for a study: a quantitative and qualitative. One similarity between the two methods is that they have a common purpose. The main idea with the purpose is to give a better understanding of people's feelings and their actions taken. It is also a way of explaining the community we live in and how different people influence each other. However, the differences appear more often than the similarities when talking about these two methods. The main difference between them is that the quantitative method focuses on converting already existing information into numbers. After that you can use those numbers and do statistical analyses. The qualitative method focuses instead on the researcher's view and interpretations. The researcher interprets the information based on own thoughts and views (Holme and Solvang, 1997).

Given our problem formulation we believe that the qualitative method is the most suitable for our study. As our study is to a large extent based on in-depth interviews and our purpose is to interpret and analyze the information given from the employees, our study will mainly be based on qualitative material. The qualitative approach gives us the opportunity to create our own view, using the theory as a base, on whether the cost allocation in the chosen company is a necessary control tool or whether it does not meet the desired effects. However, when the empirical data is processed and analyzed in order to formulate our conclusion, we will also analyze our data with help from a quantitative perspective.

2.6 Interviews

A meeting with a person helps us to understand the person's feelings and thoughts. It also gives the interviewer the opportunity to ask the interviewee follow-up questions (Kylén, 2004). An interview can be both personal, when the interviewer meets the interviewee, but it can also be performed over the telephone (Patel and Davidson, 2003). According to Weinberg and Gould (2007), face-to-face communication is the most desirable one because of the belief that a significant part of the communication is more than just words. Therefore, the possibility to receive deeper answers is more likely when both parts can see, and clearly feel, the tone of the conversation.

It is important to consider two aspects when preparing for an interview: standardization and structuration. The former covers the area in which the interviewer has freedom of action regarding the questions' layout and order. Structuration on the other hand describes to what extent the interviewee can interpret the questions and bases the answers on attitude and experience. When the interviewer gives the same questions in the same order regardless of interviewee, it is said to be a fully standardized interview. A fully structured interview refers to one where we can almost predict what answers the interviewee will give us; it leaves little room for own interpretations (Patel and Davidson, 2003).

In our research we have chosen personal interviews, as our purpose is to get deeper knowledge about the effects experienced by the branch managers. We also found it important for our study to be able to ask follow-up questions to get deeper information about the interviewees' feelings and thoughts. We will not be using a fully standardized or structured interview, we will rather focus on getting a deeper understanding and we therefore want, what Weinberg and Gould (2007) try to describe as, a trustworthy conversation between the two parties. We could explain our interview method with help from Burns' (2000) definition in his article "The dynamics of accounting change":

"The interviews are semi structured in that the issues to be explored in general is agreed by the researchers prior to the visit, but the interviewees are constantly encouraged to do all the talking"

We believe that we in that way will achieve a more "loose" interview approach where the interviewees will be more confident and feel that they can talk about what they think is important and be more "open". That is also why we decided not to e-mail the questions to the interviewees before the interview. We did not want the interviewee to be able to prepare answers; we rather wanted a discussion that would allow us to ask questions that were suitable for just that specific interview. We also want to point out that we, during our interviews, used our prepared questions as help, rather than a questionnaire for the interviewees. The interviews were performed in Swedish.

When unstructured and deep interviews are performed, it is an advantage to use a recorder. This helps the interviewer to obtain all the information needed and it also makes it easier to interpret the material collected during the interview. However, this could make the situation too formal and make the interviewee uncomfortable (Lundahl and Skärvad, 1992). In order for us to make the interviewee as comfortable and relaxed as possible we explained that the recorder was to make it easier for us to reflect the interview in a fair way. After the interview it is important that the interviewer goes through all notes and compiles all the information received as soon as possible. As a result of this, the interviewer will remember thoughts and expressions that came up during the interview and that can be of good value for the study (Lundahl and Skärvad, 1992). We believed that this was valuable for us, as we have performed deep interviews where the interviewee's own opinions and expressions are two key factors.

2.7 Validity and reliability

The quality of a research work can be evaluated in terms of validity and reliability. When evaluating validity, the researcher focuses on data and its usefulness. S/he needs to ask the question: "How useful is the data in terms of solving the problem we are working with?" It is important that the researcher receives the data needed, data that is relevant for the study, in order to strengthen the validity. The researcher also needs to look beyond and filter out data that are not essential for the study (Kylén, 2004).

Reliability goes one step further and focuses on the accuracy of our data. However, this is a relative concept that, to some degree, depends on the person viewing the problem. Different data can be true to different people but the data can also be true in a virtual context. The reliability is strengthened through repeated attempts of data collection, which are supposed to give the same results every time. However, when the researcher works with qualitative data such as feelings, thoughts and experiences s/he needs to consider that the data can vary depending on the person answering the questions. The data could be reliable if the respondents give answers that are similar to each other (Kylén, 2004). Our study is based, to a great extent, on qualitative interviews with the purpose of describing people and their thoughts and opinions, which forces us to interpret the objects in order to obtain a result. We need to be aware of the reliability problem when working with in-depth interviews. It is a challenge to interpret the interviews without letting our own subjective opinions color the answers. Furthermore, a higher response rate increases reliability (Kylén, 2004), but this was not possible due to lack of time.

3. Theoretical framework

The theoretical framework serves as a foundation for our thesis. For the reader to understand the thesis and what it is about, it is important to describe the vital concepts and terms that we are going to use frequently during our study. We will introduce a number of concepts that are closely associated with management accounting, such as cost allocation, relevance lost and the institutional framework, for example. The section will be divided into two different perspectives: the rational and the institutional perspective. We will end the chapter with our chosen model that will serve as a base for our analysis.

3.1 Rational perspective

The definition used to defining rational is: something that serves the direct target and the achievements in the most optimal way. This means that the rational perspective has its foundations in, what Burns and Scapens (2000) call, the neo-classical economic theory, with the core economic assumptions of rationality and equilibrium. It is worth to notice that something might be rational even though it cannot be explained through a normative perspective. However, this definition is quite strict in that it narrows down what is rational to something that is considered as normatively correct.

3.1.1 Different kind of costs

Hornigren et al (2009) define a cost, with help from accountants, as:

“A resource sacrificed or forgone to achieve a specific objective”

An organization has different kinds of costs that can be divided into *direct* and *indirect costs*. Direct costs are those costs that can be derived from a specific product. Examples of these are direct materials used in the product, direct wages paid for the workers involved in the production and direct expenses that belong to the product. Indirect costs are those that have to be allocated and shared over a number of products, because the costs are common to all the products. This can, for example, be salary of supervisors and rents. Indirect costs are also known as overheads (Hussey and Hussey, 1998).

3.1.2 Cost allocation

Common costs are those that are shared by two or more objects. The goal within the organization is to allocate common costs on fair basis, so that every object will bear the costs that it has used (Hornigren et al, 2009). The problems of cost allocation have to do with common costs. The difficulty lies in how to allocate costs when one has more than one product. It is important that every department or product receives the costs that can be related to it (Doost, 1996).

According to Hornigren et al (2009), there are four different ways for organizations to go when allocating costs. These are:

- **Cause and effect.** Here the organization's managers allocate costs by looking at the different variables that cause the resources to be consumed, thus those that generate costs. For example, managers can use the number of hours expended in order to paint a car.
- **Benefits received.** This criterion means that the costs are allocated by identifying the output benefits that the costs are generating. The manager looks at the proportion of benefits each object receives and then allocates the cost in the same quantity. For example, when a company is executing an advertising campaign that is not meant for a specific product, but rather for the company as a whole. Here the managers need to decide which product has to bear the greatest costs. By using the benefits-received criteria managers allocate costs on the basis of division revenues, thus the division that has the higher revenues has also benefitted the most from the advertising campaign.
- **Fairness or equity.** This criterion is often found in government contracts. When the government is setting their selling prices it is central that they are fair and reasonable and therefore the cost allocation is an important consideration on which to base the decisions.
- **Ability to bear.** Here the managers are looking at the product's ability to bear the costs. The main idea is that more profitable divisions have a higher possibility of taking on a higher proportion of the company's costs. For example, a new product would not be able to bear all the start-up costs itself under the first period. If so, it would look like the product was not profitable at all.

3.1.3 Purposes of cost allocation

According to Horngren et al (2009), the main idea of cost allocation is to allocate the indirect costs of a particular cost object. There are four different purposes of cost allocation within a company:

- **Economic decisions.** One purpose of cost allocation is to provide information for economic decisions. For example, it can help to decide whether to add a new product or not. It can also help the manager to set the selling price for a product or service.
- **Motivation.** It is also a motivational purpose and thus the managers at different business functions will understand how costs are related to each other. Managers will also be encouraged to create products that cost less to develop and manage. It can also be a motivation factor for the sales personnel that will be encouraged to sell the products or services with the highest margin.

- **Justification.** This purpose has a lot to do with law and government. It is important to establish the costs for products in order to set a fair and reasonable price. When using cost allocation the organization will see the exact amount that was needed to develop the product.
- **Measurement.** The last criterion is based on income and asset measurement for reporting to external parties.

Furthermore, Doost (1996) argues that one major benefit of cost allocation is that it is fair and clear. The use of non-allocation in an organization can easily be misleading, in the way that the costs can be understated and the profit generated from the products will then be overstated. Another, maybe stronger, argument is that cost allocation in an organization clarifies the costs that every department uses in their daily work. This motivates managers to think again about what services they really need and how they can do better in order to decrease costs for their own department and also for the organization as a whole (Doost, 1996).

However, there are not only benefits with management accounting, and, for example, cost allocation. Johnson and Kaplan (1987) argue that management accounting information focuses too much on the fact that there has to be a monthly report, because there has been increased focus on both quarterly and annual targets. Every report is assigned a considerable part of the organization's resources, even though it does not measure the actual increase or decrease in economic value within the organization during the measured period. In Johnson's and Kaplan's (1987) own words:

"Management accounting reports are of little help to operating managers attempting to reduce costs and improve productivity"

This has been the starting point in the debate about relevance lost, which will be discussed in more detail below.

3.1.4 Decentralized organization

Decentralization means that responsibility and decision-making are moved downwards to the lower levels of the organization (Buchanan and Huczynski, 1997).

Hornigren et al (2009) define decentralization as:

"Total decentralization means minimum constraints and maximum freedom for managers at the lowest levels of an organization to make decisions and to take actions"

One key of success in a decentralized organization is that one department knows what the other departments are doing. The top management level must provide the managers at lower levels with incentives and instruments so they are able to communicate horizontally (Buchanan and Huczynski, 1997).

According to Horngren et al (2009), there are various benefits of decentralization. Subunit managers, managers at lower levels, have better information about the corporation's costumers, competitors as well as the best way to decrease costs and improve quality. They work "on the floor" and have deeper knowledge than the top management about how things should be done in order to reach the best results. Employees become more motivated to achieve savings when they have full information about profitability and when they have freedom of action (Södergren, 1992). It also leads to faster decision-making because subunit managers do not have to go through level after level of management to get their question approved. Decentralized decision making also motivates managers because they feel that they can affect their own work and decisions. It is also a great chance for managers at lower levels to develop their decision-making skills and learn to take more responsibility (Horngren et al, 2009).

3.1.5 Evaluation of a management control system

Östman (1977) discusses different criteria that can be used to evaluating the management control system within an organization. The criteria are supposed to be of common characteristic so they can be used by different individual organizations. He has come up with five criteria:

- **The criterion of purpose.** This criterion can be divided into two parts. The first part includes what actions the management control system causes. For example, one question to be asked is whether it is possible that one department can harm the organization as a whole when they are trying to achieve parts of the control system? Another question that needs to be studied is what an employee can do in order to achieve the goals according to the system? The other part of the criterion contains a prognosis that focuses on whether the employee will use the possibilities given in order to achieve the goals. When the system is designed, the attention should be at components where the impact is the greatest. Scarce resources should not be used in areas where they will not have any effect. The criterion can be summarized by saying that it is a direct evaluation of the management control system. The criterion is evaluated on its ability to fulfill the purpose of the organization, to ensure that the employees do what is favorable for the corporate group.
- **The criterion of acceptance.** Another important part of the management control system is whether the employees accept the system or not. If the employees feel that the system is fair and necessary, they will also do their best in order to achieve the goals. There is a big advantage for the organization if the employees accept the system wholeheartedly so that they will take actions that are beneficial for the organization as a whole. The criterion can be summarized by saying that it focuses on the employee's subjective evaluation, whether they accept the system or not. It is important to listen to the employees of the organization, in order to get their thoughts about the system. This can of course be hard to do, because some

employees may not have any references about comparable systems and do not know how the system should be designed in order to fulfill the goals. If that is the case, there is a risk that the employees will give a more positive view than is justifiable. This must be taken into consideration when evaluating the system based on the employees own thought and opinions. The main idea with this criterion differs from the others in the way that it contains subjective valuations.

- **The criterion of precision.** This criterion contains the degree of both correctitude and precision for the economic evaluations. There has been much discussion about how formal the evaluations can be in order to be as correct and precise as possible. This criterion is an important part for the valuation of the system's purpose. First of all, the formal evaluation has to fulfill some minimum requirements in order to be a fair decision basis. Second, if the management control system is not perceived as correct and precise it can lead to low acceptance by the employees.
- **The criterion of compliance.** This criterion states that there must be compliance within the management control system and also between the system and its surrounding factors. The management control system also needs to accord with the system for decision-making within the organization. This criterion has positive correlation with the system's purposes. One example of this is that a management control system is not accepted if it fails to show compliance concerning critical factors of the organization.
- **The criterion of resources.** It is obvious that this criterion needs to be considered when designing a management control system. One part that needs to be considered is the employees that are needed to achieve the goals of the control system. Different types of control systems demand different qualities. It is important to investigate whether the employees spend time on the management control system at the expense of other duties.

3.1.6 The gap within management accounting

Since the 1980s there has been a discussion about a possible gap between theory and practice regarding management accounting. The discussion is based on the notion that there is a big difference between management accounting in theory and how it is done in practice (Ax et al, 2007). They argue that there are four possible explanations about why this gap exists. These are:

- There is a delay between the theoretical development (methods) and the practical implementation
- There is too little knowledge about theory in practice

- The theory lacks the reality that is perceived in practice
- The cost-benefit criterion is not considered in theory to a high extent

According to Ax et al (2007), the biggest problem that leads to the gap between theory and practice is that a major part of the research and development has missed out on the problems that are perceived in reality. In most cases, there have been difficulties to capture the reality experienced by practitioners. Another explanation that also has a major affect on the gap is that many companies do not take the cost-benefit criterion into account. It is important at top management level to investigate if the benefits exceed the costs in order to investigate which control systems that are best suitable for the individual organization.

3.1.7 Relevance lost

In the article *"The rise and fall of management accounting"* (1987), Johnson and Kaplan argue that management control systems too often provide a misleading target for the managers. They state that the initial purpose of a management control system, to help providing useful and correct data that will help managers lead an organization in the right direction, is far too often lost because of misleading and incorrect data. From these arguments, the concept of relevance lost is derived.

Johnson and Kaplan (1991) argue that the relevance lost situation results in three major problems. The first is that the operating managers have little help from the reports in their effort to create value. They argue that the reports might reduce productivity because the operating managers now have to spend time understanding and explaining the possible variances. The problem is that these variances might have little to do with the reality of their operations and therefore relevance is lost.

According to Johnson and Kaplan (1991), the second major problem is the difficulty of providing accurate costs, which leads to misleading prices on products and services used in the work of cost allocation. This leads to the possible danger of using misguiding basic data in the process of pricing and evaluating. They continually argue that this might lead to a misunderstanding, where organizations will not prioritize what is actually the most favorable product or service.

Finally, Johnson and Kaplan (1991) argue that most management control systems have a too narrow horizon. Managers tend to focus on meeting the short-term goals instead of looking at the bigger picture. The outcome of this third major problem might lead to the possibility that managers cut cash outlays for a certain period even though these outlays will benefit future periods. Marketing and employee training are two types of costs that are easy to cut, which will benefit the short-term goal, but possibly will hurt the long-term profitability of the company. According to Johnson & Kaplan (1991), these kinds of actions taken by managers are common examples of when the relevance of management control systems is lost.

3.2 Institutional perspective

The institutional perspective is described as another way of thinking. In order to understand why organizations may use a specific type of control system, even though they are not sure that it is working in the way that it is supposed to, according to a normative rational perspective, we need to “put on different glasses”. We need to look beyond the approach that these control systems are used because they are the most rational or optimal ones, and rather think about whether there can be other factors that influence the choice of systems (Burns (2000), Burns and Scapens (2000), Scapens (1994)).

3.2.1 Institutional framework

Scapens (1994) argues that there is a major gap between theory and practice. Through studies on available normative literature Scapens (1994) tries to identify, what he calls conventional wisdom of management accounting and then through surveys and questionnaires examines how it has been done in practice. He argues that he found a clear gap between theory and practice.

According to Burns and Scapens (2000), there is little research done within the area of why and how management accounting arises and what management accounting is or is not. Both Scapens (1994) and Burns and Scapens (2000) argue that the conventional wisdom of management accounting has its foundation in the neo-classical economic theory of the firm. This means that the systems assume that the people within the organizations act in a rational way, something that Burns and Scapens (2000) argue is not the case.

According to Scapens (1994), the theory of management accounting was developed by economists to help them predict how the market or an industry was going to behave in certain scenarios. He argues that the systems were intended for these purposes and not to explain and control the managers within the firm.

Burns and Scapens (2000) argue that management control systems play a vital role within many organizations when it comes to constituting routines and stable rules. They further argue that the management control system is an important and integrated part of the organization. This means that in order to change the management control system it is necessary to change some of the organizational routines, since the control systems are deeply integrated within the organizations.

Burns and Scapens (2000) identify three different approaches towards the institutional theory, namely: new institutional, new institutional sociology and old institutional economies. They argue that the later, old institutional economies (OIE), will best put focus on the organizational routines and the institutionalization. Burns and Scapens (2000) explain OIE as something that is not done because it is the most rational or optimized choice, as it would be in a neoclassical theory. The choices are rather made as a part of a routine in the daily work, for example.

Scapens (1994) argues that, with help from the institutional framework, we might be able to explain and understand the gap between theory and practice. With the institutional framework we will make the assumption that everything is not rational or optimized and in equilibrium, but rather that decisions might be made with other arguments and underlying facts, such as routines and institutionalization.

Meyer and Rowan (1977) claim that the structure of many organizations is highly institutionalized. Organizations integrate practices and procedures that are known to be rational perceptions in order to increase their legitimacy and possibility to stay in the business. They argue that many organizations may want to join the institutional concept only in the belief that they will be more legitimate, independent on whether the chosen practice or procedure is the most suitable one for the organization as a whole.

Burns (2000) uses the example of budgets as a phenomenon that in most companies has been institutionalized, which also can be approximated to other management control systems. He argues that the organizations have established budgeting rules that they follow and in time the budgets are taken for granted by the employees. Burns (2000) defines institutionalization as a routine that becomes widely accepted in an organization in the way that it becomes an unquestionable form of management control. If that is the case, Burns (2000) argues in his case study, some things cannot be explained from a normative rational perspective but rather with help of understanding the institutional perspective.

3.2.2 The discussion about budgets

Traditionally the budget has been an obvious part of the internal work within the organization, but there is a popular debate going on today about whether or not to participate in the budgetary cycle. Many articles have been written on the discussion and different organizations have chosen to either keep the budget or abandon it. The purposes of a budget are to be a tool in order to control the employees in the organization, serve as a foundation for decision-making and resource allocation, for example (Ax et al, 2007). Argyris (1977) argues that the budgetary process is deep-seated in many organizations. The budget has been used for a long time and the assumption that involvement in the budgetary process improves organizational control is still very powerful.

According to Hope and Fraser (2003), the budgetary process can be criticized in many ways. The most common criticisms are those that conclude that the process takes way too much time, costs a great deal for the organizations and does not add enough value compared to the time consumed. Perez and Robson (1999) believes that the budget is seen as something that the organization wants to show to the surrounding world, as a social and political reality, rather than a tool for planning and decision-making within the organization. But, they also believe that whether or not the budgetary process is successful within an organization depends on the situation. In some organizations the budgetary process can be more of a “ritual process” which just confirms what the managers already know.

Brunsson (1989) argues that organizations may use budgetary systems as a way of creating formal roles of responsibility within the organization. As a result of control processes and accounting techniques it is natural that individuals at different levels need to take more responsibility, even if it is not in a direct way.

Perez and Robson (1999) discuss the fact that organizations may use techniques and processes that are generally accepted in order to acquire external approval. As written above, budgeting is one of those processes that have been used throughout history to achieve legitimation. It is important for organizations to be perceived as legitimate, and it is easy to choose accepted and generally used models and processes in order to become as legitimate as their competitors might be. However, some techniques may be demanded by economic and legal agencies. For example, it is not unusual that creditors want the borrowing organization to draw up budgets.

One person that has been very driven and active in the discussion about budgets is Jan Wallander, Honorary President of Handelsbanken AB. His thoughts about budgeting can be summarized in one sentence:

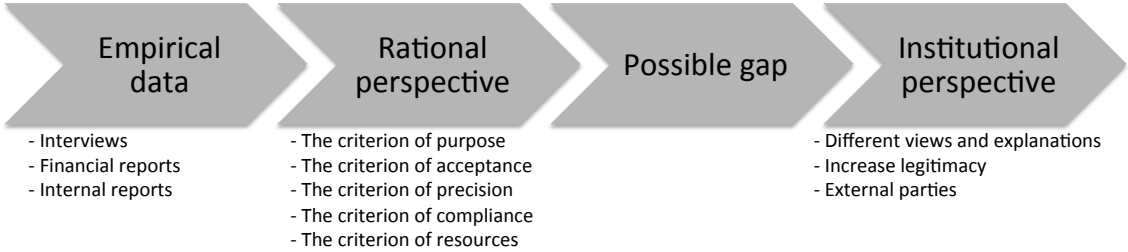
“Budgeting is an unnecessary evil” (Wallander, 1999)

Wallander (1999) argues that during his years within the economic field he had learned that when budgets are made, we are just making projections using historical experiences. He states that there are two types of assumptions that can be made. According to Wallander (1999), the first one can be defined as: “Same weather tomorrow as today”. This means that we will make projections using historical experiences, on the assumptions that the future will look almost exactly like the past. The second assumption concerns those cases where the forecasters are experiencing something that can be explained as abnormal. The curves will either go straight up or down, which leaves them with the only alternative to make the forecast that it eventually will go back to normal. There is a coin-flip whether this forecast will pay off or not. This is one example of something that will happen that the forecaster have not experienced before, such as a similar financial crisis like the one in Sweden in the 1990s. These two examples are just two of many that Wallander (1999) uses in order to make his standing point in the discussions about whether or not to abandon the budget.

3.3 Chosen model

In our final discussion, where parallels are going to be drawn between our theoretical framework and the empirical data, we will focus on two major parts of the theoretical framework. At first, we will, by using the rational perspective, compare Östman’s (1977) five criteria for evaluation of a management control system with the system for cost allocation that is used in Handelsbanken AB today. We will investigate whether there is a gap between our empirical data and the theoretical data included in our rational perspective. Furthermore, with help from the institutional perspective, we will analyze if there might be reasons, others than the belief that cost allocation is successful as a part of the control

package, for using this type of control tool. The analysis will follow our chosen model illustrated below.



Source: Markus Eriksson and Moa Estmalm

4. Empirical data

In the following section we will present the empirical data that we have obtained in our interviews with the top management and also our interviews with eight selected branch managers. Initially we will present the company, Handelsbanken AB, which we have chosen for our case study. This is followed by a presentation of the participants that we have interviewed, starting with top management level and ending with the branch managers. We will describe the participant's perception regarding cost allocation and its perceived purpose.

4.1 About Handelsbanken AB

Handelsbanken AB is one of the biggest banking organizations in northern Europe with almost 700 banking branches in their home markets Sweden, Denmark, Norway, Finland and Great Britain. In addition, Handelsbanken AB has several representative branches in other important financial centers such as New York and Singapore (Handelsbanken.se).

There are three major areas that can be used to describing the philosophy behind the way of thinking within Handelsbanken's organization (Financial statement 2010, Handelsbanken AB):

1. **Profitability.** This is naturally the major target and is going to be achieved through customer satisfaction and low costs.
2. **Customer satisfaction.** Handelsbanken AB believes that a strong local presence will lead to more satisfied customers. A prerequisite for the local presence will be that everything can be handled and decided in the local branch.
3. **Cost effectiveness.** Every bank manager will run his/her branch like an independent bank and be responsible for the entire value chain. In order to be as profitable as possible it is vital that the cost consciousness is discussed within the organization and that every employee works hard in order to be effective.

As a base for these strategies Handelsbanken AB works beyond budgeting. This means that no budgets exist within the entire organization. Wallander wrote that the rest of the banks in Sweden strongly criticized his and Handelsbanken's idea of working without a budget but that he, almost 35 years later, is proud of how Handelsbanken AB has developed and he refers to the numbers that speak for themselves. Handelsbanken AB has, with a few exceptions, been more profitable than comparable banks (Söderström, 2006).

Johanna Larsson (Handelsbanken AB) tells us that Handelsbanken AB as an organization can be seen as a single unit that focuses on the individual customer, which is one of the main focuses of the organization. The picture below also shows us that it is the branches that take the lead and are in the front of the organization. The branches have the right to delegate the corporate responsibility to a regional or a central business entity whenever they want.

However, the branches are fully responsible for the customer and are not able to delegate this further. The regional and central business entities are obliged to accept the responsibility that the branches delegate. It is always the branches that decide in what way the customer is best taken care of.



Source: Handelsbanken.se ²

4.2 A decentralized organization

Handelsbanken AB is divided into different profit centers (Johanna Larsson, Handelsbanken AB). These consist of Swedish and Non-Swedish banks, and also of central business entities and central departments. Each and every one of these consists of different profit centers, which are responsible for their own results. For example, every branch in Handelsbanken AB is a profit center. Johanna tells us that Handelsbanken AB is a highly decentralized organization with the belief that every branch should be managed as if it was its own company. The main idea is that the organization and their mode of operation should have its starting point in the branches responsibility towards their individual customers. The organization should promote an interaction among strong branches, qualified product owners, specialists and effective support functions. High profitability is achieved through full profit responsibility distribution to entities that work closest to the organization's customers, do the organization's business and know the customers the best. As a result of the full profit responsibility, these entities are also responsible for all the risks that the operation carries. Johanna tells us that the organization's beliefs are that the business entities best can assess the customer's situation, needs and desires, and they can also best discover new business opportunities. These are the reasons that every business entity within Handelsbanken AB constitutes its own profit center.

4.3 Cost allocation within Handelsbanken AB

The costs that are allocated within Handelsbanken AB shall equal the full cost of the service provided, which can be defined by all the costs required to produce the service (Johanna Larsson, Handelsbanken AB). It consists in part of the costs of the specific resources that the service claims, and in part also of the costs of the department's common resources used for developing the product. The main idea for the business supporting entities is that they shall produce a non-profit result.

² The picture has been translated into English

According to Johanna, the managers within Handelsbanken AB use internal costs to be able to allocate the costs of the products and services every branch needs/receives from the Regional Headquarters. There are five major reasons why Handelsbanken AB has chosen to work this way. These are:

1. To give a **fair allocation** of costs to the branches. The simple theory behind that statement is that the one who uses the services also will have to pay for them. This also prevents an overuse of internal services, which are thus no longer “free” for the branches.
2. To make sure that the price level of every product sold to customers is **priced in an acceptable way**. Through the cost allocation system the branch managers now see the entire cost (even the indirect) of the product they are selling and they are now able to aim towards a correct price level.
3. To put pressure on and **guarantee quality** from the supporting units that sell to the branches. If the costs are too high or the quality too low the branch managers are likely to look for external alternatives.
4. At Handelsbanken AB, the cost allocation systems are seen as an **opportunity to control and manage** the organization towards their common goal. The system gives the central managers the opportunity to stimulate specific products and updates that are judged to be desirable for the entire organization to use such as central IT-systems and supportive systems. Johanna points out that the system is not meant to control how the branch managers do their business, but rather to ensure the use of certain safety- and IT-systems.
5. **To make visible** all the costs associated with every branch and by that hopefully create an understanding by the employees to always ensure cost efficiency in their daily work.

In principle, all costs are allocated to every customer responsible entity, i.e. all the branches (Johanna Larsson, Handelsbanken AB). These internal costs make up for about half of every branch’s costs today. The branches are fully responsible for all their costs, including those charged by the Regional Headquarters, and the main idea is that they should be able to affect all their costs. In the case of internally allocated costs, the branches have the possibility to contact someone within the planning committee whenever they want, in order to try to improve their costs. Johanna tells us that there are only a few expenses that the branch managers are not able to influence themselves, and therefore these are not allocated to the branches. These exceptions are mainly costs that can be described as overhead costs pertaining to management functions in the corporate group and the regional

banks. Other costs that should not be allocated to the branches are those that have to do with basic system investments and development.

The existing distributing functions for the internally allocated cost are considered well developed and fair within Handelsbanken AB (Johanna Larsson and Martin Björnberg, Handelsbanken AB). These functions are continually redesigned to fit the organization's developments and needs. Every branch manager receives several reports on a monthly basis concerning their financial and operational situation. Examples of these reports are the REDA-report, the results report and the "branch card".

In a perfect world where every branch is able to provide all the services needed to run the branch there would be no need for any support or shared functions and therefore no need to allocate any costs, but unfortunately we do not live in that perfect world (Martin Björnberg, Handelsbanken AB).

As seen above, one of the purposes of cost allocation in Handelsbanken AB is to try to present all the costs to every branch as if they only had direct costs. By doing so, the employees at the Regional Headquarters put many hours into the process of deciding the distributing functions for each and every area where there exist internal costs that will be allocated (Johanna Larsson, Handelsbanken AB).

Johanna tells us that apart from the internally allocated costs every branch manager also has their own responsibility to manage all the direct costs associated with their specific branch. The purpose is that every manager at every branch is supposed to be able to understand the source of all the costs and that the manager is going to be able to control all the costs.

4.4 The planning committee

The planning committee within Handelsbanken AB is supposed to work as the organizations' internal market, where "supplier" and "receiver" can meet and discuss different problems (Johanna Larsson, Handelsbanken AB). These are mainly about:

- **Business supporting entities.** Here the discussion is about how to set the distributing functions when allocating costs.
- **Profitmaking entities.** The decisions include what set-up principles are to be used when the branches are involved in common businesses.
- **Result distribution entities.** The committee investigates how to set a fair and comparable selling compensation in step one and two presented above.

The work of the committee includes investigation to make sure that the set-up principles and allocation functions conform to the policies within the organization (Johanna Larsson, Handelsbanken AB).

The objective and extent of the supporting services are supposed to be controlled by the need of the ordering or receiving entities (Johanna Larsson, Handelsbanken AB). This is achieved through:

- The ordering/receiving entities are only ordering those services where they think the costs they are being allocated is reasonable
- The ordering/receiving entities shall be able to compare both prices and quality with external alternatives, and they should also be able to choose this alternative if it is better and/or affordable

According to Johanna, the supporting entities must therefore adjust and rationalize their operations in order to be competitive, both in terms of focus and quality of the services provided as well as their costs. It is important that the business supporting entities provide services that the profitmaking entities need in their daily work. Another vital part is that the costs allocated are correct and give the operation fair incentives.

4.5 Internal reports

4.5.1 REDA

Johanna tells us that every branch manager within Handelsbanken AB receives a monthly report called REDA, which covers the internal costs allocated to their branch. This report is distributed from the Regional Headquarters and contains two types of transactions. The branch managers are able to see both credit and debit transactions. In the credit columns they will find revenues that have been allocated back to their branch. These revenues exist because of the uncertainty of some price levels. A product owner owns every product within Handelsbanken AB. These groups of product owners are not supposed to make any profits, but rather just to cover their costs. This means that if there is a surplus for a certain product, Johanna explains, this surplus is supposed to return to the branches as revenue.

According to Johanna, the REDA-report also contains all information about the internally allocated costs (debit). The purpose of the report is to show and make all the costs that are associated with every branch visible. With support from the report, the operative branch managers are able to identify the costs for different activities, such as cash withdrawal or transactions, for example. The branch managers can also see which of these activities that can be related to their customers and the total costs of these activities.

The purpose of the REDA-report, according to Johanna, is more than just to make the costs visible. The branch managers can use it in their daily work when they think about how they can be more effective, when they choose between different ways of making business and to see the possible costs for a small investment. Since the branch managers have easy access to the REDA-system, they have the possibility to calculate how certain changes will affect their costs. The branch managers are able to identify what the extra cost would be if they were to rent one extra computer, for example. By visualizing all of this, the branch managers have

the possibility to benchmark the external supply of interesting products. If these external products are cheaper at external suppliers, the branch managers are allowed to buy from them instead, in order to save money. This will also provide incentives to the Regional Headquarters and the planning committee to be more effective in their work to offer products and services at a fair and competitive price.

Johanna states that the REDA-report is fairly heavy. The report is normally about twenty pages filled with all the internal costs allocated to the specific branch. If the branch managers would want the allocation functions for the activities they have been charged with, they will find all of them in an internal data system connected to REDA.

Johanna says that she believes that most managers actually use the report in their daily work, but she also believes that busy branch managers will not read through a twenty-page report with about 600 different costs and give all of them their full attention. Johanna rather believes that the branch managers will look at the results report and the “branch card” that are being handed to them every month. If it then turns out to be a huge deviation from previous months, Johanna believes that the branch managers will then try to find this variance and in that case maybe turn to the REDA-report to locate where the deviation comes from.

4.5.2 The results report

Johanna tells us that there also is an additional report called the results report. This report is a one-page summary of the branch’s financial performance over the last quarter. The report contains different types of revenues and costs. It is structured in a way so that the branch managers can identify where the different revenues and costs derive from. The report also includes a comparison among other branches within the Region that the branch is a part of. The branch manager can compare the numbers of his/her branch with the average of branches in the Region, and see if they are doing better or not.

4.5.3 The “branch card”

The “branch card” is another report that every branch receives monthly. The report contains different key measurements defined by the Regional Headquarters. This report covers more than just financial measurements; the report also contains some non-financial measurements that are considered important, such as customer satisfaction as well as “order and discipline”. The report is shorter than the REDA-report and is therefore easier to read. The different branches also have the possibility to download other branches’ “branch cards” in order to be able to compare themselves with other comparable branches (Johanna Larsson, Handelsbanken AB).

4.6 Thoughts at top management level

As written above, Johanna states that Handelsbanken AB believes that every branch is, and should be managed as, a small company in a big organization. Top-level managers have great faith in the branch managers at lower levels and give them almost unlimited freedom of

action, within the frames of the credit policy that permeates the organization. One of the organization's core values is that every employee should be cost effective in their daily work; hence great emphasis is placed on costs (Financial statement 2010, Handelsbanken AB). Johanna tells us that it is therefore important at top management level that a fair allocation of internal costs to lower levels exists, and that these costs are broken down into smaller parts so that the branch managers can identify exactly where the costs derive from. The reports that the branch managers receive every month include all the information about costs and revenues that top management consider important. The purpose, and top managers' intentions with the reports, is to make the branch managers more conscious about costs in order to get them to be more cost efficient in their daily work. Top management feels that the REDA-report, where branch managers have full access to all costs that are allocated to them, provides a good opportunity to use the report in their daily work in order to see what different products and services really cost.

4.7 Branch managers

4.7.1 Ale Torg/Vänernborg

Lena Gillholm is the branch manager of both Ale Torg and Vänernborg. She started her career within Handelsbanken AB more than 20 years ago. Over the years, Lena has worked within several different areas of the organization with everything from regular cashier jobs to working with big multinational corporations. During these years Lena has been working at eight different branches in the area around Gothenburg, and since about four and a half years ago she settled down as the branch manager of Ale Torg. Lena tells us that: *“a lot has changed during my time at Handelsbanken, but the strategy to be a decentralized bank with a high customer focus remains”*.

Lena feels that she can run her branches in the way that she believes is best. One example of this is that she is responsible for almost all revenues and costs associated with the branches. Another example concerns the marketing for Handelsbanken AB, which is also part of the responsibility of a branch manager's daily work. Lena says that: *“the decentralized organization gives me the opportunity to focus of what I think is important”*. Lena's three key focus areas in her daily work are: customers, business and employees.

Every month Lena receives several reports from the Regional Headquarters. Of these reports, Lena considers the results report and the “branch card” the most important ones. She uses these reports to see how the business has developed over the last period and she also shares the information with her employees. Lena uses this information to motivate and inform her employees about the development of the results, what they have done well and what they can do better in the future. Lena tells us that her employees really want to know how the branches are doing financially and that these reports work as a great motivational factor for them as a team.

When it comes to internal costs, Lena says that she does not know exactly what is included in them but that she trusts that the Regional Headquarters has allocated them in a fair and correct way. Lena does not use the REDA-report in her daily work. She tells us that she normally just looks at the results report and in the event that there is a big deviation in the internal costs, she will then look deeper into the REDA-report. Lena feels that there is not enough time for her to go deeper concerning the internal costs and that she has to prioritize activities that are closer connected to the customer. Lena also feels that she cannot influence the internal costs because a great deal of the activities in there has to be done in order for the branches to be able to continue their operations. However, she will of course go through the REDA-report if there is a big deviation concerning costs in the results report, but she does not use it as a tool for decision-making. Lena thinks of the internal costs report more as a way of showing that everything they do in their daily work actually costs money. She wants to create a consciousness within her branches, so that the employees think one extra time before they take actions such as printing a report or performing transactions.

4.7.2 Helsingborg

Maria Brygg is the branch manager at one of the branches in Helsingborg, which belongs to Region South. She started her career within Handelsbanken AB 1988 where she worked at a central division that focused on international business. She continued her career in the international area for many years, until she moved to Helsingborg in 2004 and started working in a regular branch. She really enjoyed it and is now, since one and a half year ago, the branch manager at one of the branches located in Helsingborg. During Marias years within Handelsbanken AB, not much has changed. *“I believe that we are shaped from the structure that was created more than thirty years ago”*, Maria says. Of course, the digitalization and the rapid change in technology has made it easier to perform some tasks and to satisfy the customers, but the way of working within Handelsbanken AB is the same as it was when Maria started. *“I believe that the reason for this is that Handelsbanken is such a decentralized organization with clear routines, which makes it hard for the top management to perform huge changes”*, Maria tells us.

Maria feels that she can manage the branch as if it were her own company. An example of this is that she gets to decide how many employees that are needed in order to be successful and she also participates in the recruiting processes. Maria also tells us that she is free to decide what areas her branch should focus on and what products they should offer.

Maria's two key focus areas in her daily work are the employees and customers. During the days, Maria spends a great deal of time supporting and acting as a coach for her employees and she also works hard in order to improve their customer relations.

The branch receives different internal reports monthly from the Regional Headquarters. Maria tells us that she was given a short presentation of these when she started, but that she is free to decide how to use them in her daily work. Maria focuses on the results report

to see how her branch has developed financially over the last period, what they have done well and what they can do better.

When we ask about the internal costs Maria sighs and tells us: *“I feel that I cannot influence the number of costs that are allocated to my branch. I just look at the results report to see how my branch has performed financially over the last period and I will only dig deeper into the internal costs if there is a major deviation concerning the internal costs compared to earlier periods”*. Maria also tells us that in such a case she will contact the Regional Headquarters and ask them for help. *“I do not use the REDA-report in my daily work”*, Maria says. *“It is too detailed and I do not have the time to go through it all, because I have to prioritize other activities”*, she continues. She also feels that she cannot influence the internal costs, which gives her one more reason for not taking the time to study the report further. However, Maria believes that it is important that the information exists within the organization so that she can contact the Regional Headquarters when some specific information is needed.

She would prefer if the information, about cost allocation, for example, were demand driven instead of supplier driven, as it is perceived now. *“I feel that it is easy to miss out on the things that are important when there is too much information to go through”*, Maria says. It also takes a great deal of extra time, especially when you are new and not used to it. Therefore, Maria believes that it would be both easier and more time effective if she was to ask for the reports that she thought were of great value, instead of getting all of the data collected together and at the same time.

4.7.3 Jönköping

Claes Ericson is the branch manager in Jönköping. He started his career within the organization in 1982 as branch manager in a very small branch in Åseda. After that, he has moved many times, working as a manager in many different cities in Sweden. He settled down in Jönköping in 1994 and has worked as a branch manager ever since. *“During my career I feel like I at least have tried to be the driving force behind a great deal of major organizational changes”*, Claes tells us.

Claes feels that Handelsbanken AB is a highly decentralized organization and thus he has the opportunity to manage the branch as his own company. He is responsible for the salaries of the employees, for example, which he also believes is the major cost for his branch. Another example is that he, with help from the employees, decided to increase the branch’s opening hours during the week and also to open up the branch for customers every Saturday. Claes believes that he is free to make the changes he wants for his branch, as long as it is in line with the principles of Handelsbanken AB and that the main idea is to make the bank a better place for its customers. The ethos, that Handelsbanken AB is a highly decentralized organization, is deep-seated within the organization and it would not be possible for the Regional Headquarters to try to change it. *“Not even during the last financial crisis did they*

tell me what to do, because it would be against everything that Handelsbanken stands for”, Claes says.

On the question about what Claes wants to focus on during his working days, he tells us: *“I want to coach and support my employees so that they will feel that they are seen and valuable and therefore hopefully also progress in their work”*. He continues: *“I want them to feel that it is allowed to succeed but also to fail because I believe that it is important in the process of developing useful skills and being a “better” employee”*. Another focus Claes talks about, that he also says is at least as important as the first two is their customers. Claes believes that it is vital to establish good customer relations in order for his branch to become successful.

Claes feels that it is important to be aware of different costs in the organization, and most of all the costs for his branch. He is very conscious about what costs his branch is charged with every month and he is working continuously to decrease them. One example of this is that he only hires the employees that are needed for the work to be done and that he is working very hard to get the right person at the right place. He is not afraid to think outside the box in order to make his branch more successful.

Claes uses many different reports and statistics in his work to motivate the employees and to receive his own updates. The fact that the reports are electronic makes it very easy just to download them when the information is needed. Claes believes that it is an improvement compared to before, when all the reports were delivered directly to the branch and he could not choose himself which one he wanted. The report that gets the major focus in the daily work is the results report. Claes feels that it is important to be updated about the costs of his branch, but he particularly uses the REDA-report when it is a major deviation regarding the internal costs in the results report. It is not common that Claes contacts the Regional Headquarters when there is vagueness regarding the internal costs. He explains it by telling us: *“I like to take care of the problem myself, it is my own challenge”*.

4.7.4 Vaggeryd

Inger Ågren is the branch manager in Vaggeryd, located about 30 km south of Jönköping. The branch consists of four employees and mainly handles private customers. Inger started her career at Handelsbanken AB in 1984 and has since then worked within several different areas such as being vice manager for about five years. As a branch manager Inger is relatively new with her almost two years at the branch in Vaggeryd.

During her more than 25 years within the organization, Inger feels that a lot has changed in the area of doing business, but the core values of Handelsbanken AB have remained the same, even during the big technological changes and smaller organization changes. *“A major part of the structure about how the organization is managed have stayed the same for almost thirty to forty years”*, Inger says. *“I feel like there is safeness in knowing that the models we use are well established and it has obviously worked so far”*, she continues.

On the question of what Inger feels she has to focus on during her day, she mentions that there is a great deal of administrative work that has to be done but that she also tries to give her employees the time and support they need. However, Inger says: *“I would prefer to put more focus into customer relations than I do today, but you know what it is like, some tasks such as administrative work has to be done in order for the branch to stay successful”*. Inger tells us that it is important within her branch to think about the long-term effects of their actions and that they always work hard in order to create long-term customer relations.

Inger feels that she has the freedom to take the decisions and manage her branch in the way that she prefers. The Regional Headquarters works as a support function, but it is up to her to take the decisions on how to perform.

Monthly, Inger’s branch is handed several different reports of both financial and non-financial development over the last period. Inger says that she uses the results report and the “branch card” in her daily work. These reports are shorter and focus on the most important measurements. *“Of course I look at most of them, but I try to focus on the costs and revenues that I feel I can affect”*, Inger says.

When we talk about internal costs Inger says: *“I do not work with them on a regular basis and, to be honest, I mostly just look at the results report. Only if there is a big variance I will go further with some other reports or call the Regional Headquarters”*. Inger continues: *“I feel like I cannot affect the internal costs and that is why I do not put any more effort in trying to understand and affect them”*. She tells us that she feels that there is not enough time to go through all the reports and that the internal costs are the same for everyone anyway, but that she understands that they are needed. Instead Inger rather focuses her time on building customer relations or managing the employees. Inger was introduced to the reports a few years ago, but she tells us that it is up to her to decide how to use them in her daily work.

4.7.5 Alingsås

Staffan Svantesson has been the branch manager at Handelsbanken AB in Alingsås since 2007. He started his career within the organization in 1999, after about eleven years at another bank. Staffan has worked within several different areas, such as being the customer manager for multinational corporations and vice manager at one of Handelsbanken’s branches.

Staffan tells us that a lot has changed in the way they are working now, compared to his first day. The focus has moved from helping customers with their transactions, to helping and guiding them in becoming more self-reliant.

The decentralized organization in Handelsbanken AB gives Staffan the freedom and opportunity to manage the branch in the way that he prefers. Staffan feels that he has the chance to run the branch as his own company, with himself as the CEO.

“To me, opportunities and responsibility are central words and values in our way of managing the branch and I believe that my employees will perform better if they feel appreciated”, Staffan tells us. This is closely associated with the responsibility that takes up most of his daily work: to support and coach his staff. Another part that takes up a great deal of Staffan’s time is representing the branch in important businesses and supporting their long-term customers.

“When needed, we contact the Regional Headquarters for help and support within areas where we need competence that is not represented within the branch”, Staffan says. *“One example of this is when we are going to write special covenants. This along with other internal costs is allocated back to our branch and is made visible at our monthly results report. However, I do not give the internal costs much focus”*, Staffan says. He believes that it is important to give the customers that little extra help, even if it will lead to costs for his branch. Staffan believes that it is the extra service that will lead them to more profitable customers in the long run.

Several reports are distributed monthly or made available for Staffan to order. The one that he uses most often is the results report. He uses it in his daily work in order to receive an update about how his branch is doing financially and in which areas they can improve their work.

Staffan tells us that he is not fond of the internal costs at the first glance, but that he accepts and understands that they are needed in order for the organization to function. *“I do not use the REDA-report in my daily work, I only investigate the internal costs in more detail if there seems to be a major deviation in the results report compared to earlier periods”*, Staffan says. *“There is no time to investigate these reports further and I prefer to focus my attention towards the numbers I can influence”*, he continues. Staffan also tells us that he does not have to go through all the reports himself and he feels that he receives very good support from the Regional Headquarters if he has any questions.

4.7.6 Avenyn Gothenburg

Olle Eksell is the branch manager at Avenyn in Gothenburg. His branch has about 25 employees and is located in the city center, with a great deal of large corporations among their customers. Olle started his career within Handelsbanken AB back in 1982 and has since then worked in many different areas within the organization. Since 1990, Olle has been either a branch manager or vice manager. The key word for him, in his daily work, is trust. Olle believes that if he takes the risk to trust someone and give them responsibility, they will always try their best and develop their skills. He also believes in managing more with a framework than with exact rules on how everything should be done; people have to think for themselves in order to be able to develop their skills.

During his years within the organization Olle has experienced all the changes in the bank industry. He tells us that they have gone from performing the actions for their customers to

supporting and helping them so that they can be more self-reliant. Nowadays, Olle and his team have to be even more rigorous in what they do so that the costumers understand and know how to do it themselves.

The branch is managed as if it were a single company; Olle is responsible for everything associated with the results of the branch. Olle feels that he can run the branch in the way that he prefers, without any interruption from the Regional Headquarters, for example. However, Olle feels that the Regional Headquarters is of big importance when it comes to supporting his branch when needed. If there is something that the employees at his branch cannot do on their own, they can always call the Regional Headquarters for help. Olle talks warmly about the relations between the employees within Handelsbanken AB and tells us that it is always easy to call for help and that he knows that everyone wants to contribute to the organization's best.

Olle investigates the results report that is handed to him monthly and if there is something that deviates from earlier periods, then he will dig deeper in order to understand what has happened. He also talks with his employees about some parts of the report and how they can work together to improve their results. *"The benchmarking between the different branches is an important measurement for me"*, Olle says. However, he clarifies that the most important part is the results of the entire organization, so they will always try to help each other between the branches.

When we talk about the internal costs Olle laughs and says: *"I became angry the first time I saw them, but now I understand that they are needed as a part of managing the organization"*. However, he does not put too much effort in analyzing the internal costs, since he has been in the organization for such a long time and that he feels and knows that the cost-consciousness is a part of everything they do at the bank. *"I do not use the REDA-report, unless there are numbers in the results report that look suspicious and that deviate from earlier periods"*, Olle continues. If so, he might investigate further by himself or call the Regional Headquarters for help.

The most important part of his job is to coach and develop his employees. The better they are, the better the branch will be and, in turn also the results. Olle puts a great deal of effort in supporting different businesses and customers. Olle feels that these two areas are the most vital part of being a branch manager. He also believes that too many branch managers bury themselves in administrative work and controlling. Olle says that it is important for him to trust the ability of his employees and that they will do their work, so that he does not have to control them. The more they can do on their own, the more time Olle has to support them when needed and help them in their own development.

4.7.7 Mjölby

Michael Rimstedt is the branch manager at Handelsbanken AB in Mjölby. Michael started his career at another Swedish bank, called Sparbanken, back in 1987. He was recruited to

Handelsbanken AB in 1991 where he has worked since then. During his twenty years within the organization Michael has worked at most of the positions within the branches and also as a stock trader at the Regional Headquarters in Linköping. Michael has been working as a branch manager for the last five years, starting at the branch in Söderköping and is now located in Mjölby.

Michael tells us that the big changes during his time, as an employee in the organization, have definitely been the technological development of, for example, Internet and other computer-based technologies. Presently, they are working more as a counselor for their customers instead of performing the actual transactions or deals.

Michael states that the structure of Handelsbanken AB is very decentralized, which gives him a great amount of freedom to run his branch in a way that, he believes, is the most favorable way to run it. *“This means that I have the possibility to make almost all the operative decisions without having to turn to the Regional Headquarters for approval”*, Michael explains. Michael states further that trust is very important within the organization and that it is a major reason why they are given the freedom to take a great deal of the decisions themselves. This is also the reason why he gives his employees the responsibility to make their own decisions without interfering. However, Michael tells us that one of the exceptions concerns the credit policy. There is a central line in that area that they have to obey and that can be frustrating sometimes, but they cannot affect it. However, Michael tells us that overall he has a great amount of freedom to run his branch in the way that he believes is the most successful one.

Michael tells us that his branch is a profit center and that he is responsible for the results of the branch. *“I am receiving several reports on a monthly basis on the level of our performance”*, Michael says. *“The report I use most in my daily work is probably the branch card”*, he continues. This report provides him with a summary of the key measures that the Regional Headquarters think are most important, and probably also the measurements that they think he needs the most in his daily work. Michael says that he also compares his branch to other branches within the organization by benchmarking their numbers against others. He also uses the “branch card” as a way to inform his employees on how they are performing.

When we ask about the internal costs, Michael says that they are presented in the “branch card” as a lump sum. He explains further that if the costs have risen compared to earlier periods, he will investigate further to see what the possible reasons could be. Sometimes he also uses the report of internal costs, the REDA-report, in order to investigate how much he would be charged if he were to buy one more computer, for example. He can then turn to the report or just call the Regional Headquarters for help. Michael adds that he feels that if he needs help with anything or if he just wants a second opinion, he can always call the Regional Headquarters for support.

The activities on which Michael puts his greatest focus on vary over time. In some periods the major focus is to meet clients and in other periods he has to focus more on his employees and also the reports and administrative work. He believes that in a smaller branch (his branch contains of about five employees) the manager has to be more involved in the operative work than in a larger branch where the manager can probably focus more on development and control.

The fact that cost effectiveness is a major part of the organization is not something that Michael feels that he has to put a great deal of thought into. He tells us that it is an ever-present concern for them in everything they do. This together with their belief that employees are able to make their own decisions is something that Michael would say is characteristic of the organization's way of thinking.

4.7.8 Huskvarna

Mats Andersson is the branch manager of Handelsbanken AB in Huskvarna. He started his career back in 1979 in Föreningsbanken, where he worked for five years until he began working at Handelsbanken AB in Jönköping. During his years within the organization, Mats has worked in most of the areas that exist within the branch organization and is now, since about three years ago, the branch manager in Huskvarna.

Talking about his years within the organization Mats says: *"the way they manage the bank is quite similar to how it was done when I first started"*. He further tells us that he believes that if you trust a person, s/he will be motivated to perform at the top of his/her abilities. Mats also feels that the decentralized organization, with more freedom for the employees to make their own decisions, is an important part of their way of managing the bank. However, he continues by telling us that a great deal of the procedures today are getting more and more standardized which makes it harder for the employees at the branches to make some decisions. One example of this is the branch's credits, where there are clear rules and procedures that the employees have to obey and that leaves them with less freedom to make independent decisions, which they could have made fifteen years ago. However, the overall freedom of running his branch in the way that Mats prefers, especially in the operative decisions, remains.

Mats tells us that the employees have all been educated that low costs and customer focus are the most important parts of their job. This is really something that everyone in the organization carries with them, which means that it is not something that they often discuss; it is just taken as given.

"Every month, I receive several reports on how my branch is developing, both at a financial and operational level", Mats says. He tells us that he uses the "branch card" most frequently to analyze his branch in order to see in which areas they are doing well and what they can improve. *"The "branch card" helps me to get a quick summary over the branch and is easy to read and understand. It also contains both the financial and non-financial measurements*

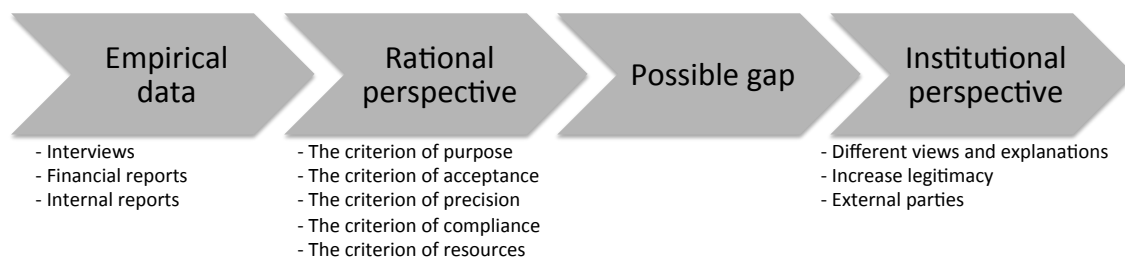
that the Regional Headquarters consider the most important ones”, Mats tells us. He also uses the information from the “branch card” to inform his staff on their development, as well as to compare their numbers with other comparable branches.

When we ask about the internal costs, Mats answers: *“I feel that I cannot control them and, therefore, I do not put any effort into studying them. It feels better to focus my time to the areas that I can influence”*. However, if the costs have risen compared to earlier periods, then Mats will call the Regional Headquarters to see what has happened, but generally he just accepts them and believes in the fact that there is a fair allocation.

Mats tells us that spending time with his clients and employees, in addition to performing administrative work, takes up much of his time. There are a lot of different parts that need to be managed in order for the branch to work as smoothly as possible. *“Therefore, I focus on the parts that I feel I can influence and control”*, says Mats.

5. Analysis

This section contains our own interpretations of the empirical data presented above and we will also give a detailed comparison between our theoretical framework and empirical data. The analysis will be composed from our analysis model that was introduced in the theoretical framework and that is also presented below. Since we have chosen a descriptive approach we believe that it is of big importance to start this section by saying a few words about our own experiences and thoughts during the interviews. The section will have the characteristics of a discussion, but we have made some interesting findings that also will be presented below.



Source: Markus Eriksson and Moa Estmalm

5.1 Rational perspective

First, we would like to shed light upon the differences we experienced during the interviews among thoughts and opinions regarding the purpose of cost allocation at a detailed level, at the different levels of the organization. However, we discovered major similarities of thoughts and experiences regarding areas discussed among the interviewees at the same level, for example branch managers.

As written in our empirical data, one of the purposes of cost allocation at top management level at Handelsbanken AB is that the branch managers are supposed to use the information of the costs allocated to them in their daily work. The top management is therefore going to be able to use the cost allocation as a part of the control package as an opportunity to control and manage the branches. It is therefore important at top management level that the costs allocated are fair and clear. Within Handelsbanken AB they are using, what Horngren et al (2009) would define as the “cause and effect-criterion”, which means that costs are allocated by looking at the variables that cause the resources to be consumed.

During our interviews at top management level we understood that cost effectiveness is deep-seated and permeates the whole organization. The Regional Headquarters found it important to specify the costs down to a very detailed level in order for the managers at lower levels to use them in their daily work. One other purpose of cost allocation is that the

branch managers should use these reports as a basis for decision-making, which is also one of the major purposes of cost allocation, according to Horngren et al (2009). The system should be able to provide information and serve as a base when making decisions about whether or not to add another computer to the branch, for example.

During the interviews with Johanna Larsson, at top management level, we found indications that there was an uncertainty regarding if managers at lower levels perceived the purpose of cost allocation. Johanna told us that she was unsure about whether the branch managers paid attention to all the allocated costs in the REDA-report or if they just looked at it if they found a deviation regarding internal costs in the results report. We found indications that there was an uncertainty about the cost allocation as a control tool, whether it was used by the branch managers in their daily work as a part of how the branch was managed.

According to Östman (1977), there are five criteria that can be used in order to evaluate a management control system, and whether it affects the employees to perform actions that are known to be desirable for the organization as a whole.

5.1.1 The criterion of purpose

This criterion is evaluated on its ability to fulfill the purpose of the organization, to ensure that employees do what is favorable for the corporate group. Östman (1977) has divided the criterion into two parts, the first one focuses on whether the employees will perform actions that are desirable for the organization as a whole when they are trying to achieve the goal with the management control system.

The major purposes of the cost allocation as seen in the empirical study are to bring cost consciousness/awareness within the organization and that the cost allocation is supposed to function as a tool for the top management to managing the branches. The first of the purposes seems to be something that is natural within the organization of Handelsbanken AB, no matter who we have talked to. However, they seem to believe that it is important not to let their cost consciousness strike down on the quality of the products the customers are demanding.

As seen in the empirical study, a majority of the branch managers interviewed do not use the REDA-report. By not doing so the second purpose that cost allocation is seen as an opportunity to control and manage, loses its relevance. If the managers do not glance at the reports, then the report loses the role as a part of the control package and becomes just a report filled with data. As seen in the empirical study, a majority of the branch managers interviewed tend to think that they cannot control the internal cost and that is one of the reasons for them not to give the reports any effort. The suppliers on the other hand believe that by sending this report to the branch managers, they are managing and controlling the decisions the branch managers are making. As seen in the theoretical framework, this is an example of, what Johnson and Kaplan (1987) might describe as, relevance lost in a control system.

The second part of the criterion contains a prognosis that focuses on whether the employees will use the possibilities given in order to achieve the goals (Östman, 1977). As seen above, most of the branch managers did not put much effort into reading and understanding the detailed reports on cost allocation. This indicates that there is a conflict with the second part of the first criterion, since the branch managers interviewed indicate that they do not use the report to the extent that they can.

5.1.2 The criterion of acceptance

The second criterion has to do with acceptance. It is important that the employees accept the system and believe in that it is necessary, so that they will take actions that are beneficial for the organization as a whole.

During the interviews with Johanna, she indicated that there was an uncertainty about whether the branch managers used the detailed REDA-report to the extent that was desirable at top management level. However, Johanna believed that the branch managers read the report and use it if they wanted to investigate the internal costs further, but that she was uncertain about whether all managers felt that they really had the time to do so.

A great majority of the branch managers interviewed indicated that they do not have the time to go through the report. Some of them even said that they just call the Regional Headquarters if there is something that is unclear about the internal costs presented in the results report or the “branch card”. The majority of the branch managers told us that they felt that the costs that were presented to them in the REDA-report were too detailed and that they could not affect them anyway, even if they wanted to, so why put any effort into doing so.

We experienced that a great majority of the branch managers interviewed felt that it was not necessary for the Regional Headquarters to specify all the costs at such a detailed level, since they feel that they do not have the time to go through all of them, cannot affect them and that they do not really need them in order to manage their branches in a successful way. This indicates that, in a way, the branch managers say that they accept that the system exists, but that they do not think it is necessary.

5.1.3 The criterion of precision

This criterion states that in order to have a successful management control system, the system must contain a degree of both correctitude and precision for the economic evaluations. During our interviews at the top management level and also with help from the internal reports we have understood that the reports concerning the internal costs are very detailed and precise. The Regional Headquarters feel that the report is an important part of the cost effectiveness in the organization and that they want to make it as detailed as possible in order for the branch managers to receive an elaborated document that they can use in their daily work. The main thought at top management level is that the branch managers should receive an explicit report every month that would make it very easy for

them to compare it to earlier months. The branch managers also stated that they experienced that the report is very elaborate. Even though the majority of the branch managers interviewed do not use the report, they feel that it is precise and clear, but that it is sometimes too detailed. Overall, there seem to be an agreement between Östman's (1977) third criterion and the way the control system is perceived in the organization. The discussions during the interviews have not been about whether the branch managers feel that the report is not detailed enough, rather that it might be too detailed for the branch managers to go through.

5.1.4 The criterion of compliance

This criterion states that there must be compliance within the management control system, as well as between the system and its surrounding factors. During our interviews, with both managers at higher and lower levels, we experienced that the belief in cost effectiveness is really strong. Every employee has told us that they think it is important that costs are discussed within the organization in order to strengthen the consciousness. The branch managers also stated that Handelsbanken AB is a strongly decentralized organization, which gives them the opportunity and responsibility to manage their branch as if it was their own company. Furthermore, all the branch managers told us that they are responsible for all costs and revenues that are associated with their branch

During our interviews with Johanna, she argued that since the branch managers make their own decisions about the operation, they also need information to base their decisions on. We experienced that it was vital at top management level to give the branch managers the opportunity to see all the costs allocated to them on a detailed level in order for them to do their job as successfully as possible. On the other hand, it did not seem to be that important for the branch managers to receive the information from the Regional Headquarters in order to do their job well. Some of the managers rather seemed to be of the opinion that too much time-demanding reports will impair their effort to run the branch in the most successful way. This could be an indication that the compliance Östman (1977) talks about is not perfect. However, these opinions seem to differ depending on whether the branch managers are running a big or a small branch. In bigger branches it is easier for the branch manager to take the time needed with the reports, since the manager has more vice managers to support him/her and to whom the employees can turn for easier questions, questions that the branch managers at smaller branches have to handle themselves.

Johanna indicated that the top management wants to show the branch managers the exact amount of costs that can be derived from computers used, for example. They believe that this gives the branch managers a hint about whether the costs are normal or if there is an opportunity to decrease them even further. As written above, a majority of the branch managers interviewed feel that cost effectiveness is an important part of their work, but that they do not have the time to read the detailed REDA-report to find out all of the small costs. The branch managers would rather focus on the areas they feel that they can influence. Most of the branch managers argue that they have more important tasks that

need be done, such as create and maintain valuable customer relations and support their employees. According to Östman's (1977) criterion, this might indicate that the compliance is not perfect between the different levels of management and their way of evaluating the control system.

5.1.5 The criterion of resources

The last criterion concerns the resources that are needed in order to achieve the goals of the control system. Östman (1977) argues that it is important to consider the employees that are needed and also to see if the employees spend time on the management control system at the expense of other duties.

As stated before, most of the branch managers were of the opinion that they do not have the time themselves needed to go through the reports. Most of the branch managers told us that they do not omit other tasks that they consider more important for them to do a good job; instead they focus less on the REDA-report with the belief that they already have the knowledge needed, about the costs allocated, to manage their branch in a profitable way. However, some of the managers indicated that they sometimes spend time on reading the reports or investigating a deviation, time that they would rather spend on other tasks that they believe are important for their work. About fifty percent of the managers interviewed indicated that they would have preferred to focus more on meeting the customers and try to improve the customer relations instead of focusing on the reports.

As seen in the empirical study, all these allocation functions are continually produced and modified, which takes a great deal of the Regional Headquarters' time, Johanna says. It is probably hard to put a value on a control system but there might be a risk of relevance lost in the system because of the experienced gap between the purpose and the outcome that the system might cost more than the benefits received. According to Ax et al (2007), one explanation that has a major affect on the gap within management accounting is that many companies do not take the cost-benefit criterion into account. This can be compared to the criticism of the budgetary process, which, according to Hope and Fraser (2003), often is said to take way too much time, costs a great deal for the organizations and does not add enough value compared to the time consumed. Even though Handelsbanken is an organization that is working beyond budgets, this can be approximated to other control systems, such as cost allocation, for example. It is important at top management level to investigate if the benefits exceed the costs in order to investigate which control systems that is best suitable for the individual organization. This might be something that the top management at Handelsbanken AB needs to take into consideration.

5.2 Institutional perspective

In order to understand why organizations may use a type of control system, even though they are not sure that the system is working in the way that it is supposed to, we need to "put on different glasses". We need to look beyond the approach that these control systems are used in because it is the most rational or optimal one, and rather think about whether

there can be other factors that influence. Thoughts expressed in this area can be brought from the institutional perspective that was introduced in the theoretical framework. Here we can understand that organizations may want to give a picture of themselves as a rational company by using a legitimate management control system that is supposed to create clearness and control. Burns and Scapens (2000) take the standing point that some things can be explained, and sometimes even defended, by the fact that there are other reasons, than the traditional ones, of why things are done.

In the discussion above, under the first of Östman's (1977) five criteria, the criterion includes what actions the management control system causes. If there is relevance in the system, the system is supposed to give the desirable actions for the organization as a whole. During our interviews, a majority of the branch managers told us that they do not use the reports in the way that the Regional Headquarters believe. If we look at the fourth reason in the empirical study, of why Handelsbanken AB uses cost allocation, we see that the cost allocation system is supposed to function as an important managing system for the Regional Headquarters. If the branches do not use the report in the desirable way, they will probably not fulfill reasons two to four and therefore one might argue that the relevance at least to some extent is lost.

The question is why a healthy and profitable organization such as Handelsbanken AB would continue to allocate internal costs and report them in the way they are doing, even if a majority of the branch managers interviewed do not use the information. This is where the institutional framework comes in handy. Meyer and Rowan (1977) claim that the structure of many organizations is highly institutionalized. Organizations integrate practices and procedures that are known to be rational perceptions in order to increase their legitimacy and possibility to stay in business. They argue that many organizations may want to join the institutional concept only in the belief that they will be more legitimate, independent on whether the chosen practice or procedure is the most suitable one for the organization as a whole.

One example of this is the debate going on about budgets, but this can be approximated to other management control systems. According to Perez and Robson (1999), the budget is seen as something that the organization wants to show to the surrounding world, rather than a tool for planning and decision-making within the organization. In the same topic, Brunsson (1989) argues that organizations may use budgetary systems as a way of creating formal roles of responsibility within the organization. As stated above, Handelsbanken AB is an organization that is working beyond budgets, but cost allocation can be seen as a comparable system of controlling the employees in order for them to be cost efficient in their way of working.

Burns (2000) defines institutionalization as a routine that becomes widely accepted in an organization in the way that it becomes an unquestionable form of management control. If that is the case, Burns (2000) argues in his case study that some things cannot be explained

from a normative rational perspective but rather with help of understanding the institutional perspective.

This is worth thinking about when it comes to Handelsbanken AB and their way of working. During our interviews we have heard a majority of the branch managers saying things closely to: *“A major part of the structure about how the organization is managed have stayed the same for almost thirty to forty years”*. Since a majority of the branch managers interviewed have been working within the organization for almost twenty years, they are all used to the way the bank is managed. Most of them also felt that there had been big changes within the banking industry, but when it comes to the control system it is almost the same as it was twenty years ago. A majority of the branch managers interviewed also said that they thought it would be hard to change too much of the control system because they are all so used to it and have accepted that it exists, even though they might not use it. They indicated that the actions are taken more based on reasons such as *“that is the way we always have done it”*, *“it has worked so far”* and *“everyone expects us to work this way, so why change it”*. One of the branch managers told us that: *“I feel like there is safeness in knowing that the models we use are well established and it has obviously worked so far”*. This might indicate that the control system used is, as Burns (2000) argues, a routine that becomes widely accepted in an organization in the way that it becomes an unquestionable form of management control.

The branch managers within Handelsbanken AB argue in a way that, according to Burns and Scapens (2000), if looking at the rational perspective the relevance of some parts of the system might be lost, but in the light of the institutional framework there appear to be an understanding of why the system is used. Some parts of the cost allocation system might be used because it has been institutionalized and maybe not because it is the best or most suitable one, from a rational perspective.

The acceptance part, that is Östman's (1977) second criterion, is rather interesting from an institutional perspective. As seen above, the branch managers state that they accept that the system exists, but that they do not use it. This does not seem to be a rational way of thinking, but from an institutional perspective it seems more reasonable. The system, as a part of a routine, is accepted even though the report is not used. The control system might enable the employees to feel secure and might also be working as an anchor for the organization.

6. Conclusion

This section contains our conclusion of the study and also some suggestions for further research.

In our thesis, we have performed interviews with two employees at top management level and eight of the branch managers located around Sweden. We feel that this has been an interesting study where we have had a chance to analyze and interpret an organization's internal work by interviewing the employees. In the beginning of the thesis, our key question was: "The use of cost allocation as a part of the control package; has it lost its relevance?" After we had performed our interviews, we understood that a majority of the branch managers do not seem to be using the detailed report, with all the costs allocated, in their daily work. The reasons for that seems to be that most of them are of the opinion that they cannot influence the internal costs and that they, even if they could, do not have the time or interest in reading the report every month. As written in the analysis, there seems to be indications that some of Östman's (1977) criteria are not consistent with the control system of Handelsbanken AB. The system has been in use for many years and the employees are used to the control systems as a part of their regular work. However, under all these years, huge areas within the bank industry have changed as a part of the digitalization. The way of doing business as well as the cost structure of Handelsbanken AB do not look the same as they did thirty years ago. It is only in recent years that internal cost has risen as an effect of the digitalization, for example.

There is no doubt regarding the fact that Handelsbanken AB over the last thirty years has been performing well compared to their comparable competitors and that the employees of Handelsbanken AB seem to be very loyal to their employer. The question is why a company with highly educated and professional staff keeps sending reports that the receivers do not use in their work. As seen above, the answer was not to be found in the classical rational perspective, instead we had to go through the institutional perspective and try to understand that these actions might be influenced by this view. It also became clear during the interviews that the branch managers did not question the necessity of the report; rather, they said that they did not use it, but that they believed that the report existed for a reason and that they were sure that other managers used it.

This might indicate that when the system was first introduced the report was consistent with Östman's (1977) criteria, from a rational perspective, but as time has passed the system has rather become institutionalized and lost its original relevance. The employees are used to their way of working and the traditional control system might work as an anchor within the organization, which the employees might experience as some support and safety in their daily work. Even though this might not be rational from a normative rational perspective, the outcome of legitimation, both internal and external, and the creation of safety and clear routines for the employees might make the decision rational from a wider institutional perspective.

When looking at an even bigger picture, a parallel between the institutionalization of the cost allocation system and budgets might be drawn. The many statements in the empirical study such as “...now I understand that they are needed as a part of managing the organization” are very similar to the arguments in the discussion about why budgets exist. As written in the theoretical framework, the purposes of a budget are to be a tool in order to control the employees in the organization, serve as a foundation for decision-making and resource allocation, for example. When looking at the purposes for cost allocation within Handelsbanken AB, we see that they are quite similar to the ones for budgets. One might speculate that, in the absence of budgets, cost allocation has taken its place as a legitimating and safety-creating tool. If that is the case, it might be an example of when something has lost its relevance from a rational perspective, but contains as an important part of the organization from an institutional perspective.

Further, we have been given the impression that many routines within the organization are traditional and remain unquestioned. This is an example of, what Burns (2000) would define as something that might have become institutionalized. The employees with twenty to thirty years of experience are used to working this way and state that it would be hard to change these routines because everyone are used to them. We have also experienced that these routines and traditions are important for the employees in the way of identifying themselves with the organization; an organization they are proud of working for. This might confirm the feeling that some of the systems might be institutionalized.

Even though some systems might have lost their relevance from a strictly normative perspective, they might still be rational from an institutional perspective and, therefore, still be relevant for the organization as a whole.

7. Further research

During our study we have seen several areas for possible further research. As we have focused on just one organization within our study, it would be interesting to compare Handelsbanken AB with other big Swedish banks. One suggestion is to describe and analyze the differences/similarities among them related to cost allocation and decentralization and how these parts affect the employees within the banks.

When interviewing the employees at Handelsbanken AB we have understood that they feel that they get the freedom and trust to make their own decisions. They also feel very loyal towards the bank and almost consider the organization as their own company. One interesting question to answer could be whether trust and freedom translate to honesty and loyalty on the part of the employees or whether it is just an effect of professionally done recruiting. A comparable study between Handelsbanken AB and another organization, which is highly controlled by rules instead of trust, would therefore be very interesting.

During our study we have mentioned the fact that Handelsbanken AB is a company that works beyond budgeting. One suggestion for further research would be to study whether or not Handelsbanken AB actually works beyond budgeting, or whether they instead might be taking other actions that are comparable to the budgetary process. It would be interesting to further investigate if the budget is replaced with a highly controlled cost allocation system, for example.

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Appendix

Interview guide – branch managers ³

- Name
- Office
- Tell us about how you started your career in Handelsbanken?
- For how long have you been working in Handelsbanken?
- For how long have you been the branch manager?
- During the time you have been working within Handelsbanken, what has characterized it? Have there been some changes?
- How do you perceive the control/follow-up within Handelsbanken? How has it changed/evolved over time? Examples?
- We hear a lot about the fact that Handelsbanken is a highly decentralized organization, how it is perceived within the organization? Examples?
- How do you perceive the costs that exist within Handelsbanken? Difference between external and internal costs?
- Do you feel that you can influence the costs that are being allocated to your branch?
- How do you perceive the internal information that is handed to you by the Regional Headquarters? Foundation for decisions? Examples?
- Is it possible that you will contact the Regional Headquarters if you experience that you do not have the knowledge needed in a specific question? Examples?
- How do you experience the purpose with the internal information that is handed to you and your branch?

³ The interview questions have been translated from Swedish