The 2007/2009 financial crisis exposed large discrepancies in the management of banks. The societal significance of the banking industry means that such discrepancies receive extensive attention from governments and supra-national authorities, which have introduced a plethora of new regulatory requirements in the wake of the crisis. Crises and regulatory change are examples of external events that are expected to influence the internal management of organizations. This thesis focuses on the interaction between the external and internal perspectives in order to analyze the systems and procedures that banks have developed to manage risk and performance. In particular, the aim of the thesis is to explore how Swedish banks organize, and adapt, their performance management systems (PMS) to the dynamic context in which they are embedded in order to contribute to our understanding of PMS, regulations and change in banks.

The first three essays of the thesis address this aim through a historical and procedural perspective. Institutional theory is used as a lens in order to explore and interpret how Swedish banks have adapted their PMS to the constant flux in their external environment. A multi-level research approach is pursued in accordance with the recent developments within institutional theory-based research. Specifically, the relationship between external events, such as crises and regulatory change, and PMS change is explored. The evidence suggests that it is vital to distinguish between different types of external events in order to better understand when and where we might expect PMS change. The thesis proposes that the concept of decoupling can be a promising way forward to make this distinction more precise.

Essays 4-5 zoom in on funds transfer pricing (FTP), which is widely acknowledged as an important part of the PMS of banks. These two essays address overall aim of the thesis by exploring the different objectives of the FTP system in banks, the efficiency of sophisticated FTP systems in efficiently allocating resources under different market conditions, and the role of the FTP system in small, local and risk-averse banks. The essays confirm the importance of the FTP system in banks, a notion that is further enhanced by the recent regulatory developments. At the same time, the essays point to the complexities inherent in organizing an efficient FTP system and the delicate balance between theoretically optimal and practically viable solutions.

Key words: Banks, Savings banks, Performance management systems, Regulation, Change, Institutional theory, Funds Transfer Pricing

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Abstract

The 2007/2009 financial crisis exposed large discrepancies in the management of banks. The societal significance of the banking industry means that such discrepancies receive extensive attention from governments and supra-national authorities, which have introduced a plethora of new regulatory requirements in the wake of the crisis. Crises and regulatory change are examples of external events that are expected to influence the internal management of organizations. This thesis focuses on the interaction between the external and internal perspectives in order to analyze the systems and procedures that banks have developed to manage risk and performance. In particular, the aim of the thesis is to explore how Swedish banks organize, and adapt, their performance management systems (PMS) to the dynamic context in which they are embedded in order to contribute to our understanding of PMS, regulations and change in banks.

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Any remaining mistakes are mine.
Viktor Elliot, May, 2015

Contents

PART I

INTRODUCTION

1. Introduction

My interest in banks started in 2009, when the 2007/2009 financial crisis was still peaking and newspapers were filled with discussions about the mismanagement of banks. This interest led me to the vast number of academic and governmental analyses of the causes and consequences of the crisis. A striking feature of these analyses was their wide range of explanations for the crisis and solutions to avoid future crises, such as: the appropriate level of capital in banks, the need for more stringent regulatory frameworks, misaligned incentives, and excessive risk-taking (cf. Davies, 2010; Thakor, 2014). In his review of 21 books written on the crisis, Lo (2012) concluded that there is significant disagreement with regards to the causes of the crisis, and even less agreement as to what to do about it. The ambiguity regarding the causes of and solutions to the financial crisis, together with the many claims of mismanagement, made me curious about how to actually run a bank and, more specifically, the systems and procedures that banks have developed in order to manage risk and performance.

The various performance management systems (PMS)[1] mechanisms that firms use are typically developed to address the different problems they face in organizing their operations and managing their performance. Banks are no exception. Several studies have documented the use of traditional PMS mechanisms in banks, including: budgets, performance measures, risk management techniques, bonus schemes, balanced scorecards, benchmarking practices and so on (see section 2.3.2). Despite these important contributions, Soin and Scheytt (2008:1392), after reviewing the management accounting literature dealing with the financial service industry, concluded:

> Why is it that there is so little research on management accounting in the financial service sector? Although it has had a very short career, it is surprising that management accounting scholars show so little engagement in the analysis of management accounting practices in financial services, given the importance of this sector to the global economy.

The financial crisis accentuated the critique, and in recent years there have been a persistent and growing number of calls for studies of management accounting within the banking industry (cf. Arnold, 2009; van der Stede, 2011; Kaplan, 2011; Gooneratne and Hoque, 2013; Soin and Collier, 2013; Wahlström, 2013; Giovannoni, Quarchioni and Riccaboni, 2014; Jönsson, 2014). The essence of these calls can be summarized into one key observation suggesting that the malfunctioning incentive structure within the financial service industry is not merely an external problem (see also, Kane, 2009; Power, 2009; Millo and MacKenzie, 2009; FCIC, 2011; PCBS, 2013; Jönsson, 2014). For example, Kane (2009:101) concluded that "…incentive conflicts tempted private and government supervisors to short-cut and outsource duties of due diligence that they owed not only to one another, but to customers, investors, and taxpayers". The Financial Crisis Inquiry Commission Report (FCIC, 2011:xvii)

[1] The research that specifically uses the PMS concept has developed primarily within the management accounting literature. Section 2.3 elaborates on the concept, but for now it is sufficient to keep in mind that PMS is a broad and practice-oriented concept that encompasses all the tools that managers use in order to implement the main objectives of the organization. Throughout the remainder of this text, and if not specifically stated, management accounting is used as a collective term for research that deals with management accounting and control issues, including research that specifically uses the PMS concept.

concluded: “The crisis was the result of human action and inaction, not of Mother Nature or computer models gone haywire. The captains of finance and the public stewards of our financial system ignored warnings and failed to question, understand, and manage evolving risks within a system essential to the well-being of the American public”. The report is filled with examples and quotes such as the following (2011:8):

> I was a sales and marketing trainer in terms of helping people to know how to sell these products to, in some cases, frankly unsophisticated and unsuspecting borrowers,” he said. He taught them the new playbook: “You had no incentive whatsoever to be concerned about the quality of the loan, whether it was suitable for the borrower or whether the loan performed. In fact, you were in a way encouraged not to worry about those macro issues.” He added, “I knew that the risk was being shunted off. I knew that we could be writing crap. But in the end it was like a game of musical chairs. Volume might go down but we were not going to be hurt.

In most of these studies and reports, the incentive problems are not as narrowly defined as defective key performance indicators or bonuses; instead, they point to many interrelated problems in the design and use of banks’ PMS (cf. Jönsson, 2014 for an extended discussion). Similarly, Kaplan (2011) emphasized the importance of studying these problems from a management accounting perspective so that accounting researchers can offer their insightful advice to the intellectual debate on how to improve banks’ PMS. In particular, several authors have suggested that integration between management accounting and risk management research is necessary to better understand the PMS design and use in banks (see specifically Soin and Collier, 2013).

The financial crisis also bears witness to the societal significance of the banking industry, and the close relationship between banks and the context in which they are embedded. The regulated nature of the banking industry is one distinctive feature of this relationship, which was described by Bryan (1990:113 cited in Gooneratne and Hoque, 2013:145) in the following way:

> Banks are not creatures of nature. They exist at the pleasure of the governments and the societies they service in order to meet the needs that could not otherwise be addressed as efficiently or effectively [...]. The activities of banks have always had an enormous influence on their societies. In turn, the agents of society – national governments – have long had an enormous impact on banks, both as borrowers from banks and as regulators of their activities.

The massive, ongoing re-regulation of the banking industry (introduced primarily as a response to the financial crisis) is bound to influence the PMS of banks, especially by restricting and prescribing what types of PMS they should have. However, several of these regulatory measures have been delayed and Chorafas (2012), referring to Basel III, concluded that the poor health of the European banks has played a major role in the intense lobbying to postpone and spread the implementation of these regulatory measures up to 2019. The Basel III proposals are, however, supra-national advisory measures, offering suggestions on how regulations should be organized at a national level. Accordingly, some countries, such as Sweden and Switzerland, have decided to implement several of these regulatory features prior to the schedule. Both countries have also decided to enforce much stricter regulations than the minimum requirements suggested by the Basel Committee. A reason for the chosen approach can be found in Figure 1.

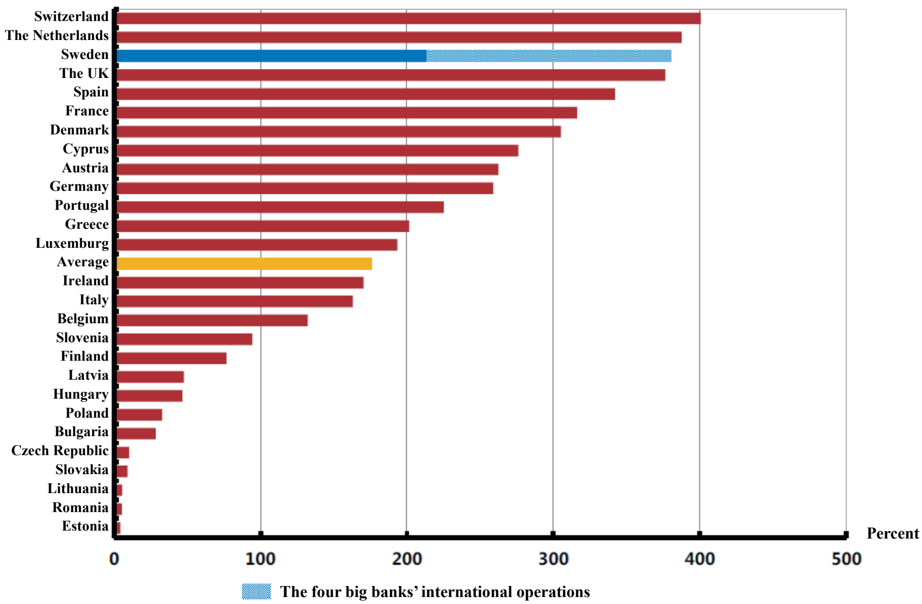

Figure 1
Bank assets in relation to GDP, December 2013 (adapted from Riksbanken (2014:13)

Figure 1 shows that, in the bank-dependent European economy, both Switzerland and Sweden have among the largest banking systems (in relative terms), which has been a frequently used argument among the regulators in these countries to explain their forceful actions. A key difference between the two countries, however, is that Sweden and the Swedish banks managed the financial crisis comparatively well (cf. Goddard, Molyneux and Wilson, 2009). The reflection that Swedish banks managed the financial crisis well, together with the strict and rapid implementation of new regulations, means that we could possibly learn something from the Swedish case. In fact, and as I would experience throughout the process of my studies, Sweden has a number of additional features that make its banking industry particularly suitable to further my empirical interest.

First, that banks are affected by a variety of contextual factors is not that surprising, but the rapid change in their contextual environment (cf. Bátiz-Lazo and Wood, 2003; Power, 2004; Goddard et al., 2007; Wilson et al., 2010; Berger, Molyneux and Wilson, 2010; Larson et al., 2011) is rather striking. Sweden and the Swedish banks have followed the international trend of deregulating, internationalization, divisionalization and growth, which means that the Swedish experience is, at least to some extent, comparable to that of other countries and can contribute to a wider debate. Second, the Swedish banking industry is characterized by a limited number of banks, and dominated by two groups of banks: the large commercial banks and the savings banks. This allowed me to get a comprehensive overview of the banking system, how it has developed over time and the key players populating the system. Finally, business research in Sweden has an empirical tradition, and cooperation between academia and the corporate sector is widespread, which simplified the collection of sensitive PMS related data. In fact, throughout my thesis work, the many bankers I have spoken to have met me with curiosity and openness, and the vast majority has seemed genuinely happy that someone from academia is interested in their PMS.

1.1 Research question

The study of firms, the problems they face, and the solutions they adopt can be viewed from an external and an internal perspective (cf. Danielsson, 1983). In the external perspective, the firm is not the key object of the analysis. The firm instead becomes relevant in terms of the role it plays in society. The internal perspective, on the other hand, puts the firm in focus and emphasizes problems and solutions from within the firm. In simple terms, contextual factors such as crisis and regulations are external to the firm, and the PMS is developed internally to help the firm navigate through these contextual factors. As noted in the introduction to this chapter, the Swedish banking industry offers an interesting case through which to explore the interaction between the external and internal perspectives.

Institutional theory is perhaps the most commonly used framework trough which to explore this interaction (see Scott, 2008 for an overview) and within institutional theory banks are often used as examples of organizations that face strong institutional pressures (cf. DiMaggio and Powell, 1983; Scott and Meyer, 1991; Deephouse, 1996; Soin, Seal and Cullen, 2002; Munir, Perera and Baird, 2011). Organizations operating under strong institutional pressures are expected to keep their internal PMS rather stable, but the history of the Swedish banking industry tells a different story. Deregulation and specifically the removal of the credit ceiling in November 1985 marked an important shift in this history. The deregulation in the 1980s coincided with similar developments in much of the western world, and at that time many commentators argued that deregulation would create incentives for banks to replace the regulatory control systems with more sophisticated PMS (see specifically Subsection 2.3.2). Since then, the external environment surrounding banks has changed considerably, including regulations, technologies, employees and especially the banks themselves. As elaborated on in Section 1.2, much of the contemporary theoretical debate concerns the balance between the isomorphism and agency, i.e. to what extent action is constrained or facilitated by the contextual environment in which organizations are embedded. The societal significance of the banking industry, and the persistent contextual change, make a particularly relevant case to explore and analyze, which led to the following tentative research question:

How do Swedish banks organize and adapt their PMS to the dynamic context in which they are embedded?

By exploring this research question both theoretically and empirically, the thesis aims to contribute to our understanding of PMS, regulations and change in banks. Empirically, the ambition is to make a contribution to our general understanding of PMS in banks and how PMS in banks have developed over time. Under the assumption that Swedish banks did in fact manage the recent financial crisis better than banks in most other countries, the thesis also provides some examples of PMS design in successful banks. Theoretically, the thesis is positioned within two of the contemporary issues in the management accounting literature. The first is change, and the dynamics of multi-level change processes explored through the interaction between the external and internal perspectives. The second concerns the integration between risk management and management accounting, and specifically how this integration materializes in banks. The following two sections attempt to clarify the theoretical problems and underpinnings of these two issues in order to develop more specific research questions.

1.2 The interaction between the external and internal processes of change

The issue of change has puzzled organizational and accounting scholars for many decades (cf. Ribeiro and Scapens, 2006; Busco, Quattrone, and Riccaboni, 2007; Scott, 2008). Earlier studies on accounting change commonly described change as a move from one stage to another (Quattrone and Hopper, 2001), but in the 1980s a more process-oriented approach towards accounting change started developing (cf. Burchell et al., 1980; Hopwood, 1987). The scholars who adopted this approach viewed accounting as a situated and context-dependent practice, which needed to be studied from a historical and procedural perspective (Hopwood, 1987; Burns and Scapens, 2000; Luft, 2007). Institutional theory has grown to become the dominant theoretical framework within this stream of literature, and extensive progress has been made in terms of our understanding of the processes through which change evolves within organizations (see Moll, Burns and Major, 2006 for an overview). A common denominator (see Essay 1 for an extended discussion), however, is the persistent critique against institutionally based management accounting change research for either focusing too much on the macro-level (the external perspective), or exaggerating the importance of micro-processes (the internal perspective). The former runs the risk of reducing organizations to passive players in constant pursuit of legitimacy and stability, while the latter may undermine the importance of the institutional environment in which organizations are embedded. Several studies have addressed this critique (cf. Siti-Nabiha and Scapens, 2005; Ribeiro and Scapens, 2006; Yazdifar et al., 2008; Munir et al., 2011; Arroyo, 2012; Covaleski, Dirsmith and Weiss, 2013) by combining different aspects of institutional theorizing in order to understand different change processes within a single setting; the first three essays of this thesis are part of that endeavor.

In particular, the change processes that started with deregulation in the 1980s offered the potential to study the implications of a series of disruptive events within one institutional setting. The Swedish banking market is (and has been for many years) dominated by four large commercial banks, which have continuously held a combined market share of approximately 80 percent in terms of deposits and lending. In addition to these four banks, there are a number of smaller banks, of which the vast majorities are savings banks. Apart from size, the savings banks differ from the large commercial banks in terms of ownership structure, local orientation and risk profile (see Chapter 4 for an extended discussion). It is not farfetched to assume that such differences could materialize through divergent PMS, i.e. a small, risk averse and locally oriented bank may need different PMS than a large, diversified and internationally active bank. Moreover, because of the differences in ownership structure, the objectives of the two types of banks are likely to differ. Whereas the commercial banks can be expected to have shareholder-oriented objectives, this is not possible for the savings banks, which instead can be expected to have more stakeholder-oriented objectives.

These differences can be exploited either by comparing the two groups, or by studying each group separately; the thesis utilizes both options. The advantage of studying each group separately is that it allows for more elaborate discussions and analysis of the specific historical and contextual factors related to that group. With respect to the tentative research question, a separation would also allow for the exploration of different aspects of this broad question. This was especially important because I had decided to analyze change processes, at different levels of analysis, over an extended period of time (starting in the mid-1980s and still ongoing), within an area where previous research was limited. Accordingly, Essay 1 focuses on the large commercial banks, whereas Essay 2 focuses on the savings banks; both essays probe into the interaction between the external and internal perspectives, but through different research questions (see Table 1). Essay 1 emphasizes the role of the top manager as an interpreter of contextual change, and explores the processes through which these interpretations are integrated into the PMS of the large Swedish banks. The top manager is chosen as the focal point because he or she is arguably an important mediator in the interaction between the external and internal perspectives. Essay 2 seeks to illustrate how savings banks have managed to stay competitive in an increasingly hostile environment, in which their *raison d'être* is challenged by the dominating paradigm (i.e. the shareholder-oriented approach (Schuster, 2001)). The analytical focus is again directed towards the interaction between the external and internal perspectives, but the savings banks, rather than specific managers, are at the heart of the analysis. The study moves beyond the large commercial bank to explore how this interaction evolves in smaller organizations with complex objective functions.

The advantage of comparing the two groups is the opportunity to analyze how different types of organizations, which are active within the same institutional environment, respond to external change. The recent re-regulation of the Swedish banking industry provides an excellent opportunity to conduct such an analysis, which is exploited in Essay 3. Building on the insights from institutional theory about how firms with differing predispositions are thought to respond to regulatory change, the analysis explores how the regulatory requirements are accepted or refuted, as well as their influence on the PMS of these different actors.

Institutional research in general, and institutional-based management accounting change research in particular, has commonly adopted a broad and holistic approach (cf. Burns and Scapens, 2000; Burns and Baldvinsdottir, 2005; Ribeiro and Scapens, 2006; Modell, 2007; Suddaby, 2010). There are strong and plentiful arguments in favor of this approach, especially with respect to our understanding of the extent to which action is constrained or facilitated by context (see particularly Burns and Scapens, 2000; Modell, 2007; Johansson and Siverbo, 2009 for extended discussions). This first part of the thesis is characterized by such an approach, which allows for the exploration of the interaction between the external and the internal perspectives. However, less attention is paid to detailed descriptions and analysis of specific parts of banks' PMS and, paraphrasing Whittington and Mayer (2000:45), this means that it may at times appear thin on the complex individuality underneath. In order to mitigate the sense of thinness, the second part of the thesis zooms in on a particular part of the PMS of banks: funds transfer pricing (FTP). FTP is widely acknowledged as an important part of the PMS of banks (cf. Kimball, 1997) but has received surprisingly little attention in the management accounting literature. The topic, thus, offers great potential to further explore the relationship between management accounting and risk management in banks.

1.3 The integration between management accounting and risk management in banks

As noted in the introductory part of this chapter, one response to the financial crisis is the call from regulators, auditors, boards and risk assessment agencies for more structured and integrated risk management (Lundqvist, forthcoming). The essence of this call can be understood in terms of the growing attention to the concept risk in academic circles, in industry, in the professions and in the media, which suggests that risk and risk management have moved beyond a narrow financial focus to become a broad management concept (Soin and Collier, 2013:82; Giovannoni et al., 2014). Risk management issues have moved into the top management teams of many organizations, and are also at the top of the agenda among regulators and policy makers (cf. Mikes, 2009; 2011). The broadening of risk management means that it is increasingly becoming an integrated part of the PMS in many organizations, and several authors have suggested that a better understanding of the relationship between risk management and management accounting in banks is imperative to avoid incentive structures similar to those that led to the 2007/2009 financial crisis (cf. Arnold, 2009; Kaplan, 2011; van der Stede, 2011; Gooneratne and Hoque, 2013; Soin and Collier, 2013; Wahlström, 2013; Giovannoni et al., 2014; Jönsson, 2014).

As with most firms, key determinants of performance in banks include measuring and allocating costs, as well as setting prices. The FTP system is widely used among banks to assist managers and employees with those important tasks. An additional feature of the FTP system is its ability to price and manage risk. However, the financial crisis revealed extensive shortcomings in banks' FTP systems designs, especially the current systems' precision with respect to risk management. In particular, poor liquidity risk management, and the FTP systems' inability to accurately price liquidity risk, has been highlighted as one of the reasons for the financial crisis (cf. Grant, 2011; Tumasyan, 2012). The regulators quickly acknowledged this problem (Basel, 2008; 2010) and as noted above, the Swedish regulators took the lead by, for example, implementing the mandatory reporting of, and compliance with, the liquidity coverage ratio by January 2013 among the large domestic banks.

When discussing the different aspects of the PMS during Essays 1-2, respondents, from both the commercial banks and the savings banks frequently returned to the importance of the FTP system and how it was used in order to integrate issues of risk management, performance evaluations and strategy implementation (see Section 2.4 for an extended discussion). Several respondents also indicated that they were in the process of revising their FTP system in order to meet the new regulatory requirements. Accordingly, I had a unique opportunity to exploit the regulatory change process, and my established network, in order to explore the role of the FTP system in the integration between risk management and management accounting in banks.

Similar to the early transfer pricing literature, the FTP literature is dominated by economic modelling (see Essay 4). However, whereas the debate in the transfer pricing literature evolved to consider the practical viability of such modelling efforts and discuss the gap between theoretical optimality and practical functionality (cf. Emmanuel and Mehafdi, 1994; Tang, 2002; Plesner Rossing and Rohde, 2014 for overviews), the FTP literature has not followed a similar trend. Two survey papers, Drury (1998) and Oyelere and Turner (2000), and one recent white-collar paper (Grant, 2011), are notable exceptions that give some preliminary indications that large discrepancies may exist between the theoretically optimal models and the practically viable FTP systems solutions. Such discrepancies can be expected to be even larger in small banks where profit maximization is not necessarily the main objective (see Essay 5). By studying these discrepancies, the second part of the thesis attempts to increase our understanding of how to improve the theoretical models, on what basis to evaluate the efficiency and effectiveness of various types of FTP systems and especially how bankers are currently working with the integration of management accounting and risk management.

1.4 Summary of research questions and overview of the thesis

This first chapter has served to give the reader a glance at my research process and present the arguments that have guided my choices. The titles of the five essays and the specific research questions are summarized in Table 1, and are presented in the final chapters of this book. Before the essays are presented, Chapter 2 reviews the theoretical and empirical literature that has enriched and guided the essays. Chapter 3 deliberates on the methodology of the thesis and the methods used to collect and analyze the data. Chapter 4 introduces the two groups of banks, i.e. the large commercial banks and the savings banks. Chapter 5 presents and summarizes some of the main results. Chapter 6 offers concluding remarks related to the overall contributions of the thesis and suggests some promising avenues for future research.

Table 1
Summary of essays and research questions

Essay	Title	Research question
1	*Institutional Entrepreneurship and Change: A Contemporary History of the Swedish Banking Industry and its Performance Management Systems*	How do top managers in large Swedish banks interpret change in the macro political and economic environment and integrate it into their performance management systems?
2	*Performance Management Systems in Swedish Savings Banks: A Longitudinal Study through the First Quarter-Century of Deregulation*	How and why have the Swedish savings banks adapted their strategies, structures, and management accounting and control elements to the changing external pressures of the first quarter-century of deregulations?
3	*One Regulation, Diverse Banks*	How can the isomorphic pressure of regulation threaten diversity by undermining the banks' ability to adapt their business models and control systems in accordance with their specific needs?
4	*Funds Transfer Pricing in Bank: Implications of Basel III*	How are banks adapting their existing funds transfer pricing systems to comply with the new Basel III regulation?
5	*Funds Transfer Pricing in Swedish Savings Bank: An Exploratory Survey*	Why and how do small banks use funds transfer pricing systems?

2. Theoretical frameworks and literature review

This chapter discusses the theoretical frameworks that define the thesis and reviews the literature considering PMS in banks. Lukka's (2005) categorization of theories into domain theory and method theory is adopted here to describe the characteristics of the different theoretical frameworks used to address the specific research questions in the thesis. According to Lukka (2005:382), a domain theory refers to a particular set of knowledge on a substantive topic area situated in a field or domain. From an internal perspective, examples of domain theories include theories of strategy, budgeting, performance measurement and incentive compensation. A method theory offers a meta-level conceptual framework and lens for analyzing the substantive issues under scrutiny. Although the distinction between a domain theory and a method theory is not always straightforward, it is useful to clarify the role of the different frameworks, and in what way contributions are made to these specific frameworks (Lukka and Vinnari, 2014).

Section 2.1 discusses and further motivates the usefulness of institutional theory. Institutional theory has been used extensively within different fields of economic and business research to understand how different institutions influence organizations (see Scott, 2008 for an overview). The extensive applicability of institutional theory fits Lukka's (2005) definition of a method theory well. Still, it is important to acknowledge the large variety in different applications of institutional theory; therefore, the section focuses on the specific aspects of institutional theory used in the thesis.

Section 2.2 starts by briefly introducing management accounting change research, and proceeds to identify a specific gap in the theoretical debate, to which this thesis strives to contribute. In Chapter 1, I emphasized the rapid change in the contextual environment of banks and its potential impact on their PMS. The issue of PMS change has primarily been addressed within the management accounting change literature, within which institutional theory is frequently used. This is one specific example of when the borders between domain and method theory become blurred, and to some extent the specific application of institutional theory within management accounting research can be seen as a method theory in itself. For the purpose of this thesis, the theorizing efforts within management accounting change research offer an important link between institutional theory and the PMS framework that allows me to study the procedural change and how the constant flux in the contextual environment has continued to influence the PMS of the Swedish banks.

Section 2.3 introduces the PMS framework, which in Lukka's terms would account as my domain theory. The section positions the PMS framework in the management accounting literature and explains why I found this particular framework useful and relevant. Subsection 2.3.1 describes the actual framework and elaborates on the close relationship between contingency theory and the PMS framework. Subsection 2.3.2 reviews the literature that deals specifically with PMS in banks.

Finally, Section 2.4 briefly introduces the concept of FTP in banks. The majority of literature dealing with FTP is based on economic theory, which to some extent can be seen as a method theory for the second part of the thesis. The thesis relies on aspects of the method theory (economic theory) upon which there is wide agreement in the literature. An important contribution of the thesis is the application of the well-established economic arguments about the characteristics of oligopolistic and oligopsonistic market conditions within the specific context of banks' FTP. The second part of the thesis further aims to contribute to the management accounting domain by linking the transfer pricing literature to FTP in banks.

2.1 Institutional theory, context and the paradox of embedded agency

In his review of the literature on institutional theory, Scott (2008:211) argued that "[t]he institutional perspective, more so than others, emphasizes the importance of social context within which organizations operate". As noted in the introduction, this is also the main reason why institutional theory is adopted as a method theory for the thesis. A second, and more specific, reason is found in the theory's focus on the resilient aspects of social structure and the processes by which norms, rules and routines become established as authoritative guidelines for social behavior (Scott, 2008). These structures promote stability, conformity, and continuity, which have given rise to the widely debated paradox of embedded agency (cf. DiMaggio and Powell, 1991; Friedland and Alford, 1991; Sewell, 1992; Holm, 1995; Seo and Creed, 2002; Battilana, Leca and Boxenbaum, 2009). Garud, Hardy and Maguire (2007:961) summarized the theoretical puzzle as follows:

> [I]f actors are embedded in an institutional field and subject to regulative, normative and cognitive processes that structure their cognitions, define their interests and produce their identities (Friedland and Alford, 1991; Clemens and Cook, 1999), how are they able to envision new practices and then subsequently get others to adopt them?

One response to this puzzle has been the introduction of institutional entrepreneurship (IE), i.e. an emphasis on the role of agency and how organizations or individuals (institutional entrepreneurs) exploit opportunities and mobilize resources to alter current intuitions (see Essay 1 for an extended discussion). Over the past decades the banking industry has experienced considerable changes, including: altered market conditions, financial crises, technological innovations (such as e-banking), the emergence of new financial markets and forms of finance, market concentration through mergers and acquisitions (M&As) and new regulations (cf. Bátiz-Lazo and Wood, 2003; Power, 2004; Larson et al., 2011). Clearly, an industry that is theoretically prone to stability but has experienced such remarkable change is an interesting case in which to investigate the paradox of embedded agency.

The second motivation is most closely linked to the thesis's main contribution to institutional theory, i.e. the importance of distinguishing between different types of external events and their influence on firms. According to Scott (2014:158) "[m]ost institutional theory and research has emphasized convergent processes. Only recently has attention turned to disruptive and divergent change […]". Within IE, disruptive events such as jolts, social upheaval, technological disruptions, competitive discontinuities, or regulatory change (Greenwood, Suddaby and Hinings, 2002) are often lumped together and seen as the starting point of an institutional change process. However, these broad terms comprise immensely different properties. Arguably, a regulatory shift, a technological innovation or a financial crisis are not the same, and in trying to understand and explain the institutional and PMS change processes there may exist important commonalities and differences between such disruptive events that need to be further theorized.

The first two essays share the somewhat counterintuitive conclusion that regulations seem to have a limited effect on the PMS of banks. From an institutional perspective, decoupling offers a powerful concept to extend our understanding of the limited effects of regulatory change. Meyer and Rowan (1977) introduced decoupling as an answer to the controversy between, on one hand, organizations' pursuit for legitimacy and, on the other hand, local demands for efficiency and conflicting institutional signals. According to Boxenbaum and Jonsson (2008:81):

> In effect, decoupling means that organizations abide only superficially by institutional pressure and adopt new structures without necessarily implementing the related practices.

The question at hand is whether the concept of decoupling can also be used to understand why some disruptive events make firms change their structures, while others make them change both structures and practices. In Chapter 6, I will return to the concept of decoupling and how it may be used as a starting point in order to further the theoretical distinction between different types of disruptive events.

2.2 The institutionally-based literature on management accounting change

Busco et al (2007) systematized the many aspects of management accounting change and stability into four different but related themes: (i) what and who makes change happen, (ii) how and why change happens, (iii) what and who is changing, and (iv) when and where does change happen? Institutional theory offers a conceptual toolbox to explore these themes, which have been widely used within the accounting domain (cf. Moll et al., 2006; Berry et al., 2009 for overviews). Moll et al (2006) categorized these contributions into five strands of literature: studies that have (i) focused on the process through which external (institutional) pressures impinge on organizational behavior, (ii) emphasized the duality between organizations and the institutional environment in which they are embedded, (iii) concentrated on the legitimizing aspects of organizational arrangements and practices, i.e. that new PMS mechanisms are introduced in order to achieve legitimacy with respect to the social values of the institutional field, (iv) explored the role of agency and power, i.e. that organizations can and will make strategic choices with respect to multiple and often conflicting institutional pressures, and (v) identified PMS configurations that are more efficient or cost-minimizing under certain institutional and technical conditions such that when these conditions change the configurations should also change.

Arguably, the wide range of institutional applications are not as neatly separated and categorized as implicated by the above discussion. Gradually, more papers added to this pursuit, but at the time when I started investigating the multi-level change processes in the Swedish banks, two frameworks seemed particularly relevant. The first framework was Munir et al.'s (2011) organizational response framework, which was specifically developed to investigate PMS change in banks with respect to changing institutional pressures (see Essay 2). Munir et al (2011) introduced their framework as a response to the extensive change that the banking industry has undergone over the past decades. They argued that a specific analytical framework, which accounts for "[…] management and operational specificities that are different [in banks] from manufacturing organizations" is necessary in order to analyze the complexities of these change processes (Munir et al., 2011:96). The authors further stressed the interaction between macro- and micro-levels of change, and claimed that their framework acknowledged this interaction by specifically focusing on the external factors influencing change and the organizational responses to such external change. The framework draws extensively on DiMaggio and Powell's (1983) seminal paper and the notion of institutional isomorphism in order to understand how external change may influence PMS. Agency is introduced to the framework by adding Oliver's (1991) typology of strategic responses.

The second framework was Arroyo's (2012) IE framework. This framework emphasized the importance of multiple levels and the extent to which change at one level may lead to change at a different level, and the processes through which this happens (see Essay 1). As noted in the previous section, IE was introduced into the study of organization for the purpose of reintroducing agency into the institutional framework (DiMaggio, 1988). However, it is only in recent years that this discussion has found its way into the study of management accounting change; Arroyo's (2012) framework offered one of the early contributions. The framework pointed to the role of disruptive events (such as crisis and regulatory change) in instigating change, and how resourceful agents may or may not exploit the opportunities created by such events. The properties of Munir et al.'s (2011) and Arroyo's (2012) frameworks seemed particularly relevant for the purpose of this thesis and offered an opportunity to contribute to the current theoretical debate by testing those two frameworks and exploring their individual strengths and weaknesses.

Finally, the use of Oliver's (1991) typology (see Essay 3) is becoming increasingly common in the management accounting research (cf. Canning and O'Dwyer, 2013; Covaleski et al., 2013 for recent contributions). This trend testifies to the current search for a common theoretical agenda that acknowledges the importance of institutional pressures, isomorphism and organizations' pursuit for legitimacy (Moll and Hoque, 2011), but also accounts for agency and the "strategic behaviors that firms employ in direct response to the institutional pressures that affect them" (Oliver, 1991:145).

2.3 Positioning the PMS framework in the management accounting literature

Accounting is one of the most powerful systems of representation for social and economic life today (Miller and Power, 2013:558). In most countries, accounting is part of defining organizational life, and its role stretches beyond a mere technical activity to provide the dominant narrative of market rationality. In making visible and calculable the objects and activities that are at the heart of management, accounting creates a facticity that appears objective and unchallengeable, beyond the fray and politics or mere opinion (Miller and Power, 2013:559). Accounting is thus more than what accountants do (cf. Gerdin, Messner, and Mouritsen, 2014). The understanding of accounting as a "complex" that consists of different elements, such as "ideas, laws, bureaucratic instruments, spreadsheets, reports, standards, and registers, not to mention accountants and other human agents" (Miller and Power, 2013:588-9; see also Gerdin et al., 2014), motivates a broad definition of accounting. The accounting literature offers a wide array of such definitions, and many of these have also been split into separate concepts (for overviews see, for example, Chenhall, 2003; Malmi and Brown, 2008; Ferreira and Otley, 2009; and Adler, 2011). One such concept, which guides this thesis, is Ferreira and Otley's (2009) PMS framework. PMS encompass:

> All the tools managers use in implementing the main objectives of the organization, including tools to control employees (management control systems) and information used for decision support.

The broad nature of the PMS framework is useful to understand the different parts of the system that managers use to inform their decisions and implement the main objectives of the firm. It is also helpful as a tool to communicate with practitioners, which often have to deal with these different parts simultaneously (e.g. Hall, 2010; Adler, 2011). Before going into further details of the PMS framework, it is relevant to offer a brief background of how this framework came into existence.

2.3.1 The performance management systems framework

As mentioned, the PMS framework constitutes an important domain theory for this thesis. The antecedents of the PMS framework stem largely from the works of Chandler (1962; 1990), who argued that, in relation to firm growth and improved high-volume production technology in the early 20th century, new mechanisms were needed to solve problems of intra-organizational planning and control. Chandler's idea of a "fit" between strategy and structure was adopted and developed by the management accounting contingency literature (see Chenhall, 2003 for an overview; and Galbraith, 1973; Gordon and Miller, 1976 for early contributions). The contingency literature showed that there is no universally valid way of designing organizations but different factors (such as technology, size, strategy, and organizational environment) may influence the need for different mechanisms to handle uncertainty (Miller and Power, 2013). According to Gerdin and Greve (2008:996) "[t]he essence of contingency theory is that organizations must adapt their structure to contingencies such as the environment, organizational size and business strategy if the organization is to perform well". This does not mean that there are an infinite number of feasible variations in the appropriate PMS mechanisms, but rather that there should exist a set of configurations that better fits with specific contingencies.

Only a few years after the first management accounting contingency studies, Otley (1980) asserted that contingency theory had become the recent vogue in management accounting research. At the same time, he was critical of the limited practical relevance of contingency research, and specifically "…the links between specified contingencies and appropriate accounting systems design… The idea that 'it all depends' tends to be used as a means of avoiding rather than addressing design implications" (Otley, 1980:414). The paper offered some preliminary traces of the PMS framework, which were further developed and formalized through later work by Otley (cf. 1987; 1999). A central theme in Otley's work is the internal perspective, in which the objectives and strategies of the firm are seen as the starting point and one of the key contingent variables that influences the firm's PMS design. The strengths of Otley's (1999) framework were, according to Stringer (2007:94), related to the inclusion of a wide range of performance issues, and the recognition that it is the combination of these performance elements that matters, i.e. the systems view. The framework was, however, critiqued for being overly rational and prescriptive, and for not addressing the links between the different parts of the system (see, Stringer, 2007; Ferreira and Otley, 2009 for summaries of the critique). In response, Ferreira and Otley (2009) developed a more comprehensive framework specifically focusing on the links between the different parts of the system. The framework builds on 12 questions; the first eight questions are functional and relate to the means and ends of the PMS design, whereas the final four concern the contextual factors influencing the PMS (Broadbent and Laughlin, 2009; Ferreira and Otley, 2009).

Both Otley (1999:370) and Ferreira and Otley (2009:266) clearly stated that the purpose of the framework was neither normative nor prescriptive, "but rather to provide a more comprehensive descriptive framework within which the features of an overall control system can be assessed and evaluated". As such, the PMS framework was intended to raise interesting research questions on which further analysis could be based, by allowing the user to take a "snap-shot" of the control system (Ferreira and Otley, 2009:265). In this thesis, the first eight questions are used extensively in order to identify the PMS properties that were subject to change or stability in the Swedish banks. However, the contextual features of the PMS framework are intentionally (see Ferreira and Otley, 2009:275) somewhat static and "[leave] issues of process aside". This is also why institutional theory, rather than the PMS framework, is used here in order to understand the procedural interaction between the external and internal perspectives.

Adler's (2011) study of how to design systems for different strategic archetypes marks one of the few examples of PMS studies of banks. The author argued that the banking industry is likely to feature firms that have adopted what he, based on Cooper (1995), called confrontation strategies, i.e. "characterized by head-to-head, toe-to-toe, cut-throat competition" in which the strategy occurs less out of choice and more out of the environmental pressure exerted on the organizations (Adler, 2011:255). Building on interviews with senior managers at one US and three New Zealand banks, the author concluded that these banks were indeed adopting confrontation strategies. In these banks, the strategy was supported by lean and flat organizational structures, workgroup-inspired procedures, collective responsibility, interactive strategic planning, tight budget control, and group-based incentive compensation promoting empowerment. A second example is Cäker and Siverbo's (2014) case study of Svenska Handelsbanken (SHB). Adopting a systems approach, the authors showed how technocratic controls (results and action controls, such as benchmarking, performance measurement, and behavioral rules and routines) and a decentralized organizational structure supported, rather than constrained, the strong socio-ideological controls in the bank. Strategic alignment was monitored through communication and empowerment in which employees were invited to seek the counsel of their superiors without the threat of punishment.

Both papers are excellent examples of how the systems approach can be used to uncover how different parts of the systems interact to assist performance management. However, the papers offer limited evidence on the relationship between the external environment and the dynamics of PMS change, which, as discussed in the next section, have been two of the key ingredients in most of the research on PMS in banks.

2.3.2 Performance management systems in banks

In the aftermath of the financial turmoil of the 1920s and 1930s (including the great depression, the Wall Street Crash of 1929, and the Krueger Crash in 1932) the world's banking system was kept highly regulated and within the borders of the nation state (cf. Battilossi and Cassis, 2002). Consequently, the need, referred to above, for more sophisticated management accounting and control systems in the manufacturing industry did not appear in the banking industry to the same extent (Channon, 1986). During the 1960s and 1970s, competition between US and European banks gradually increased as banks followed their customers into other markets, and the changing market condition together with financial and technological innovation created a pressure on governments to start relaxing bank regulation. The market-oriented liberalization movements, driven by Reagan in the US, and Thatcher in the UK, initiated a deregulatory wave that quickly spread across the western world (Lundberg, 2013:5; Larson et al., 2011). The cross-national deregulation of the banking industry (concentrated in the 1980s) was argued to provide for the efficient working of markets through self-regulation (Cerny, 1991; Vipond, 1991).

Among other things, deregulation was argued to offer incentives for banks to develop more sophisticated PMS (Channon, 1986; Middaugh, 1988; Bergendahl, 1989; Seal and Croft, 1997; Soin and Scheytt, 2008). In one of the early papers on PMS in banks, Middaugh (1988:86) asserted that:

> Before the 1980s, financial-services firms were traditionally among the worst-managed businesses. A significant reason for this was the high degree of regulation that limited competition.

The author further argued that organizational and cultural differences (such as working hours, compensation schemes, and risk-taking) between functions such as retail and investment banking were huge, which would place higher demands on the organizational structures, and ultimately on the PMS, as banks diversified into other business areas. Examples of and suggestions on how to organize budgeting, profit centers, transfer pricing, revenue sharing, and compensation were given in very general terms but no data were provided to support these statements. Cobb, Helliar and Innes' (1995) longitudinal study of a UK-based division of a multinational bank largely confirmed these claims. The study showed how the division, from 1989 to 1993, gradually shifted from simplistic and financial accounting-focused procedures towards cost- and profitability-consciousness (1995:170):

> …some managers recieved no cost information at all in 1989. By 1993 managers received at least some cost information and most received much more detailed cost information (including departmental costs) and performance indicators.

Cobb et al (1995) analyzed the changes that occurred in the division from an external/internal perspective. Globalization, lower cost technology, and product innovation were identified as the main external drivers of change, whereas financial pressure from the bank and senior management initiatives were seen as the main internal drivers. Similarly, Euske and Riccaboni (1999) analyzed the change process in an Italian bank based on internal and external interdependencies. The authors pointed to the importance of the external environment (such as market globalization, competition, and deregulation) in shaping the internal systems of the bank, but also acknowledged the important role of the top manager in dealing with these interdependencies. The paper illustrated how the bank's PMS was gradually changed in order to manage the interrelationship between increasing competition and sustaining legitimacy in the eyes of the state. Both papers showed that the banks introduced various cost initiatives, such as product costing and activity-based costing and management (ABC/M). The latter has been the subject of some further interest in the literature (cf. Innes and Mitchell, 1997; Soin et al., 2002; Norris, 2002). Norris (2002) compared the ABC practices in two UK banks, focusing on the internal perspective. The main reason for ABC adoption in the two banks was traced to the use of cross-unit transfer charging, which created a need among the divisions to both motivate and contain their costs. However, their ABC use differed substantially, which Norris (2002) explained by top management support during the implementation process and the experience and communication among those in charge of ABC implementation.

Towards the end of the 1990s the research interest shifted towards strategic performance measurement and management systems (Soin and Scheytt, 2008), such as the balanced scorecard (BSC). Ittner, Larcker and Randall (2003) investigated performance measurement usage and performance implications in 140 US financial service firms. They found that firms that made use of a broad set of financial and non-financial measures earned higher stock returns, but there was no evidence to support that firms claiming to use BSC performed better than other firms (although these firms seemed to be more satisfied with their measurement systems). With respect to their data, however, it is questionable whether firms that claim to have adopted a BSC approach differ from those that do not, i.e. it may be only a semantic difference. Davis and Albright (2004) explored the BSC practice of one US bank and found evidence to support that branches that used the BSC had better financial performances than branches that did not. Kominis and Emmanuel (2007) tested whether the perception that effort expenditure among middle-managers in banks leads to rewards is directly affected by the performance measurement, evaluation and reward system. Their findings supported such a relationship and, consistent with Otley's (1999) framework, the authors concluded that there is a clear link between performance measurement techniques, reward systems and motivation of individual managers in banks (Kominis and Emmanuel, 2007:69). In a series of studies, Hussain (Hussain and Hoque, 2002; Hussain, 2003; 2005), investigated whether external (institutional) factors influenced the use of non-financial performance measurement systems in banks. The studies were conducted in Japan, Finland and Sweden, and the main finding was that the persistent environmental uncertainty in the banking industry motivated greater reliance on financial performance measures.

Helliar, Cobb and Innes' (2002) extensive longitudinal single case study offered a link between the studies with a distinct cost focus, those emphasizing performance measurements and, as will be discussed further below, those focusing on risk, that has dominated the most recent research on PMS in banks. The paper illustrated how the bank moved from having practically no cost reporting in the late 1980s, via the introduction of various cost initiatives, to distinct profitability reporting. According to the authors, the most important profitability performance indicator for the bank was return on risk-adjusted capital, which today is commonly referred to as risk-adjusted return on capital (RAROC). The case analysis is made from an external/internal perspective, and the authors suggested a dynamic contingency model to explain profitability reporting change. The external variables were traced to technological change, a more competitive global market, regulatory change, and greater difficulty in attracting customers; the internal factors were traced to widening product range and a changing management accounting culture.

The literature on risk management (RM) has grown exponentially since the mid-1990s and particularly after the 2007/2009 financial crisis (e.g. Huber and Scheytt, 2013). As noted in the introduction, the broadening of the RM concept has made management accounting researchers attentive to the role of RM in the PMS, but according to Soin and Collier (2013:84) "we have relatively little understanding about the (complex) interrelation between risk, risk management and management accounting and control practices". Banks face a wide range of complex risks (such as credit, liquidity, concentration, interest rate, exchange rate and operational risks) and in recent years a few papers have specifically addressed the relationship between RM and PMS within banks (cf. Gulamhussen and Guerreiro, 2009; Mikes, 2009; 2011; Giovannoni et al., 2014).

Mikes' (2009) study of two large banks showed how different attitudes among top managers in the two banks, towards the benefits of quantitative risk assessments, resulted in vastly different approaches to RM. Taking a qualitative contingency perspective, Mikes (2009) argued that even though RM became an integral part of the management process (i.e. strategic planning, performance measurement and discretionary strategic decision making) in both banks, it was fit between the top manager's experience and knowledge of RM that determined whether RM was used as a diagnostic tool (integrated into the PMS) or as an interactive tool (discussed in more general terms at top management level). Managers in the bank that used RM as a diagnostic tool displayed "quantitative enthusiasm", i.e. a serious belief in the accuracy of numbers (RM by the numbers). In the other bank, RM became an interactive tool based on the managers' "quantitative pragmatism", i.e. a critical and judgmental approach towards the accuracy of numbers (holistic RM). Extending this reasoning, Mikes (2011) confirmed and corroborated her initial findings in a study of five additional banks, three of which displayed quantitative enthusiasm and diagnostic use of RM, and two in which managers were more skeptical towards the quantitative assessments and relied more on judgment and "risk envisionment". Giovannoni et al (2014) explored the concept of RM change in a longitudinal single case study of an Italian bank. The authors showed how RM was invented within the realms of the bank through calculative and diagnostic practices in the early 2000s, but the RM, through the interplay between external pressures and intra-organizational dynamics, was gradually transformed into more holistic and interactive practices as time evolved.

Thus, the abovementioned RM studies also acknowledge the external/internal perspective, and as noted by Huber and Scheytt (2013:90) the rise of risk management is closely linked to "…financial regulation (the Basel treaties, Sarbanes Oxley), international standards with quasi-juristic validity for internal control (the COSO framework or Turnbull report), or public governance…". Mikes (2009:19) further remarked:

> Risk techniques were developed by financial institutions to address the issue of capital adequacy (how much capital cushion should a bank hold?) and the internal allocation of capital to business units (how much capital should individual business units carry?).

The amount of capital reserved by banks is a key regulatory and managerial concern in the financial services industry. Capital is allocated based on the amount of risk taken, i.e. riskier projects are charged with a higher capital, which gives the basis for measuring risk-adjusted performance (Mikes, 2009:19). Thus regulations, together with the rise of the shareholder-oriented view in banking (see Schuster, 2000), are singled out as the most important drivers of RM in banking. Similarly, Wahlström (2009) showed that, depending on how the RM functions were organized within banks (centralized or decentralized), managers may have different perceptions of the importance and value of regulatory derived RM practices – in fact, perceptions may even differ with respect to the value of regulations, and hence their overall influence on the banks. Wahlström (2013:27) further remarked that: "[r]egulation is considered more effective and acceptable if implemented in private control systems", but he also pointed to the danger with such reasoning as it may create a false sense of security among managers who believe in this approach.

Table 2 summarizes the literature review into three main categories: external, internal and PMS. The majority of these studies do not consider the main recommendation of the PMS framework, i.e. that it is a combination of different management accounting and control practices and the interaction between these elements that forms a configuration that may or may not fit the external environment (Ferreira and Otley, 2009). Hence, even though there are several important clues in the literature as to what may constitute PMS in banks, there are still large gaps to fill. One such gap is related to the absence of management accounting studies of FTP, which Kimball (1997) claimed was one of the key accomplishments of the bank management accountant, and which Norris (2002) remarked was the main reason for the introduction of ABC in her two case banks. As will be discussed next, the FTP system is also one of the key tools that banks use in order to integrate RM into the PMS.

Table 2
Summary of the literature on PMS in banks

	1940-1980	1980-1990	1990-2000	2000-
External	Strict regulation, low competition, tranquility	Financial & technological innovation, competition, deregulation	Financial & technological innovation, competition, deregulation, globalization, diversification	Regulation, shareholder-oriented view
Internal			Pressure on the margins, difficulties in attracting customers, management initiatives, cross-unit transfers	Experience and perception of risk
PMS	Unsophisticated PMS	Unsophisticated PMS	Cost and profitability focus (ABC), Strategic performance measurement (BSC), Financial and Risk-adjusted performance measurements	Risk management

2.4 Funds Transfer Pricing – integrating management accounting and risk management

The review above seems to confirm Middaugh's (1988) predictions that growth, specialization, and divisionalization resulted in a need for new ways to evaluate and manage performance in banks. Kimball (1997:24-25) deliberated on a number of specific problems that arose from this transformation. First, "calculating disaggregated organizational profitability in banks had inherent methodological problems, since the businesses often shared customers, products, distribution channels, and back offices". Second, there was a need to identify, measure, and aggregate different types of risk across business lines in order to allow for bank-wide RM and sound decision-making. Third, with semi-autonomous business units, bank divisions started to compete internally for resources to develop their business units. Finally, since the divisions commonly competed for the same customers, the question arose as to which unit "owned" the customer and the related profits.

In order to solve these problems, business units needed their own income statements and balance sheets. One of the key problems in developing these reports was dividing the net interest income, which normally accounts for between 60 to 80 percent of bank revenue (see Essays 1 and 4). The solution in many banks was to develop and implement FTP systems (Kimball, 1997). The simplest FTP system allows funds-generating business units (such as branches that attract a lot of deposits) to "sell" their excessive funds to funds-using business units (such as branches that issue a lot of loans) via an internal market at a fixed rate (see Weiner, 1997 for an overview of the different approaches to FTP). To decide this rate banks can either search for suitable market rates as benchmarks or calculate an average rate (see Essays 4-5).

A large number of papers in the practice-oriented journal "Bank Accounting and Finance" (later renamed "Journal of Performance Management") discussed the issue of FTP systems design and implications (cf. Weiner, 1997; Kipkalov, 2004; Kawano, 2005; Levey, 2008; Hanselman, 2009). It seems, however, that this practical and accounting-related problem area has not diffused into the management accounting research domain. Soin and Scheytt

(2008:1392) offered a possible explanation for this lack of research, which is largely supported by the RM literature referred to above: "…there is very little integration between management accounting and risk management [in the financial service industry]"; instead, the area seems to be dominated by finance- and economics-based approaches and language, and thus occupied by experts from fields other than accounting.

This observation is consistent with the majority of research that deals specifically with FTP systems design and use in banks. The economic models that form the basis for this research depart from the separation theorem (see Klein, 1971; Monti, 1972) and assume that banks operate under perfect and frictionless market conditions. Under such conditions the optimal volumes of the bank's deposits and lending are directly related to the price, and the price should be decided separately for loans and deposits, with reference to the relevant market rates (an extended discussion is provided in Essay 4). This fundamental approach forms a basis from which we can investigate a number of interesting issues in the cross-section between economics, management accounting and risk management. These include, but are not limited to, the practical viability of this model (see Essays 4-5), the regulatory implications on bank price and risk management (Essay 4), why banks use FTP systems and the extent to which the FTP system can fulfil the intended purposes (Essay 5), and especially how bankers are currently working with the integration of management accounting and risk management (see Essays 4-5).

3. Methodology

Management accounting research is intrinsically linked to practice, which has motivated extensive theoretical and methodological diversity and the use of a wide range of different research methods within the field (cf. Laughlin, 1995; Lukka and Granlund, 2002; Berry et al., 2009; Malmi and Granlund, 2009; Helden and Northcott, 2010). In the debate between what theories and methods are most suitable for management accounting research, Laughlin (1995) argued for a "middle-range" thinking where the motivation for the theoretical and methodological choices that inevitably need to be made is more important than identifying a single superior methodology. Different theories and methods offer alternative ways to simplify, understand and explain phenomena that are not necessarily mutually exclusive. As Ryan, Scapens and Theobald (2002:49) argued: "[i]f accounting and finance research are to explore fully all aspects and dimensions of the subject, we will need a plurality of methodological approaches and all researchers should be open minded about the contributions which alternative methodologies can make". This thesis is largely based on such premises, and the choice of theories and methodologies should thus be evaluated from what Kvale (1996:42) called "…the pragmatic question of whether it provides useful knowledge". The following sections elaborate on the methods used to collect and analyze the data and why those methods were used. Section 3.1 discusses the research process and the different sources of data used for the thesis. Section 3.2 explains the data analyses and finally Section 3.3 elaborates on the research quality.

3.1 Research process and data collection

Bryman and Bell (2007) provided a useful model to identify the major steps of a research project; a version of that model, adapted to my research process, is presented in Figure 2. The previous chapters discuss the motivation for the choices related to steps 1-2 and 5-5a, and the object of this section is to outline the motivations and procedures for steps 3-4 and 5b. Steps 5a-b are marked in green to highlight the non-linearity of the research process, and the italic text attempts to indicate how the research process of this thesis started.

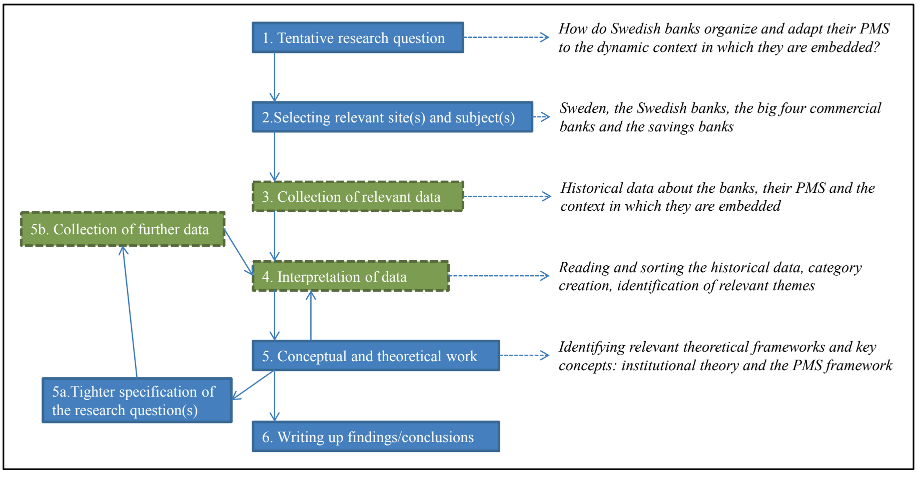

Figure 2
The main steps of the research process (Bryman and Bell, 2007:406)

Social science exploration, in the words of Stebbins (2001:3):

> is a broad-ranging, purposive, systematic, prearranged undertaking designed to maximize the discovery of generalizations leading to description and understanding of an area of social or psychological life. Such exploration is, depending on the standpoint taken, a distinctive way of conducting science—a scientific process—a special methodological approach (as contrasted with confirmation), and a pervasive personal orientation of the explorer. The emergent generalizations are many and varied; they include the descriptive facts, folk concepts, cultural artifacts, structural arrangements, social processes, and beliefs and belief systems normally found there.

The author pointed out that “[r]esearchers explore when they have little or no scientific knowledge about the group, process, activity, or situation they want to examine but nevertheless have reason to believe it contains elements worth discovering” (Stebbins, 2001:6). The exploratory character of the thesis motivated the collection of data from a variety of different data sources, including: annual reports, written accounts, interviews, internal documentation and data received from the banks, informal conversations and seminars, and survey data. This broad base of source material forms the basis for the analysis from which the reader can evaluate the credibility of the findings of the thesis. Figure 3 shows the main source of data that is used in order to analyze each of the five more specific research questions. Stebbins (2001) emphasized the importance of being flexible in terms of looking for data and open-minded about where to find them, and as will be elaborated on in the following subsection, such recommendations have guided many of the choices related to the data collection process.

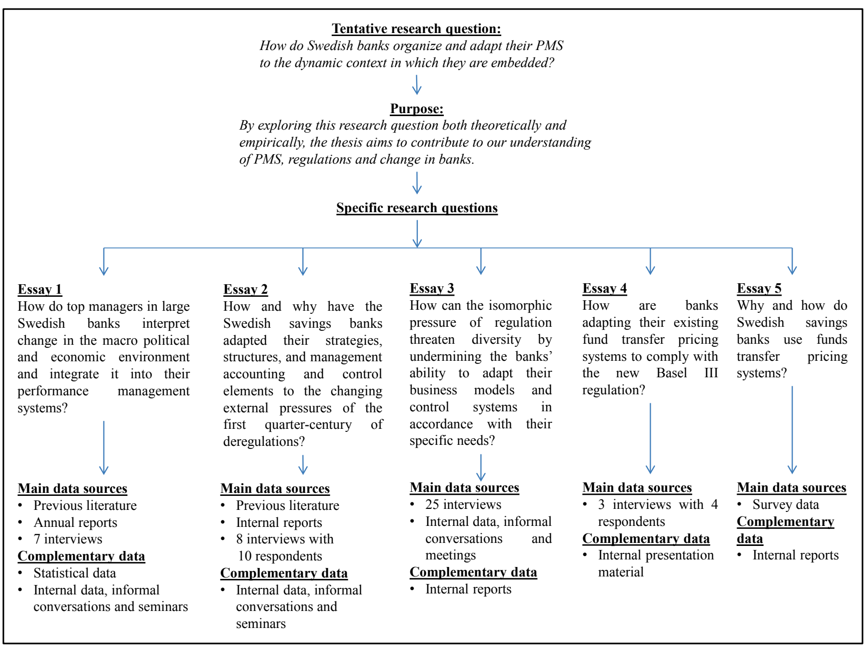

Figure 3
Specific research questions and main data sources

3.1.1 Annual reports and other written accounts

Analyzes of the history of firms and the historical context in which their problems arise offer a powerful means to better understand the context in which the solutions to the problems have developed (Chandler, 1962; 1990; Danielsson, 1983; Luft, 2007). Such analysis is commonly used within institutional-based accounting research to search for the origins of certain PMS practices (cf. Hopwood, 1987; Burns and Scapens, 2000; Shaprio and Matson, 2008). This thesis started with a similar approach. The first step was to identify the main banks on the Swedish banking market, their historical roots and important historical events that may have had an impact on their PMS. Based on an initial reading of the literature dealing with the history of Swedish banks, deregulation in the 1980s was identified as a line of demarcation with respect to PMS developments. Accordingly, the data collection was concentrated to the 1980s and onwards.

The identification of the main banks, and their histories, was not a straightforward procedure since many of the banks have changed names and merged (in some cases through regular mergers, and in some cases through acquisitions) over the past decades (see Chapter 4 for an extended discussion). The Swedish Bankers Association's annual report of the Swedish banks[2], which dates back to 2003, offered a relevant staring point. These reports continuously stated that four commercial banks (Nordea, Skandianviska Enskilda Banken [SEB], SHB and Swedbank) accounted for around 80 percent of the market for deposits and lending in Sweden, and that the savings banks accounted for another 10 percent. Accordingly, I decided to focus on these two groups of banks. In order to learn more about the large commercial banks, I collected their annual reports from 1985 to 2010 (in total more than 100 annual reports). These reports offered a systematic, easily accessed and yearly published document that kept a similar structure throughout the entire period.

The more recent annual reports were downloaded from the banks' webpages, whereas the earlier versions were found in the library or received directly from the banks. Most of the annual reports are in electronic format, but 29 annual reports (12 from Nordea, 5 from SEB and 12 from Swedbank) could be found only in paperback. The advantage of the electronic format is that it supports software programs that allow word-searches, but 12 of the electronic reports (1 from Nordea and 11 from SHB) were only scanned versions that did not allow for this. For consistency, I therefore read the first pages of each report (including the key events, the CEO letter and, if included, the chairman's letter). Thereafter, I initially focused on a few key performance indicators and the major events that had affected individual banks. However, the collection was gradually broadened to include most of the balance sheet and income statement data, and data about the CEO and the Chairman of the board. The data was transferred into two excel sheets manually. The first excel sheet contains the main events concerning each of the four banks for every year from 1985 to 2010, whereas the second excel sheet contains the accounting numbers and key performance indicators of these banks over the same period. This process allowed me to familiarize myself with the banks, their financial performance, and the major external events as expressed in the annual reports. It also allowed me to create a basic chronology over the time period. A complementary source of

[2] Accessible at www.swedishbankers.com.

information, during this phase, was a booklet called "The Banks", which was published yearly by Statistics Sweden until 2003. The booklet contains a brief overview of the main events of the year and detailed statistical data about the banks.

For the savings banks, Körberg (2003; 2010), Eriksson (2005) and Olsson (2009) offered detailed accounts of the developments over time. These references were complemented with internal data composed in excel sheets received from the Swedish Savings Banks Association from (SSBA) 1996 to 2010 (I later received the reports for 2011 to 2013). Paperback copies of the reports from 1980 to 1988 were later retrieved from the archives of one of the savings banks. These reports contain a wide range of performance data, including balance sheet and income statement data, various financial performance measures, and number of employees, branches and customers.

Moreover, several historical accounts, such as biographies, anthologies, and other descriptions of the banks were read (this has been an ongoing process throughout the study) in order to gain a better understanding of the historical development of the Swedish banking market (see Lundberg, 2013 for an overview).

3.1.2 Interviews

As noted by Bryman and Bell (2007:472), the interview is probably the most widely used method in qualitative research (cf. Ahrens and Chapman, 2006 for a similar reflection related to management accounting research). Perhaps the most compelling advantage of interviews as a source of data is that they provide accessible and rich accounts of human experience (cf. Kvale, 1996; Silverman, 2001 for extended discussions). In the present thesis, such accounts are essential to reaching a fuller and more holistic understanding of the research questions, especially because annual reports and related documents only offer bits and pieces of the procedural change processes and give little inference to human agency. Moreover, the exploratory purpose of the thesis motivated a search for "emergent" generalizations rather than the testing of established patterns. Throughout this search, practitioners in the field of banking were important expert witnesses that could offer their testimonies of the developments over time.

There are several choices linked to the usage of interviews as a source of data, including whom to interview, how many interviews will be required, what type of interview to conduct, and how the interview data will be analyzed (Qu and Dumay, 2011:239; see also Silverman, 2001). The specific research questions (see Figure 3) guided these choices and the *whom question* is discussed at some length in the essays. In response to the *how many question*, saturation is commonly used as a criterion, i.e. keep asking as long as you get different answers (cf. Guest, Bunce and Johnson, 2006; Baker and Edwards, 2012). The implication of this criterion is of course that it is not possible to determine, at the start of a research project, how many interviews will be needed in order to reach saturation. What I found more difficult was to determine when saturation was fulfilled with respect to all dimensions of a specific research question. As an example, during the interviews for the first two essays it took only a few interviews to identify recurring themes, such as: the simplistic nature of the PMS in the banks prior to deregulation, the importance of the Swedish financial crisis to accelerate the introduction of more sophisticated PMS, the growing sales focus in the banking industry, and the extensive workload associated with re-regulation. However, there were also many aspects that could have bearing on the research question, but which were only emphasized by one respondent, such as: references to consultants who promoted a new PMS mechanism, or a new IT system that allowed the bank to process more data and construct new reports. Because the specific research questions of the first two essays focus on the interaction between the external and the internal perspectives, over an extensive period of time, I decided to emphasize the broad themes where saturation was reached rather quickly. This approach explains the limited number of interviews used for these two essays. The same motivation is not relevant with respect to the fourth specific research question (see Essay 4), in which a certain aspect of the PMS is in focus, i.e. the FTP system. Instead, a few individuals within each bank, which were expected to have detailed knowledge of the technicalities of the FTP system, were identified. These interviews are used primarily to illustrate the practical complexities of FTP systems adaptation. After an initial analysis of the interview data, we decided to focus the analysis on a theoretical extension of the FTP literature, rather than more in-depth case descriptions.

The next method choice, i.e. the *what type question*, has been subject to extensive debate and controversy with regards to what type of knowledge can be gained through the use of different types of interviews (see Alvesson, 2003 for an extended discussion). Kvale (1996:4) used the metaphor of a traveler to describe the interview as a research method:

> The interviewer-traveler wanders through the landscape and enters into conversations with the people encountered. The traveler explores the many domains of the country, as unknown territory. The travelers may also deliberately seek specific sites or topics by following a *method,* with the original Greek meaning of "a route that leads to the goal." The interviewer wanders along with the local inhabitants, asks questions that lead the subjects to tell their own stories of their lived world, and converses with them in the original Latin meaning of *conversation* as "wandering together with."

The traveler metaphor is close to what Alvesson (2003:16) described as localism, which emphasizes that interview statements must be seen in their social context. Not only does the localist view reside well with the overall research question, it is also consistent with my own view of the interview as a situational and context-dependent situation in which two people converse over a specific topic. With reference to the localist view, Qu and Dumay (2011:246) argued for the use of the semi-structured interview form, which "[…] involves prepared questioning guided by identified themes in a consistent and systematic manner interposed with probes designed to elicit more elaborate responses" (2011:246). They further argued that an important aspect of the preparation is developing a relevant interview guide, which serves to ensure that the same thematic approach is applied during the interviews. The interview guides developed for Essays 1-2 are rather similar. Both are based on three key themes: the external change process (i.e. the main events as identified prior to the interview), the PMS framework (in which the questions are primarily informed by Otley, 1999; Ferreira and Otley, 2009; Adler, 2011), and the internal change process (i.e. why and how certain aspects of the PMS changed).

The interview guide developed for Essay 3 focuses on one major theme (i.e. the implications of re-regulation for the business models and control systems of the banks) but Oliver's (1991) framework and subsequent insights related to her framework (e.g. Canning and O'Dwyer, 2013; Covaleski et al., 2013) were used to ask questions regarding a number of sub-themes: how the banks respond (how do they invest resources to adapt, what actual changes need to be made/have been made, etc.), the nature of various relationships (such as those with the regulators, other banks, and the national association), and the congruence between new regulations and current practices.

Finally, the interview guide developed for Essay 4 was divided into four main themes: (i) organizational characteristics, (ii) why and how the banks use FTP systems, (iii) the implications of Basel III related to the FTP system, and (iv) practical limitations of the FTP system (such as the IT-technical requirements and solutions, difficulties in estimating the transfer rates, etc.).

According to Qu and Dumay (2011), the semi-structured interview is probably the most common of all qualitative research methods; they argued that it "[…] enjoys its popularity because it is flexible, accessible and intelligible and, more important, capable of disclosing important and often hidden facets of human and organizational behavior". These were important traits that guided my choice, especially because they allowed me to ask follow-up questions and adapt the interview questions with respect to the interviewees' answers. At the same time it is not a neutral approach, and the answers are dependent on a multitude of different factors, such as: the situation, the interviewer, the mood of the interviewee, the conversational dynamic between the interviewer and the interviewee, and so on (cf. Kvale, 1996). The interviews thus provide a situated understanding of the topic, which motivates the use of different data sources to corroborate the findings (this is discussed further in Section 3.3).

3.1.3 Internal data, informal conversations and seminars

A mixture of internal sources have been used, including the internal reports mentioned above, project reports, internal presentations, training material, profitability reports and material from the banks' intranet. Most of these sources are in the form of documents, but there have been several occasions during meetings and interviews when I have sat next to a respondent who showed me something on his/her computer screen. Since the majority of the documents were given under the promise of secrecy, they have primarily been used to corroborate the findings and search for potential clues. Similarly, it is important to acknowledge that the internal documents were not systematically collected or analyzed. However, on a few occasions certain documents played an important role in interpreting the findings, and these are highlighted in the essays (see specifically the case of Gota Bank in Essay 1).

During the course of this study, I have participated in and organized several conferences and seminars, primarily directed to practitioners. I have also presented my research at several board-meetings and internal bank gatherings. These conferences and presentations offered an informal arena in which to discuss and interact, that allowed me to identify important topics and challenge my current interpretations of the data. Finally, in 2013 I helped organize an education for chief financial officers in the SSBs, which included 24 full days, of which I attended all. During these gatherings I took an active part in discussions and supervised the participants in writing reports on important PMS issues within their banks. The education included presentations from a wide range of professionals, who discussed internal and contemporary problems in the banking industry in general, and of the savings banks in particular. These gatherings played an indirect role in influencing the results because my own understanding gradually increased, with inevitable effects on the non-neutral interview situations and the equally non-neutral interpretations of key findings. Still, these gatherings have allowed me to consistently expose and challenge my own views and interpretations, a view that again is adjacent to the middle-range thinking consistent with De Loo and Lowe's (2012:4) assertion that "a thorough understanding of the events or phenomena that the researcher has studied may be all we can strive for".

3.1.4 Survey data

Finally, the executive education provided me with a unique opportunity to gather data related to the fifth specific research question (see Figure 3). A survey design was chosen in order to get a comprehensive data set, and the specifics of the data are reported in Essay 5. Very few previous surveys existed on the topic of FTP (Drury, 1998; Oyelere and Turner, 2000), which meant that I had to develop much of the questionnaire without reference to previous studies. This approach reduces the construct validity (cf. Shadish, Cook and Campbell, 2002) and makes the result less comparable to previous studies (this is further discussed in Section 3.3). The survey design was developed and implemented in accordance with the recommendations of Dillman (2000) and van der Stede, Young and Chen (2005). Dillman's (2000) recommendations were used primarily for their detailed instructions on how to design the questionnaire, whereas van der Stede et al (2005) recommendations were used to strengthen the credibility of the survey data. The survey construct was developed to explore, and not to empirically test, the research question. The latter I hope to be able to do in future research, which will be discussed further in Subsection 6.3.

3.2 Data analysis

It is common to distinguish between interpretative (qualitative) and positivistic (quantitative) research in order to facilitate a comparison between different types of methodological approaches (cf. Ahrens and Chapman, 2006). As deliberated on by Ahrens and Chapman (2006:826), this separation is not intended to signal specific preferences towards one or the other methodology, but both are "systematic articulations of sets of statements that can variously relate to explaining, predicating and prescribing social phenomena". This view is consistent with the middle-range thinking, and Laughlin (1995:83) argued that:

> Accounting theory will never be like a theory of gravity. Accounting is a social practice conducted by diverse social actors. To claim that it has generalizable, theoretical characteristics similar to gravity is a proposition where there has to be some considerable leap of faith […] The attempt to learn from across a range of diverse specific instances in a rigorous manner, however, is the great strength of this [middle-range] way of thinking.

In the present thesis, this means that theories and methods are combined to analyze both qualitative and quantitative aspects of the overall research question. Regardless of whether the data are qualitative or quantitative in nature, it is still open to interpretation from both the researcher and the consumer of the research. Accordingly, the next subsection elaborates on the issue of interpretation as a means for data analysis.

3.2.1 Interpretive research and case studies

As noted in the introduction, this thesis started with a general interest in the many claims of mismanagement in the banking industry, and an ambition to understand how and why such important and professional organizations could go so wrong. My previous understanding of the banking industry was limited, which resulted in an attempt to identify the key banks, their historical roots, and the problems they have encountered over time. Literature reviews and documentary analyses (primarily annual reports) formed the basis for this preliminary phase. Clearly, the study of banks is not a homogenous field, and it has attracted attention from a wide range of both theoretical and empirical researchers. Accordingly, this preliminary phase also served a purpose in developing a theoretical understanding of the dynamics of the banking industry. A surprising feature of this review was the lack of management accounting research that dealt specifically with banks, a discovery that has been continuously confirmed through numerous discussions that I have had with researchers and practitioners during my studies. A second feature of the review was the persistent references to context, i.e. the interrelationship between the external and internal perspectives. Management accounting scholars in general acknowledge the importance of context, and those investigating banks seem particularly prone to highlight the importance of context in shaping the PMS of banks.

The lack of research on the topic, together with the view of PMS in banks as context dependent, motivated an exploratory and interpretative research methodology, which is commonly conducted through longitudinal case studies (cf. Burns and Scapens, 2000; Johansson and Siverbo, 2009; Suddaby, 2010). In simple terms, this meant asking practitioners what they do, why they do it and to what extent their practices have changed over time. Ewertsson (2001:71) framed it as follows:

> A key advantage of using historical contextual, in-depth case study methodology is that it opens up the dynamics behind processes of change. It enables us to ask detailed and intense questions about a specific event or phenomenon, explored as a whole resulting from a combination of conditions. In this way, a ‘how’ or ‘why’ question can be explored in great detail. Case studies thus allow causal complexes to be addressed. They enable us to examine the conjunctures and differences in time and space that, for instance, produced system reconfiguration or institutional form.

Case studies can be either single or multiple. Eisenhardt and Graebner (2007:27) argued for the latter because the comparability between cases helps clarify whether emergent findings are simply idiosyncratic, which means that the propositions are more deeply grounded in varied empirical evidence. This is supported by Johansson and Siverbo (2009:159), who stressed that: “In a situation of turbulence and/or scarcity, where the population (e.g. an industry or an institutionalized field) mean changes substantially in some central aspects of the management accounting, the single organization or collective need not to change at all”. In order to avoid issues of idiosyncrasy and enable a broader theoretical elaboration and exploration of the research questions, this thesis relies on the multiple case method.

Cooper and Morgan (2008:160) defined case study research as "[…] an in-depth and contextually informed examination of specific organizations or events that explicitly address theory". Consistent with the aim of this thesis, case studies are frequently used to learn from jolts that disrupt routines and expose differences between what may appear to be similar actors (Cooper and Morgan, 2008:162). The essence of this methodology is theoretical generalization, i.e. yielding important results for theory development by fostering theoretical reflection or testing the validity of theories. This means that the choices, priorities and focus of the research project are based on theoretical questions but, as elaborated on in Section 3.3, it does not mean that the criteria of reliability and validity are less rigid; they are just different from those commonly referred to in positivistic research.

The analysis of qualitative data through means of interpretation was described by Ahrens and Chapman (2006:837) as follows:

> Like other practices, the doing of qualitative field studies is difficult to articulate. One can point to the golden rules, but, at the heart of it lies a problem of transformation. Out of data, snippets of conversations and formal interviews, hours and days of observation, tabulations of behaviours and other occurrences, must arise the plausible field study.

The following paragraphs are an attempt to illustrate the interpretative work by means of example. In particular, one of the key concepts of the thesis is change, but the reader may ask: "How do you actually measure change?"[3], and Figures 4-5 show the iterative and critical dialogue between theory, researcher subjectivity and empirical material (cf. Alvesson and Kärreman, 2007, for an extended discussion about this dialogue). Figure 4 attempts to identify the different steps involved in arriving at the measurement of change. Many of these steps were continuous or reciprocal, i.e. I went back to a previous step in order to improve or complement certain aspects. The arrow between Steps 7-8 means that these were primarily conducted simultaneously. Figure 5 zooms in on Step 12, "measuring change", and shows the analytical model that was used in order to analyze the data with respect to change (the model is based on Busco et al., 2007).

[3] I am indebted to Professor Sven Siverbo for posing this question at my internal seminar.

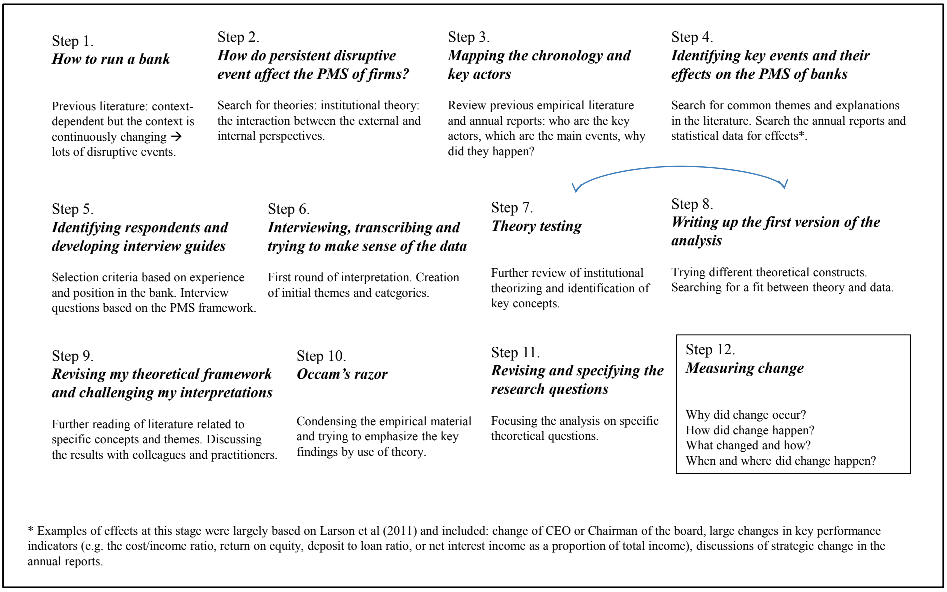

Figure 4
The iterative process of measuring change

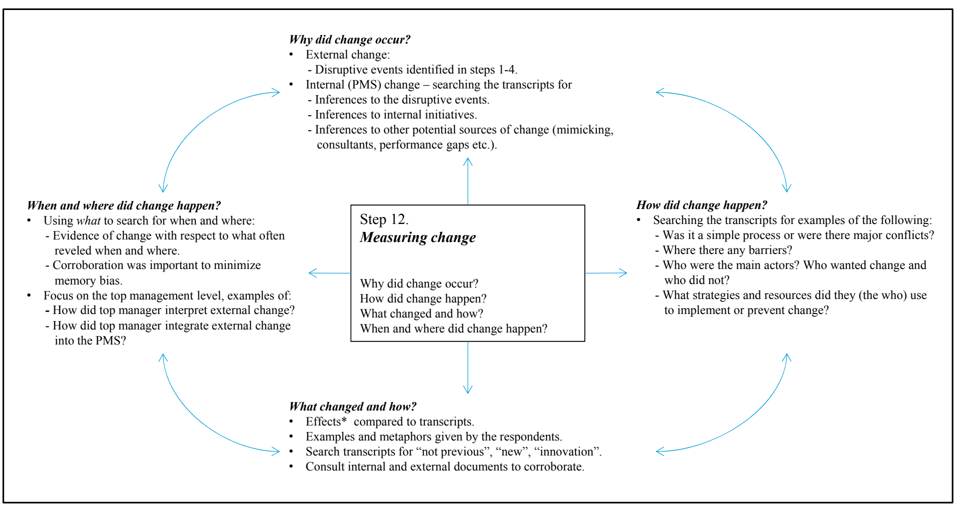

Figure 5
Analytical model to measure change (adapted from Busco et al., 2007:127)

3.3 Research quality

Ryan et al (2002) argued that it is the credibility of the evidence and the analytical conclusions that form the evaluation criteria in case study research (see also, Silverman, 2001). This is similar to what Ahrens and Chapman (2006) called plausibility, i.e. that the study should be plausible and trustworthy. In accordance with the localist view (Alvesson, 2003; Qu and Dumay, 2011), such criteria build on the assumption of a non-neutral and subjective researcher, which, at least unconsciously, is guided by preconceptions and prejudices. There are several means by which to mitigate such subjectivity and improve the credibility of the study. Ryan et al (2002) specifically referred to procedural reliability and contextual validity. The former is based on a research design that allows the researcher to demonstrate that the findings are reliable so that others can at least examine what has been done. The two previous sections serve to carefully describe the research process in order to improve the procedural reliability of the thesis. The latter (i.e. contextual validity) is the subject of the following subsection.

3.3.1 Credibility and contextual validity

Triangulation[4] is perhaps the most commonly used tool to improve the contextual validity (cf. Ryan et al., 2002). The authors discuss several types of triangulation, including data triangulation, method triangulation, researcher triangulation, theory triangulation and methodological triangulation, which may all be used in order to improve the contextual validity. Still, triangulation is not without critique. For example, Ahrens and Chapman (2006) argued that the word "triangulation" is problematic in itself because it implies that there is an identifiable objective reality. They suggested a more nuanced view in which triangulation is used "as a metaphor for the corroboration of evidence for certain assumptions about the object of study" (Ahrens and Chapman, 2006:834). This is similar to Silverman (2001), who argued (referring specifically to data triangulation) that triangulation should not be used under the assumption that the aggregation of data from multiple sources will necessarily produce a more accurate or complete picture. Instead, different types of data are situational accounts of a phenomenon and it is the role of the "skillful" researcher to interpret, and critically assess, the meaning of such accounts (Silverman, 2001:235). This means that different types of triangulation can be powerful tools to make the critical dialogue between theory, researcher subjectivity and empirical material more meaningful if emergent interpretations and hypotheses are persistently challenged, compared and reformulated. The following paragraphs outline the different types of triangulation and the extent to which they have been used in the five essays of the thesis.

Data triangulation: As illustrated in Figure 3, all of the essays in the thesis use some form of data triangulation. It was particularly important for the validity of findings reported in Essays 1-2, where respondents were asked to reflect upon issues that happened in the distant past, making their statements subject to potential memory bias (see Schacter, 1999 for an extended discussion concerning memory bias). This means, for example, that interview statements made with respect to specific theoretical properties were, when possible, compared to documents, other interview transcripts, and/or other data sources in order to search for alternative interpretations. Essay 1 is written in a style that attempts to make this triangulation process particularly clear by using specific examples of individual bank variation, which ultimately resulted in similar change initiatives on the field level. In Essay 3, testimonies from

[4] Some authors (such as Silverman, 2001) distinguish between triangulation and respondent validation. Following Ryan et al (2002) I have chosen to include the discussion about respondent validation under researcher triangulations.

respondents at different organizational levels were used in order to assess whether claims made by one respondent were consistent over the organizations. By triangulating data from the interviews in the two banks in Essay 4, we identified a theoretical gap. However, it is important to note that since we did not continue by doing an in-depth case analysis, the triangulation was not really used to validate the findings, but rather as an indication of the relevance of the theoretical extension. Finally, Essay 5 uses survey data with multiple respondents from each bank. As illustrated in the essay, this approach was important in order to avoid making inferences about the organizational level based on individual observations.

Theory and method triangulation: As discussed in the previous sections, several different theories and methods have been used throughout this thesis. It has been a conscious and strategic choice to adopt middle-range thinking in order to explore the tentative research question from different theoretical and methodological angles. However, this strategic choice does not mean that triangulation has been used, since each specific research questions is addressed from a specific theoretical and methodological angle. Still, by acquiring a broad theoretical and methodological understanding, I have gradually learnt to challenge my interpretations and critically evaluate the theoretical and methodological choices.

Researcher triangulation: Essays 3-4 were co-authored[5] and the data for these studies was primarily collected and analyzed jointly. However, the majority of the interview data for Essay 3 was collected separately, and only one of the authors was present during most of the interviews. In order to evaluate our interpretations of the data we followed a specific iterative procedure, which is reported in Essay 3. Although I am the single author of Essays 1, 2 and 5, I have discussed my interpretations of the data extensively with my supervisors. Moreover, in each of these studies the respondents have discussed and evaluated the evidence. An early version of Essay 1, together with specific interview transcripts, was sent to those respondents who were open to such an approach, and they commented on the accuracy of my interpretations. In addition to the feedback approach used for Essay 1, the preliminary results of Essay 2 were presented and discussed during a seminar with participants from all the case banks (and a number of additional banks). The purpose of this presentation was not to evaluate the accuracy of my interpretations; it served to confirm that there were no major objections raised. Finally, the preliminary results of Essay 5 were presented at a seminar with participants from all of the banks that were included in the survey. I asked if they had any objections towards the result of the study, but they raised no such objections.

3.3.2 Empirical reliability and validity

The quality of social research is commonly evaluated based on four criteria: reliability, internal validity, construct validity and external validity (cf. Lillis, 2006).

The reliability of Essays 1-3, and to some extent Essay 4, should be evaluated based on their procedural reliability. For Essay 5, the questionnaire and related material have been translated and included in the Appendices, and a cleaned data set is available on request in order to improve the reliability. Still, as emphasized by Silverman (2001), not even in an experimental setting can we expect to get the exact same results if the experiment is run multiple times. The

[5] This is further discussed in Chapter 5.

changing nature of the Swedish banking industry means that repetitions of the studies will inevitably provide differing results.

The internal validity refers to the extent to which causal relationships are well founded. The exploratory character of the thesis means that one of the key objects is to search for, rather than to establish, causal relationships. However, some of the essays make inferences to causal relationships. Perhaps the most problematic of these is the inference to a unidirectional relationship between regulations and PMS change. The assumption about such a relationship is primarily based on the theoretical frameworks used for Essays 1-2 but, as discussed further in Chapter 6, this relationship is likely to be better depicted as multidirectional.

Construct validity measures how well the constructs have been operationalized (Lillis, 2006). Lillis (2006) argued that an advantage of qualitative field research is that it allows the researcher to reduce the compromises involved in the constructs we use. Still, the constructs must be observable and identified in the data. The interpretative and reiterative processes described in Figures 4-5 are intended to illustrate how the theoretical constructs have been operationalized in order to observe and identify change. Similar processes have been used for most of the constructs in this thesis, and several types of triangulations have been used to improve the identification processes. Lillis (2006:465) further argued that "[a]n important strength of field research is the ability to identify complex empirical attributes that define constructs". As will be elaborated on in Chapter 6, Essay 3 specifically investigates the construct of size and identifies two properties of size that could be used to improve the definition of size as a contextual variable. Similarly, Essay 5 probes into the issue of FTP systems performance and testifies to the interrelationship between four different theoretically developed constructs of performance.

External validity is the extent to which the results can be generalized to the wider population, setting or times (Lillis, 2006). The general aim of this thesis is not generalizability, but rather to explore the research question in order to identify theoretical properties and relationships that could either be used to understand similar problems in different contexts, or be tested on a larger sample to confirm their external validity. Lillis (2006:467-469) argued that there are two aspects to external validity in field research: (i) contribution to theory must be evident and (ii) the contributions should be potentially generalizable. Starting with the former, the essays make several claims about theoretical contributions, which are more or less explicit. Essays 1-2 tested the theoretical generalizability of two frameworks that were identified as relevant to explore PMS change in the banking industry. Essay 1, for example, claims to accede "to the growing body of literature that views IE [institutional entrepreneurship] as a collective phenomenon". Although this claim may appear somewhat contradictory (from a theoretical perspective, the institutional entrepreneur is supposed to be an individual or an organization, not a collective, that leverages resources to strive to change institutions), it is perhaps better understood as a critique against the portrait of the institutional entrepreneur as a "hero" that single-handedly makes institutional change happen. Arroyo (2012) used theories of organizational learning to make this critique more precise by adding ideas about how change is interpreted and integrated, i.e. how IE moves from the individual to the collective. Essay 1 uses these theoretical properties and shows that, in the specific context of the study, these properties are useful to identify and explore the process of agency, rather than to identify the single agent (hero). Hence, the claim about collectivity becomes theoretically and methodologically relevant in the conceptualization of agency by pointing to the interaction between the agent and its wider network instead of the actions of the agent per se.

Essays 3-5 are more explicit in their theoretical contributions. Essays 3 and 5 were discussed in the previous paragraph. Essay 4 makes a specific theoretical contribution by extending the separation theorem in banking to cover the case of oligopolistic and oligopsonistic market conditions.

The potential generalizability of Essays 1-4 is strengthened by the use of multiple cases (Lillis, 2006; Eisenhardt and Graebner, 2007). Still, it is worth repeating that the value of these essays should be evaluated primarily from the credibility/plausibility perspective (Ryan et al., 2002; Ahrens and Chapman, 2006). The main focus of this chapter has been to outline the research process so that the reader can evaluate the credibility of the findings and whether these findings are relevant (rather than generalizable) to other settings. The potential generalizability of Essay 5 is strengthened by the survey design. Even though generalizability is not the aim of the essay, several measures were taken to improve the potential generalizability, at least within the survey population (the SSBs).

4. The Swedish banking industry

As noted in the introduction, the Swedish banking industry consists primarily of two types of banks: commercial banks and savings banks. At the end of 2014, there were a total of 117 banks in Sweden. These include 24 commercial banks and 62 savings banks (48 of these are independent savings banks, and 14 are savings banks that have converted into joint-stock banks)[6]. The following sections give a brief historical overview of these two groups of banks; more elaborate descriptions are included in the essays.

4.1 Commercial banks in Sweden

The first commercial banks in Sweden were established during the 1830s and organized as "Enskilda Banker", in which the owners were liable for the banks' operations (Larsson, 2011). Up until the late 1850s, building societies were the most influential players on the Swedish banking market, but during the latter part of the 19th century commercial banks took the leading position, and in 1909 they reached an all-time high of 83 commercial banks (Lundström, 1999). Throughout the first decade of the 20th century, a series of regulatory changes, the strengthening of the Swedish state as a supervisor of the financial system and the enactment of the Swedish central bank (the Riksbank) as the only institution allowed to print money, transformed the Swedish banking industry into its modern form (Broberg, 2006). During this period, the German universal banking tradition appeared as a preferred model for the Swedish banks. Representatives of the banks argued for the advantages of closer relations between banks and the large industrial firms, and prompted for regulatory change that would allow them to acquire, own and manage shares; in 1911 the regulators gave in to their demands[7] (Larsson, 2011).

Overall, the purpose of the new legalization was to consolidate the industry through a phasing out of the small and relatively low capitalized banks on the market, but it also meant a move from free banking to central banking. From the government's point of view this was an important step to insure the depositors' money, and the existing banks gained through reduced competition and higher entry barriers. These policy measures resulted in a series of mergers between 1910 and 1930, reducing the number of commercial banks to less than 30. After a decade of limited merger activities the trend resumed in the 1940s (although at a smaller scale), and in 1945 there were a total of 21 commercial banks in Sweden. Four banks (Svenska Handelsbanken, Skandinaviska Banken, Göteborgs Bank, and Stockholms Enskilda Bank) accounted for more than 50 percent of the deposit market (Lindgren, 1988). In the years during and after World War II, the state control of the banking market increased drastically and several regulatory initiatives were taken that restricted the banks' discretion. The Swedish banking market remained highly regulated until the early 1980s when deregulations were initiated but, apart from the merger between Skandinaviska Banken and Stockholms Enskilda Bank in 1971, there were no major structural changes[8].

[6] There are also 29 foreign subsidiaries and 2 cooperative banks (www.swedishbankers.com).
[7] Historically, this was an important regulatory change. It has been highlighted as a major reason for the financial crises in the 1920s, as well as for the strong influence that banks would have on the Swedish commercial sector.
[8] Readers interested in the history of Swedish banking are referred to Glete, 1994; Larsson, 1998; 2011; Broberg, 2006.

The deregulations initiated a new consolidation phase that was amplified by the Swedish financial crisis, and towards the mid-1990s four large banks dominated the Swedish banking market (today these are named Swedbank, SEB, SHB, and Nordea). The new regulatory framework allowed foreign banks to establish operations in Sweden, but except from Danske Bank, which acquired Östgötabanken in 1997, the influence of foreign banks has remained limited in Sweden. However, deregulation also created an opportunity for domestic companies, active in other industries, to diversify into banking, and since the mid-1990s several such "niche" banks, mainly active on the retail banking market, have acquired a banking charter. These include, for example, Skandiabanken AB, Länförsäkringar Bank AB, Volvofinans Bank AB and ICA Banken AB.

4.2 Savings banks in Sweden

The savings bank is a legal organizational form which, at least in Sweden, does not have owners entitled to profits. Instead of owners, there is a trust with a committee composed of local politicians and principals, which selects a board of directors that appoints the CEO (Olsson, 2009). According to Olsson (2009), the first savings bank was formed in Germany in 1778 but the first trustee savings bank[9] was founded in Scotland in 1810 (see also Bergendahl and Lindblom, 2008). In Sweden, the first savings bank was established in Gothenburg in 1820, and the general idea was to provide financial services to the broad public that previously had been unable to access banking services (see Olsson, 2009 for an extended discussion). The number of savings banks increased rapidly, and in the 1870s more than 300 savings banks were active on the Swedish market. In the year 1900, the SSBA was established, and in 1942 a joint commercial bank called "Sparbankernas Bank" was formed to handle foreign exchange and credit transactions (Polster, 2004). Today a total of 62 savings banks are active in Sweden and, according to the Swedish banking association, they account for approximately 10 percent of the market for deposit and lending. The majority of the savings banks have a close co-operation with Swedbank through the provision of common products and access to technical solutions (see Essays 2 and 5 for extended discussions).

The historical legacy has remained within the savings banks, and they maintain a close relationship with the local community by keeping an overall mission of promoting thrift within their local area. Furthermore, the Savings Bank Act (1987:619) requires that half of the meeting representatives (trustees) should be appointed by the local municipality council or county council (Sparbankslagen 1987:619, Chapter 4; Section 3). The local presence and absence of a shareholder-based ownership distinguishes savings banks from their commercial peers, in which shareholder value (SHV) has a primary position. Ayadi et al (2009:i) summarized the characteristics of savings banks into three common elements:

> 1) [Savings banks] are not exclusively profit orientated but, as the study suggests, adopt a 'dual-bottom line' business model or what is also called a Stakeholder Value (STV) ethos; 2) they have something of a 'social mission', which is partly a product of their historical origins and 3) compared with SHV banks, ownership stakes cannot be sold in a secondary market.

[9] This type of savings bank incorporated mutual principles and bears many similarities with those savings banks that were established in Sweden (Bergendahl and Lindblom, 2008).

Moreover, as noted by Gardener et al (1997; see also Iannotta, Nocera and Sironi, 2007), the majority of savings banks are relatively small and risk averse. The authors noted that because of their limited size, savings banks commonly have a central organization that provides certain products and services, such as technological solutions and international co-operations. In Sweden, a major part of the central functions is handled through co-operation with Swedbank and the SSBA, which represents the savings banks towards authorities and other organizations (Olsson, 2009). Gardener et al (1997) further concluded that the historically rooted local focus (even small commercial banks tend to have a more international approach) means that savings banks often operate in districts with limited or no competition. The savings banks are often restricted[10] from expanding outside their local territory which, according to Olsson (2009), renders both pros (in terms of limited competition) and cons (in terms of limited flexibility with regards to business scope and product range). In recent years, the savings banks have gradually adapted their strategies and objectives towards more shareholder-oriented approaches (cf. Girardone, Nankervis and Velentza, 2009; Olsson, 2009).

[10] In some countries, including Sweden, savings banks are not legally restricted from expanding into the territory of other savings banks, but it would be considered an offensive move that might upset the co-operation on a national level (see Gardener et al., 1997; Olsson, 2009, for extended discussions).

5. The essays

This chapter summarizes the main results of the five essays. Collectively the five essays of the thesis aim to explore and analyze the tentative research question: *how do Swedish banks organize and adapt their PMS to the dynamic context in which they are embedded?* The first two essays were part of my licentiate thesis (Lundberg, 2013), but they have gone through substantive revisions prior to publication. Essay 1 is accepted for publication in the *Journal of Accounting and Organizational Change*, and Essay 2 is published as a chapter in Falzone (2013). Section 5.1 briefly discusses Essays 1-2, which both focus on the interaction between the external and internal perspectives.

Section 5.2 summarizes the third essay, which focuses on the potential costs of regulation. The essay was written together with Associate Professor Mikael Cäker, and the analysis is based on data from two banks. My co-author collected the data on one of the banks ("Big Bank") for a different research project, as well as subsequent data for this specific research project. I collected the majority of the data (one interview was conducted together with my co-author) on the second bank ("Small Bank"). I am the first author of the essay because I came up with the research question and theoretical motivation (including the subsequent theoretical refinement). The analysis and conclusions are the result of joint work. The essay is accepted for publication in an anthology with the working title "Managing Banks: Effects on Regulations" (Edited by Fredrik Nilsson and Anna-Karin Stockenstrand).

Section 5.3 summarizes Essay 4, which analyzes the implications of Basel III for sophisticated FTP in banks. The essay is the result of joint work with Professor Ted Lindblom. My co-author developed the first draft of the paper after mutual discussions on the topic. I organized and transcribed the interviews, which we conducted jointly. After an initial analysis, we decided to refocus the essay towards a theoretical development of the existing FTP theory. We presented the essay at a conference in September 2014, after which I have done most of the refinements, following joint discussions. The essay has been submitted to two experts in the field (Professor Anjan Thakor and Professor Subhasishis Gangopaday) from which we await comments. Thereafter we aim for publication in the *Journal of Banking & Finance.*

Finally, Section 4.4 discusses the results of Essay 5, which is an exploratory survey of how SSBs use FTP. The essay is aimed for publication in one of the following three journals: *The Service Industry Journal, European Management Journal,* or the *European Business Review*.

5.1 Essays 1-2: Performance Management Systems Change in Swedish Banks

As previously noted, the first step of the thesis was to identify the main actors and to contextualize relevant problems that they have faced since deregulation in the mid-1980s. The literature review highlighted, among other things, the close relationship between banks and their environment, and specifically the need for banks to deal with constant shifts in the external environment. During the initial data collection two main types of disruptive external events were identified: financial crises and regulatory change. Based on the literature review, banks were expected to change their PMS in relation to such events. As will be elaborated on below, the findings of Essays 1-2 indicate that while financial crises indeed seem to have had a direct impact on the PMS of the Swedish banks, regulatory change does not. A second expectation was that the Swedish banks would have had rather simplistic PMS prior to deregulation, and this is supported by the findings of the essays.

The essays also confirm earlier results of a greater cost and profitability focus within the banking sector after deregulation. However, the results are different from those of previous studies with respect to the origin of the cost consciousness in the banks. Rather than deregulation, diversification or technological development, the main driver seems to have been the Swedish financial crisis. Even respondents from banks that were not directly hurt by the crisis referred to the uncertainty created by the crisis as the main driver of PMS change (see Essay 2). The crisis facilitated and accelerated the introduction of a wide range of new PMS mechanisms, within the banks such as more sophisticated risk management practices, new organizational structures, and cost- and profitability-reporting.

The findings, related to the period after the crisis, are similar to those of previous studies. Technological and financial innovation, diversification, competition and globalization put pressure on the banks' margins and created a need for new PMS mechanisms. In response, the large banks experimented with ABC/M, hired consultants to help them implement the BSC and various risk-adjusted performance measures, and transformed their risk management practices to more statistically based value-at-risk models. The SSBs, although less receptive to the recent PMS fads, had to motivate their existence, and started transcending towards a more shareholder-oriented view in which profit maximization became a dominant objective. Two related aspects of the findings, with respect to the decade after the Swedish financial crisis, deserve specific attentions because they have received limited attention in the literature but are important for understanding the PMS of a modern bank. The first is related to sales focus and the overall view of "the banker", and the second refers to the human resource management (HRM) of banks.

The essence of these two aspects is well captured in a quote reported in Essay 2: "In the past, our customers came to the bank hat in hands, today it is rather with a helmet on their heads". The careful and reputable banker, to whom customers came to ask for financial service and advice, has evolved into a skilled salesperson with quantitative sales-quotas and a variety of more or less opaque financial products to offer customers. Clearly, the types of people that are suitable and sought after by banks today are not the same as they were prior to deregulation (see Jönsson, 2014 for a recent contribution to this debate). "Being a good corporate soldier", as the HR-manager of one of the large banks expressed it (see Essay 1), includes a variety of traits in modern banking. These traits may also differ substantially between different roles in the organization; as Jönsson (2014:379) put it:

> …several work logics are at play in most banks; the traditional banker oriented towards credit assessment and customer relations, the trader oriented towards financial markets and holding gains, and the modeller oriented towards representing different risks correctly in statistical models.

These traits are important input variables in the PMS design because the banks' choice of management accounting and control mechanisms are contingent on the people who use these tools. Accordingly, the integration between HRM and the other parts of the PMS should not be underestimated when adopting a systems perspective. Concepts such as organizational culture (Schein, 1992; Adler, 2011) or aspirational control (Bergström, 1998; Alvesson and Kärreman, 2007) seem promising to exploring this relationship further (see Cäker and Siverbo, 2014 for an example related to the banking industry).

The second half-decade of the new millennium was characterized by regulatory change (primarily in terms of more regulation) and the 2007/2009 financial crisis. This period is also marked by an absence of management accounting research on banks, which makes comparisons to previous findings more difficult. Two observations are made in the essays, which need to be confirmed in future studies. First, as noted above, the Swedish financial crisis triggered a consolidation phase on the Swedish banking market. Towards the end of the millennium the large Swedish banks could no longer grow domestically[11] and instead started to expand into other Scandinavian and European countries, primarily through M&As. The intense M&A activity, together with the choice to organize the large banks into partially, or fully, autonomous divisions made the banks fragmented. Since then, several banks have introduced different versions of the "one bank" concept, where centralization seems to be an important element. This means that even though regulation, which has previously been found to foster centralization (cf. Mikes, 2009; 2011; Wahlström, 2009), is one of the driving forces of centralization in banks, commercial reasons may also exist.

Second, the re-regulation of the banking market has forced banks to invest large resources into the interpretation of the new regulatory framework. Some of the savings banks have decided to merge in order to manage the regulatory burden, while others have chosen to co-operate and share the regulatory costs. However, even though several respondents testified to the extensive reporting requirements of the regulations and the heavy workload it entailed, there was limited evidence to support that the regulations have had a major impact on the PMS in the banks included in Essays 1-2. Based on previous research, this finding was rather surprising and therefore I decided to study this in more detail in Essay 3.

5.2 Essay 3: One Regulation, Diverse Banks

The essay is based on one of the key findings from Essays 1-2, i.e. that regulatory change seems to have had limited impact on the PMS in the banks studied. By investigating the effect of regulatory change on the PMS in one small and one large bank, with similar business models, Essay 3 offers two potential explanations for the limited impact of the ongoing re-regulation. The first explanation applies to both the large and the small bank and refers to the time dimension. As the regulation is massive and complex, it has taken quite some time for banks to analyze and adapt. Of course, this adaptation process has influenced the daily operations in the banks (especially by requiring extensive management attention) but the management teams in both banks have strived to avoid a direct impact on the PMS. The adaptation differs, however, and this we attribute primarily to resources: the big bank analyzes the regulation actively and makes trade-offs to avoid affecting their business model, while the

[11] This was put to the test by the planned merger between SEB and Swedbank that was cancelled by EU competitive authorities.

small bank has waited and made minimal adjustments (enough to stay out of the spotlight) to analyze what the regulation really means to them.

The second, closely related, explanation concerns goal congruence between regulation and the banks' business model. In cases where new regulatory initiatives were consistent with the banks' current and/or desired business model, it was simply accepted. However, when the new regulatory initiative made greater demands for change, the banks tried to resist. In the large bank this process evolved through discussions with the regulator. The big bank also invested large resources to operationalize the regulatory prescriptions according to the existing processes of the bank. The small bank, on the other hand, waited as long as possible, and expected the SSBA to deal with the regulatory agencies and represent the bank's interests towards the authorities.

A key motivation for the third essay resides in the debate about the cost of regulation. Several authors have pointed to the difficulty for smaller banks to cope with growing regulatory costs. Some have even suggested that regulations may threaten diversity in the financial markets if banks and bank practices become increasingly similar. We explore this potential threat to diversity by studying how the regulatory pressure influences banks' ability to adapt their business models and control systems in accordance with their specific needs. The two case banks were strategically chosen based on their historically low credit losses and business models that were expected to deviate from the regulatory norm. These criteria allowed us to explore the adaptation process in two banks that (i) have historically proven to manage (credit) risk well and (ii) were expected to have to make comparatively large alterations in adapting to the regulations. Whilst both banks have had to make some alterations, we find that the large bank's ability to actively choose its response to regulatory pressure has allowed it to protect its business model, whereas the small bank's lack of resources has forced it to passively comply with the regulation at the risk of undermining its successful business model.

The essay indicates that there may be great potential in combining the ideas about isomorphism from institutional theory and the importance of contextual factors highlighted by contingency theory (as discussed further in Chapter 6). In particular, by analyzing how strong institutional pressures, which may prevent firms from developing the type of PMS that would allow them to reach "fit", affect the financial performance of firms we can learn more about the potential effects of institutional change.

5.3 Essay 4: Funds Transfer Pricing in Banks: Implications of Basel III

Liquidity risk, and poor liquidity risk management, is commonly referred to as one of the main reasons for the 2007/2009 financial crisis. In the contemporary debate, regulators, practitioners and academics have emphasized the role of the FTP system in pricing and managing liquidity risk. Accordingly, many banks are in the process of revising their FTP systems to meet the new regulatory requirements and improve their liquidity risk management practices. Still, as discussed in Section 2.4, the FTP system serves several other PMS related objectives in modern banks. The important role of the FTP system in the banks' PMS was also a common theme during the data-collection for Essays 1-2, and several managers referred to the FTP system as one of the key control mechanisms in their bank (both in formal interviews and in informal conversations).

Despite being widely acknowledged as an important part of the PMS in banks, the FTP systems have received very little attention from the management accounting research community. The essay, therefore, exploits the renewed focus on the FTP system to examine how banks are adapting their existing FTP systems to the recent regulations. We use the insights from economic theory to analyze the implications of adding the required liquidity risk premium to the transfer rates in a sophisticated FTP system. Thereafter, we introduce two case-banks to illustrate the complexities of the practical adaptation process and identify aspects that are not accounted for in the economic models. These aspects include the time-dimension, implementation costs, the need to educate employees and strategic considerations.

A related finding, based on our initial case analysis, was identified in the respondents' narratives about both their customers' and their competitors' reactions to price changes. These reactions seemed to reflect that the case banks operate under different market conditions than those traditionally assumed by the FTP-related economic literature. In particular, on several occasions during our interviews the respondents indicated that neither the customers nor the competitors responded as vigilantly to price changes as would have been expected from a bank that operates under perfect competition. To account for this finding we extended the analysis to consider the implications of adding the required liquidity risk premium for banks operating on oligopolistic and oligopsonistic markets.

5.4 Essay 5: Funds Transfer Pricing in Swedish Savings Banks: An exploratory survey

The limited empirical evidence that exists on FTP systems use in banks is concentrated on large banks. Such banks can be expected to, and as shown in Essay 4, have the resources and incentives to adopt sophisticated FTP systems. However, a few consulting reports indicate that smaller banks may also implement and use FTP systems, possibly of less sophistication. During the data collection for Essays 2-3, the SSBs were found to be active users of FTP systems. Moreover, their small size, local character and the fact that they operate in a country that has decided to implement the liquidity management regulations prior to other countries created an excellent opportunity to gather data about FTP systems usage in small banks in the new regulatory environment.

The fifth essay reports the results of a survey conducted to explore why and how small banks use FTP systems. Exploiting an opportunity during an executive education that I was involved in, top managers from 31 SSBs were asked to distribute a questionnaire to employees within their banks. In total, 99 respondents from 28 SSBs answered the survey, rendering a response rate of approximately 90 percent.

The results from the survey are largely consistent with previous research on the topic, as well as with the broader transfer pricing literature. In particular, whilst the SSBs seem to have several interrelated objectives for using the FTP systems, the level of FTP systems sophistication in the SSBs does not allow them to meet all objectives. Moreover, the results from the survey confirm the centralized nature of FTP systems management in banks (cf. Oyelere and Turner, 2000; Deloitte, 2014), which may also explain why this survey, as well as earlier studies (Drury, 1998; Oyelere and Turner, 2000), have found limited evidence to support that banks use the FTP system to evaluate and reward branch managers. Similar findings have been made in the transfer pricing literature (Ghosh, 2000; Van Helden, van der Meer-Kooistra and Scapens, 2001; Chan, Lo and Mo, 2006), and argued to stem from the use of other PMS mechanisms to motivate certain behaviors.

In addition to providing empirical evidence on the FTP systems usage in the SSBs, the essay attempts to systematize the FTP literature and link it to the broader transfer pricing literature. The four arguments for the use of transfer pricing introduced by McAulay and Tomkins (1992) and developed further by Plesner Rossing and Rhode (2014) are used to identify four different performance dimensions (functional, economic, organizational and strategic). Based on the findings, the essay proposes that these interrelated performance dimensions are equally useful in evaluating the performance of a FTP system in a bank as in evaluating the performance of a transfer pricing system in a manufacturing firm. As will be discussed further in the next chapter, the essay concludes by identifying several promising avenues for further research.

6 Discussion, implications and future research

The aim of this thesis is to explore how Swedish banks organize, and adapt, their PMS to the dynamic context in which they are embedded in order to contribute to our understanding of PMS, regulations and change in banks. Throughout this first part of the thesis, and particularly in the essays, my ambition has been to outline the specific contributions of the thesis. This chapter provides some additional reflections related to the theoretical and practical implications, and suggests some promising avenues for future research. The chapter is divided into four sections. Section 6.1 discusses some theoretical implications and suggestions for future research based on the thesis's findings concerning institutional theorizing and PMS change. Section 6.2 elaborates on the theoretical implications of size in terms of how organizations, of different sizes, balance between the pursuit for legitimacy and technical efficiency. Section 6.3 addresses the performance of the FTP system and outlines some suggestions for future research, and Section 6.4 discusses the practical implications of the thesis.

6.1 Institutional theorizing and PMS change

The thesis explores the interaction between the internal and external perspectives through different types of external events (i.e. regulations and crises), and the change resulting from those events. An important finding is that organizational-level change, induced by external events, seems to evolve differently depending on the type of event. This is not a surprising finding in itself, but it raises interesting questions about whether events are more or less similar and the extent to which we can learn from the specific characteristics of certain types of events. In Section 2.1, decoupling was introduced as a potential way to facilitate a disentangling of the characteristics of the different types of events and how they may or may not motivate change.

Several accounting papers have used the concept of decoupling to make distinctions between ceremonial and actual change in the cross-section between the external and the internal perspectives (cf. Covaleski, and Dirsmith, 1983; Carruthers, 1995; Johnsen, 1999; Brignall and Modell, 2000; Collier, 2001; Modell, 2001). The following discussion is based on the findings of the thesis, and contributes to that literature in two primary ways. First, it identifies certain characteristics of an external event that have implications for whether organizations can be expected to decouple or not. Second, it discusses decoupling as a reason for, rather than a consequence of, an external event.

In the more recent accounting literature, decoupling, or its wider term, loose coupling (see Weick, 1976), has been explored primarily at the individual, group and organizational level (cf. Siti-Nabiha and Scapens, 2005; Nor-Aziah and Scapens, 2007; Lukka, 2007; Cruz, Major and Scapens, 2009; van der Steen, 2011). These studies have used the framework of Burns and Scapens (2000) to make sense of the relationship between rules and routines, emphasizing that even though the formal rules (documents, blueprints, etc.) have changed, the routines (actual practices) need not to have changed. Several explanations for this phenomenon have been put forward (see van der Steen, 2011:532 for an overview), but none of these explanations specifically address whether or not we should expect decoupling to occur depending on the nature of the external event.

Similarly, Boxenbaum and Jonsson (2008:89) concluded that "inquiries associated with institutional isomorphism have explored the external consequences of institutional pressures, i.e. organizational similarity, whereas decoupling research has investigated how organizations deal internally with institutional pressure for conformity". Based on their review, there seems to be little empirical evidence, in the organizational literature, on the relationship between decoupling and different types of external events. Arguably, this relationship is important for the multi-level research agenda and the search for a better understanding of how different levels interact during processes of change. The following discussion focuses on the interaction between the macro-societal/field level and the organizational level, i.e. why and how regulations and crises may induce organizations to make "[…] public claims of programs that do not exist in practice, or […] programs that exist in practice but are disconnected from important, ongoing, line-related organizational functions" (MacLean and Behnam, 2010:1501-1502).[12]

Crises, regulatory change and decoupling

The findings of this thesis suggest that crises have more drastic implications for PMS change than regulatory change. Clearly, crises and regulatory change are not independent from each other, but the PMS change that we can expect from either event is likely to differ. In particular, the findings of this thesis have implications for:

- The causal-model form of the relationship between external events and decoupling
- The timing of change at different levels of analysis, and
- The role of goal congruence in the interaction between an external event and PMS change.

Starting with the causal-model form, the literature on decoupling has proposed that regulation is positively associated with decoupling and that the association is stronger if the regulation(s) pose a threat to the local efficiency of firms (cf. Oliver, 1991; Boxenbaum and Jonsson, 2008; MacLean and Behnam, 2010). Although the relationship between regulation and decoupling is not explicitly discussed in the essays, there is certainly evidence to suggest that such a positive relationship exists.

The first regulatory change process analyzed in Essays 1-2 is deregulation. As discussed in Essay 1, deregulation seems, partly, to have been a consequence of the banks' efforts to circumvent the strict regulatory framework. Thus, the relationship between regulatory change and decoupling might not be unidirectional but instead cyclical recursive, i.e. as new regulations are introduced, firms increasingly decouple their practices from the regulatory instructions, which in turn may result in further regulatory change (either in terms of more *or* less regulation). Such a relationship is supported by the findings related to the re-regulation of the banking industry, which is part of the analysis in all five essays. As reported in Essays 1-2, Basel I was criticized because it allowed banks to engage in regulatory manipulation, which led to the introduction of a much more comprehensive regulatory framework (Basel II). The 2007/2009 financial crisis exposed large discrepancies between what banks claimed to be

[12] The contextual and organizational features that explain decoupling are left outside this discussion. Interested readers are referred to Brignall and Modell (2000) and Boxenbaum and Jonsson (2008) for extended discussions.

doing and what they actually did. The regulatory response was the introduction of Basel III, and several other related regulatory requirements. What remains to be seen, which future research should explore, is whether the relationship will hold, i.e. if the extensive regulatory framework that is currently being implemented will increase the level of decoupling, which again will lead to regulatory change.

The implied causal-model form of the relationship between crises and decoupling shares many similarities with the discussion about deregulation above. Riaz (2009) specifically suggested that as organizations in a field increasingly, and over a prolonged period of time, engage in strategies of decoupling and concealment, the field may end up in an institutional crisis. Riaz (2009:31-32) argued that "[… such crises have] a dramatic effect on the institutions involved as well, since their legitimacy-granting powers become suspect: they are seen as having bestowed 'legitimacy' to organizations with 'illegitimate' structures within the organizational field". The fading legitimacy of organizations and institutions threatens their survival and makes decoupling a highly dangerous activity, which explains why we might expect "real" change in the wake of a crisis.

As illustrated by Essays 1-2, the crisis can also improve the legitimacy of an organization if that particular organization is identified as "walking the talk". I would argue that decoupling may be expected to decrease both when organizations appear illegitimate and legitimate after a crisis, but in different ways. In the first example, the organization or institution is exposed as illegitimate, and must regain legitimacy through major change. In the second example, the organization is exposed as legitimate, which implies stability. This means that the practices that allowed the organization to be perceived as "successful" are reinforced. To reinforce these practices, managers and regulators are likely to either develop new rules and regulations mimicking the successful practices, or compliance with the rules and regulations associated with the successful practices increases. Accordingly, the first example is associated with change, whereas the second is associated with stability, but both are associated with less decoupling.

The next implication is the timing of change at different levels of analysis. In particular, Essay 1 argues that the timing of change is likely to differ at different levels of analysis, in which organizational PMS change is suggested to be quicker than institutional change. This argument is of particular relevance to the multi-level research agenda where both types of change are investigated within the same study. While there is much to learn by investigating when and where change happens, at different levels of analysis, we should not expect that change will evolve in a linear fashion (cf. Busco et al., 2007). What we can hope to achieve is a better understanding of characteristics of change, and here I will focus on whether the timing of PMS change can be expected to differ depending on the type of external event that is being investigated.

Based on the discussion about the causal-model form above, regulatory change might allow some flexibility in terms of time. Siti-Nabiha and Scapens (2005) even argued that decoupling could be a purposeful response in order to secure more time for adaptation, which is in accordance with the findings related to small bank reported in Essay 3. However, Boxenbaum and Jonsson (2008) maintained that decoupling may not be a sustainable strategy over time (see also Seo and Creed, 2002). In essence, it becomes increasingly difficult to rely on concealment or buffering tactics (Meyer and Rowan, 1977; Oliver, 1991) because "individuals refuse to see themselves simply as ceremonial props" (Boxenbaum and Jonsson, 2008:88), and the risk of being exposed as a fraud might also increase over time, especially if enforcement is gradually strengthened.

During a crisis, on the other hand, and especially if the crisis threatens the legitimacy of the organization, we can expect the organization to make timely and substantial changes. Davis, Diekmann, and Tinsley (1994) showed how, through the process of deinstitutionalization, the conglomerate, as the prevalent organizational form in the US during the 1980s, became an illegitimate organizational form through "mass-rejection". Similarly, Riaz (2009) suggested that from an institutional perspective, the changing organizational form of the American investment banks, in the wake of the 2007/2009 financial crisis, could be viewed as a means to escape the legitimacy crisis. The same argument can be made about the actions of several of the Swedish banks during the Swedish financial crisis. During this period, several banks merged and formed new organizational forms. Perhaps even more to the point, several of the Swedish banks created so-called "bad banks", which allowed them to quickly re-establish the bank as "healthy" and "legitimate" (see Essay 1). In response to the 2007/2009 financial crisis, Swedbank and SEB appeared illegitimate, primarily because of their ventures into Eastern Europe. Since then, both banks have changed their organizational structures. SEB has created a separate division for the Baltic countries, and the bank has divested from Ukraine. Swedbank created a "bad bank" called "Ektornet" for the Baltic area, and the bank has divested from Ukraine and Russia. Future research has the opportunity to explore whether such initiatives are taken to restore legitimacy or for other reasons. Such efforts are recommended to explore the differences and similarities in characteristics between tangible actions, such as disinvestments, and less tangible actions, such as the new strategic direction "back to the roots" that was taken by Swedbank, in the wake of the financial crisis (see Essay 1).

The third implication, the role of goal congruence in the interaction between an external event and PMS change, is evident in several of the essays of the thesis. For example, the findings of Essay 1 indicate that centralization in the banking industry is not necessarily related to the regulatory pressure, but may instead be explained by commercial reasons. Similarly, Essays 4-5 illustrate the different objectives that are at hand in the adaptation process of the banks' FTP systems. While regulatory compliance is part of the objective function, several other factors are also at play. Thus, it is important not to be blinded by the search for decoupling, and as argued by Weick (1976:10):

> Now the problem for the researcher is that he or she may simply have focused on the wrong goal. There may be other goals which fit that particular action better. Perhaps if the researcher were aware of them, then the action and intention would appear to be tightly coupled.

Hoffmann, Trautmann and Hemprecht (2009) investigated whether or not firms postpone investments in the light of regulatory uncertainty. They argued that what might appear as decoupling between the rules and routines may be explained by the fact that firms make investments for reasons other than regulatory compliance. Such actions are evident in Essay 3, where we explore the role of goal congruence in the adaptation process to the re-regulation. The argument is extended by illustrating how resources can provide organizations with the means to actively choose when to comply and when not to. This brings the discussion to a final comment on the concept of decoupling and goal congruence.

Several papers have noted that decoupling is not necessarily a bad thing used for "window-dressing" or to conceal certain illegitimate practices (cf. Brignall and Modell, 2000; Collier, 2001; Lukka, 2007; van der Steen, 2011). For example, Lukka (2007) showed that decoupling was used to balance between ambiguous and sometimes contradictory goals (see also, Brignall and Modell, 2000; Collier, 2001). Van der Steen (2011:532) extended this point by illustrating that decoupling arose "simply as a result of the ongoing reproduction of routines", i.e. during the early stages of a change initiative, participants closely followed the rules, but as they iterated the practices the rules gradually became less important, and routines developed that were only loosely coupled to the rules. Thus, even though decoupling may be particularly common, and traceable, after the introduction of stricter regulations, it is important not to ignore alternative explanations.

6.2 Institutional theory and size

As has been argued throughout this first part of the thesis, one of the prominent features of institutional theory is its adherence to context. A key advantage of this contextual focus is that we can learn more about why and how organizations' PMS are influenced by various contextual factors. While the previous section emphasized the characteristics and implications of regulation and crises, this section focuses on size.

Size is one of the more tangible differences between the two groups of banks that are the subjects of this thesis. Essay 3 reviews the insights from institutional theory with regards to how organizations of different sizes are expected to respond to institutional change. The review identifies ambiguities in the literature concerning whether different-sized organizations have incentives to display active or passive responses to institutional change. Adjacent to that literature, the essay makes an implicit suggestion about how to improve the conceptual specification of size in the context of regulatory change. The findings of Essay 3 indicate that it is not size *per se* that is important, but rather size manifested through "access to resources" and "relationship to the regulator". We particularly suggest that larger organizations, with more resources and frequent contacts with the regulator, are in a better position to actively choose their responses to regulatory change.

Institutional theory builds on the idea that technical (or contingent) efficiency is not enough to understand organizations' actions and reactions to institutional change. Thus, while institutional theory does not reject that technical efficiency can be important to explain PMS change, the theory focuses on alternative explanations (cf. Brignall and Modell, 2000; Seo and Creed, 2002). An important question that arises from this line of reasoning is, "What happens if the institutional pressure becomes so strong, and requires such drastic change, that technical efficiency must be substantially reduced for the organization to sustain legitimacy?"

In essence, the suggestion made above means that organizations with large resources and a close relationship with the regulators have the ability to make active choices to implement change that ensures that they comply with new regulators *and* maintain technical efficiency. Organizations that do not have enough resources and/or a close relationship with the regulators, on the other hand, may need to make tradeoffs that threaten their survival.

This suggestion needs to be confirmed in future work. If it is accurate, it has implications not only for the interpretation of previous findings (as elaborated on in Essay 3), but also for the current re-regulation of the banking industry. In particular, several authors have pointed to the difficulties that smaller banks are expected to experience in adapting to the new regulations. Such claims are commonly summarized in brief statements about the comprehensiveness and complexity of the new regulations. Our suggestion extends such claims by identifying situations where we can expect difficulties to materialize, i.e. (i) where the discrepancies between technical efficiency and legitimacy are particularly high, (ii) when banks do not have the resources to adapt their PMS in ways that allow them to both comply and maintain technical efficiency, and (iii) when the relationship between the bank and the regulator is weak such that the bank cannot "influence" the regulator. In essence, this means that size in itself is not enough to allow the organization to adapt more easily to regulatory change, but in order for size to become relevant resources should be mobilized to manage the adaptation process.

6.3 The performance of the FTP system

The thesis has identified the FTP system as a key part of the PMS in banks, and Essays 4-5 explore different aspects of the FTP systems usage. A common feature in the two essays is the concept of performance. Essay 4 focuses on economic performance, which builds on the efficient allocation of resources. The main contribution of the essay is to illustrate how the economic performance of a sophisticated FTP system can be distorted if banks operate in oligopolistic and oligopsonistic markets. Our theoretical extension of the FTP theory remains to be tested empirically. The bank market in many countries is similar to the Swedish bank market in terms of being dominated by a few large banks, which means that there could be great merit in conducting such empirical analysis.

Based on insights from the transfer pricing literature, Essay 5 applies a more comprehensive view on the performance concept, which includes: (i) functional performance, (ii) economic performance, (iii) organizational performance, and (iv) strategic performance. The essay illustrates the usefulness of these performances to describe the different objectives that banks might have for implementing or adapting their FTP system. The natural next step is to empirically evaluate the aggregate performance of the FTP systems in a larger sample of banks of different types and sizes. I would urge such efforts to acknowledge the interrelationship between the underlying performances. This means that a formative model (see Bisbe, Batista-Foguet and Chenhall, 2007) is likely to be preferred.

6.4 Practical implications

As noted in Chapter 3, management accounting is intrinsically linked to practice, and this thesis has several implications for bankers, policymakers (including regulators) and academics.

Starting with the bankers, change is a highly practical topic, especially since managers and employees in banks must consistently deal with change, both from an external and an internal perspective. This thesis does not offer any specific guidelines or normative suggestions on how to deal with change. It does, however, offer a serious attempt to illustrate and analyze the challenges of dealing with a persistently changing external environment. The previous sections discuss considerations between legitimacy and technical efficiency which, as illustrated in the empirical parts of the essays, are doubtlessly part of the managers' decision-making process.

More tangible, practical implications are the different objectives for FTP systems usage identified in Essays 4-5. Practitioners can use these objectives to discuss the pros and cons of implementing or adapting their FTP systems. Conducting such analysis prior to the acquisition or development of a new FTP system, is likely to benefit the implementation process and facilitate evaluations of the FTP system.

With further reference to FTP, the oligopolistic/oligopsonistic-market-based-model introduced in Essay 4 has implications for both bankers and policymakers. In terms of the former, we show that an internal price change might not have the intended consequences if the bank operates under oligopolistic/oligopsonistic market conditions. From the perspective of policymakers, the model can be useful to analyze matters of monetary policy.

A second implication for policymakers is related to the recent regulatory pressure and the debate about the costs of regulation. Banks that fall outside the regulatory average seem coerced to reduce their dependence on social, flexible and responsive business models in favor of more procedural and bureaucratic business models. Co-operative banks and savings banks are key examples of institutions that fall outside the regulatory average, and these banks seem to be either disappearing from the market or gradually transforming into more standardized shareholder-oriented banks. As banks increasingly have to adapt to the new regulations, chances are that certain customer groups, whose profiles do not fit the current standards, will be discriminated or even excluded from the banking system. Moreover, if the number of small banks continues to decrease and the entry-barriers continue to increase, the regulations risk having negative effects on competition.

Finally, Essay 5 makes a practical methodological contribution related to the need for multiple respondents in organizational-level survey research. This contribution has practical implications for survey research in general, and for academics in particular.

7. References

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