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MASTEROPPGAVE

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CHAINS AND CHAIN REACTIONS:

Study of Management Control Systems
in Norwegian IT Offshoring to Ukraine

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SAMMENDRAG

Denne utforskende studien tar for seg design av økonomistyringssystemer (MCS) innenfor offshoring i tre selskaper: EDB ErgoGroup ASA, Itera ASA og Scandinavian House AS. De ble valgt fordi disse selskapene er de eneste norske IT selskapene som driver offshoring til Ukraina. Problemstillingen medførte formulering av fire forskningsspørsmål. De omhandler offshoring design, MCS design, deres sammenheng, og kontekst. Oppgaven er basert på case studier, hvor hoveddelen av datamaterialet består av åtte dybdeintervjuer med både norske og ukrainske ledere.

I denne oppgaven ble offshoring definert som konkurranseutsetting (outsourcing) til utlandet. Siktemålet har vært å studere økonomistyringssystemer innenfor IT-offshoring, i sin unike kontekst. Derfor falt valget av teoretisk referanseramme på “økonomistyring som en pakke”, betingelsesteori, institusjonell teori, og teori om inter-organisatoriske relasjoner.

Funnene viser at norsk IT offshoring til Ukraina har to sammenkoblede nivåer: norske selskaper utenfor IT-bransjen kjøper tjenester fra norske selskaper som konkurranseutsetter IT oppgaver, helt eller delvis, til sine ukrainske underselskaper.

Alle tre selskapene som ble studert har hierarkiske, inter-organisatoriske relasjoner med sine ukrainske selskaper og bruker økonomistyringssystemer rettet mot atferdskontroll. Sammenligning av designet av økonomistyringssystemer i de tre selskapene gjorde det mulig å beskrive de ulike selskapene ved hjelp av metaforer: EDB ErgoGroup og dets datterselskaper (Infopulse og Miratech) ble framstilt som “eldste far og voksne barn”, Itera og Itera Consulting Ukraina som “dandy far og ambisiøst barn”, og Scandinavian House og Scandinavian House Ukraina som “gudfaren og stille barn”.

Funnene tilsier videre at design av økonomistyringssystemer innen offshoring formes av både mor-datter relasjonen, og relasjonen man har med eksterne klienter. For å beskrive dette fenomenet så støtter studien seg på begreper som kjede og kjede-nettverk innenfor økonomistyringssystem. Dette muliggjorde en antakelse om at økonomistyring i ett selskap innenfor kjeden kan forårsake en kjedereaksjon i økonomistyringen i de andre organisasjonene som inngår i samme kjede.

Nøkkelord: økonomistyring, økonomistyringssystemer, IT offshoring, IT outsourcing

PREFACE

This master thesis is an obligatory final assignment for the two-year Master of Science in Business (Siviløkonom) programme at Bodø Graduate School of Business, University of Nordland. The thesis constitutes 30 points and is written within Management Control (Økonomistyring) specialization.

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Finally, I am eternally grateful to my dear parents, *Enver Kurtmollaiev* and *Gülнар Kurtmollaieva*, for their love, support and everything they did and do for me.

As author, I take full responsibility for possible errors and deficiencies in this master thesis.

Bodø, May, 2011

Seidali Kurtmollaiev

ABSTRACT

The research is focused on exploring management control systems (MCS) design in offshoring on the basis of three companies, operating in the same context combination: Norwegian IT offshoring to Ukraine. The choice of EDB ErgoGroup ASA, Itera ASA and Scandinavian House AS was determined by the fact that these companies are the only Norwegian IT companies engaged in offshoring to Ukraine. The problem statement entailed formulation of four interrelated research questions, concerning offshoring design, MCS design, their interconnection and context. The research was based on case studies, containing the data that were collected mainly through eight in-depth interviews with both Norwegian and Ukrainian managers.

In this work offshoring was defined as outsourcing abroad, and its place in sourcing relationships as well as offshoring stage model were proposed. With a purpose of analyzing MCS in IT offshoring within its context it was decided to choose the combination of the concept of MCS package, contingency theory, institutional theory and theory of inter-organizational relationships in order to elaborate the theoretical model.

The results of the work show that the Norwegian IT offshoring to Ukraine has two levels, connected as a daisy chain: the Norwegian non-IT companies buy IT services from the Norwegian IT companies that outsource tasks in part or whole to their Ukrainian subsidiaries.

All three studied companies have hierarchical inter-organizational relationships with their Ukrainian companies and use MCS aimed at behaviour control. Comparison of the MCS design enabled use of metaphors towards each of the companies and their subsidiaries. EDB ErgoGroup and its Ukrainian subsidiaries Infopulse and Miratech were portrayed as “elder stepfather and grown-up children”, Itera and Itera Consulting Ukraine as “dandy daddy and ambitious child”, and Scandinavian House and Scandinavian House Ukraina as “godfather and quiet child”.

It was found out that MCS design in offshoring is shaped by both company-subsidiary relationships and relations with external clients. In order to describe this phenomenon, the definitions of MCS chain and MCS chains network were proposed. It gave opportunity to assume that changes in MCS of one of the companies in the chain might cause a kind of chain reactions in MCS of the related organizations.

Key words: management control, management control systems, IT offshoring, IT outsourcing

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LIST OF ACRONYMS

AS – Aksjeselskap (Limited Company)

ASA – Allmennaksjeselskap (Public Limited Company)

CEE – Central and Eastern Europe

EBA – European Business Association

EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization

EEG – EDB ErgoGroup ASA

EU – European Union

IFRS – International Financial Reporting Standards

IS – Information System

IT – Information Technology

MC – Management Control

MCS – Management Control Systems

NUCC – Norwegian-Ukrainian Chamber of Commerce

UDI – Utlendingsdirektoratet (Norwegian Directorate of Immigration)

WTO – World Trade Organization

GLOSSARY OF CONCEPTS

Administrative controls direct employee behaviour through the organizing of individuals, the monitoring of behaviour and who employees are made accountable to for their behaviour, and through the process of specifying how tasks or behaviour are to be performed or not performed.

Behaviour control mechanisms are control mechanisms, which specify how partners should act and monitor whether actual behaviours comply with the pre-specified behaviour.

Bench are consultants, currently not performing tasks for customers.

Billable employees are employees, who incur costs (salary, travel expenses, etc.), which are billed to customers.

Captive offshoring is setting up its own subsidiary abroad in order to gain control of its business activities and take advantage of location factors.

Control is a set of control systems, or levers, which includes 1) ensuring that important goals are being achieved efficiently and effectively, 2) empowering individuals and encouraging them to search for new opportunities, 3) establishing rules of the games and identifying actions and pitfalls employees much avoid, and 4) focusing on strategic uncertainties, learning about threats and opportunities in order to respond proactively.

Cultural controls cover a wide range of values, beliefs and social norms, which constitute organizational culture.

Cybernetic controls include budgets, financial measures, non-financial measures and hybrids (mix of both financial and non-financial measures).

Institutional isomorphism is a process of institutional changes lead to the increasing similarity of institutes across organizations.

IT/IS outsourcing is contracting of the IT/IS services to a third party in full or in part

Management control is a process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives.

Management control systems are complete systems, rules, practices, values and other activities management put in place in order to direct employee behaviour.

Non-billable employees are employees, who include administrative staff and bench (consultants, currently not performing tasks for customers).

Offshore development centre is the form of offshoring, when the client firm retains a higher level of control than in the fully outsourced model while transferring some aspects of business activities of a captive centre to a third party service provider, e.g. using of dedicated teams.

Offshore outsourcing is delegation of some of an organization's recurring internal business functions and decision rights to a third party (or vendor) in a foreign country, who specializes in those functions.

Offshoring configuration is a high-level description of the set of choices the organization makes in crafting its IT outsourcing portfolio.

Outcome control mechanisms are control mechanisms, which specify outcomes to be realized by the partners and monitor the achievement of these performance targets.

Outsourcing is making arrangements with an external entity for the provision of goods or services to supplement or replace internal efforts, or, simply, the contracting of any service or activity to a third party.

Planning controls set out the goals of the functional areas, directing effort and behaviour; provide the standards to be achieved in relation to the goal, making clear the level of effort and behaviour expected; and ensure groups and individuals are in line with desired organizational outcomes.

Reward and compensation controls focus on motivating and increasing the performance of individuals and groups through attaching rewards/compensation to achievement of goals.

Social control (informal control) is control related to informal cultures and systems influencing members and based on mechanisms inducing self regulation.

1. INTRODUCTION

All truths are easy to understand once they are discovered; the point is to discover them.

Galileo Galilei

1.1. Background of the research

In the conditions of acceleration of development in all spheres of economic life, deepening of international division of labour, strengthening of internationalization and globalization processes, effective integration into the world economic space becomes essential for many companies. Some economic activities, which formerly were carried out locally in the small limited territories, are being revised and attributed new forms and dimensions. In addition, more and more companies are not able to compete successfully alone, because it becomes difficult or too expensive to create, develop and maintain all competences required for normal independent activity. Meanwhile, the need for this stands no longer: the technology development has provided an opportunity of high-speed data and information exchange, which has entailed the boom of various forms of cooperative ventures, strategic alliances and other types of inter-organizational relationships, providing access to the external skills and competencies. One of such types, strategic alliances, being broad ranging relationship, can take shape of joint ventures, franchises, joint research and development, joint marketing ventures, long-term supply arrangements, and outsourcing relationships (Langfield-Smith and Smith, 2003).

Generally the term “outsourcing” is used to describe the process of contracting any service or activity to a third-party (Langfield-Smith and Smith, 2003). An organization concludes an agreement with a contractor on transferring some business functions or part of business processes in order to increase productivity and reduce costs owing to contractor’s lower labour costs. Internationalization and globalization have caused the emergence of a new kind of outsourcing: offshoring, which means relocation of some of business functions in another country. As Javalgi et al. (2009) note, offshoring to emerging markets is becoming an increasingly important source of business renewal and corporate transformation, especially for the firms in developed countries, which continue to face enormous challenges to sustain competitive advantage. While this concept is basically applied to almost all stages of economic activity from innovation to production, the most popular and rapid-growing type is information technology (IT) and information system (IS) offshoring due to the extremely high mobility of information.

Over decades Asian countries, especially India and China, benefited from the IT offshoring trend. Meanwhile, more and more companies, first of all, European ones, prefer to outsource science intensive processes to the East European countries due to their geographical, historical and cultural closeness under the conditions of low labour cost but high-quality work. One of the best examples of such East European offshoring alternatives is Ukraine. In European IT Outsourcing Intelligence Report 2010 by IT sourcing Europe, Ukraine is called “a Silicon Valley of the CEE region” and ranked number one country for Western European companies seeking to outsource their entire IT function or components of their IT function in the neighbourhood.

Norwegian companies do not stand aside of the offshoring process, sharing interest of other European companies in Ukraine. As Scandinavian House AS, the Norwegian consultancy agency, which actively promotes offshoring, asserts, the diversified industry structure as well as the high education level, are two strong proofs for choosing Ukraine as an alternative for outsourcing production from Scandinavia. Besides consultancy agencies the Norwegian offshoring to Ukraine is also promoted by the Norwegian-Ukrainian Chamber of Commerce (NUCC), which is non-profit, non-governmental organization founded for assistance in development of trade and economic relations and investment processes between representatives of enterprise structures of Ukraine and Norway.

Although the notion of offshoring is not new and a lot of companies around the world enjoy the benefits of offshoring, the research on management control (MC) and management control systems (MCS) in such international inter-organizational relationships has been limited. The existing relevant literature covers mainly its wider form, IT/IS outsourcing, and deals with the general issues (such as reasons, risks and configuration), analyzing them in the light of international management, international marketing, strategic management and information systems management (Dibber et al., 2004; Gonzalez et al. 2006). Moreover, the definition of offshoring is still vague, and, as Jahns et al. (2006) notice, it is used by different researchers to describe outsourcing either outside a country's boundaries in general, or only to remote, low-cost locations or to countries “outside the first world” or to locations outside of the continent, etc. Some researchers use word “nearshoring” while describing outsourcing to the vendors in countries, situated close to the client's country.

Meanwhile, the scientific research on MCS in offshoring is very important. It can be assumed that different outsourcing and offshoring configurations entail different control challenges and problems, and thus, require different MC tools to cope with them. Thus, stimulated by increasing

popularity of offshoring, the growth of scientific interest with respect to MC for outsourcing and offshoring has begun in the late 1990s within the positivistic perspective of the inter-organizational relationships, and the transaction cost theory is still dominating in the field (Van der Meer-Kooistra and Vosselman, 2000; Langfield-Smith and Smith, 2003; Dekker, 2004; Dibbern et al., 2004; Barthelemy, and Geyer, 2005; Jahns et al., 2006; Van der Meer-Kooistra and Vosselman, 2006; Ellram et al., 2008; Sharma et al., 2009).

Transaction cost theory, however, has certain limitations, such as excessive concentration on transaction costs in spite of difficulties in observing and measuring them and, especially, loose coupling with the context (Hodgson, 2010). Meanwhile, MCS are subject to influence of many other factors and contextual variables (Chenhall, 2003), especially in offshoring, where inter-organizational relationships get international dimension (Jahns et al, 2006). Thus, it was decided to use in this research the combination of the MCS theory, inter-organizational transactional theory, contingency theory and institutional theory.

The practical importance of such studies is obvious: companies interested in offshoring need information about possibilities and challenges in the particular country, especially if the information is based on the experience of companies, which already participate in this economic activity.

Therefore, the idea of this research is to study MCS design within its context and contribute theoretically and empirically to the investigation of the MCS concept in relation to offshoring. In order to get comparable data that could enable analysis of MCS design, the research was focused on three companies in defined setting: Norwegian IT offshoring to Ukraine. The studied companies, EDB ErgoGroup ASA, Itera ASA and Scandinavian House AS, are chosen because they are the only IT companies which outsource their activities from Norway to Ukraine. They started relatively recently (2005-2008), and so far there has not been any research on MCS with respect to the Norwegian IT offshoring to Ukraine.

EDB ErgoGroup is one of the largest IT groups in the Nordic countries, with over 40 years' experience of serving leading Nordic businesses, number one for IT services in Norway and number two in Nordic region. It has operating revenue of NOK 8.7 billion (2010) and about 10 000 employees. Itera builds and manages next generation digital solutions and services to Nordic based entities. Its operating revenue is NOK 384 million (2010) and number of employees is about 370. In turn, Scandinavian House offers outsourcing of IT services and

production as well as consulting and intermediary services. It has operating revenue of NOK 3 million (2010) and about 12 employees.

The work has explorative research design and is based on case studies containing the data collected mainly through interviews with both Norwegian and Ukrainian managers.

1.2. Problem statement and research limitations

Absence of previous researches in the Norwegian IT offshoring to Ukraine brings up a number of questions related to both offshoring design and MCS design, such as “what is the motivation behind Norwegian IT offshoring?”, “what are the reasons for choosing Ukraine as offshoring destination?”, “what type of offshoring is used?”, “how do the companies organize and control processes and relationships related to the IT offshoring to Ukraine?”, “to which extent are MCS formalized?”, “are MCS invariable or changeable?”, “are MCS similar or different across the companies?”, “are there certain peculiarities and why do they exist?”, and so on. Summing up these questions enables formulation of the **research problem**: what is the design of MCS in offshoring of the Norwegian IT companies to Ukraine?

To solve the research problem the following research questions were formulated:

- What is motivation and configuration of the Norwegian IT offshoring to Ukraine?
- How are MCS in offshoring of the Norwegian IT companies to Ukraine organized, and what are the similarities and differences in the MCS design in the companies?
- Are there links between the offshoring configuration and the MCS design, and what are they?
- How the MCS design is shaped by its context?

The research has certain limitations. The main one is related to the method of using interviews and case studies: the data represent the respondents’ point of view and could differ if the interviews were held with other persons. Since the studied companies are competitors, it can be assumed that respondents preferred to keep certain information secret. In addition, this work takes place within limitations concerning time and resources. Thus, despite the fact that the studied companies are the only Norwegian IT companies that outsource to Ukraine, the generality of the findings is not unshakeable even with respect to the Norwegian IT offshoring, not to mention the difficulties of generalizing results over the whole offshoring phenomenon.

1.3. Structure of the master thesis



The master thesis consists of the following parts: introduction, theoretical chapter, methodological chapter, empirical chapter, analytical chapter and conclusions.

Introduction presents the background of the research, motives and intentions of the work, the research problem, the research questions and research limitations.

Theoretical chapter provides general understating of the studied problem and research questions and lays the foundation of the way of presenting and analyzing empirical data. In this chapter the definition of offshring and its place in sourcing relations is clarified, the motivation and offshoring stages are presented. The offshoring configuration is described on the basis of concepts by DiRomualdo and Gurbaxani (1998) and Jahns et al. (2006). To elucidate MCS notion, the concept of MCS as a package by Malmi and Brown (2008), the contingency theory (Chenhall, 2003), the institutional theory (DiMaggio and Powell, 1983) and theory of inter-organizational relationships (Van der Meer-Kooistra and Vosselman, 2000; Dekker, 2004) are chosen. In the end of the chapter the model for analyzing MCS design in IT offshoring is elaborated on the basis of the above-mentioned theories.

Empirical chapter contains general overview of the Ukrainian IT industry and cases of EDB ErgoGroup, Itera and Scandinavian House. Each case includes short overview of a company and its business environment, followed by description of MCS according to the framework by Malmi and Brown (2008). In the end of the chapter the results are presented in a consolidated way.

Analytical chapter covers the comparison of three cases using the frame of references from the theoretical chapter. On the basis of analysis the concepts of MCS chain and MCS chains network are suggested, the metaphorical interpretation of the companies' MCS is made.

Conclusion embodies main findings and contributions related to both theoretical and empirical perspectives as well as the proposals for further researches.

2. THEORETICAL CHAPTER


*He who loves practice without theory is like the sailor who boards ship
without a rudder and compass and never knows where he may cast.*

Leonardo da Vinci

In this chapter the theoretical framework for the further analysis is presented. It clarifies the definition of offshoring and its place in sourcing relations, presents motivation for offshoring and offshoring stage model and describes the stages of offshoring design. The concept of MCS package is applied for describing design of MCS, contingency theory for outlining MCS context and institutional theory for understanding changes and isomorphism in MC design. Theory of inter-organizational relations is used for the linking offshoring motivation, offshoring types and MC mechanisms.

2.1. IT outsourcing and offshoring

2.1.1. Outsourcing concept

n the broad sense the definition “outsourcing” is understood as “making arrangements with an external entity for the provision of goods or services to supplement or replace internal efforts” (Dibbern et al., 2004), or, simply, “the contracting of any service or activity to a third party” (Langfield-Smith and Smith, 2003). The motives that make a firm outsource business functions are numerous (see Table 2.1), however, the two are considered as the most influencing: the cost reduction and concentration on core activities. These motives are considerably intertwined and interrelated. By changing business strategy to focusing on core activities/competencies, managers pursue the object to get the sustainable competitive advantage in what the firm can do better than others, while outsourcing non-core activities. This enables the cost reduction and, consequently results in more effective and efficient use of resources (Van der Meer-Kooistra and Vosselman, 2000; Dibbern et al., 2004; Lacity et al., 2009).

Distinguishing activities for doing in-house and outsourcing (i.e. “make-or-buy” decision), Insinga and Werle (2000) separate enterprise’s activities into four groups: 1) key activities, which provide the enterprise with a sustainable competitive advantage in the marketplace; 2) emerging activities, which have the potential to become sources of sustainable competitive advantage; 3) basic activities, which are needed simply to be a player in the enterprise's business field and are not significant sources of competitive advantage; and 4) commodity activities

which are readily available in the marketplace and cannot be sources of competitive advantage. Using such dimensions as internal capability of the enterprise to perform an activity in comparison with competitors and potential for an activity to yield competitive advantage, the authors claim that it is better to keep doing in-house key activities as well as emerging activities with strong internal capability and high probability to yield competitive advantage. In all other cases it is better to either buy/sell activities or go into different kinds of collaboration, partnership and risk-sharing.

Table 2.1. Motivation types for outsourcing

Motivation for outsourcing	Description
Cost reduction	a client organization's need or desire to use outsourcing to reduce or control costs
Focus on core capabilities	a client organization's desire or need to access supplier(s) skills/expertise
Improve business/process performance	a client organization's desire or need to engage a supplier to help improve a client's business, processes, or capabilities
Technical reasons	a client organization's desire or need to gain access to leading edge technology through outsourcing
Flexibility	the ability to adapt to change
Political reasons	a client stakeholder's desire or need to use an outsourcing decision to promote personal agendas such as eliminating a burdensome function, enhancing their career, or maximizing personal financial benefits
Change catalyst	a client organization's desire or need to use outsourcing to bring about large scale changes in the organization
Commercial exploitation	a client organization's desire or need to partner with a supplier to commercially exploit existing client assets or form a new enterprise
Scalability	a client organization's desire or need to outsource to be able to scale the volume of services based on demand
Access to global markets	a client organization's desire or need to gain access to global markets by outsourcing to suppliers in those markets
Alignment of business processes and business strategy	the fit or congruence between a firm's business strategy (conceptualized as defenders, prospectors, analyzers) and its outsourcing strategy (e.g., arm's length, independent, and embedded)
Cost predictability	a client organization's desire or need to use outsourcing to better predict costs
Headcount reduction	a client organization's need or desire to use outsourcing to reduce the number of staff
Need to generate cash	a client organization's desire or need to generate cash through the sale of certain assets to the supplier
Rapid delivery	a client organization's desire or need to engage in outsourcing in order to speedup project delivery
Innovation	a client organization's desire or need to use outsourcing as an engine for innovation

Source: adopted from Lacity et al. (2009)

Since the early 1990s, there has been considerable growth in outsourcing, in both the public and private sectors. Though the range of business functions outsourced is wide and varies from manufacturing to administrative and management functions, the most popular types include data processing and IT operations, human resource management services, accounting functions, internal audit and marketing (Langfield-Smith and Smith, 2003). The increasing attention to these types can be explained by the two reasons. The first reason lies in the fact that these types are highly dependent on information exchange. Since development of communication means had made the information exchange extremely rapid, cheap and simple, the transfer of these functions to external suppliers became easy and beneficial. The second reason is related to motivation and explained by the fact that senior managers frequently consider these activities as non-core activities and cost burdens and thus try to minimize related costs.

2.1.2. IT outsourcing and offshoring definitions

Although the notion of outsourcing has existed for many years, and become well established, the definitions for Information Technology (IT) and Information System (IS) outsourcing are still vague and deal inherently with different aspects (see Appendix 1). Nevertheless, all definitions more or less imply that IT/IS outsourcing means contracting of the IT/IS services to a third party in full or in part.

However, the definition of offshoring is much more indeterminate, and, as Jahns et al. (2006) notice, it is used to describe outsourcing either outside a country's boundaries in general, or only to remote, low-cost locations or to countries "outside the first world" or to locations outside of the continent, etc. Some researchers use word "nearshoring" while describing outsourcing to the vendors in countries, situated close to the client's country. Meanwhile, it makes situation more ambiguous, since it cannot be precisely defined what "close" means. In addition, there is no unanimity in the question whether or not to include to the concept of offshoring both outsourcing to a foreign subsidiary of the firm and outsourcing to an independent party.

According to Jahns et al. (2006) and Javalgi et al. (2009), offshoring business models are classified into three types (Jahns et al., 2006; Javalgi et al., 2009):

- 1) "offshore outsourcing" (delegation of some of an organization's recurring internal business functions and decision rights to a third party (or vendor) in a foreign country, who specializes in those functions);

- 2) “offshore development centres” (establishing joint ventures, when the client firm retains a higher level of control than in the fully outsourced model while transferring some aspects of business activities of a captive centre to a third party service provider, e.g. using of dedicated teams);
- 3) “captive offshoring” (setting up its own subsidiary abroad in order to gain control of its business activities and take advantage of location factors).

In this work the concept “offshoring” corresponds to the outsourcing abroad. The proposed place of offshoring in the sourcing relationships is presented on Figure 1. Captive offshoring is included to the concept of international outsourcing, but with presupposition that it has the same outsourcing motivation behind itself.

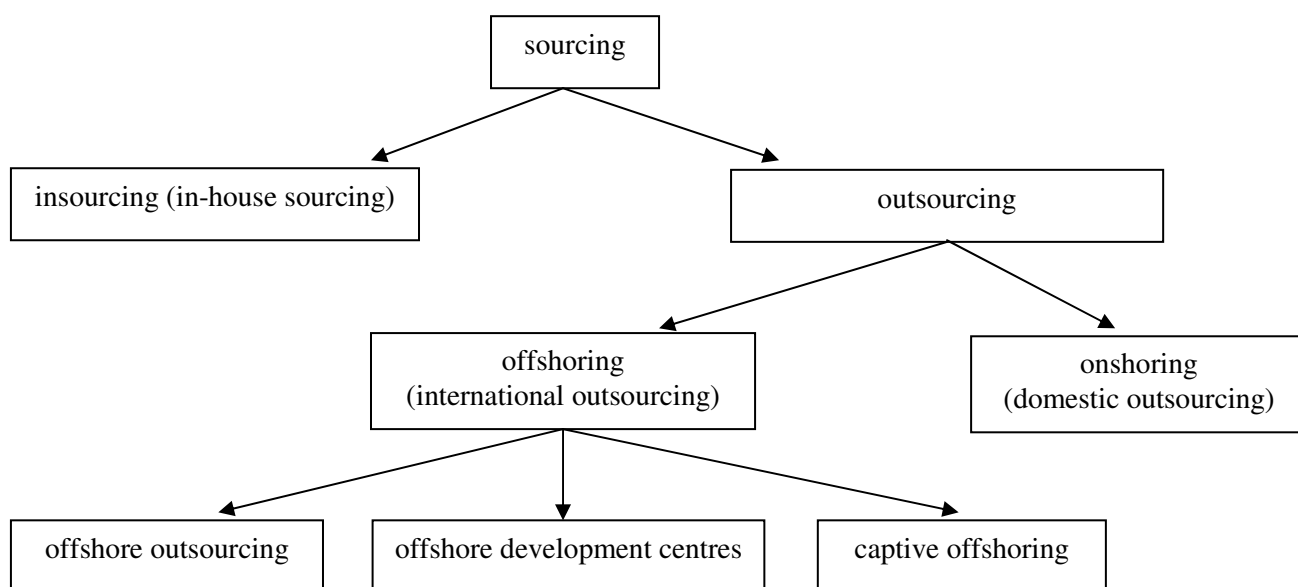


Figure 1. The place of offshoring in the sourcing relationships

Source: made by author

2.1.3. Offshoring process

ffshoring is a continuing and complex process, which consists of several stages. Based on the analysis of existing literature (DiRomualdo & Gurbaxani, 1998; Dibbern et al., 2004; Cullen et al., 2005) in this work the following offshoring stage model is proposed (with the presupposition of rational decision-making process):


1. Motivation (defining why outsourcing is needed, i.e. its determinants and motives, assessment of benefits and disadvantages). In the end of this stage a firm makes a decision on which business function is to be outsourced and why.

-
2. Selection and planning (defining where to outsource, to whom and how, including outsourcing degree and degree of involvement with partner). In the end of the stage a firm concludes an agreement with chosen partner.
 3. Managing offshoring relationships (managing and controlling the relationships).
 4. Analyzing outcomes (profit/loss estimation).

The first two stages correspond to offshoring design and strategy, while the other two are related to the implementation. On the basis of outcomes analysis the firm can decide either to continue to manage offshoring relationships in a way they were designed, if the result is satisfactory, or to revise their design in case of unsatisfactory results (see Appendix 2).

This work deals primarily with the first two stages, since design of management control systems and changes in it are related to them.


2.1.4. Offshoring motivation

n the motivation stage a firm has not decided yet which type of sourcing is needed. The firm is a subject to effects of various internal and external determinants: cost situation, financial position, strategy, size, human resources, physical assets, environmental uncertainties, institutional pressures, industry attributes, relations with suppliers, competitors' activity, etc. (see, e.g., Dibbern et al., 2004; Table 2.1). Their influence can result in firm's desire to contract out some business functions instead of performing them in-house. As it was mentioned earlier, IT/IS sphere is a business function, which is one of the most frequently chosen for being outsourced.

As Willcocks et al. (1995: 61) mention, "IT outsourcing must be part of an overall strategic framework that takes into account business, IS and IT objectives and requirements. Outside such a strategic framework outsourcing is likely to remain an incremental, ad hoc response to circumstances driven by cost minimization criteria". In turn, DiRomualdo & Gurbaxani (1998), considering IT and IS objectives, define three types of strategic intent for IT outsourcing, which are applicable to IT offshoring as well: 1) reducing the costs and enhancing the efficiency of IT resources (IS improvement); 2) improving IT's contribution to company performance within its existing lines of business (business impact); 3) leveraging technology-related assets – applications, operations, infrastructure, and know-how – in the marketplace through the development and marketing of new technology-based products and services (commercial

exploitation). The authors suppose these categories of strategic intent to be cumulative, not mutually exclusive, asserting that outsourcing agreements focusing on business impact generally encompass a focus on IS improvement as well, and agreements targeted at commercial exploitation usually incorporate elements of the other two. The comparative characteristics of these types of strategic intent for IT outsourcing are presented in the generalized form in Appendix 3, where strategic intents are linked to goals, tasks, corresponding contract types and performance measures.

2.1.5. Selection and planning in offshoring

 While the motivation stage is common to all sourcing types, the differentiation occurs in the stage of selection and planning, where company decides on offshoring configuration. While the notion of outsourcing configuration can be broad, and, for example, Cullen et al. (2005: 357) define it as “a high-level description of the set of choices the organization makes in crafting its IT outsourcing portfolio”, in this work it is used in more general form, because detailed configuration is not the main focus. Three questions are the most important here: where to outsource (geographical scope), to whom (supplier scope) and how (organizational scope).

Geographical scope. Since the basic reason for outsourcing is cost reduction, many firms prefer to outsource to the countries with the cheap labour force and, as a result, cheap resources of other kinds. Another stimulus is cost reduction due to difference in legislations, mainly tax systems. In most cases it means offshoring to less developed countries comparing to the client’s country. Thus, companies that choose to offshore IT/IS services are situated in the Western Europe and the USA, whereas the most popular IT offshoring destinations are India, China, Eastern Europe, Latin America, and Philippines (Kedia and Lahiri, 2007). These countries have different cultural and organizational patterns, and, consequently, different business contexts, which can create challenges for clients during implementation of relationships. Some of the countries experience turbulent transformations in political, economic and social spheres, and it questions the use of domestic business strategy in offshoring destinations. According to Khanna et al. (2005), to be successful, a company needs to develop strategy for doing business in emerging markets that is different from the one they use at home and also find novel ways of implementing it.

Supplier scope. The choice of supplier may depend on a number of factors, such as vendor’s skills and experience, financial position, goodwill, assets, infrastructure, etc. There can be

various types of relations. The simplest type is simple dyadic relationships, which correspond to single vendor – single client relationships. However, they could become risky due to vendor opportunism. The risks can be mitigated by the forming relationships with multiple vendors (multi-vendor arrangements). In the situation when several client companies in the same or related industry have similar need, they might form an alliance for obtaining services from a single vendor (multi-client outsourcing mode). If several client companies form an outsourcing relationship with more than one vendor, then a complex relationship occur (Dibbern et al., 2004). It is also possible to choose prime contractor option, which means relationships with one head supplier who bears responsibility for contract execution, but who uses any number of subcontractors to perform the whole or a part of the order. Another alternative is choosing between preferred suppliers, which are in continuous competition: interactions become brief, work is not guaranteed and each supplier competes for specific contracts with a defined period (Cullen et al., 2005).


Organizational scope. Organizational shaping of offshoring relationships is concerned mainly with the choosing the contract form. In turn, it requires estimation of the offshoring degree and the ownership degree. The former refers to the portion of IS budget provided by the third-party vendor: if more than 80% of the IS budget is provided by outsourcing, than it is total offshoring, if it is between 20% and 80%, then it is selective offshoring. The case of providing more than 80% of the IS budget internally after evaluating the IS services market implies that the firm is engaged in total insourcing (Lacity and Willcocks, 1998).

In the most general sense there can be three options of offshoring ownership: client ownership (setting subsidiary), joint ownership and supplier ownership. The first two options refer to captive offshoring, while the third one is typical for offshore outsourcing and offshore development centres. Offshoring degree, degree of ownership and time frame (short term or long term) can be combined differently and depend on the strategic intent behind it (Appendix 3).

Other important aspects of organizational scope are related to contract's terms and conditions, particularly, pricing framework (lump sum fixed, unit based, cost based), duration of contract (single term, extendable, rollover), distribution of control responsibilities, intellectual property protection, information exchange, and so on (Cullen et al., 2005). The whole range of aspects and instruments chosen at the stage of selecting and planning entails and shapes management control mechanisms, which are used by parties involved in offshoring relationships.

2.2. Offshoring and management control theory

2.2.1. Management control and management control systems notion

anagement control (MC) is an ambiguous concept, which has been developing during about fifty years, changing the focus from narrow accounting-based framework to the broad set of control mechanisms. For example, in 1965 Anthony defined MC as a “process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives” (Anthony, 1965 cited in Otley et al, 1995: 42), concentrating upon planning and control through accounting rationales. Even after thirty years, in spite of appearance of broader definitions (see, for example, Otley et al, 1995), accounting control mechanisms still were the central element in MC, and Simons argued that most managers still perceived control as “measuring progress against plans to guarantee the predictable achievement of goals” (Simons, 1995: 81). However, in the late 1990s the idea to extend the concept over other types of control and control mechanisms prevailed, enabling appearance of “control systems” and “management control systems” (MCS) notions. Thus, Simons (1995) interpreted control as a set of control systems, or levers, which included 1) ensuring that important goals are being achieved efficiently and effectively (diagnostic control systems), 2) empowering individuals and encouraging them to search for new opportunities (belief systems), 3) establishing rules of the games and identifying actions and pitfalls employees much avoid (boundary systems), and 4) focusing on strategic uncertainties, learning about threats and opportunities in order to respond proactively (interactive systems). Later, Chenhall (2003) considered MCS as a broad term that encompasses management accounting systems and other controls such as personal or clan controls.

For analyzing design of MCS in offshoring the broad concept by Malmi and Brown (2008) is used in this work. Malmi and Brown (2008: 290) define MCS as “complete systems, rules, practices, values and other activities management put in place in order to direct employee behaviour”. Since in most contemporary organizations there is a number of MCS, and different systems are often introduced by different interest groups at different times, authors suggest to use term “package of systems” rather than define them as a single system.

The broad scope of controls in the MCS package Malmi and Brown (2008) divide into five types: planning, cybernetic, reward and compensation, administrative and cultural controls.

Planning controls set out the goals of the functional areas, directing effort and behaviour; provide the standards to be achieved in relation to the goal, making clear the level of effort and behaviour expected; and ensure groups and individuals are in line with desired organizational outcomes. There are two broad approaches towards this kind of controls: action planning, which has a tactical focus (establishing goals and actions for the immediate future, usually a 12-month period or less), and long-range planning, which has a strategic focus (establishing goals and actions for the medium and long run).

Cybernetic controls include budgets, financial measures, non-financial measures and hybrids (mix of both financial and non-financial measures). This kind of controls enables quantification of activities, setting standards of performance, and thus, comparison of the outcomes of activities with the standards. In addition, cybernetic controls have the ability to modify the system's behaviour or underlying activities.

Reward and compensation controls focus on motivating and increasing the performance of individuals and groups through attaching rewards/compensation to achievement of goals. This kind of controls is used to control effort direction (the tasks individuals focus on), effort duration (how long individuals devote themselves to the task) and effort intensity (the amount of attention individuals devote to the task). Rewards are often linked to cybernetic controls, but can be also provided for other reasons, such as encouragement of cultural controls.


Administrative controls direct employee behaviour through the organizing of individuals (organizational design and structure), the monitoring of behaviour and who employees are made accountable to for their behaviour (governance, i.e. board structure and composition, various management and project teams, meetings), and through the process of specifying how tasks or behaviour are to be performed or not performed (rules, policies and procedures, including behavioural constraints, pre-action reviews, action accountability, etc.).

Cultural controls cover a wide range of values, beliefs and social norms, which constitute organizational culture. This kind of controls includes mission statements, vision statements, credos, and values (value-based controls), visible expressions (symbols), subcultures and individual groups (clan controls), selection and placement (recruitment), training and job design (personnel controls), etc.

According to Malmi and Brown (2008), administrative controls lay in the foundation of organization, creating the structure in which tightly linked planning, cybernetic, and reward and compensation controls are exercised by turn. Cultural controls, on the contrary, are broad, yet subtle controls, which are assumed to be slow to change, thus, providing a contextual frame for other controls.

However, the concept of MCS package is useful in rather defining how MCS are organized than explaining why MCS are organized in the certain way. MCS design is not the result of solely internal organizational processes, but influenced by the context in which they are applied. That is why there is need to take into account the contingency and institutional framework of the MCS.

2.2.2. MCS design in contingency theory

he choice of IT offshoring type depends on a number of factors, which do not influence other types of sourcing. For example, Jahns et al. (2006) distinguish between four main categories, which shape the environmental conditions and foster the challenges for organizations that use offshoring: 1) economic driving forces (wage differentials, interest rates, development of capital markets, capital costs and the emergence of technology centres); 2) political-legal conditions (labour, taxation and competition laws, various trade barriers), 3) socio-demographic driving forces (population size, age structure, education levels and work force motivation); and 4) technological driving forces (developments in telecommunications and transportation technologies).

Since offshoring activity is complicated by the political, legal, cultural and other differences of external environment, in most cases it is extremely difficult to foresee problem cases which can happen because of it. That is why the notion of trust becomes more important in offshoring relationships: a client needs to trust partner in the other country, relying upon partner's experience and understanding of local culture. It may be argued that the closer legislation and culture in the country-offshoring destination to the client's home country, the more likely offshoring relations will occur. The same idea is applied to the stability of legislation in offshoring destination, its geographical and time-zone closeness, the level of infrastructure development, etc.

One of the thorough contingency-based researches concerning MCS design within its context was done by Chenhall (2003). The author defines six contextual variables: external environment, technology, organizational structure, size, strategy and national culture.

External environment is one of the most influential contextual variables and includes uncertainty, turbulence, hostility, diversity, complexity, dynamism, ambiguity, etc. Concerning the external environment and MCS Chenhall (2003: 138) makes the following propositions:

- “The more uncertain the external environment the more open and externally focused MCS.
- The more hostile and turbulent the external environment the greater the reliance on formal controls and an emphasis on traditional budgets.
- Where MCS focused on tight financial controls are used in uncertain external environments they will be used together with an emphasis on flexible, interpersonal interactions”.

Technology includes hardware, materials, people, software and knowledge, i.e. refers to the way tasks transform inputs into outputs. The propositions concerning concepts of technology and MCS are:

- “The more technologies are characterized by standardized and automated processes the more formal the controls including a reliance on process control, and traditional budgets with less budgetary slack.
- The more technologies are characterized by high levels of task uncertainty the more informal the controls including: less reliance on standard operating procedures, programmes and plans, accounting performance measures, behaviour controls; higher participation in budgeting; more personal controls, clan controls, and usefulness of broad scope MCS.
- The more technologies are characterized by high levels of interdependence the more informal the controls including: fewer statistical operating procedures; more statistical planning reports and informal coordination; less emphasis on budgets and more frequent interactions between subordinates and superiors; greater usefulness of aggregated and integrated MCS” (Chenhall, 2003: 140-141).

Organizational structure is used to ensure fulfilment of the organization’s activities through the formal specification of different roles for organizational members, or tasks for groups. Propositions concerning organizational structure and MCS are:

-
- “Large organizations with sophisticated technologies and high diversity that have more decentralized structures are associated with more formal, traditional MCS (e.g. budgets, formal communications).
 - Research and development departments compared to marketing departments, which face higher levels of task uncertainty, are associated with participative budgeting; and marketing compared to production departments, which face higher levels of external environmental uncertainty, are associated with more open, informal MCS.
 - The structural characteristics of functional differentiation based on research and development compared to marketing, leadership style characterized by a consideration compared to initiating style, and higher levels of decentralization are associated with participative budgeting.
 - Decentralization is associated with the MCS characteristics of aggregation and integration.
 - Team based structures are associated with participation and comprehensive performance measures used for compensation.
 - Organic organizational structures are associated with perceptions that future orientated MCS are more useful, and with the effective implementation of activity analysis and activity-cost analysis” (Chenhall, 2003: 147).

Size influences firm’s abilities in using specialization and the division of labour, controlling the operating environment, and expanding into global operations. Concerning size and MCS Chenhall (2003: 149) states the following propositions:

- “Large organizations are associated with more diversified operations, formalization of procedures and specialization of functions.
- Large organizations are associated with more divisionalized organizational structures.
- Large size is associated with an emphasis on and participation in budgets and sophisticated controls”.

Strategy is used by managers to influence the nature of the external environment, the technologies of the organization, the structural arrangements and the control culture and the MCS. Propositions concerning strategy and MCS are:

- “Strategies characterized by conservatism, defender orientations and cost leadership are more associated with formal, traditional MCS focused on cost control, specific operating goals and budgets and rigid budget controls, than entrepreneurial, build and product differentiation strategies.

-
- Concerning product differentiation, competitor focused strategies are associated with broad scope MCS for planning purposes, and customization strategies are associated with aggregated, integrated and timely MCS for operational decisions.
 - Entrepreneurial strategies are associated with both formal, traditional MCS and organic decision making and communications.
 - Strategies characterized by defender and harvest orientations and following cost leadership are associated with formal performance measurement systems including objective budget performance targets, compared to more prospector strategies which require informal, open MCS characterized by more subjective long term controls and interactive use of budgets focused on informal communications” (Chenhall, 2003: 151).

Culture has become important in the MCS design with the spread of multinational companies, which “face the issue whether to transfer their domestic MCS overseas, or redesign their systems to fit the cultural characteristics of the offshore entities” (Chenhall, 2003: 152).

Thus, contingency-based approach assumes that managers act with an intent to adapt their organizations to changes in contingencies for the purpose of achieving the best performance (Chenhall, 2003). Meanwhile, MCS design can be also influenced by the institutional processes.


2.2.3. MCS design in the light of institutional theory

As Burns and Scapens (2000) state, though in many organizations MCS are usually regarded as stable rules (formal procedures) and routines (procedures actually in use), there is always potential for changes, which occur in the process of institutionalization. The authors refer to institutions as socially constructed “taken-for-granted” assumptions which inform and shape the actions of individuals. Institutions, rules, routines and actions are subjects to intentional and unintentional changes, which can take place in one/some of the groups but eventually affect in a varying degree all other groups through their cumulative influence over time. However, change and stability do not exclude each other, being two sides of the ongoing process.

DiMaggio and Powell (1983) mention that institutional changes lead to the increasing similarity of institutes across organizations. This process of homogenization is called “institutional isomorphism”. The authors identify three mechanisms through which institutional isomorphic change occurs: coercive isomorphism, mimetic isomorphism, and normative isomorphism.

Coercive isomorphism derives from both formal and informal pressures exerted on organizations by the political power and by cultural expectations in the society. **Mimetic isomorphism** results from imitation, i.e. organizations may intentionally or unintentionally model themselves on other organizations. **Normative isomorphism** stems primarily from professionalization on the basis of formal education or professional networks, i.e. managers with the similar education or members of the same professional association intentionally or unintentionally use the similar mechanisms and techniques (DiMaggio and Powell, 1983).

2.2.4. Theory of inter-organizational relationships with respect to MCS in offshoring

he concept of MCS as a package, and contingency and institutional theories, however, cannot be used for analyzing offshoring in their pure forms, because they regard MC as phenomenon primarily either inside certain organization or inside organization, but within certain context. Meanwhile, outsourcing concerns relationships that occur between organizations. Therefore, researchers in the sphere of outsourcing have started to apply traditional MC theories by going beyond the organization's boundaries. In this regard theory of inter-organizational (inter-firm) relationships on the basis of transaction cost economics is usually applied (Van der Meer-Kooistra and Vosselman, 2000; Langfield-Smith and Smith, 2003; Dekker, 2004; Dibbern et al., 2004; Jahns et al., 2006; Van der Meer-Kooistra and Vosselman, 2006; Ellram et al., 2008).

Generally, transaction cost theory is used to study alternative ways to organize economic activity by explaining why some transactions are more likely to occur within certain forms of organization, while being absent in other organizational modes. The goal of transaction cost economics is to define which institution is chosen to govern a specific transaction (Speklé, 2001). Inter-organizational relations in the light of transaction theory are regarded as governance mechanisms, i.e. "as institutions charged with generating rents from interdependencies between individuals and between organizations" (Hennart, 2008: 339). Commonly it is supposed that there are three alternative governance structures: the markets (rely on free competition to ensure control), hierarchy (rely on authority), and hybrids (Williamson, 1991). In markets mode transactions are governed by classical contract law, buyers and sellers are independent, suppliers are continuously meeting bids in the spot market, and the contract law is interpreted in a very legalistic way. Hybrid governance structures are supported by neoclassical contract law and characterized by higher mutual adaptation and flexibility; partners become interconnected and

interdependent while still maintaining autonomy. Finally, hierarchy corresponds to internal organization, or the firm by itself.

According to theory of inter-organizational relationships, firms engage in outsourcing if there is evidence that the transaction costs associated with partnering are relatively lower than internalizing certain activities into their own hierarchical structures (Kedia and Lahiri, 2007). Using this theoretical perspective, Van der Meer-Kooistra and Vosselman (2000) suggest three MC patterns of outsourcing: 1) a market based pattern; 2) a trust based pattern; and 3) a bureaucracy based pattern.

The market based pattern is present in markets governance structure. Outsourcing relationships are characterized by competitive bidding, and the client can choose between and use multiple vendors, thus, stimulating the present supplier to work effectively and efficiently. Control mechanisms consist in regular measurement and evaluation of the quantity and quality of supplier's output and the timeliness of delivery. In **the trust based pattern** outsourcing is based on trust, risk-sharing and principles of fairness. Trust may arise due to previous contractual relationships or reputation of trustworthiness. Control mechanisms are process oriented and culture based. **The bureaucracy based pattern** originates from a bureaucratic mechanism which is dominant in hierarchy and is notable for existence of specified norms, standards, rules and prescribed procedures. Control mechanisms include system of surveillance, evaluation and direction; well developed system of information processing. However, it is important to notice that these patterns are extreme types, which hardly exist in their pure form. On the contrary, there is usually mix of them, but with one as a dominating type at least in certain stages of outsourcing relationships (Van der Meer-Kooistra and Vosselman, 2000).

In turn, Dekker (2004) suggests distinction between formal and informal control mechanisms in inter-organizational relationships (Figure 2). Formal control refers to contractual obligations and formal organizational mechanisms for cooperation. There are two types of formal control mechanisms: outcome control mechanisms, which specify outcomes to be realized by the partners and monitor the achievement of these performance targets, and behaviour control mechanisms, which specify how partners should act and monitor whether actual behaviours comply with the pre-specified behaviour. Informal control, or social control, relates to informal cultures and systems influencing members and based on mechanisms inducing self regulation (Dekker, 2004).

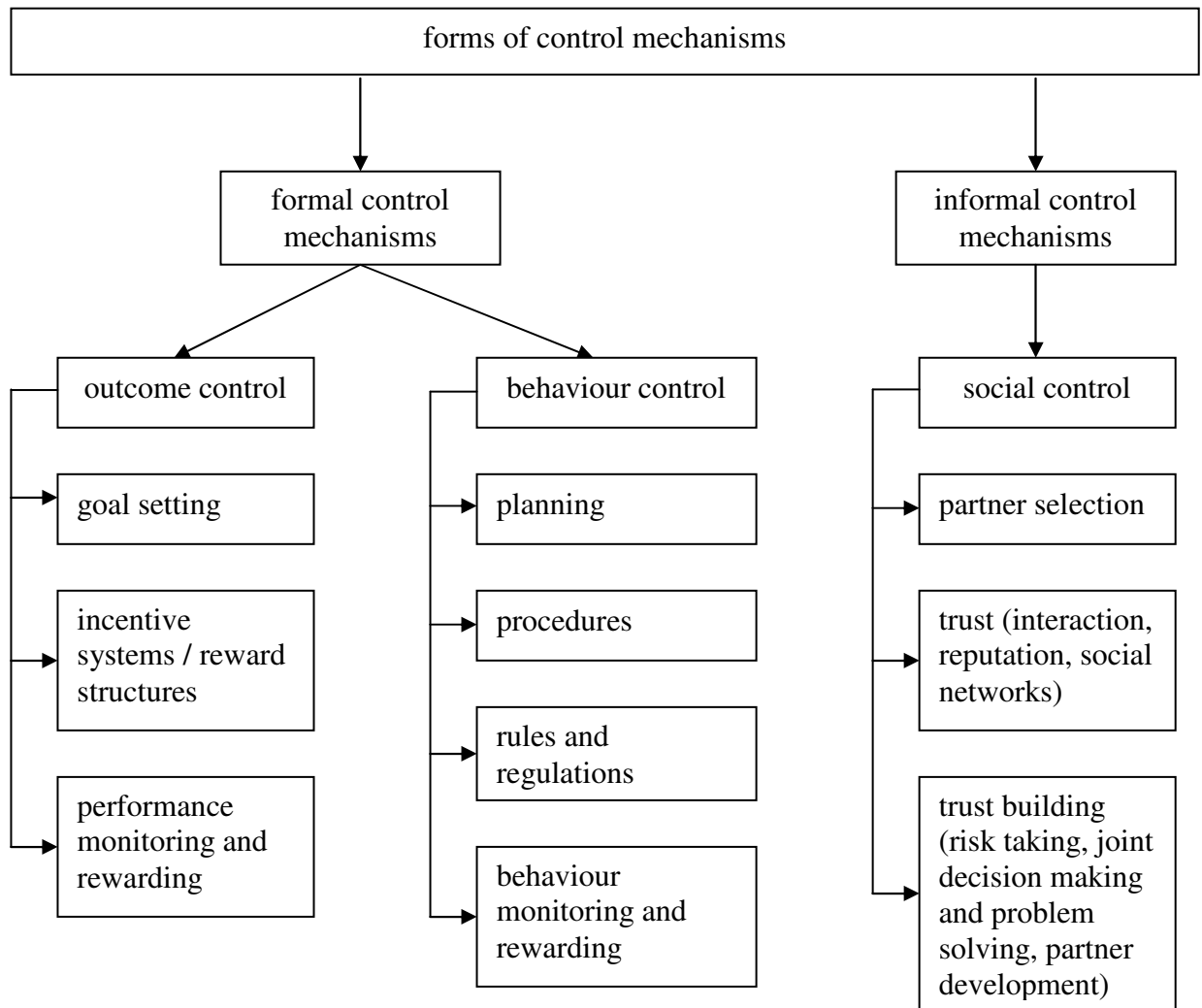


Figure 2. Control mechanisms in inter-organizational relationships

Source: adopted from Dekker, (2004)

Since offshoring is a variant of outsourcing, the presented theory can be used in describing the inter-organizational relationships, which occur in the process of it. However, it is important to understand, that the context of offshoring is more complex and requires taking into account specific expansion of firm's borders across state frontiers, legislations, national and organizational cultures. The difficulties in coordination of resources and activities between contracting partners, which inevitably arise even in domestic outsourcing relations, become sharper and more complicated in offshoring due to its international nature.

The proposed linking of offshoring configuration (strategic intents for IT offshoring and offshoring types) and MCS design (governance structures, MC patterns, corresponding control mechanisms and controls types in MCS package) is presented on Figure 3. At the same time the model implies consideration of IT offshoring context in order to get more realistic picture.

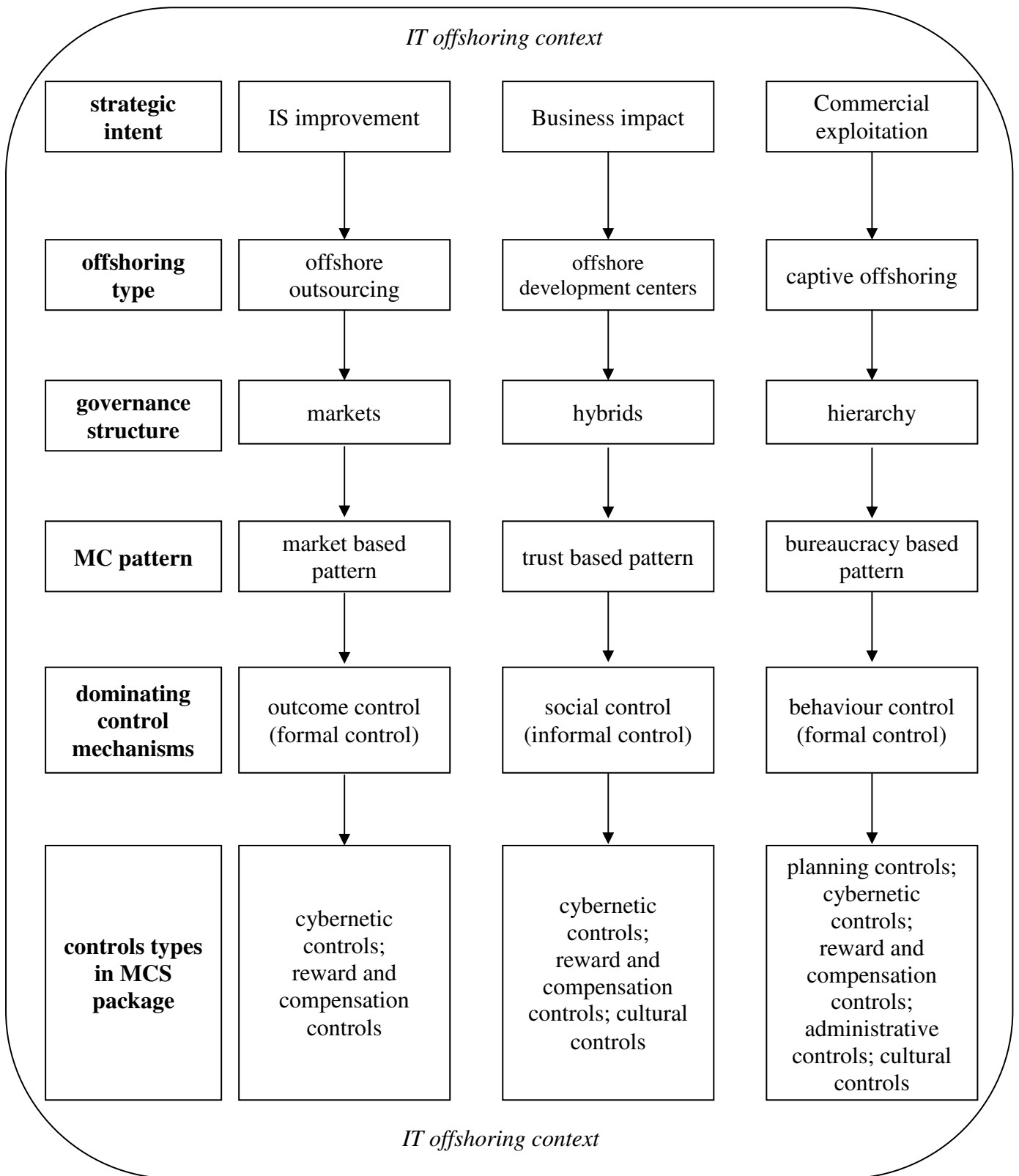


Figure 3. Model for linking IT offshoring configuration with MCS design

Source: made by author

Alike the strategic intents, the control types in MCS are also cumulative, not mutually exclusive.


Offshore outsourcing is based on IS improvement strategic intent and is governed by markets structure which has a market based MC pattern (and thus, outcome control mechanisms). It entails active use of such elements of MCS package as cybernetic controls and reward and compensation controls in relations between offshoring partners.

The second type of offshoring, offshore development centres, is guided by such strategic intents as business impact (and encompasses a focus on IS improvement as well). The use of offshore development centres corresponds to hybrids governance structure, and, therefore, has trust based MC pattern, which is characterized by social control mechanisms. The cultural controls are added to cybernetic controls and reward and compensation controls in MCS package.

Strategic intent of commercial exploitation (with IS improvement and business impact incorporated) stands behind captive offshoring, whose governance structure represents hierarchy with bureaucracy based MC pattern, which is based on behaviour control mechanisms. Thus, MCS package is broadened by planning and administrative controls, which are prevailing, and inter-organizational relations are characterized by all five controls types in MCS package.

Although the presented patterns and control mechanisms are useful in defining the dominating type of MC and elements of MCS package in offshoring, they do not operate in isolation, being intertwined in most cases, and in both offshore outsourcing and offshore development centres planning and administrative controls can be presented to a certain degree. However it is natural that the comprehensiveness and variety of MCS elements increase from offshore outsourcing to captive offshoring.

2.3. Summary

his chapter presents linking of theories of outsourcing, offshoring and management control. Since it seems more realistic to use combination of different theories, in the research a combination of theory of inter-organizational relationships, concept of MCS package, contingency theory and institutional theory was chosen. These theories would be used for defining strategic intent, offshoring type and control mechanisms in the offshoring of the Norwegian IT companies to Ukraine. The empirical description of MCS design would be made on the basis of the concept of MCS package. The analysis would also include use of contingency theory and institutional theory for linking MCS design to its context and for understanding MCS design specifics across cases.

3. METHODOLOGICAL CHAPTER

Though this be madness, yet there is method in it.

William Shakespeare

This chapter presents methodology which was used in the research. The choices of research design and methods are grounded. The implication of methods is presented. The validity and reliability of analysis are discussed.

3.1. Methodology and research design

According to Easterby-Smith, Thorpe and Jackson (2008), methodology is combination of techniques (i.e. methods) used to enquire into a specific situation. In turn, Zikmund (2003: 43) defines scientific method as “a set of prescribed procedures for establishing and connecting theoretical statements about events, for analyzing empirical evidence and for predicting events yet unknown”.

The choice of particular methodology from the variety of scientific methods depends on a research design, which is concerned with organizing the whole research activity, including the collection of data, in ways that are most likely to achieve the research aims (Easterby-Smith, Thorpe and Jackson, 2008). Thereby, “it is a framework or blueprint that plans action for the research project” (Zikmund, 2003: 65). The research question of this work requires explorative research design, the purpose of which is “to progressively narrow the scope of research topic and to transform discovered problems into defined ones” (Zikmund, 2003: 62). This kind of research design is more suitable, because there is need to look deeper into the MCS of particular companies chosen as exemplars.

The nature of explorative research design (flexibility and versatility of research process, the small size of sample, tentativeness of results) turns the research away from positivism towards social constructionism. However, it is not pure social constructive one, since the researcher is not a part of what is being observed, not involved in the organizational processes anyhow and does not influence them. Therefore the research is placed between positivism and social constructionism, but closer to the latter. It means that task becomes rather “to appreciate the different constructions and meanings that people place upon their experience” than to measure ‘independent external reality’; and the focus is placed on “what people, individually and

collectively, are thinking and feeling” (Easterby-Smith, Thorpe and Jackson, 2008: 59). In other words, this study is aimed at increase of general understanding of MCS in offshoring as it is seen from the participants’ point of view.

Therefore, the research design and the fact that MCS deal primarily with the processes and events, entailed the choice of qualitative methods. Quantitative methods are less applicable since the answers to questions cannot be got simply or briefly (as by means of survey or other quantitative methods) and there is need to understand experiences and reconstruct events in which a researcher did not participate (Rubin and Rubin, 2005). As Rubin and Rubin argue (2005), the interpretative constructionist approach entails observational and depth interviewing projects. Thus, the main methods used for writing this work are the interviews with chief executive officers / top managers of three Norwegian companies (EDB ErgoGroup ASA, Itera ASA and Scandinavian House AS), the Ukrainian subsidiaries of EDB ErgoGroup and Itera (Infopulse Ukraine and Itera Consulting Ukraine respectively), and subsequent elaboration of case studies.

The companies have been selected because they are the only Norwegian IT companies engaged in IT offshoring to Ukraine. In addition, it is easy for the author to get into contact with their managers through the Norwegian-Ukrainian Chamber of Commerce (NUCC), where these companies participate as members, and where the author has work experience. The topic is of great interest to the NUCC due to the possibility of further application of the results by other members, so its Board kindly helped during data collection.

In addition, secondary data (review of relevant literature, surveys, reports, legislation, analyses, publications by consulting firms, etc.) were widely used to get general overview of the research problem and to support the empirical data gathered by the means of interview, thus enabling the triangulation.

3.2. Interview

In interview is “any interaction in which two or more people are brought into direct contact in order for at least one party to learn something from the other” (Brenner, 1985: 3). As Burgess states, interview affords an “opportunity for the researcher to probe deeply to

uncover new clues, open up new dimensions of a problem and to secure vivid, accurate inclusive accounts that are based on personal experience (cited in Easterby-Smith, Thorpe and Jackson 2008: 144).

In this research the semi-structured interviews were used, being the most suitable way of getting insight into one or a few particular organizations under the exploratory research. This type of interviews implies the use of topic guides as a loose structure for the questions with possible deviation from the sequence in order to follow interesting lines of inquiry or go deeper into accidentally appeared topics (Easterby-Smith, Thorpe and Jackson, 2008). The other types are less applicable since highly structured questionnaires (surveys) are better for analyzing large samples when there is possibility to standardize questions and results, whereas unstructured interviews usually provide poor data, which is difficult to interpret (Easterby-Smith, Thorpe and Jackson, 2008). The interview guide, which was used for the interviews, is presented in Appendix 4.

The chosen type of interview belongs to so-called “qualitative interviews”, which are in-depth and open-ended ones. Their aim was to collect information, which captures the meaning and interpretation of phenomenon of the Norwegian IT offshoring to Ukraine in relation to the interviewee’s worldview, thus gaining understanding from the respondents’ perspective (Easterby-Smith, Thorpe and Jackson, 2008). The interviews were carried out according to the standardized open-ended interview approach. It means that set of questions was carefully worded and arranged with the intention of taking respondent through the same sequence, i.e. each respondent was asked the same questions with essentially the same words, thus increasing comparability of responses. The application of this approach is explained by the limited time (managers usually are not able to find more than one-two hours for the interview) and wish for reducing interviewer effects, variation in the questions and the possibility of bias that comes from having different interviews from different people (Patton, 1990). Additional interviews were conducted in order to obtain more specific information required for making cases comparable.

Another way that qualitative interviews differ is whether they are about eliciting understandings or meanings (subject of focus) or whether their purpose is to describe and portray specific events and processes (breadth of focus) (Rubin and Rubin, 2005). The interviews conducted for this research had broadly focused scope and were focused mainly on events and processes. The purpose of the interviews was to find out how MCS were designed, why they were organized so,

and what it meant more broadly. It was needed so as to be able to explain or understand a phenomenon of MCS in offshoring.

As concerns EDB ErgoGroup ASA and Itera ASA, the interviews were conducted with top-managers of both Norwegian companies and their subsidiaries to obtain views of both sides. Since Scandinavian House AS is a small company, only its CEO / Managing director was interviewed. In addition, an informal interview with the former EBA's President and Telenor's country manager in Ukraine was held in order to get expert opinion on the Ukrainian IT industry. Interviews were made face-to-face and by phone (the second interview with EDB ErgoGroup's managers and with Infopulse Ukraine's HR-director) (Table 3.1).

Table 3.1. Interviews

#	Company	Interviewee	Position	Duration
1	EDB ErgoGroup	Petter Standal	VP Business Development	2.5 h
		Pål Torjus Halsne	Country Representative in Ukraine	
2	EDB ErgoGroup	Petter Standal	VP Business Development	1 h
		Pål Torjus Halsne	Country Representative in Ukraine	
3	Infopulse Ukraine	Lyubov Yudenko	HR-director	1.5 h
4	Itera	Arne Mjøs	Chief Executive Officer	30 min
5	Itera Consulting Ukraine	Igor Mendzebrovski	VP of Global Outsourcing	2.5 h
6	Scandinavian House	Helge Ranvik	CEO, Managing Director	1 h
7	Scandinavian House	Helge Ranvik	CEO, Managing Director	30 min
8	EBA, Telenor	Trond Moe	EBA's President (2008-2010), Telenor's Country Manager (2006-2010)	15 min

Source: made by author

As Patton (1990, p. 295) states, “an interview question is a stimulus that is aimed at creating or generating a response from the person being interviewed”. The interviews were organized by combining main questions, follow-up questions, and probes. Main questions were prepared beforehand to secure all the major parts of my research problem were covered, whereas the follow-up questions were asked to elucidate themes, concepts, and events that the interviewee introduced. For instance, one of the main questions in interview guide was “Could you, please, describe what the Norwegian party uses for coordination and controlling the Ukrainian party?”,

while the corresponding follow-up questions were “How is planning process organized? What are the main goals and who sets them?”, “How is budgeting process organized?”, “Which financial and non-financial measures do you use to evaluate performance?”, etc. Probes were needed to manage the conversation by keeping it on topic, signalling the desired level of depth, and asking for examples or clarification (Rubin and Rubin, 2005). An example of using probes can be laddering, that is technique, which helps “the respondent move from statements of fact or descriptive accounts about the question posed upwards in such a way that they gradually begin to reveal the individual’s value base” (Easterby-Smith, Thorpe and Jackson 2008: 146). During interviews a great number of probes was used such as “Is budget fixed or flexible?”, “What are the billable and non-billable employees?”, “Do you feel you are under the strict control?”, etc.


“The way a question is worded is one of the most important elements determining how the interviewee will respond” (Patton, 1990: 295). For purposes of good qualitative inquire, the author tried to design questions to be open-ended, neutral, singular and clear. The asking truly open-ended questions was necessary for minimizing the imposition of predetermined responses and receiving answers in respondents’ own terms. It is the basic difference of qualitative interview from the highly structured ones, where response possibility are clearly stated and made explicit. It entailed avoiding the dichotomous questions (the ones with a grammatical structure suggesting a “yes” or “no” answer) in main and follow-up questions, thus facilitating the achievement of the in-depth interview’s aim: to get the person being interviewed to talk. Neutrality of questions means that they were actually questions, not researcher’s statements or judgements, disguised as questions, i.e. interviewee could decide upon answers without overt direction or pressure from interviewer (for example, “Could you, please, describe relationships between Norwegian and Ukrainian parties?”). It was also important to ask singular questions, which were those containing no more than one idea, since it helped to prevent tension and confusion related to respondent’s misunderstanding of what was being asked (e.g., “What kind of rewards and penalties do you use?”). It is connected with questions’ clarity: the interviewer was responsible to make it clear to the interviewee what was being asked (Patton, 1990).

However, well-designed questions cannot guarantee that the answers would be suitable, truthful and exhaustive. According to McClelland, “people cannot be trusted to say exactly what their motives are, as they often get ideas about their own motives from commonly accepted half-truths” (cited in Easterby-Smith, Thorpe and Jackson, 2008: 145). To minimize the possibility of getting ambiguous replies because of respondent’s desire to show the organization in a positive light or unwillingness to disclose some information about it, the psychological method of “lie

scales” was used during designing questions. It means some questions, which could provoke social desirability bias, were repeated being different by wording but identical by implication. For example, follow-up question “Why do you use private entrepreneurs scheme?” was later repeated by the probes “So do you use private entrepreneurs scheme only for the sake of tax saving?” and “Does it provide additional opportunities for the company, because the relationships with IT consultants are regulated not by labour laws but by commercial legislation?”. Another example can be follow-up question “Could you, please, describe you relationships with competitors?” and probe “What do you mean by “network” and how do you use it?”. In addition, the NUCC’s participation and assistance contributed to the getting access, obtaining interviewees’ trust, and thereby, receiving more accurate and honest answers from them. To avoid situations when the respondent him- or herself might not have a clearly articulated view of the answers to the questions posed, the main questions were sent to the respondent by e-mail in advance. However, it can be assumed that certain bias in answers remains, because it is obvious that respondents would not unlock all secrets about organizational processes, especially because the study touches upon three competing companies.

All interviews were recorded by means of digital voice recorder. Simultaneously the main points of answers and key phrases were being written on the paper in order to follow the conversation and formulate the new questions in the case new topics or problems emerged. After each interview its recording was transcribed and the results were sent to the respondents for checking back and clarification. The approved data were used for analysis and elaboration of case studies.


3.3. Case studies

atton (1990: 371) notices “the process of data collection is not an end in itself. The culminating activities of qualitative inquiry are analysis, interpretation and presentation of findings”. For the research the case analysis was chosen. Case study is “an empirical inquiry that investigates a contemporary phenomenon within its real-context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 2003: 13). It is very useful “when rich descriptive real-life holistic account is required that offers insights and illuminates meanings which may in turn become tentative hypotheses for further research” (Burns, 2000: 479). This approach involves collecting and organizing data by specific cases with the purpose to gather comprehensive, systematic, and in-depth information about each case (Patton, 1990). In the study the individual case studies of EDB ErgoGroup ASA, Itera ASA and Scandinavian House AS were elaborated.

All information got during data collection, i.e. the interview data, the documentary data, impressions and statements of others about the case, etc. was pulled together, edited, sorted out and organized to form the comprehensive, primary resource package, or, in other words, case record. This case record was used to construct a case study as a readable, descriptive picture (“holistic portrayal”) of a phenomenon making accessible to the reader all the information necessary to understand that phenomenon (Patton, 1990). Each case includes short overview of a company and its business environment and description of MCS according to Malmi & Brown’s framework (2008).

On the basis of conducted research the interpretation of findings was given. As Patton (1990: 423) explains, “interpretation means attaching significance to what was found, offering explanations, drawing conclusions, extrapolating lessons, making inferences, building linkages, attaching meanings, imposing order, and dealing with rival explanations, disconfirming cases, and data irregularities as part of testing the viability of an interpretation”. The interpretation of description is necessary because it is important to confirm knowledge obtained through the reading of empirical results, to avoid possible misconceptions and to illuminate important things which can be omitted by readers of description. The analysis was made on the basis of the concept of MCS package by Malmi & Brown (2008), MC patterns of outsourcing by Van der Meer-Kooistra and Vosselman (2000), control mechanisms in inter-organizational relationships by Dekker (2004), institutional theory (DiMaggio and Powell, 1983) and contingency theory (Chenhall, 2003).

3.4. Validity and Reliability

he notions of validity and reliability are fundamental cornerstones of the scientific methodology, essential for evaluating research and correspond to the core of what scientific proof is. Validity is concerned with the accuracy, correctness and precision of obtained results, and their conformity with the planned ones, i.e. the extent to which the measurement provides as accurate reflection of the concept (Ritchie and Lewis, 2003; Johnson and Duberley, 2000). Internal validity is needed for checking whether or not what has been identified as the cause actually produces the effect. External validity reflects the extent to which the research findings can be generalized beyond the immediate research sample. Reliability is the consistency of results obtained in research. It implies the possibility of replication of the original research by the same or another researcher at a different time (Johnson and Duberley, 2000).


It must be noticed that some authors (for example, Lincoln and Guba) prefer to use concepts of credibility, transferability, dependability and confirmability with respect to qualitative design instead of traditional notions of internal validity, external validity, reliability and objectivity, which have become popular due to positivistic approach (cited in Marshall and Rossman, 2006: 201-203). These concepts are in essence are similar, so in this work the traditional notions are preferred but it is important to understand that positivism and social constructionism (therefore, quantitative and qualitative analysis, respectively) form different premises and conditions for their application.

To ensure internal validity, the description and interpretation of the results showing the complexities of processes and interactions were so embedded with data that it could be convincing to readers. The constant comparative method (checking accuracy to fit) was used, involving deriving hypotheses from one part of the data and testing them on another by constant checking and comparison across cases and individuals (Ritchie and Lewis, 2003). Interviewees' validation was employed to exclude misunderstandings by the researcher. To strengthen the internal validity of case study, the pattern-matching logic (comparing an empirically based pattern with a predicted one) was also used (Yin, 2003).

The external validity of qualitative research is usually seen as a weakness in the approach, since in many cases it can be problematic to generalize qualitative findings. To increase external validity the referring to the original theoretical framework was used to show how data collection and analysis were guided by concepts and models. Furthermore, the triangulating multiple sources of data, matching primary and secondary data contributed to the strengthening external validity as well (Marshall and Rossman, 2006).

As concerns reliability, the continuous changing of the political, economic, social, technological, environmental and legal conditions and settings make replication of the results difficult. However, the research does not claim to reveal eternal verities or universal laws, quite the contrary. It is aimed at exploration of peculiarities of MCS design in Norwegian IT offshoring to Ukraine and description of the present-day situation. Thus, it can be argued that other similar researches would bring the same results only on the assumption of the same conditions and settings.

3.5. Summary

pistemology and methodology are cornerstones of scientific activity. They lay down the foundations of the nature and principles of the research, by providing philosophical premises through the theories, techniques through the set of methods and enable evaluation of the results' quality through validity and reliability.

The research conducted in this paper is in compliance with explorative research design. The philosophical position is placed between positivism and social constructionism, but closer to the latter. Correspondingly, the methods applied are qualitative semi-structured in-depth interview (as the main method of data collection) and subsequent elaboration of multiply-case studies (as the main method of data presentation and interpretation). By checking accuracy to fit, using interviewees' validation, referring to the original theoretical framework, triangulating multiple sources of data, matching primary and secondary data, etc. the attempts to strengthen internal and external validity were made. Reliability of the study depends on possibility of reconstruction of the same conditions and settings.


4. EMPIRICAL CHAPTER

The grand aim of all science is to cover the greatest number of empirical facts by logical deduction from the smallest number of hypotheses or axioms.

Albert Einstein

In this chapter the empirical data gathered from primary and secondary sources are presented. Firstly, the general overview of the Ukrainian IT industry is given. Then the cases of three Norwegian companies, EDB ErgoGroup ASA, Itera ASA and Scandinavian House, are described in descending order by the size of the companies. Each case includes short overview of a company and its business environment, followed by description of management control systems according to framework by Malmi and Brown (2008).

4.1. Overview of the Ukrainian IT industry: “Silicon Valley of the CEE region”

he main prerequisites for emergence of IT offshoring were the rapid development of communication, telecommunication and Internet infrastructure coupled with the mass digitization of services in the late 1990s. About a decade India and China remained the major IT offshoring destinations for both US and European companies due to the large pool of English speaking people and low labour costs. Later, the popularity of Central and Eastern European (CEE) countries as a closer IT offshoring alternative for Western European companies has begun to increase. It was enabled by the achievements of CEE region in development of democracy and approaching the Western European regulations and standards.

Historically Ukraine was a centre of information and technology development in the USSR, being a leader in creating and designing high-technological solutions¹. When the country gained independence, a number of privately held IT companies was established, many of them were founded at facilities of research institutes. Few IT companies started to provide offshore outsourcing services in the late 1990s. However, in 2002-2004 the Ukrainian IT offshoring has blossomed out, enjoying 20% growth every year². Western IT companies switched over from simple buying IT services to long-term relationships and what is more, establishing new enterprises or buying existing facilities. It was stimulated by the relative simplicity of business in terms of material equipment and production facilities. For example, one of the features of IT

¹ ICF CST Compressed list of basic results of stage of becoming and development of the digital electronic computing engineering in Ukraine: <http://www.icfcst.kiev.ua/museum/ukrchronology.html>

² Central and Eastern European Outsourcing Association (2010)

companies is that they are almost independent of any kind of resources other than labour, which accounts for 80% of their costs. In addition, to be sold abroad IT products do not need to cross frontiers physically, so almost unlimited volumes can be transferred without settling matters with the customs.

In 2009 there were about 940 companies operating on the Ukrainian IT outsourcing market, and more than 18 100 IT specialists were involved in the IT outsourcing and customer software development. The general volume of IT outsourcing and custom software development services exported from Ukraine was about USD 697 million (2009)³.

One of the most distinguishing characteristics of the Ukrainian IT industry is that employees are actually not staff workers, but independent private entrepreneurs from a legal perspective. A private entrepreneur is an individual, who registered himself/herself for performing business activities without establishing legal entity. Being categorized as a small business, private entrepreneurs are allowed to use simplified taxation system, paying one fixed tax and submitting simplified reports. Using private entrepreneurs means, in essence, that salary is booked as a payment for provided services.

Till the end of 2010 a lot of Ukrainian companies, besides IT ones, were using private entrepreneurs mainly with a purpose of tax saving making low labour costs even lower: the one tax rate was about USD 25 per month, while labour tax made up 18.6% plus 36.8% of the employee's salary for employee and employer respectively. Thus, the system was beneficial for both company and its worker.

However, in 2010 the government developed a new version of the Tax Code, which made it impossible to use the system of private entrepreneurs, and thus caused a wave of mass protests. In addition to the demonstrations of private entrepreneurs, the strong lobby of big companies represented mainly by the European Business Association (EBA) appealed to the government.

“We had a lot of discussions with Telenor, EDB, Itera as well as other IT and telecommunication companies, - Trond Moe, EBA's President (2008-2010) tells. – We were talking to the government and convinced them to make exceptions for IT industry. For example, IT companies are still allowed to use the system, and private entrepreneurs, providing IT services, are allowed to perform foreign economic activities”.

³ Central and Eastern European Outsourcing Association (2010)

In addition to tax saving, the system of private entrepreneurs gives another important benefit for companies using it: the relationships between company and worker are regulated by the commercial legislation instead of labour laws, providing much more freedom to the company.

In the country there are professional associations representing IT industry: Ukrainian Hi-Tech Initiative and IT Ukraine⁴. To promote support for information economy in the country, the government has launched the Ukraine Development Gateway Project, which operates as a network of regional (national, sub-national and municipal) gateways⁵.

The benefits make Ukraine a very attractive country of IT offshoring. According to IT sourcing Europe, “with the highest IT outsourcing market value in the CEE region, more than 30,000 IT graduates each year, Western orientation, WTO membership (since 2008), numerous high-tech parks and the highest democratic level among the non-EU CEE countries, Ukraine is emerging as a Silicon Valley of the CEE region”⁶.

Quick facts

- In European IT Outsourcing Intelligence Report (2010) Ukraine is ranked number one country for Western European companies seeking to outsource their entire IT function / components of their IT function nearshore.
- Ukraine has been in Gartner’s List of Top 30 countries for Offshore Services for several years.
- Kyiv, Ukraine’s capital, is included in the Tholons’ List of Top 50 Global Emerging Outsourcing Cities (2009).
- Kyiv is amongst the 25 safest cities for offshore/nearshore outsourcing according to Brown & Wilson Black Book of Outsourcing (2009).
- Ukraine’s cities Kharkiv and Dnipropetrovsk rank 3 and 5 accordingly in terms of cost effectiveness in FDI Magazine’s rating of Top 5 Major European cities (2010).
- Ukraine is the 4th in Top 10 countries with the most certified IT professionals according to Global IT IQ Report by BrainBench (2009).
- Ukraine is in Gaming Industry’s Top 12 European Countries (The Global Gaming Industry Network, 2009)⁷.

⁴ <http://www.hi-tech.org.ua>; <http://www.itukraine.org.ua>

⁵ <http://www.ukraine-gateway.org.ua>

⁶ IT sourcing Europe (2010)

⁷ IT sourcing Europe (2010); <http://www.gartner.com>

4.2. EDB ErgoGroup: “Creating a New IT Experience”

4.2.1. Overview of EDB ErgoGroup



EDB ErgoGroup ASA (EEG) is a leading IT service provider in the Nordic region, with 50 years of experience from Norwegian and Nordic IT Innovation. The company is a result of a merger of two biggest players on the Norwegian IT market, EDB and ErgoGroup, which was completed in October, 2010. The merger has made EEG the IT company number one in Norway with 32% market share and the second largest company in the Nordic IT services market (7.9%) after IBM. EEG has about 10 000 employees, operating revenue of about NOK 8.7 billion and 135 offices in 16 countries around the world (2010). The main shareholders are Posten Norge AS (40%) and Telenor Business Partner (27.2%). The company is listed on the Oslo Stock Exchange with headquarters in Oslo, Norway⁸ and has significant operations in both the Norwegian and Swedish markets. Before the merger it was EDB who was engaged in IT offshoring to Ukraine.

Founded in 1961 EDB, or Elektronisk Databehandling AS, has progressed from being a supplier of data centre services, punch cards and banking applications to become one of the largest Nordic IT groups, offering solutions that cover the entire range of business critical IT services from application services and industry-specific solutions through to IT operating services and network solutions. In 2004-2008 the company launched a campaign of acquisitions in order to strengthen the company's market position, during which EDB bought almost 20 businesses in Norway, Sweden, Denmark, Ukraine and India. Many of these companies have been integrated into EDB, while others continue to operate as separate subsidiaries⁹.

The main reason for offshoring was cost reduction. In addition, the company wanted to get part of the growth on the emerging markets and bring new blood into Scandinavian IT industry.

“Europe started with IT industry in the end of 1960s. At that time Norwegians also participated actively in the IT development. For example, they created the first object-oriented programming language, Simula. Also there was Norsk Data, an extremely innovative computer manufacturer in 1967-1992. But it has gone away. – Petter Standal, EDB's VP Business Development, notes. – Now many of the specialists are already in retirement or approaching it, and there is a huge deficit of young IT programmers, who could replace them, especially in Norway. At the same

⁸ <http://www.edbergogroup.com>

⁹ <http://www.edb.com>

time in Eastern Europe the people working in IT industry are very young: in average they are in the age of 20-30, like it was at the dawn of the Western European IT industry”.

“Just look around the Norwegian society: there are lots of people with foreign background, whom we need here. The same is in IT industry, we need offshoring”, - Pål Halsne Torjus, EDB’s country representative in Ukraine in 2009-2011, adds.

Although India provided an opportunity of cost saving, EDB was looking to a closer alternative, choosing between Baltic countries, Slovakia, Hungary, Belarus, Turkey and Ukraine. In this sourcing perspective the following three aspects were important: 1) the overall competence in the population, particularly within technology, and it had to be not only several super-specialists, but the spread-out competence throughout population; 2) large enough population so to have big enough sourcing pool, where the company could choose and hold the best specialists; 3) competitive cost level.

According to Pål Halsne Torjus, Central and Eastern European countries of the EU do not have the spread-out competence level in IT industry, as Ukraine does, and the cost level is also increasing. In Turkey there is more than 70 million people, but still not the same competence level in IT industry, and when it comes to the democracy level, Ukraine seems to be more preferable than Belarus. In addition, Ukrainians cannot go to the rest of Europe without visa, so the possibility of losing specialists, because they had moved to the EU, is very low. On the other hand, Norwegians do not need visa to visit Ukraine if they stay there up to 90 days.

Moreover, Telenor, being at the time the major shareholder of EDB (51.3%), had a huge success in Ukraine and, naturally, certain influence in the society, especially through the European Business Association (EBA), where one of the Telenor’s top-managers, Trond Moe, was Vice-President (2007-2008) and President (2008-2010).

After selecting the country, EDB began to look for companies to buy. The choice was made in favour of Infopulse Ukraine and Miratech, which at the time had the 12-year history of delivering services to the Western Europe and the USA. EDB acquired the majority (60.1%) of the companies, and they became part of EDB in September and December, 2007, respectively. The total amount of employees in the two companies is about 1000 persons, and more than 300 of them work specifically on EDB projects (IT operation services and application development for financial services), and about 90% of them are from Infopulse Ukraine. Other employees are

engaged in performing the projects for the external customers. Although the subsidiaries have offices in Kharkiv, Zhytomyr, Odessa, Lugansk, the absolute majority of work is concentrated in Kyiv.

EDB has elaborated three models for Global Sourcing:


- 1) *Embedded Global Sourcing*, which means integration of offshore resources into EDB's production of services (IT operation, solutions, application services). The model is suitable for all customers, and they actually perceive service as a whole, without knowing whether some parts are performed in Norway or Ukraine.
- 2) *Scandinavian Global Sourcing*, which is a combination of Scandinavian project management while using resources from India or Ukraine. The model is suitable for customers with application development or application maintenance needs preferring to buy services from EDB.
- 3) *EDB Pavilion*, which is a dedicated customer team. It is used by IT departments with application development or application maintenance needs where the customer retains a high degree of control.

In turn, there are three service delivery models:

- 1) *Team extension* (offshore team joins the onshore team).
- 2) *Standalone project* (project is run offshore with follow-up from onshore).
- 3) *Smart front end* (offshore services for external customers).

Because of the merger of EDB and ErgoGroup, the name "EEG" is used in the most cases in further description.

4.2.2. Business Environment of EEG in Ukraine

 The company was not very active on the Ukrainian market in the beginning. They provided services to Kyivstar, whose majority was held by Telenor before 2010, but in general the services were sent abroad. According to Pål Halsne Torjus, many Western companies avoid operating on the Ukrainian market because of changeable legislation, corruption, different mentality, etc., preferring to produce solely on export. They also find it much easier to communicate with clients, stating that they are very clean, since they sell nothing domestically. However, EEG has decided to take advantage of the opportunity to succeed on the growing local market, so now the company is very cautious about the Ukrainian business

environment. Managers think that riskiness depends on who their Ukrainian customers would be: it would be difficult for EEG to go far into the public sector, and there are some industries that they would like to avoid. Since EEG has been actively providing services to the Norwegian banking sector, the company thinks there is a big potential with respect to Ukrainian banks. On the other hand, bribes usually take place in more profitable industries than IT, where the margin is about or more 100%, not 10-12%. Finally, in the light of recent legal changes, IT industry is still prioritized by the Ukrainian government.

Thus, in the customer-supplier dimension EEG can be described as an internal customer for Infopulse Ukraine and Miratech. The overwhelming majority of services provided by the Ukrainian companies to EEG are sold in Scandinavia. In addition, Infopulse and Miratech are allowed to deliver services to the external clients in the USA and Western Europe (and, first of all, keep the contacts established before the purchase by EDB), as well as penetrate the local Ukrainian market.

One of the biggest challenges associated with offshoring, according to Pål Halsne Torjus, is the perceived risk of Scandinavian customers. There are clients who do not want to obtain services provided by IT programmers in another country, mainly because they are concerned about information security issues. Another challenge is increasing competition from the side of Western IT companies, who want to use Ukraine as offshoring location, so it causes more intense rivalry for the best IT resources.

“EEG’s main Norwegian competitor on the Ukrainian IT offshoring market is Itera ASA, but it is not a life-and-death struggle. – Pål Halsne Torjus says. – We meet them and share our experience. It is not just about Ukraine, the same happens in Norway: we have IKT-Norge, where we discuss different questions with our competitors. Naturally, one should always remember that such kind of cooperation has to be done with certain prudence”.

Among the clients of Infopulse Ukraine are ADIC (USA), Aerosvit Airlines (Ukraine), Agillic (Denmark), BICS (Belgium), MTS Ukraine, Nexio (Germany), Rabobank (Netherlands) and many other companies from Denmark, France, Germany, the Netherlands, Russia, the USA, Ukraine, etc. In 2010, for example, Infopulse and Revacom, a leading European application services provider, joined in a strategic partnership to manage Windows 7 migrations at a global scale¹⁰. The customers of Miratech include Dakota Imaging (USA), DataBecker (Germany),

¹⁰ <http://www.infopulse.com.ua/>

Generali Garant (Italy), Genesys (USA), Kyivstar (Ukraine), MTS Ukraine, Siemens (Germany), and a number of other companies in the Western Europe, the USA and Ukraine¹¹. Infopulse and Miratech are members of the EBA, IT Ukraine, American Chamber of Commerce in Ukraine.

4.2.3. Management Control Systems in EEG's Offshoring

Planning controls: the parent decides on the children's game



The EEG's strategy is built on the idea to achieve Nordic leadership and includes three steps:

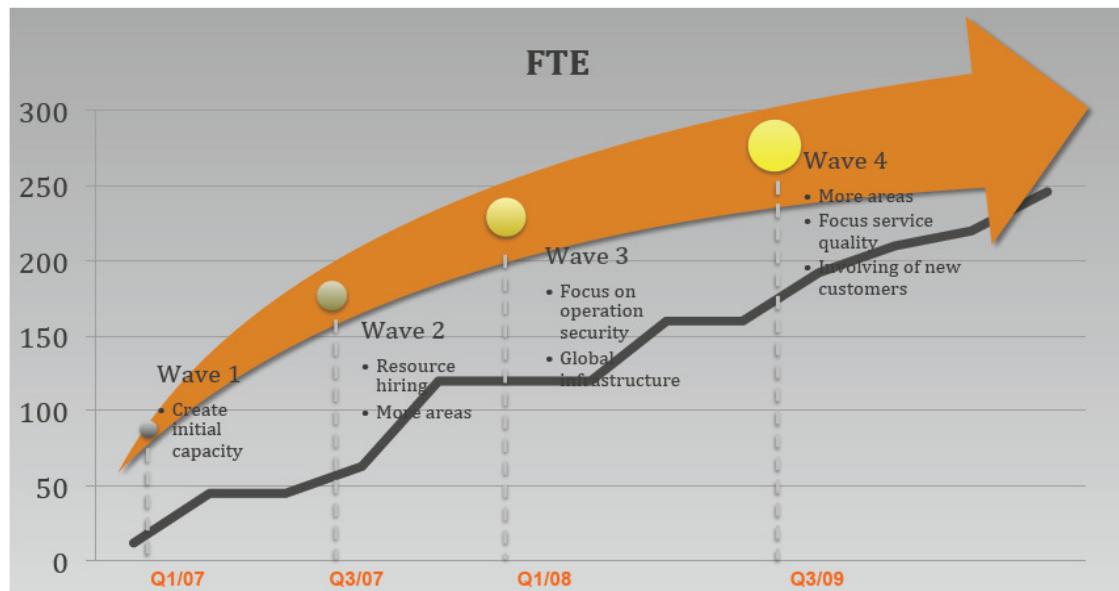
- 1) short term goal is "customers and synergies" (successful integration, realizing synergies, running business, building strong capabilities);
- 2) medium term goal is "accelerate growth" (market leadership trajectory, customer oriented offerings, module based customization, global capabilities);
- 3) long term goal is "clear Nordic leadership" (undisputed Nordic leadership, strong industry solutions, local and global capabilities, proactive in industry consolidation).

Offshoring is one of the key elements in achieving the long term goal of the company. The strategic focus of EEG from offshoring perspective has three directions: 1) offshoring of IT operations, application development, consulting, managing IT services, etc. for EEG and its customers; 2) continuation and development of business towards customers outside EEG in the Western Europe and the USA; 3) active development of local market for ITO services in Ukraine, especially for financial and banking sector.

"We are quite persistent in our strategy. We worked hard to start offshoring, examining alternatives and developing mutually satisfactory working schemes. Meanwhile, we understood that it was important for the Ukrainian companies to continue with deliveries to their previous customers, since with many of them they had already been in long-term relationships. The most difficult part of the strategy is penetrating the local market. Miratech and Infopulse put a lot of efforts into it and now have some reliable customers," - Pål Halsne Torjus comments.

The strategy is realized within several action plans. For example, the current number of employees working on EEG's projects in Ukraine was reached on the basis of so-called "secure evolution approach", which included four waves (Figure 4.1.).

¹¹ <http://www.infopulse.com.ua/>



- **Goal:** ensure technical, communication, and cultural capacity
 - **Goal:** ensure manageability, predictability, transparency
 - **Goal:** achieve cost reduction while increasing technology coverage and delivery capacity

Figure 4. EEG's Secure evolution approach

Source: Akkaraju (2011)

Action plans included several steps. The first was defining in what areas the company could start with offshoring: where customers would accept to have foreign team members, and what operation activities it was possible to divide, so as part of operations could be done in Norway and part in Ukraine. Then it was training period, when Ukrainian team members came to Norway for meetings and job training. The next was gradual return of Ukrainians, group by group, to their home country for performing the same tasks but from Ukraine, while EEG followed up their work through the managing and reporting. The precondition for all of this was relevant IT infrastructure, security norms and measures, the on-site audit and check-up in Ukraine, acceptance of the Ukrainian CEOs and managers. Meanwhile, now the company is in a situation where they have to bring quite a number of Ukrainians to perform the tasks in Norway.

Each year EEG Board of Directors makes decision for the coming twelve months concerning main strategic activities and specific control oriented measures in Global Sourcing. On the EEG executive management meeting the plan for coming six months is established with specifying operational and strategic activities and defining selected control oriented measures. In turn, the subsidiaries' boards of directors, make decisions on their companies' strategy (based on the EEG strategy) and yearly budget.

According to Lyubov Yudenko, HR-director in Infopulse Ukraine, before the merger EDB had a policy to give certain freedom to their subsidiaries in developing strategy on the local markets, while the Scandinavian markets were regarded as EDB's arena with subsidiaries as suppliers and assistants. The planning on-site was autonomous: the top-managers of subsidiaries visited general meetings in Norway, where they received targets and profitability criteria for the subsidiary, and then detailed plans for the subsidiaries were elaborated in Ukraine. In 2011 the policy has changed: the subsidiaries have been invited to participate in development of 3-year plan for whole EEG. The Ukrainian companies have got general guideline, where EEG has stated how they see the future, and now every unit should explain its own vision. Discussions will be mainly held on the level of EEG's offshoring department and the subsidiaries' top-managers. All of this will be sent to EEG, and then they will provide the approved plan.

“In the boards of directors of Infopulse and Miratech there are representatives from EEG and the minority shareholders, who are actually the top-managers of these two companies, so the both sides participate in the strategy development process for the subsidiaries. - Pål Halsne Torjus assures. – However, the Ukrainian side can influence it so long as it is in the line with the EEG's strategy. When it comes to the global ambitions, it is EEG who decides. They will not do something before we say they should or may do it, and will not make any changes without letting us know”.

Cybernetic controls: costs and compliance

Based on all strategic directions and ambitions, the companies establish annual budget with monthly partitioning to define how far they can go in each direction, how much money they are able to earn and how much it will cost them. When EEG provides information about volume of services the parent company is going to buy in the coming year, it becomes the part of the budget revenues for the subsidiaries. The rest is formed by the expected revenues from the external customers in the USA, Western Europe and Ukraine.

The Ukrainian companies have certain limits in costs, and all which concerns budgeting below them, is a local process. However, if there are significant costs, such as moving to another office, it should be discussed with EEG's board. In 2011 for the first time budgeting process was changed towards participative budgeting: earlier it was solely the budgeting committee, who elaborated budget, and now the idea is to gather information from the department directors, while the committee would decide on the general questions. For the revenue part the role of

marketing department is important, since it is responsible for increasing income. The main part of costs is payments to the workers, due to the specifics of the IT industry, so it is HR department's area of responsibility.

“The companies state in annual budgets how much they would be able to invoice to the customers, how much of employees and private entrepreneurs would be required, what the costs are, whether the new office is needed, etc. And all this is decided by both board of directors and managers. – Pål Halsne Torjus explains. – While the companies prepare their budgets, financial staff in EEG keeps hand on this process, so it is controlled very much by EEG. Typically there are three budgets before the final one is approved, and the final budget is unchanged during the year. After a few months it can happen that we are guided more by our forecasts rather than by the budget, or, if the reality changes, we update the target, but the budget stays”.

The performance measurement is mainly the financial one. EEG watches over the subsidiaries in general on the basis of monthly reports prepared according to IFRS. Before the autumn 2010 EEG used Enterprise Reporting soft for reports collecting, consolidation and analyzing, but then it was changed, and now Oracle Hyperion is used. The system produces different kinds of reports and enables their analyzing. The most important indicators are utilization, average price, average cost per hour, number of billable employees, share of non-billable employees, etc. Billable employees incur costs (salary, travel expenses, etc.), which are billed to customers. Non-billable employees include administrative staff and bench (consultants, currently not performing tasks for customers). When Ukrainians come to Norway and they are integrated into a Norwegian team, they get a Norwegian team leader, and followed up by the Norwegian managers. For example, they report hours into the Norwegian time recording system.

However, according to Lyubov Yudenko, the managers in the Ukrainian companies pay attention mainly to the percentage of billable and non-billable employees, and by managing it they influence budget costs. It is explained by the fact that the main activity of the companies is selling of IT resources (i.e. specialists and experts), which in terms of numbers is expressed in man-hours. Man-hour has its cost, or hourly rate, which depends on the level of a specialist. Thus, an increase in the share of non-billable employees causes increase in costs.

“We had a lot of customers before EDB, and we still work with them, and this helps to divide risks in order to avoid increase in the share of non-billable employees. – Lyubov Yudenko says. – There was a time when we had few orders to the crises, so the number of non-billable

increased. We tried to get them involved in internal projects in order not to lose them, but they did not become billable either, remaining in the expenditure part of the budget. Now we almost do not have non-billable employees, moreover, we need new workers, since the number of orders is increasing. We have training budget, so there are consultants who are preparing for the work in the projects. In addition, a lot of new vacancies are open”.

According to Pål Halsne Torjus, the non-financial measures include security checks; customer acceptance, so many Scandinavian clients visit Ukraine to examine quality and conditions of work; and compliance with EEG’s regulations. There is also annual employees’ survey, which is applied to all EEG’s employees in the same set of questions. It is an extensive report, which measures every unit down to the level of the smallest team size (4-5 members). Team inquiry is used to ensure unanimity of the respondents. The results are discussed in all management levels of the whole EEG. In addition, in Ukraine there are person appraisal meetings between managers and employees, which is a short way of setting up the targets and KPI, getting employees’ opinion and stimulating them to improve the results.

Reward and compensation controls: bonus as a stimulus

Depending on the category of workers (whether they are managers or IT consultants, and whether they are employed or are private entrepreneurs), the salaries and contract payments according to EEG price are paid. In addition the system of bonuses is used, which include:

- 1) bonus on project;
- 2) bonus on passing certification or training (for IT consultants);
- 3) bonus on utilization (if utilization rate is about 80-90%);
- 4) bonus on financial objectives (EBITDA, EBITDA margin and budgeted revenue targets);
- 5) bonus on sales volume (mainly for marketing department);
- 6) bonus on participation in the company’s team sports (hockey, football, volleyball);
- 7) bonus on compliance.

The bonus on compliance is one of the most important ones, according to Pål Halsne Torjus. Compliance audit is needed to make sure that the companies follow the local laws, to confirm that all reporting to EEG was correct in the course of year, nobody stole money or paid wages in envelope without paying taxes, and so on. If there are deviations from compliance requirements, managers would be punished financially according to the agreements. Thus, in this respect the control is exercised mainly through rewards based on financial results and compliance.

According to Lyubov Yudenko, the company applies management by objectives (MBO). Managers regularly set quarterly goals for employees, which include not only operational ones, but also personal and professional development. There are also service level agreements, where the level of service and delivery time are formally defined. If a person reaches these personal KPIs or even exceeds them, then he/she gets a bonus. The same MBO principles are used towards newcomer or low-level managers. Top-managers have their own motivation programmes, which are based both on economic performance of the company, and the roles which they play in the staff and their workload. Some departments have their specific bonuses, for example, marketing department gets rewards on basis of sales volume, net income, and so on.

The system of private entrepreneurs influences the rewards system. In fact, a private entrepreneur receives more than an employee with the same job description, since private entrepreneurs' wage brackets are wider than those of employees due to tax saving. Thus, there is correction factor for staff members and private entrepreneurs.

“In Ukraine people, who work with us, earn about seven times more money comparing to the average in the country, so they have far fewer reasons to do inappropriate things and much more reasons to stay happy where they are”, - Pål Halsne Torjus says.

In addition to financial targets, performance appraisal includes customer satisfaction and employee satisfaction¹². The non-financial rewards include providing opportunities to get different IT certificates, attend internal English classes, external and internal trainings on programming and project management. There are various corporate events, such as corporate picnic in summer, company's birthday, New Year celebration. In the career system there are two main directions: a person can develop him/herself as a manager, or go deeper in one of the technical areas to become more qualified specialist. Thus, IT managers, such as database designers, UNIX administrators, developers and testers, have several levels: Junior/ Middle/ Senior, and also there is Principle, but one should be extremely high-specialist to reach it. Simply speaking, Junior is being told how to do, Middle is advised how to do, and Senior advises how to do.

According to Petter Standal, in Ukraine EEG has very few people sitting on bench, and this is very different from India, where they have a lot of people who are not engaged in projects. In

¹² EDB ErgoGroup (2011)

Ukraine EEG tries to keep employees occupied with the tasks, and it is much easier and cheaper to bring consultants to Norway from Ukraine than from India.

In Pål Halsne Torjus's opinion, when the company has thousand people it is possible to do a lot of things. Naturally, it can happen that the whole thousand does not work for the customers simultaneously. Those, who are on bench, receive less salary. It may be situation where a person was engaged in the project that lasted several months or years, but after the project finish there is no tasks to assign. Then another employer can make a job offer to him/her, saying that they have project to start in few days. If the person is used to be active, successful and visible, and wants to earn more money than on bench, it is a risk that he/she would leave the company. Then managers can propose him/her participating in a project coming in one-two months, but in the meantime he/she can be joined to another on-going project, offered some training seminars and classes, or become an advisor for a young project manager.

Administrative controls: "trust, but verify"

Infopulse Ukraine and Miratech are 100% owned by the Swedish companies NUK Holding AB and EXMT Nordic AB, respectively. In turn, EEG has 60.1% ownership in each of the Swedish companies, while the rest belongs to the top managers of the corresponding Ukrainian subsidiary (Figure 5). Thus, the board of each Ukrainian company (which is actually the board of the respective Swedish company) consists of 5 persons: three of them are from EEG side (and they are the same persons for both companies), and two of them are Ukrainian managers-owners of the corresponding Ukrainian company. In the simplified view it means, that EEG owns 60.1% of the Ukrainian companies, while the rest is owned by the Ukrainian managers.

There are several reasons why we decided to own 60.1% of the companies. - Pål Halsne Torjus explains. – First of all, we want to keep the dominant control. According to the Ukrainian legislation, one must own 60%+1 in order to get quorum and thus right to decide. Second, we could just buy services from the companies without having any shares, but we believe in these companies and want to get benefits from their success. On the other hand, we could buy 100%, but it costs more: if it is possible to have the control without paying 100%, then you save some money. And the last, but not least: since the minority shareholders are managers of the companies (and actually their former owners), they have motivation to work better: the value of their 39.9% grows bigger and bigger the more success we have together. Moreover, the price for 60.1% was paid part by part during three years depending on revenues, so they could get more

money for the each next part the better they performed each year. Thus, we get control and elaborate motivation over the years”.

“We had some experience with partnerships in India, but it did not work, because after a while they went directly to the customers themselves. And it caused a lot of problems. So this experience is also one of the main reasons why we wanted to have the majority and control. – Petter Standal adds.

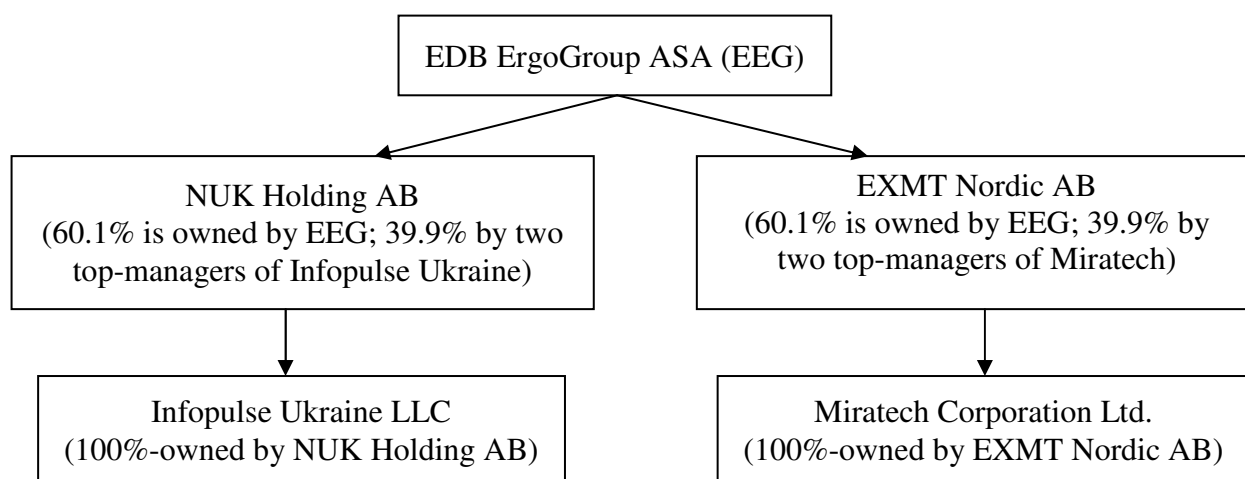


Figure 5. Part of EEG ownership structure concerning offshoring to Ukraine

Source: made by author

The main documents regulating the relationships are share purchase agreement, where it is stated how the price is calculated, shareholder agreement, which is about how owners cooperate and how the money is controlled; and authority matrix, where the rights, obligations and responsibilities are defined. In general, the Ukrainian management has three areas of responsibility: profitability, compliance and growth. Other important documents include master service agreement, the statement of work, code of conduct, policy and guidelines for security and compliance, IT security handbook, standards, HR documents, etc.

According to Lyubov Yudenko, historically prior to EDB’s purchase Infopulse Ukraine and Miratech were competitors. Meanwhile, there was no intense competition for the markets, since Infopulse worked mostly for European companies, and Miratech sold its services to the USA. The hardest competition was always for the best IT specialists. Later, when the number of orders from the Western customers decreased due to the crisis, the companies began to compete on the Ukrainian market, but it did not last for a long time: after the purchase by EDB they began to work on more cooperative basis, even in some of recruiting issues. Before the merger a joint

committee was established, but now policies are being changed, so managers have not decided yet how it will be in future. At the moment Infopulse and Miratech are companies, which are rather independent from each other, and still compete for resources.

However, the strategic question about whether they should be competitors, co-operators or just separate units operating in different segments continuously goes on in the parent company. There are some areas, where they do not compete at all: for example, now each of them has customers in the USA and Europe, which are untouched by the other. At the same time, there are important customers in Ukraine which are served by the both Ukrainian subsidiaries. On the other hand, there are some cases, when the parent company wants to choose the best one in certain activities, and lets them show the best they can.

“This is a classical dilemma: either to coordinate or let the best person win. - Pål Halsne Torjus tells. - After World War II the most successful in industrial development nations were Japan and Germany, which started in the most difficult conditions. The same is in business: sometimes having harder conditions on the one market can develop abilities to succeed on another one. I think, this question will continue to go on, and the degree of cooperation and competition will vary from case to case”.

EEG arranges both joint and separate business meetings with Infopulse Ukraine and Miratech. If there are questions related to work permits, assignments in Norway or administrative issues, then EEG’s managers meet managers from the both Ukrainian subsidiaries simultaneously. The questions concerning relationships between Infopulse or Miratech with one of the current or potential clients, personal issues related to the employees, and other issues, which it is more natural to take with one of the companies, are discussed separately.

In the Ukrainian companies there are two main categories of workers from the legal point of view: employees and private entrepreneurs. The majority of managers and IT consultants (about 85-90%) are private entrepreneurs. Only those people employed, who either have financial liability, or think it is safer to be a staff member, especially if they approach pension age. However, both subsidiaries and the parent company regard all people as their employees, the difference is only in tax reporting.

According to Pål Halsne Torjus, when EDB came and established the private entrepreneurs scheme, it was voluntary, but there were various reactions. Some people chose to move to other

companies, but the overwhelming majority decided to stay in the company, being private entrepreneurs. Meanwhile, some IT programmers expressed willingness to work with EDB, but as employees, and the company accepted it.

Till the second half of 2009 the company offered employees and new applicants to choose between either being employee or private entrepreneur. Now almost all newcomers have been working according to the private entrepreneurs scheme for their previous employers, so for them to be employed practically means to lose in salary. As Lyubov Yudenko tells, almost the whole Ukrainian IT industry works in this way, and the only alternatives, where IT consultant can get the same level of salary as private entrepreneur, are either big companies with IT as a non-core activity, such as banks, but they need only 5-10 people for their IT departments, or really small (not more than 50 employees in Ukraine) IT branches of foreign IT companies.

However, according to Petter Standal, some of Scandinavian customers do not want to have people in Ukraine, but in Norway, until they are sure that security is in place. Before 2011 the company could bring private entrepreneurs to Norway without changing their status, but the Norwegian Directorate of Immigration (UDI) requested these people to be employed in order to receive the work permit, and EEG had a long process of sorting things out. So now, when EEG brings Ukrainian private entrepreneurs to Norway, they change their status to employees, and then they are switched back to private entrepreneurs, when they return to Ukraine.

Private entrepreneurs, being categorized as a small business, have to provide reports to the local authorities. To save their workers from accounting issues, the companies offer service of making reports for them: it is included in starting bonus package for an IT consultant in Infopulse and Miratech, as in any other Ukrainian IT company. Meanwhile, some private entrepreneurs prefer to make reports by themselves or hire an external accountant. In the bonus package a certain compensation for the external accountant can be provided, and beyond this sum worker should pay by himself/herself. For those who are from other cities the reports to local authorities can be sent by mail or relatives can make reports by power of attorney, etc. However, when Ukrainian IT consultants go to work in Norway, it is EEG who makes all reports for them, since the reports are in Norwegian and have requirements different from the Ukrainian ones.

Apart from Ukrainian IT programmers who work in Norway (about 80-90 at the time), there are managerial visits for board- and other kinds of meetings. Approximately every second month some of Norwegian managers go to Ukraine, and Ukrainian managers come to the parent

company every quarter. Chief accountants from Ukraine visit Norway once per year for training, as well as someone from Norwegian accounting department goes to Ukraine at times. The training is intended mainly for two things: to ensure that there is general understanding of IFRS, and provide technical instructions on using the reporting systems.

The top-management team of each subsidiary consists of about 10 persons, including CEO, CFO, and top-managers on services delivery, engineering, business development, quality, human resources and information technologies. Outside the Ukrainian subsidiaries there was country representative, who was responsible for the constant monitoring of the Ukrainian subsidiaries for the parent company during 2007-2010.

“The role of country representative is to observe and support both companies on in the name of the parent company, which is both the owner and biggest customer. – Pål Halsne Torjus explains. – This position existed from 2007 and till the end of 2010, i.e. from the beginning there was always someone from Norway. Both me and the person who was country representative before me had access to all levels and all people in these companies, we had meetings with top manager every week, where we discussed everything. I think, in any case, whether it is Ukraine, Norway or any other country, we have to remember that what we do is business. However, as we get used to each other, it becomes clearer what the expectations are, and the change for having understanding is less and less. Now due to the merger many policies and procedures are revised and not approved yet, so we have not decided about how it will be in future. There is nobody on the position right now. We also spent four years working together, so I think, the need for country representative is less now than it was earlier, especially taking into account that there are continual visits from each side”.

The monthly reports are produced by the Oracle Hyperion, and the accounting information goes to EEG’s financial department with a copy to the country representative. All EEG subsidiaries have the same system of reporting across the countries, which makes reports completely comparable. The monthly reports are quite extensive, and the part of them says what is expected to be in the next few months. So the country representative watched that the companies were “on the right track”.

In addition, there is EEG’s intranet, which is accessible for all Ukrainians, who work for EEG, and the company has a policy of putting more and more information in English. Occasionally, the EEG’s information department prepares special reports on certain issues, which concern all

employees, regardless whether they work for EEG or not. This kind of information is put by Infopulse Ukraine and Miratech into their own intranets.

Although Pål Halsne Torjus himself has financial skills and 10 years of experience as a controller, it was not possible for him to check documents directly, since the absolute majority of documents were in Ukrainian and Russian. That is why the parent company have hired also a skilled accountant, who is not employed by the Ukrainian subsidiaries, but works in their financial departments as an auditor. This internal auditor controls the companies in how they follow the local regulations, looks through every contract, invoice and report, and converts necessary documents into IFRS.

The external auditor for EEG is Ernst & Young, which examines the financial close of all companies in the group. Infopulse Ukraine and Miratech are audited by Ernst & Young – Ukraine that performs tasks on behalf of Ernst & Young – Norway. In some cases other auditors can be invited, for example, to check invoices from the Ukrainian subsidiaries to Norway or payments to the Ukrainians working in Norway.

“We had a lot of discussions about how to conform with the two legislations: we had to adapt to the Ukrainian laws, and they had to adapt to the Norwegian ones. – Petter Standal tells. – When we have Ukrainians working as employees in Norway, we have to follow the both legislations. Eventually we have decided that in order to stand audit from both the Norwegian and Ukrainian sides, we must have the best from the each of the laws. For example, for employees the regulations on overtime payment are better in Ukraine than minimum requirements in Norway”.

Cultural controls: making people happy

The parent company and its Ukrainian subsidiaries do not have vision, mission, values and slogan stated in the same way (Table 4.1.). However, as Petter Standal notes, Infopulse Ukraine and Miratech adapt their overall statements to the parent company’s ones, i.e. “translate” them.

Table 4.1. Vision, mission and values of EDB, EDB ErgoGroup, Infopulse and Miratech

	EDB	EDB ErgoGroup	Infopulse Ukraine	Miratech
Vision	The best partner for creating lasting value from information technology for Nordic customers around the world.	To be the best partner for Nordic businesses and organisations that want to gain lasting value from information technology.	To improve the satisfaction of our customers by providing high quality software products and services	To deliver high tech services of exceptional quality for organizations around the globe.
Mission	We unlock substantial value through in-depth technology expertise and industry knowledge. Our wide range of IT services is dedicated to matching business needs with technology opportunities.	To be an attentive, strongly resourced and inspiring partner for its customers, with enthusiastic employees who show team spirit and respect, and support each other in working towards shared objectives.	We create real values using our knowledge and wide experience in information technology. We use an innovative approach for the implementation of projects, and we are constantly developing and acquiring new knowledge. Long experience in software development, a good reputation, professionalism and the efficiency of IT professionals are the foundations for long-term relationships with our customers.	Miratech accomplishes this by attracting, retaining, and supporting the most talented engineers, business professionals, sales, marketing and support staff through creating a superior professional environment. Miratech offers exceptional quality in its services and always puts customers first, striving to exceed expectations at all times. People are seen as Miratech's key advantage and Miratech demonstrates this through its actions daily. Miratech strives for the most competitive solutions and the highest levels of expertise and performance in the world. Miratech earns the trust of its customers through excellence, reliability, dependability and empathy.
Values	Resourceful, inspiring and attentive; team spirit and enthusiasm.	local presence, cultural understanding, market leading technology and industry-specific expertise	Sensitivity to the needs of customers, provisioning software and solutions of the highest quality, continuous improvement and competitiveness. The most valuable source of the company is its staff is the most valuable source.	Quality of service People are the topmost asset Excellence, reliability, dependability and empathy
Credo	More from IT	Creating a New IT Experience	Excellence in outsourcing	Double Your Competitive Strength!

Source: made by author based on <http://www.edb.com>; EDB ErgoGroup (2011); <http://www.infopulse.com.ua>; <http://www.miratechgroup.com>

“We are familiar with the vision, mission and values of EDB, and try to be in line with them, but we have our own ones, which we have acquired and developed before, during 12 years of work. – Lyubov Yudenko comments. – These statements influence our approaches to work, PR, sales. We say that we provide IT services of high-quality, but we always add that the most valuable resource for us is our people. They are our income generators and the biggest item of expenditures. That is why we have all these motivation programmes, and the most part of policies and procedures are connected with employees: it is extremely important for us to keep the personnel”.

The code of conduct is completely the same for all EEG’s companies. Prior to the merger, EDB had implemented an e-learning program called “Reputation” which was intended to ensure awareness of and compliance with the company’s ethical guidelines. It included special cases and applications with videos, pictures and explanations, showing how to apply the code of conduct and do right in real-life situations. All employees of EDB have completed this program and signed a declaration to confirm that they will comply with the company’s guidelines¹³. Meanwhile, as Pål Halsne Torjus estimates, there is more training on the code of conduct for the Ukrainian employees than for the Norwegian ones.

“The code of conduct is essential for us: I even carry it with me all the time, – Pål Halsne Torjus confesses. – It covers a broad set of ethical issues and constitutes the basis upon which all our policies and procedures are built”.

In this process the country representative plays a significant role. As Pål Halsne Torjus mentions, a part of his tasks is to communicate with as many people as it is possible to make sure that everybody understands EEG’s attitude, regulations and policies. Also it is important to show employees that the country representative is a person whom they can talk to in the case of their own problems or give information about problems with other people. However, they should feel free to do it on their own accord: direct worming out information about other people would cause quick loss of trust and destruction of integrity.

According to Lyubov Yudenko, the recruiting is performed by the internal recruitment team and the process is quite long and complex. It includes three stages:

- 1) profile creation and pre-selection (making description of a vacancy and requirements, announcement, getting CVs, examination and discussion with client if necessary);

¹³ EDB ErgoGroup (2010); the interview with Lyubov Yudenko

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- 2) selection (working with the database, which has been forming for 12 years, in the case of difficult vacancies external recruiting agencies can be used; in the end the certain CVs pool for the profile is formed);
 - 3) interviewing (firstly, by phone, to check if person is morally ready, secondly, on-site by HR managers: to examine personal qualities, and to ensure whether the person will fit into the company's system of values and ethics; thirdly, technicians evaluate the technical skills).

“The personal qualities assessment is the most important element in recruiting: the company cannot afford risk of having people who do not fit into the corporate value system. – Lyubov Yudenko comments. – If the person had conflicting views or unsuitable personal characteristics, in the most cases HR managers do not even send him/her further for the technical skills evaluation. If there are little deviations from personal qualities requirements, HR gives technicians an opportunity to decide whether they want to accept such risk”.

According to Pål Halsne Torjus, the major targets in recruiting are competence, personal adaptability and adequacy, security and productivity. To secure recruiting policy and avoid people inclined to bribes and kickbacks, EEG keeps professional recruiting teams in the subsidiaries, who report to the HR department of EEG. If it is recruitment for EEG, then applicants meet a Norwegian manager in the last interview.

“Our companies do not sell goods, they sell their people. Customers of IT services firstly look at the people, how they operate and whether they are satisfied with the management. So, if you want to succeed on the international market by selling people's services, you need to treat them in a way to keep them happy. All what we do, design and develop – ownership structure, motivation programmes, plans, trainings, meetings, activities – is aimed to ensure that everybody feels that he/she benefits from working together, that everybody is motivated by the same targets and values, that everyone feels happy. Thus, we have to behave so that the best IT consultants were eager to come to us. We want to be a preferred employer; otherwise it is not possible to be a player in this game”. – Pål Halsne Torjus asserts.

In Ukrainian companies there are different informal interest groups, especially in sports. There are hockey, football and volleyball teams, many employees like hiking and climbing, and all this is sponsored by EEG, which has introduced bonuses for participation in sports. The people, who have specific IT interests, form off-the-job professional groups: they take special trainings

voluntarily, and the company covers the costs. It has positive effects on both professional development and PR. Recently Infopulse Ukraine has registered a labour union. There is no elaborated structure and working plan of it, they still need to be agreed, but the Norwegian side recognized it.

As Lyubov Yudenko notices, there are many married couples, who met in the company for the first time and then decided to take the vows. Interestingly, they are usually from different teams or departments, but it is logical, since otherwise they would be 24 hours with the spouse, and it is quite hard. Sometimes in the process of recruiting managers listen to recommendations from friends or family members of applicant. The company has also group in LinkedIn, where employees can discuss various things.

The purchase of the Ukrainian companies by EDB entailed many changes in them. EDB had already been a big company registered on the stock exchange, so the subsidiaries started to make a lot of international reports in addition to the Ukrainian ones. They got business reviews, i.e. the Ukrainian top-managers started to report on activities and performance to the parent company. However, it was not hard to deal with such kind of formalized policies and procedures. The main complications, in Lyubov Yudenko's opinion, were related to the cultural dimension. In the very beginning EDB worked with the subsidiaries mainly as a customer, and many of Ukrainian workers were not acquainted with the corporate ethics, strategies, etc., they just knew the name of the parent company, and that was all. Meanwhile, EDB started the transition, which was smooth and gradual, at least before 2011. On Ukrainian managers' opinion, it was very convenient way, much easier than if the system was changed at once. EDB initiated best practice sharing, seminars and conferences for managers, two-way visits, trainings and so on. For example, the parent company elaborated special trainings of cultural differences, where both Norwegian and Ukrainian managers could familiarize themselves with peculiarities of each of the cultures. Many things were in common from the beginning, as it is in many companies working in the same industry and on international markets: for example, HR processes are essentially the same, though it can be differences in technical details.

“In the most cases EDB’s instructions were in form of recommendations, and if we thought something was not appropriate and we were able to substantiate our view, than we were not forced to do it. - Lyubov Yudenko comments. - On the other hand, we understood that EDB was much more experienced, being on the market for almost 60 years, five times longer than we were. I has been working in Infopulse’s HR department for 7 years, which is quite long period,

especially in terms of Infopulse's history, but in EDB's HR department there are persons who have been working there for 20-25 years, so we definitely consider their advises".

However, there are some peculiarities, which the Norwegian top-managers also take into account. For example, Norwegians regard as a specialist a person with at least 5 years of experience, who is already about 30 years old or older. In Ukraine IT specialists are young, many of them are in the age of 22-23, they come just after universities, being educated on the new technologies, and want fast career growth. Now the parent company accepts the Ukrainian approach, but gradually they show Ukrainians and explain that for many projects it is not enough to be just ambitious and competent in new IT technologies, it is very important to have experience in order to not get lost. By attending all these visits, working trips, seminars and trainings young Ukrainians understand more and more that experience comes not from books, and little by little get used to the Norwegian approach.

"Now we are so familiar with the company's procedures that we can notice little shortcomings in the routine and suggest the solution. - Lyubov Yudenko tells. - We want to be more integrated into the parent company, to have more influence on the processes which are going on there, to be able to change things in EEG itself, so that it would not be solely EEG who can make changes towards us. We want to show that we are managers too, and we are worth our salt. However, we understand that due to the changes with regard to the merger EEG has a lot of other issues to settle, so we scale back our ambitions".

4.3. Itera: “Dream it. Plan it. Do it.”

4.3.1. Overview of Itera

Itera ASA is Scandinavian group of consultancy companies that designs, builds and manages innovative digital solutions and services. Founded in 1999, Itera consists of about 370 employees across offices in Oslo (headquarters), Stavanger, Stockholm, Copenhagen and Kiev. The company is listed on the Oslo Stock Exchange. In total, Itera consists of about 400 employees working in offices in Norway, Sweden, Denmark and Ukraine. The company is owned by a great number of minor and small shareholders. The largest investors are Arne Mjøs Invest (18.42%), DnB NOR SMB VPF (3.6%), Olav Werner Pedersen (3.5%), Delphi (3.4.%), Eikestad AS (3.2.%). Operating revenue is about NOK 384 million (2010). Though the joint-stock company consists of 9 companies, Itera brand in general structure looks as it is presented on the Figure 6. The development of IT solutions is executed within several companies in Itera Consulting section.

The history of Itera Consulting began in Norway where many knew Itera Consulting as Objectware, one of the IT sector’s most dynamic brands within flexible application development. Objectware was started in 1995 and became a part of Itera group in 2000. In the same year the company entered Sweden and Denmark through the acquisition of local companies¹⁴.



Figure 6. Brand of Itera ASA

Source: Itera ASA

¹⁴<http://www.itera.no>

According to the annual reports, the company had been growing stably in terms of revenues, EBITDA, EBIT, employees, EBITDA-margin, EBIT-margin, bank deposits and cash flow until 2007. The company's development slightly slowed down in 2007-2008 due to the global economic crisis, and some of these key indicators (EBITDA, EBIT, EBITDA-margin, EBIT-margin, bank deposits, and cash flow) began to drop¹⁵. The Itera's top-management started to seek ways of reducing costs and increasing efficiency.

According to Arne Mjøs, Itera's CEO, the board of the company decided to outsource just when the first signs of the turndown had appeared. Since resources in the Nordics are limited and very expensive, managers were examining many alternative locations where they could establish facilities outside Scandinavia. Arne Mjøs visited several countries, including India, Sri-Lanka, Poland, Hungary, Romania, Bulgaria, Russia, but eventually the board had decided in favour of Ukraine, which he visited 5 times before the final decision.

However, Itera's actions in selecting and entering Ukraine were not based only on the managers' visits, observations and perceptions, but were significantly influenced by contacts and advices of other companies, which had already been working in the country.

"Network is the most important thing for us, because the access to information in Ukraine is much harder. We would not able to collect and process all information needed: it is not so structured and available as we have accustomed. That is why we used our network, asking Telenor and other companies to get information and thus reduce the risks. We needed to start in the trusted chain of relations", - Arne Mjøs explains.

In September, 2008 the management team with over 10-years experience from leading organisations within offshoring was composed to work in the Ukrainian company, named Itera Consulting Ukraine. The business was headed by VP Global Sourcing Igor Mendzebrovski, formerly one of the founders of Softserve, a leading offshoring operation in Eastern Europe¹⁶.

"I think Itera's top-managers acted very wisely, when they decided to start offshoring on the wave of success, not waiting the being unprofitable. – Igor Mendzebrovski expresses his opinion. – Certainly, the crisis affected them, but they were still earning high enough revenues and had many resources. It can be compared to the situation with the tree sawing. After a while the saw

¹⁵ Itera (2010a); Itera (2009a)

¹⁶ <http://www.itera.no>

usually becomes blunt. Then it is important to stop, take a grindstone and sharpen the saw. Many companies continue to saw by the blunt saws, but can not stop, because they think they would not fulfil plans if they do. Itera choose the right way: they stopped, while redeploying resources, and then went on making up leeway with the new cheap and efficient facilities”.

Managers in Itera call the way of offshoring they use, “Seamless Nearshoring”, and it is implemented across the Group with several projects running as billable hours. The focus is on sourcing for value with small teams of premium resources to be differentiated from sourcing for volume with large teams of high spread in the resource pyramid¹⁷.

The projects can be performed on the customer’s site, in Itera’s facilities and via the development centre in Ukraine. The concept of seamless nearshoring is implemented via several patterns:

- 1) *Direct model* is intended to decrease communication and management overheads. According to this model the team in Ukraine cooperates directly with project participants from the client’s side.
- 2) *Hybrid Nearshore Model* combines Itera’s facilities onshore (sales, legal and financial processes, client relations are handled locally) and offshore (development, software configuration, deployment are performed in Ukraine).
- 3) *Client Own Team Model* is used when Itera helps the customer to establish and run the captive office in Ukraine. The cooperation is based on the Service Level Agreement principles.


There are also different models of project implementation, depending on the degree of control from the client’s side:

- 1) *Team extension*: client gets the pool of developers and quality assurance engineers and manages them directly. All leading roles (project manager, architect, team leader etc.) are located on the customer’s side.
- 2) *Task outsourcing*: client gets a team with team leader. Client is involved into the team coordination and directly manages a team leader which manages the outsourced team.

¹⁷ Itera (2009b)

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- 3) *Project outsourcing*: a full responsibility of the project is delegated by customer to the project manager. Client gets the full-functioned project team which is dedicated to the project.
 - 4) *Application outsourcing*: client creates the wish-list for the application functionality. All of project activities are delegated to the outsourcing project team. The product owner role is partially outsourced.

4.3.2. Business Environment of Itera in Ukraine

 Itera is not influenced by the external Ukrainian business environment in the same scale as the companies, which operate on the Ukrainian market or in the other industries. According to Arne Mjøs, though the political situation in Ukraine has been rather unstable for several years, Itera is not very much affected by political perturbations, because the company does not operate in the Ukrainian domestic market, being export-oriented firm. The main problems that can happen are related to the changes in legislation, but in this case managers can use Itera's networks to get help.

However, there are some national and cultural peculiarities which are taken into consideration by Itera, such as domination of cash in financial system, bureaucracy and a lot of paper work, weak system of intellectual property rights protection.

Today Itera provides a service portfolio based on flexible methods and has clients from the Western Europe and the USA. Among the examples of services performed using Ukrainian offshore facilities are development, enhancement and maintenance of FINN.no portal, Bluegarden Service Bus, shipping portals for Lorentzen & Stemoco, Fearnleys, etc¹⁸. The delivery model is mostly based on a hybrid model, with combination of Norwegian and Ukrainian resources. All these customers have in common that they are innovation-driven, and are demanding more capacity of high quality for less money¹⁹.

The customers are located outside Ukraine, and the only suppliers Itera depends on are its own workers due to the specifics of IT-programming. The company does not concern about Ukrainian domestic competition, and the main competitors of Itera are IT companies in the Scandinavian market and IT companies that also outsource their processes to Ukraine. The latter include those

¹⁸ <http://www.itera.no>

¹⁹ Itera (2010d)


from Scandinavia, the rest of Europe and the USA. The Scandinavian IT companies prefer to collaborate.

Arne Mjøs explains: *“On the one hand, the growth in number of competitors entails many problems, but, on the other hand, we are not the biggest player or monopolist, and we would never be. That is why I prefer to get benefits from sharing the knowledge than merely fight with others. We discuss a lot of practical things with EEG, which is actually our main rival in the competition for both Scandinavian customers and Ukrainian resources. If I do not have complete picture of the country’s risks, the danger can be much more serious than the risk of sharing knowledge and experience with the competitors. If you are CEO, you do not share much knowledge with the external people or even with subordinates, but when you talk to those who are at the same level (i.e. CEO in other companies), you can get some interesting knowledge. You should not, of course, trust the all information you get, but 80% of it is quite reliable, because they have more or less the same pattern that we have ourselves. I also have to tell them about my experience, but it is understandable: if I do not, how can I expect that someone will share knowledge with me, the knowledge that we need so much?”*

Itera is a part of Ukrainian Hi-Tech Initiative (Central and Eastern European Outsourcing Association), IT Ukraine, EBA, IKT Norway, Norwegian-Ukrainian Chamber of Commerce and other professional communities.

4.3.3. Management Control Systems in Itera’s Offshoring

Planning controls: continuous up-down exchange

 The planning process for Itera Consulting Ukraine has two-level dimension: the top-management in Norway sets goals, and the Ukrainian division makes plans so as to outline their contribution to the goals achievement. Then the plans are discussed with the top-managers, who examine and give comments, and then return the plans for improvements. The revised plans are sent up again, corrected, sent back, so this process can have several iterations.

There are three layers of planning in the terms of time period. The long-term goals are very general and describe what the owners of capital want to achieve in 10-15 years. The medium-term plans (3-5 years) include what can be formulated and laid down to the paper to be followed

by the employees. The short-term plans contain numerical expressions of set goals and detailed instructions.

Being a wholly-owned part of Itera ASA, Itera Consulting Ukraine shares the same strategy as the headquarters. For example, one of the medium-term goals of the whole group is to become one billion company and always be one of the most profitable players²⁰. As the head of the Ukrainian division, Igor Mendzebrovski evaluates his capabilities and resources, looks through the intermediate results and suggests his contribution to the sum. If the Norwegian side agrees upon it, the Ukrainians start to lay out the specific details, making plan with respect to the years, months, etc.

“And if the part of “what I should do” is quite easy, the part of “how I should do it” requires much more efforts.” – Igor Mendzebrovski admits.

However, Itera is not very stuck to the plans and even revises its strategic focus in accordance with changes in market conditions. *“Change is a basis for existence. We exist due to change - and for change”*, as Arne Mjøs says. Before 2010 the group was rather a disordered, loosely connected mix of several companies than a single brand, and provided fragmented services to mainly small and medium-sized clients. Then the strategic focus was changed towards creating the united brand with life-cycle delivery chain focused on long-term relationships with the large customers and seamless cross-business sales and deliveries amongst group companies²¹.

“Strategy is a creation of several people, but people should gather again and again to review it, to check if everything is ok, or something goes wrong. - Igor Mendzebrovski tells. - It can go wrong because of incorrect plan, or changed situation, or blunder of some people. That is why it is important to be able to cast away the old points, if they have become wrong, and produce the new ones. It is almost starting from scratch over and over again. In special mission units there is a rule: if they see that there are big deviations from the initial plan, they should take that plan, tear it to pieces, destroy it completely, and develop the new one. This is Itera’s strategic management too, which depends on the observation of what actually happens on the market”.

²⁰ Itera (2010a)

²¹ Itera (2010b, c, d, e); Itera (2011)

Cybernetic controls: managing the bench

Depending on the short-term plan (expected contribution and costs) Itera Consulting Ukraine receives budget approved by the headquarters. The numbers are divided half-yearly and quarterly, but there is no monthly partitioning for the year, which was approved from the above.

The monthly budgets are made virtually in real-time. Naturally, the Ukrainian division tries to follow certain rules in designing monthly budgets, but if they need to increase some item of expenses, Igor Mendzebrovski sends a note. Every month director of each Ukrainian department presents to the Ukrainian CEO planned costs and revenues for the next month. When the next month comes, Itera Consulting Ukraine bills the headquarters, which covers their costs (operating expenses, personnel expenses, and some one-time expenses are provided separately). If something happens outside these bills in the month, there is a special little reserve. Thereby, the yearly budget fills gradually with numbers, and it must be explained if something goes wrong. Financial director monitors if there are any substantial divergences. In the case of regular deviation managers can consider changing some costs or the budget.

“It is important to understand that the present financial indices are related to the past period, i.e. they are result of my managerial decisions in the past. – Igor Mendzebrovski says. – Since indices are consequence, to manage the cause by influencing the consequence is illogical. Therefore, we prefer to have flexible enough budget”.

In evaluating the performance financial measures are primarily used. As Arne Mjøs tells, the headquarters assess the situation in Itera Consulting Ukraine on the basis of monthly report, which includes profit and loss statement, actual revenues and costs versus budget, capacity report, forecast, graphs, balance sheet, allocations, investments, cash flow, etc. All companies in Itera use the same ERP Maconomy system, making all financial reporting, accounting and time registration across the shores fully integrated.

Meanwhile, Igor Mendzebrovski admits that while standard report according to the Norwegian requirements generated by ERP Maconomy helps in making comparison across the companies in the group, the data there are not useful for the first-hand managing.

“There is no need in the whole information we use for making reports. Many numbers are there only because the states require them. I prefer to use in analysis my own Excel tables of operation

results, where I apply direct costs approach. - Igor Mendzebrovski explains. - The main parameters are revenue, number of billable personnel and non-billable personnel (especially bench), and their cost per hour. They are my operational variables. By slightly changing the requirements and conditions of hiring, cutting benefits or changing the salary level I can decrease production costs for certain percentage. I do not include management overhead costs, rent and other indirect costs, because I cannot influence the total cost per hour in the short-term perspective. I need certain organizational structure, management team to work with clients and teams of workers, and replacement of a key person requires several months and coordinating with my chief, so such kind of costs are my constant with regard to short- and medium-term evaluation, but they can be changed in the long-term period. They are strategic variables”.

According to Igor Mendzebrovski, the number of people on the bench is one of the most important factors in Itera Consulting Ukraine. If there are too many of them, the costs increase, but if they are absent, the contract with the client can be lost, because the customer would not want to wait until some of the workers finish another ongoing project.

“When we were smaller and had only 10-20 workers, it was a serious problem: even 3-5 persons on the bench were too big share. - VP Global Sourcing goes on. - It is little bit easier now, when we have 50 workers, but still quite expensive. So there is dilemma: either I get something now by improving my financial results or I will lose competitive advantage in the conversation with clients. Since I want to have both efficiency and flexibility, I have discussed with the human resources department the possibility to move bench out of the company so as to have the bench free of charge. I have talked to available people from other companies and they have agreed that they will start to work in Itera immediately when a project pops up. Thus I use the bench of the other companies, transferring the costs to them”.

Among non-financial measures there are capacity utilization, quality tests, employees’ turnover, and anonymous employee’s satisfaction survey (twice per year).

Reward and compensation controls: pushing to the limit

The main compensation is salary plus some motivation bonuses. It applies to both top-managers in Ukraine from the headquarters’ side and to Ukrainian employees from the side of the Ukrainian administration. However, the latter depends on the employee category (either it is administrative staff or programmers).

“It makes sense to pay something like performance bonus to the administration, but not to a programmer. This kind of bonuses is aimed at having bigger project turnover, but the programmers can not influence that. – Igor Mendzebrovski says. – That is why we motivate them by other money: we do not tie the bonus to the project’s profitability. It is destructive approach for the company to say that we pay person because he/she performs tasks better or worse. It is better to fire person if he/she has poor performance. The person, who says that he could work better if he was paid better, is not our employee. I require from all my employees that they pushed themselves to the limit at first, and then we make a decision either to reward them for that or not”.

There are no beforehand agreements on bonuses, employees do not expect that, but if they do something which is not required from them or assigned to them, by going further, then the managers make one-time reward, which can be money or a prize. Itera also tries to reward the whole teams by drawing a check, or pay for trip or event for them.

Decisions about rewards are within competencies of the management board in Ukraine. There is no need to submit such decisions for approval to Oslo, because the Ukrainian division has own part of budget, which is spent on employees motivation, increasing the loyalty and decreasing the personnel turnover.

Concerning non-financial rewards, Igor Mendzebrovski tells that if a programmer creates or produces some innovations, the managers reward him/her by raising his/her status, not by simple increasing the salary, but by creating a special ideological place for him/her in the company. The managers encourage this person to participate in IT conferences, seminars, and courses, i.e. assist in getting new knowledge, giving the things that can make him/her even better. From the career management point of view the person can be promoted by being appointed as a tech lead, senior developer, team lead, architect, project manager. Sometimes funny competitions and nominations are held. There are also English and Norwegian courses for employees and different corporate events, such as birthday parties and New Year celebration. The headquarters uses almost the same approach towards the Ukrainian top-managers: different conferences, business and pleasure trips, celebrations, and so on.

Administrative controls: tax saving and struggle for trust

The Ukrainian division consists of two entities: Itera Consulting Ukraine LLC, which is 100% owned by Itera Offshoring Services AS, and the representative office (Figure 7). The reason is use of benefits from different legal positions of the entities. The flexible manoeuvring between them by deciding where to assign office rent and other fixed costs, where to have employees, or which activity to book secures against legislation changes and gives certain tax and cost saving. Both structures have the same director and situated in the same building.

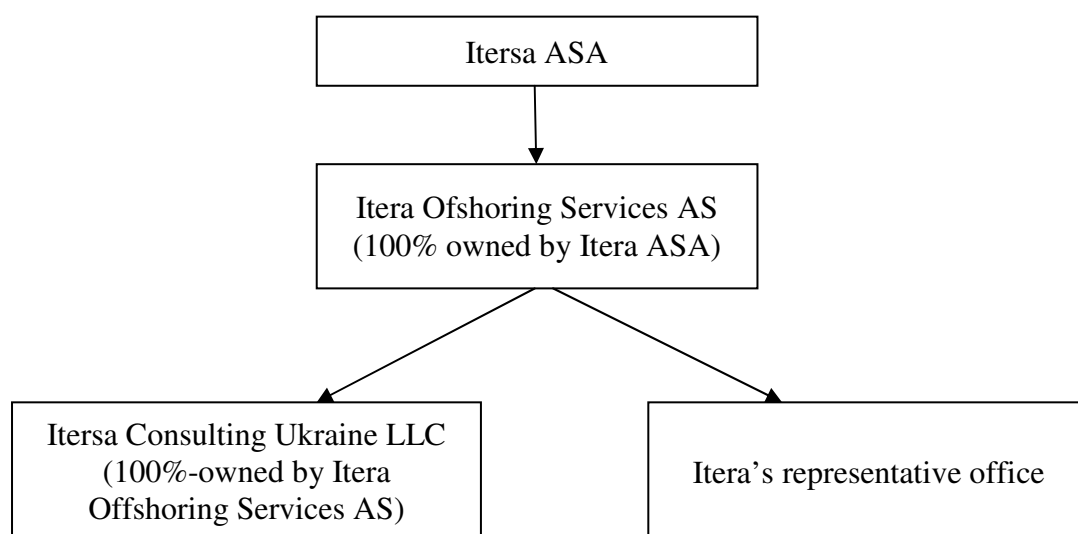


Figure 7. Part of Itera ownership structure concerning offshoring to Ukraine

Source: made by author

Itera Consulting Ukraine is responsible for execution of projects and result, while all contracts are signed in Scandinavia. The idea is to create the unified homogeneous internal structure, so as a client could contact any office to get qualified explanation and support, and further project could be done by any other division inside Itera.

In April, 2011, circa 50 persons worked in Itera Consulting Ukraine. About 10 of them were employees (mainly administrative staff), while others were private entrepreneurs in terms of Ukrainian legislation, though managers regard them as employees. The company admits 1-2 IT-programmers each week, and the aim is to increase the number of private entrepreneurs working for the company up to 200-400 during 2013-2015.

According to Arne Mjøs, since the Ukrainian management system in general is different from the Scandinavian one and has a very formal structure, in Itera they prefer to work with Norwegian

managers having Ukrainians as workers. However, for the Ukrainian division it was important to form a dedicated team of Ukrainian managers accustomed to the Western management style, who would be able to operate equally good in both Ukrainian business environment and with Scandinavian managers and clients.

“We decided to create a flat organization and choose the liberal management style, – the CEO says. – But in Ukraine there is still the much wider spread between salaries of top management and employees (10-20 times) than in Norway (2-3 times), and this naturally entails certain restrictions. On the other hand, the salary of the tops in Ukraine is much lower than tops in Norway. At the same time our managers in Ukraine are quite ambitious: they want to deliver more, to show the value they produce, to be in the board. They hate to sit silent and just work for the salary. Employees want to have challenging tasks, and many want to have a very fast career path. In this sense they are very aggressive, asking for more and more work, especially young people”.

Itera Consulting Ukraine’s management team consists of 8 people (VP of Global Outsourcing, Delivery Director, Quality Assurance Director, Service Operations Director, Sales Director, Chief Accountant, Accountant, and HR Manager): all are Ukrainians, who have previous work experience in big Western-oriented companies. The main unit of organizing private employees is a team with the usual size of 5-10 persons.

“Every person in our company has certain management space. - Igor Mendzebrovski explains. – It is actually his/her rights, duties and responsibilities. So for me there are some things, which I coordinate with my chief (i.e. Arne Mjøs), there are some things, which I respect because they have come from the above, and there are some things, functioning of which my chief thinks I have to ensure independently in some limits. For example, operational variables and other short-term factors are in my management space, while strategic variables and long-term factors are in the management space of my chief. I have my personal approach to work, shaped by my education and experience. If there were another person on my place, many things would be different. And if someone were trying to break me, I would bungle a job. So as long as my approach is acceptable by shareholders, we get synergy”.

ERP Maconomy is largely used not only in financial reporting, but in the whole information exchange in the company. Managers and employees can find there almost all things needed: descriptions, documents, corporate policy regulations, security proofs, standards, plans, new and

ongoing projects, bills, travel receipts, personnel arrangements, schedule of visits, suggestions, employee survey, corporate events, lunch orders, etc.

“In the beginning we sent reports as explanatory notes documenting every step with the hope to show Norwegian financial department, controllers and auditors the quality of our work, help them in finding all answers, and provide them numbers for their reports. – Igor Mendzebrovski tells. – In 2010-2011 we initiated changes in procedures in financial reporting. We want to achieve more and more influence from Ukraine to the processes and decisions that happen in Scandinavia, to become more independent in contacts with clients. From 2011 we put all numbers into the system by ourselves. Now we are on the threshold to solely lead one of the Norwegian companies. It means we have reached the new level of trust”.

In addition to the constant electronic information exchange and calls, there are many visits between Scandinavia and Ukraine on different levels. VP of Global Outsourcing travels circa 10 times per year to Oslo, and circa 5 times to Stockholm and Copenhagen. Chief accountant comes to Norway approximately each quarter. Depending on the projects other persons from the Ukrainian staff also come to discuss quality issues, volume and delivery terms with clients, etc. Top-mangers from the headquarters come to Kyiv 4-5 times, so the total amount of visits to Kyiv is about 20-40 times per year. Once per quarter all Itera’s directors gather for a strategic meeting in one of the cities, and VP of Global Outsourcing also attends it. One such meeting is dedicated to strategy development, while others to the monitoring of execution and strategy correction. Once per quarter Itera’s financial director visits Kyiv.

However, Igor Mendzebrovski confesses: *“I would like to be a little bit more observed. The reason is that I need more feedback. Since we grow very fast, the additional pair of eyes would not be superfluous. The changes happen each month, not once per year or quarter, so I would like them to look at me more often. They look, but they do not go into details, and do not require explanations why it happens so. May be it is a Norwegian approach: within these limits do as you want”.*

The amount of reports to the Ukrainian authorities is huge, since accountants in Itera Consulting Ukraine in addition to the entities’ documentation make also reports for private entrepreneurs. Many of them are registered in different cities, so the accountants need to go the local tax offices across the country. Moreover, the reporting increased due to the changes in the Ukrainian legislation in 2010-2011 (particularly, adoption of the new Tax Code).

“There is a lot of paper work, - Arne Mjøs admits. – But the labour costs are low, so it is better to hire more accountants or other persons who could do it than to have problems because of mistakes”.

To the headquarters Ukrainians send only summary of reports for the Ukrainian authorities, but not the documents, except reports concerning the work with contractors. The changes in the Ukrainian laws do not affect the system of reporting to the headquarters according to the Norwegian standards, but it is still a lot of documentation. On the other hand, managers in Ukraine are not interested in the reports which are sent to the Norwegian government.

“Our goal is to satisfy auditors. They approve our financial documents, and we do not care what happens next with them”, - Igor Mendzebrovski explains.

The external audit is performed by KPMG Norway. They examine documents that come from both Scandinavia and Ukraine. The consolidated accounts are prepared in accordance with IFRS, as approved by the EU.

“For some reasons it is nice that the Norwegian side gets so many documents from us, but when auditors come, they are terrified. – Igor Mendzebrovski says. – The main thing in audit is to know that the business is made in the right way and there is no risk. I think the risk assessment must be done locally, so I try to obtain the headquarters’ consent in allowing KPMG Ukraine to audit the Ukrainian division. It would be much easier if KPMG Ukraine could monitor our documents, put stamps and give the summary, which KPMG Norway could include into the general report”.

Cultural controls: “great place to work”

In 2010 in the course of transformation processes Itera ASA got its new vision: “Making a difference. Always!”. The vision has four strategic dimensions: 1) financial perspective, which is “Sustainable Profitable Growth based on quality, profit and growth in that order”; 2) customer value proposition, which is “Best Customer Experience”; 3) strategic terms for key internal processes, which are “Drive *efficiency* through scalability and excellence”, “Drive *sustainability* through holistic life cycle engagements”, “Drive growth through customer intimacy and

innovation”; 4) learning and growth, which is “Great Place to Work”. The vision is embodied in four values: entrepreneurship, passion, teamwork and results²².

Arne Mjøs explains: *“All our 400 employees share the vision, and this means something to us in our daily lives. It affects our behaviour and guides our choices in all situations. The employees need to feel that Itera is “more than just a job”. The customers shall experience that we always look for the best solutions and that innovation and competence are our most important tools. The solutions we deliver must always give real business value. We want to be a stable, profitable and predictable investment for our shareholders. Last but not least, we wish to commit ourselves to take social responsibility”*.

In addition, Itera ASA uses a lot of different slogans with regard to activities (“Dream it. Plan it. Do it”), the company transformation (“Towards the focused One Billion Company”), size and market position (“The Little Big Company”, “Leading Nordic next generation provider in selected services segments”), work approach (“World-class seamless nearshoring”, “Full life cycle delivery”), encouragement of applying for job (“Be some<body> Not just any<body>. We want you!”) etc.²³

Itera Consulting Ukraine, in turn, states having such vision as “We know that focus and concentration provide results. Therefore we have focused on becoming a leading service and solution provider within specific sectors”. Its mission is “With our extensive skills-set and cooperation with leading partners, we can guide you through the entire process from consulting to implementation of complete solutions”. The values are “excellence in delivery, commitment/reliability, professional/ethical, quality/transparency, focus on business value, flexibility/agility, we have software development as our core business”²⁴.

According to Igor Mendzebrovski, the employees should share Itera’s mission and values to avoid confrontation. The managers use joint and personal conversations and explain the position of the personnel and the company. In the process of recruitment, first of all, personal qualities of the character are examined, which make 50% of the evaluation, and the rest is professional qualities, but on the second place.

²² Itera (2010e)

²³ Itera (2010a, b, c, d, e); Itera (2011); <http://www.itera.no>


²⁴ <http://www.iteraconsulting.com.ua>

“If a person has other values, we respect his/her values, but there are other companies who would be happy to employ him/her. - Igor Mendzebrovski tells. – If a person is a first-class specialist, but it is very hard to work with him, if he creates problems and unpleasant situations, we will part with him without any regret: we will not earn money with such people, and the corporate culture will be destroyed. We should be the company of premium class in Norway and Ukraine, and we work with people who must be in the top 5% in all respects”.

According to Arne Mjøs, Ukraine has a very relationships-based culture. The Norwegian managers notice that during recruiting some of the people have family relationships or good relationships with people who already work in the company. Though it happens also in Norway, in Ukraine it is more distinct, so it can be said that in Ukraine the network is actually following the people. However, in Arne Mjøs’s opinion, it is not a reason to discredit the Ukrainians, since they have proved themselves to be honest workers.

4.4. Scandinavian House: “Is Ukraine your new home for business?”

4.4.1. Overview of Scandinavian House

 Scandinavian House AS was founded with a purpose to engage in offshoring early 2005, by a group of Norwegian investors with wide business experiences from the Nordic area, West-and Southern Europe, as well as the former Eastern Europe. The majority (66.2%) is owned by the parent company, Dasha AS, which, in turn, belongs to 5 people. Scandinavian House’s operating revenue is about NOK 3 million (2010) and number of employees is about 12. The company has head office in Moss, Norway, regional office in Kyiv and branch in Simferopol, Ukraine.

“We saw that IT offshoring was a growing market with a lot of opportunities. – Helge Ranvik, CEO / Managing Director of Scandinavian House, tells. – In the beginning we planned to do it in China. I visited it, but other shareholders of Dasha AS, who had already started in Baltics with contact centre outsourcing two years before, said that Ukraine had a huge potential in IT resources, being low-cost country. They persuaded me to look more attentively at Ukraine. In addition, I knew myself that the countries of the former Soviet Union had very good scientific resources”.

The other reasons why the company eventually chose Ukraine include geographical distance (1 hour time difference, 2-3 hours of flight from Oslo), access to big market with a large population, high level of education, logistic advantages, similar culture.

IT offshoring was the main activity for Scandinavian House during 2005-2006. Later the company began to provide consulting services, and then started industrial offshoring in 2009.

“Since all my previous experience is in big manufacturing companies, I saw that Ukraine had big potential within industry, especially taking into account its huge natural resources. – Helge Ranvik explains. – Now the industrial direction has the strongest growth in turnover, but we still develop IT direction, and at the moment we work for some large big Norwegian customers such as Logica Norge AS”.

Thus, Scandinavian House provides three types of services:

- 1) software offerings (IT offshoring), including C, C++, Java, .NET, web-services, mobile applications, etc.;
- 2) industrial offshoring of steel, print, sewing, construction/panels/TRP, plastic pipes production;
- 3) consultancy services, for example, preproject, Newco establishment, legal services, recruitment, accounting and auditing, search for investment, organizing business study tours, and so on.

The company's conception of work is built so as to make it a mediator between Scandinavian customers and Ukrainian suppliers (Figure 8). Scandinavian House AS makes an agreement with a Norwegian customer, and then through the Ukrainian subsidiary finds relevant partners in Ukraine, mirroring the agreement.



Figure 8. Value chain of Scandinavian House

Source: Ranvik (2010)

“Since Norwegian clients conclude contracts with the Norwegian company, there is no risk for them: we in some way assume the risks of doing business in Ukraine. On the other hand, we obtain efficiency by doing IT offshoring in the low-cost country”. – Helge Ranvik asserts.

However, there is always a danger that the Ukrainian suppliers of Scandinavian House would go directly to their Norwegian clients, but the managers try to secure themselves through the contracts. For example, the clients are not allowed to employ any from the supplier company, and the suppliers are not allowed to present offers directly to any of the customers. It is clear, that the contracts are for a period, so after the period it can be risk, but it has never happened so far. As Helge Ranvik explains, it is also a part of business idea: Scandinavian House must show that its role is really important. The margin charged by managers for the chain must be value-added, so the customers could see that the price they pay (including the price of Scandinavian

House) is attractive. It is not easy to go directly, so the customers understand that they need the mediator, who knows language and culture, follows laws and changes, and has time-tested and reliable connections.

4.4.2. Business Environment of Scandinavian House in Ukraine

According to Helge Ranvik, the bureaucracy, political and legal systems, corruption and black economy are the main challenges for work in Ukraine.

“We needed someone we could trust, and we have established relationships with a law firm, real estate company, recruitment agency. – Helge Ranvik comments. – Every company needs support from the reliable partner to deal with bureaucracy and changes in the political and legal systems. It is cheaper to pay for consulting services than for mistakes. In Norway we can conclude contracts even in informal situation, and all will be sure that the contract would be fulfilled. But in Ukraine we have to go through the long process of document exchange: people do not trust each other until you become good partners, so in the beginning we need to check what our partners can really deliver. It takes more time, energy and money, but we completely avoid corruption and bribery, and we must follow the rules and regulations to show we are doing transparent business”.

The main competitors of Scandinavian House in the sphere of IT offshoring from Norway to Ukraine are EDB ErgoGroup and Itera. However, the company does not compete directly, moreover, they communicate and cooperate.

As Helge Ranvik tells, in the beginning Scandinavian House was buying some services from Infopulse, before EDB purchased them, and selling these services to EDB. When EDB decided to start IT offshoring by themselves, Scandinavian House recommended them Infopulse and Miratech, and actively helped EDB to buy these two companies. Since EDB was a stock-market corporation, and the Ukrainian companies were individual-established enterprises, very different from what they are now, Scandinavian House provided them an auditor, who was working full-time almost a year, and its country manager also was involved into these affairs. Thus, the company helped to restructure Infopulse and Miratech, making it possible to include them in EDB as subsidiaries. Otherwise they would not be able to put them into books, because the companies' structure and accounting would not be approved in Norway. Recently Scandinavian House consulted EEG in issues with UDI concerning bringing Ukrainian IT programmers to

Norway. The company helped also Itera to establish their division in Ukraine by providing the offices to Itera's first employees.

Among the customers, who buy IT services from Scandinavian House, there are Logica Norge AS, Meeting Point AS, Electrocompaniet AS, West Control AS, Petrograd AS, B-Sessions AS, SmartPhones Telecom AS, etc. Scandinavian House is a member of Ukrainian High Tech Initiative, Norwegian-Ukrainian Chamber of Commerce. The company has Ukrainian Chamber of Commerce and Industry as a partner, and strong relations with Ukrainian Embassy in Oslo, Norwegian Embassy in Kyiv as well as other authorities.

4.4.3. Management Control Systems in Scandinavian House

Planning controls: mental horizons

The company works on the basis of three-year rolling plans. The action plan is very detailed, and actually constitutes budget. For the second year the main goals are settled, and for the third year the targets are defined. After one year goals become budget, targets become goals, new or updated targets are formulated, and so on (Figure 9).

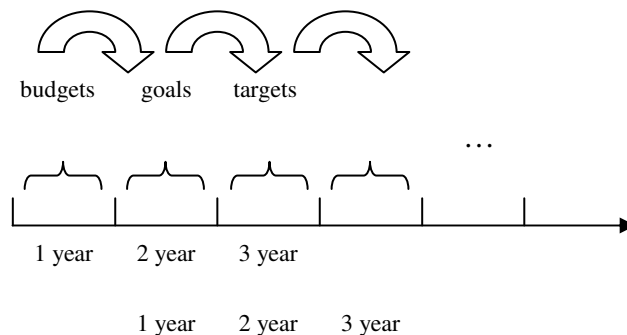


Figure 9. Planning in Scandinavian House

Source: Interview with Helge Ranvik

“We hoped we could establish a company, grow fast and reach certain level in 3-5 years. - Helge Ranvik admits. – Unfortunately, we were growing slower, but it is normal thing. Being a founder, mentally you need to have a horizon. If you know that some business can take more than 5 years to establish, you would think to start something else. However, from the practical point of view it actually takes minimum 5-7 years. Having three years plan helps more mentally than practically: it is the horizon that gives motivation and enables to encourage both shareholders and employees. Now we are established and looking forward to fast development”.

However, according to Helge Ranvik, Scandinavian House has a challenge of losing focus, because they provide too many different services, being a small company. That is why one of the strategic aims is to concentrate business on core activities.

The Ukrainian subsidiary does not have own goals and strategy: it is totally integrated into the company. *“What we discuss with them is practical issues regarding salaries, taxation, and similar, i.e. what the managers in Ukraine know. – Helge Ranvik says. - But it would be illogical if they had to make their own plans or budgets, because we do not sell in Ukraine. Since all customers are in Norway, and the whole structure of Scandinavian House AS and its Ukrainian division is integrated one, there is no reason why they should do anything on their own”.*

Cybernetic controls: budget and invoice

The company uses fixed yearly budgets for both setting short-term goals and evaluating performance.

“Budget is criteria for measuring our activity. – Helge Ranvik states. – We make it, approve, and then fix. If we step out of it, we would have no platform for comparison in the end. We also have estimates to see how we approach our aims, because a lot of things can happen that we can not control, but budget always stays”.

The main source of information for measuring performance is invoice, which is sent by the Ukrainian subsidiary once per month for the services they provide. The invoice is drawn according to the Ukrainian standards, because, as Helge Ranvik claims, the Ukrainian standards are much more detailed than the Norwegian ones. Thus, in general, the evaluation is carried out on the basis of monthly invoices and budget report, which are prepared by the country manager. In accounting the project cost structure is made on the basis of direct costs for each project, and then the average for the whole business in the annual report. In the board details are not presented, only average numbers and sometimes information about on-going projects.

Reward and compensation controls: salary, bonus and relative freedom

The main financial incentives for employees are salary and bonus. The suppliers are paid monthly invoice based on hours delivered. In addition, the country manager uses non-financial rewards through organizing activities for motivation, such as birthdays, dinners, presents.

“One of the most important elements of our incentives system is that we give relatively wide freedom to our key people, trying to run the company in more or less according to the Scandinavian management style. – Helge Ranvik says. – We do not use penalties, but if something goes wrong, we use conversations, and they can be quite tough. We do not have formalized structure and do not apply authoritarian management as the overwhelming majority of the Ukrainian companies do, so our employees have more reasons to be satisfied”.

Administrative controls: “small, efficient and low-cost organization”

Scandinavian House Ukraina is a limited liability company, 100% owned by Scandinavian House AS.

“It was very important for us to establish the wholly-owned company to work according to our business concept. – Helge Ranvik tells. – If you are going to work in Ukraine, you should preferably have 100% of the company. If you want to have a partner there, you can have 75%+1, and you still have a control, and the lowest level of control we ever recommend is 60%+1. On the other hand, we could establish only a representation office, as many other foreign companies do. However, we wanted to show our partners and authorities that we were going to be in Ukraine for long term, pay white salaries, taxes, pension contributions, etc. It means that we can have higher costs than other companies in Ukraine, but we do not have problems with authorities and we get good connections wherever we come”.

The idea of the company is to have the whole structure in Ukraine in order to enjoy advantages of low-cost production. In Norway, as Helge Ranvik humorously notes, there are only “one and a half persons”: the CEO and a secretary, who is shared by Scandinavian House with a next-door company. In Ukraine Scandinavian House has about 10 employees, including IT developers. There are two top-managers: country manager/project manager IT and sales manager industry, both with previous experience of working in offshoring organizations. Consulting is chiefly performed by Helge Ranvik.

“We do not want to have big organization, but a small, efficient and low-cost one. If we make big overhead cost here, we will destroy the whole business idea”. – Helge Ranvik asserts.

The team of IT programmers usually consists of 3 persons; one of them is team leader, who must be good in speaking English, while the other two must be able to communicate. For new projects single programmers or teams are brought to Norway for training, which is aimed at acquainting clients with the IT consultants, so they could discuss requirements, look at source codes, and so on. Usually it lasts 2-3 days, rarely up to 2-3 weeks. In addition, clients can visit Ukraine to have a look at those who work for them.

There is minimum formality in running the company. There is general assembly every six months, planning meeting, but in general control and decision making are exercised mainly through informal meetings, which take place when the CEO comes to Ukraine (at least once per month), and daily communication by Skype, e-mail and phone.

“Since the whole information about all projects continually goes through me, I do not need any special reports. – Helge Ranvik explains. – If we were a big company, I could ask the country manager to send me country reports every month. In our conditions it would be waste of time. Scandinavian House is the smallest company I have been running for the last 20 years, so we have simplified structure and procedures, working mostly in continuous direct contact”.

The accounting documents are prepared according to the Ukrainian standards. The auditor is a private entrepreneur, who has been working with Scandinavian House from 2006. She is competent in IFRS, and was recommended by Scandinavian House to EDB during the purchase of Infopulse Ukraine and Miratech. The auditor makes for Scandinavian House a yearly report according to IFRS, which Helge Ranvik presents to the board. The Norwegian company is audited by Inter Revisjon.

Cultural controls: familiarity as a source of happiness

The vision of Scandinavian House is “To be the preferred partner for Scandinavian Companies in Outsourcing / Nearshoring from Ukraine!”

Mission of the company is “The Scandinavian House is the centre for companies seeing the great possibility in a young but ambitious Nation, and where you can find the solution you are after to strengthen your competitive power and increase your margins!”

Credo is “Is Ukraine your new home for business?”


Helge Ranvik tells that it is very important for Scandinavian House to employ people who share the views of the company. Helge Ranvik gets CVs during recruiting, but it is the country manager who usually makes a selection of people. He tests them, chooses several of applicants and presents to the client. For example, if the client wants 3 persons, he presents 4, if the client needs 2, he presents 3-5, and the client takes part in the final selection. Almost the same procedure is used when managers choose between those whom they know from previous projects, but with the difference that partners are not tested once more. In Helge Ranvik's opinion it is a way of involving the clients, linking them to what the company does in Ukraine. Communication between the clients and employees is also one of the reasons why employees are taught to use Scandinavian style of work.

As Helge Ranvik notes, in the Ukrainian IT industry there was challenge for one period: employees could work few months in one company and then change it. The crisis has given more modesty and loyalty, because people want a job. According to the Ukrainian legislation, employee has to give resignation notice just two weeks beforehand, and it is very short time period. To avoid this, Scandinavian House concludes personal agreements, where they state more convenient and safe terms and conditions.

Another challenge was associated with the age of Ukrainian IT consultants. For example, in the beginning Scandinavian House could have a problem with clients, because IT specialists in Ukraine are very young. Once the company had to fire 21-year-old developer, because Norwegians did not trust such a young specialist and did not want to buy his services. Now Norwegian companies understand that Ukrainians go faster through the education system and can work at the same time, so they are more educated and experienced than people of the same age in Norway. Therefore, it is not the problem anymore.

The most of the internal processes in Scandinavian House have an informal nature due to both the small size and the Norwegian administration. As Helge Ranvik explains, *“in Norway there is a very social type of management: it is normal to have usual daily coffee with the top-managers, ask them how they are and so on. Ukrainian employees are used to a sub-down management style: they need to know what they should do today and have clear tasks, so in the beginning they felt themselves uncomfortable when we were introducing the Scandinavian style to them. Now we work as I accustomed to do it in Norway: it is important to make people happy, and our managers are totally satisfied with our business idea and relations”*.

4.5. Summary

ased on the empirical data it is possible to identify main similarities and differences in IT offshoring approach and MCS design of the offshoring relationships in the three companies. The comparison is presented in Appendix 5.

The collected empirical data enable formulating of the following major findings:

1. The Norwegian IT companies outsource activities to Ukraine by establishing (or buying) subsidiaries there in order to get cost reduction, sell IT services and provide dedicated teams externally, i.e. to other Scandinavian companies.
2. The studied companies prefer to keep strict control over their Ukrainian subsidiaries through the ownership and governance structure as well as rules and procedures aimed at influencing employees' behaviour. The planning, performance measurement, rewards and corporate culture are also designed in a way to ensure observance of the behavioural rules.
3. The studied companies try to avoid the Ukrainian business environment as much as possible: they do not provide services on the Ukrainian market (or, in the EEG case, carefully choose their customers), introduce and apply Scandinavian management techniques towards managers and employees, the ownership structure preserves the Norwegian companies from the Ukrainian court system, etc. Moreover, with respect to the Ukrainian context, the Norwegian IT companies prefer rather to cooperate than to compete. They share each other's knowledge and experience, discussing possibilities, and use business lobby to solve certain problems.
4. The main difference in MCS between three companies consists in formalization degree that increases from Scandinavian House to Itera and then EDB ErgoGroup. Thus, in Scandinavian House MCS are mainly based on running individual control of the Norwegian CEO, while EDB ErgoGroup relies on formalized rules and procedures more than other two companies: there are country representative and internal auditor outside the subsidiaries, high emphasis on code of conduct, developed system of various bonuses, etc.

5. ANALYTICAL CHAPTER

Analysis does not set out to make pathological reactions impossible, but to give the patient's ego freedom to decide one way or another.

Sigmund Freud

In this chapter the discussion and analysis of the empirical part on the basis of theoretical framework is presented. The general features of Norwegian IT offshoring to Ukraine are elicited; the similarities and differences in the MCS of the studied companies are examined. The definitions of MCS chain and MCS chain network are suggested. The metaphorical interpretation of the cases is made.

5.1. Motivation and configuration of the Norwegian IT offshoring to Ukraine: daisy chain



ombining theoretical framework with the collected empirical data makes it possible to argue that the Norwegian IT offshoring to Ukraine has two levels (Figure 10):

- 1) Norwegian companies, which have IT as their non-core activity (financial institutions, shipbuilding companies, transportation companies, etc.), are engaged in IT offshoring to Ukraine indirectly, being clients/customers of Norwegian companies specialized in IT. From a legal perspective the clients use onshoring by buying services from the domestic IT companies either without knowing whether the services are produced in Norway or Ukraine, or using the dedicated teams in foreign entities of Norwegian IT companies. The latter can be regarded as a de facto use of offshore development centres (on Figure 10 it is shown by dashed line), though de jure relations occur still between the Norwegian companies. By outsourcing their IT processes, the clients seek cost reduction, focus on core capabilities, service quality improvement or improvement of critical aspects of business performance, thus, pursuing strategic intents of IS improvement and business impact.
- 2) Norwegian IT companies have strategic intent of commercial exploitation, i.e. selling self-existing IT assets externally, developing new IT products and services, creating new market processes, etc. They outsource activities to Ukraine directly and use captive offshoring type through setting/buying subsidiaries.

Thus, EDB ErgoGroup ASA, Itera ASA and Scandinavian House AS represent the second level. These companies share almost the same offshoring **motivation**: cost reduction and efficiency

improvement through taking advantage of low-cost and high-skilled labour force. In addition, EDB ErgoGroup regards offshoring as a way to strengthen market position through expanding and, since recently, get part of the growth on the emerging Ukrainian market.

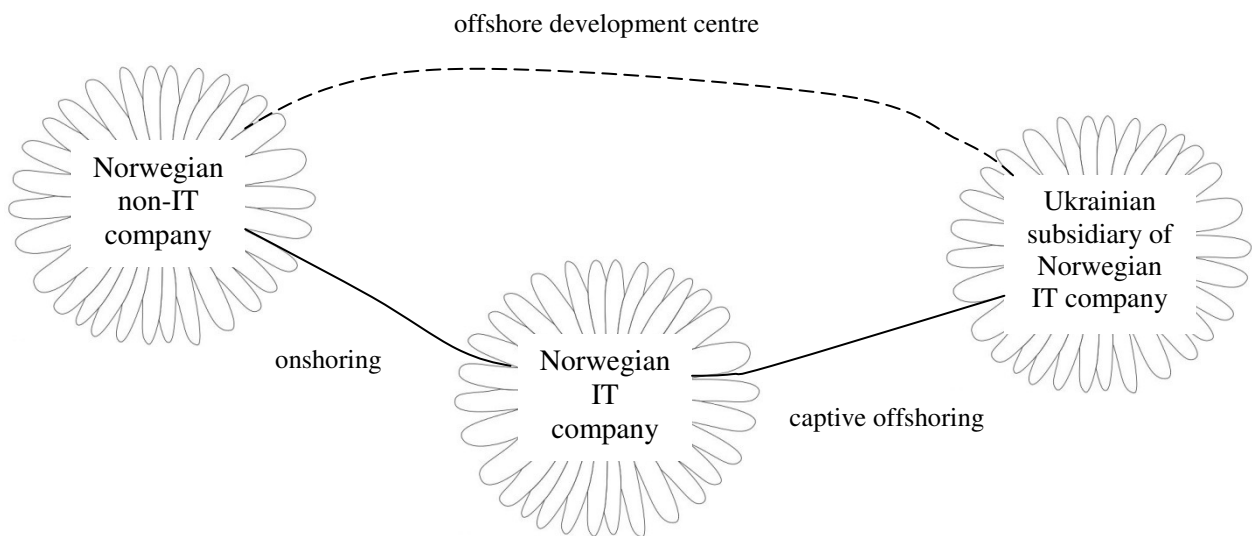


Figure 10. Daisy chain of the Norwegian IT offshoring to Ukraine

In **geographical scope** the studied companies were choosing mainly between East and South Asian countries (China, India, Sri Lanka), East European countries (Lithuania, Latvia, Estonia, Slovakia, Hungary, Belarus, Poland, Romania, Bulgaria, Russia, Ukraine) and Turkey.

Although the reasons for choosing Ukraine, stated by the companies, are not completely the same, they are not mutually exclusive, which makes it possible to summarize them:

- 1) short geographical distance (1 hour time difference, 2-3 hours of flight from Oslo);
- 2) low labour costs, which, in addition, do not increase as in EU East European countries;
- 3) large number of high-skilled IT specialists;
- 4) large population;
- 5) relatively high democratic level comparing to Asian and non-EU East European countries;
- 6) low possibility of losing Ukrainian specialists, because they cannot move freely to the EU without visa;
- 7) good language skills;
- 8) similar culture;
- 9) business network, advises of partners and experience of big Norwegian players on the Ukrainian markets (e.g. Telenor);
- 10) Western-oriented IT and software industry;

11) Ukraine's Euro-Atlantic integration policy and EU standards adopting.

Although all three companies use captive offshoring, in **supplier scope** it is EDB ErgoGroup that had to make choice of the companies to buy, while Itera and Scandinavian House established their subsidiaries from scratch. Infopulse and Miratech were chosen by EDB ErgoGroup, because they had been providing services to the Western companies for fifteen years, had good experience, reputation and financial position, developed infrastructure, a great number of employees, etc. Despite all this, the process of buying was long and took about one year to check the companies with the help of Scandinavian House and its auditor.

In **organizational scope** all three companies chose client ownership that is naturally long-term relationships. One of the explanations of choosing captive offshoring is the fact that IT functions and processes are key activities for IT companies, so they prefer to keep them technically inside the company. Since the studied companies preferred to keep financial information on their subsidiaries secret, offshoring degree can be clearly defined only for Scandinavian House (total offshoring), while for EDB ErgoGroup and Itera it can be assumed that their Ukrainian subsidiaries provide less than 20% of their budget (total insourcing), taking into account the share of Ukrainian employees in the whole groups' staff and relatively recent establishment of the subsidiaries. The pricing is carried out mainly on the basis of hourly rate (cost of man-hour).

5.2. MCS in the Norwegian IT offshoring to Ukraine: designed to control behaviour

Controls types in MCS package

In **planning controls** all studied companies generally follow the same principle: the Norwegian company sets goals for the Ukrainian party, which, in turn, elaborates own action plans aimed at the goals achievement. However, EDB ErgoGroup allows its subsidiaries to serve external customers (i.e. non-EDB ErgoGroup's ones), which gives Infopulse and Miratech additional directions in planning and possibility to divide risks of not having orders between the parent company and other clients. In Itera the Ukrainian company is seen as one of subdivisions that contribute to the common goal, which ensures integrity in the group, but makes Itera Consulting Ukraine totally dependent on Itera's orders. The same concerns also Scandinavian House Ukraina, but, since the whole Norwegian company is based on the small Ukrainian subsidiary, the facilities of Scandinavian House are limited and the company sometimes uses preferred suppliers in addition to its staff.

In **cybernetic controls** the studied companies heavily rely on annual budget, which stays unchanged in the course of year, evaluate Ukrainian subsidiaries on the basis of reports prepared according to IFRS, apply direct cost approach, and emphasize importance of the share of billable/non-billable employees. EDB ErgoGroup and Itera pay close attention to employee survey, EDB ErgoGroup and Scandinavian House practice customers' visits to Ukraine to assure the level of IT security. However, in Scandinavian House performance measurement is much simpler and based on running individual control of the Norwegian CEO, while EDB ErgoGroup and Itera use special electronic reporting systems for producing inter alia monthly reports. Itera and EDB ErgoGroup apply participative budgeting, but EDB ErgoGroup has switched to it only in 2011, while Itera has been using it before. In addition, as opposed to Itera and Scandinavian House, EDB ErgoGroup has check of compliance with the group's regulations.

Reward and compensation controls in all three companies based on salary and bonuses as financial rewards and additional training, IT courses, corporate events, career system and trips to Norway as non-financial motivation. Meanwhile, the bonuses are much more emphasized in EDB ErgoGroup, where there is a special bonus system attached to financial and non-financial objectives that range from EBITDA to certification and team sports participation. In Itera and Scandinavian House the parent company regulates bonuses for the Ukrainian top-managers, who, in turn, decide on occasional monetary rewards for their employees.

In **administrative controls** the studied companies govern their Ukrainian parties mainly through the Ukrainian top-managers, who, in turn, are responsible for direct control over the employees in spite of the fact that the companies claim to have flat organization. Due to the offshoring specifics in the case of dedicated customer team it is also clients, who get possibility to control the team directly. Since EDB ErgoGroup owns 60.1% of its Ukrainian subsidiaries, while the rest is owned by the corresponding Ukrainian top-managers, the latter participate in board meetings as minor owners and can influence decision-making on the Ukrainian companies so long as it is with the group's strategy. Itera and Scandinavian House own 100% of their Ukrainian companies, but in Itera the Ukrainian top-manager takes part in general meetings as a director of one of the subdivisions, while in Scandinavian House the Norwegian CEO is at the same time a managing director.

The Ukrainian subsidiaries of all three companies are managed by Ukrainians who have experience of working in or with Western or Western-oriented companies. Thus, the fifteen years of providing services to the Western Europe and USA was one of the determinants of choosing

Infopulse and Miratech by EDB ErgoGroup; Itera composed its Ukrainian team of managers with ten years experience from organizations within offshoring; the managers in Scandinavian House also had been working in offshoring before. All studied companies require from their Ukrainian managers to use Scandinavian management style.

The basic unit of employees organization is a team (5-10 persons in EDB ErgoGroup and 3 persons in Scandinavian House), though in small cases it is possible to use IT consultants outside the team. Up to 90% of employees in EDB ErgoGroup and Itera have status of private entrepreneurs, while Scandinavian House does not use the system of private entrepreneurs.

The most formalized system of internal reporting and surveillance is in EDB ErgoGroup, where, in addition to electronic system of reporting, intranet and frequent two-way managerial visits (as in Itera), there are constant country representative and internal auditor outside the Ukrainian companies. Scandinavian House has the least formalized system on the basis of monthly invoices and budget reports, active participation of the Norwegian CEO in projects, daily communications by Skype and e-mail, and CEO's visits.

The companies have different approaches towards external auditor. EDB ErgoGroup and its subsidiaries are audited by member firms of Ernst & Young in Norway and Ukraine respectively. Itera, in turn, uses only Norwegian member firm of KPMG Norway for both the parent company and subsidiary, while the Ukrainian managers want to be audited by the Ukrainian member firm of KPMG. In Scandinavian House both accounting and external audit of the Ukrainian subsidiary are performed by a small local auditor, but the Norwegian company is audited by Inter Revisjon.

In all studied companies **cultural controls** are used to make Ukrainians "feel happy", i.e. to mitigate the perception of strictness of other controls types. EDB ErgoGroup has even allowed the Ukrainian subsidiaries to have their own mission, vision and values (that are, however, attached to the EDB ErgoGroup's ones), which gives Infopulse and Miratech additional reason to feel certain autonomy. All three companies are concerned about employees' compliance with the corporate culture, and, as a result, in recruiting the personal qualities are more important than the technical skills. The corporate culture in the studied companies is based on the Scandinavian style and principles, but Itera and Scandinavian House introduced them for their newly established entities from the beginning, while EDB ErgoGroup decided to ensure gradual

transition through learning and experience sharing, because it seemed the most suitable way towards existing companies.

The substantial difference in cultural controls consists in the levers for cultural controls chosen by the companies: EDB ErgoGroup stresses on elaborated code of conduct, Itera emphasises public image (through active using of slogans, concept of being premium class company and working with people in the top 5%, etc.), while Scandinavian House bases its cultural controls on familiarity.

MCS as a package

All controls types in MCS package of the studied companies are closely intertwined. For instance, since the basic unit of employees organization is team, the rewards are not only linked to personal objectives, but also used for encouraging cultural controls via group rewards (such as drawing a check or paying for trip/event for the teams in Itera, bonuses for participation in sports teams in EDB ErgoGroup). With a purpose of encouraging cultural controls some of cybernetic controls are also used, such as team inquiry in the EDB ErgoGroup's employee survey for ensuring unanimity of the respondents.


Another example can be made on the basis of such important measure in cybernetic systems as non-billable employees, and, in the first place, employees on bench (consultants, currently not performing tasks for customers). In planning controls, to prevent increasing of the rate and, as a result, costs, EDB ErgoGroup's subsidiaries allocate employees between EEG and external customers, Itera's subsidiary uses either own employees or unoccupied employees of other companies, while Scandinavian House uses either own employees or acts as a mediator between clients and preferred suppliers. However, if there are employees on bench, their salaries are reduced (reward and compensation controls), or they can be joined to another on-going project, assigned as advisors, sent to IT courses (administrative control), etc.

Thus, all three companies prefer to keep the strict behaviour control mechanisms over their Ukrainian subsidiaries by using elaborated administrative controls, while other control types are designed in a way to ensure observance of behavioural rules. For example, in addition to share purchase agreement, shareholder agreement and authority matrix, EDB ErgoGroup extensively uses management by objectives, compliance checks, bonuses on compliance and code of conduct towards its Ukrainian subsidiaries. Personal goals, bonuses, different visits, working trips,

seminars and trainings are held in order to induce desirable behaviour in the subsidiaries explicitly or implicitly. Itera and Scandinavian House are even more rely upon administrative and planning controls, while the other controls types are less diversified.

Although the studied companies try to mitigate strictness of their control, mainly through cultural controls, it does not go off without a hitch. It seems the most interesting problem here is dissatisfaction of the Ukrainian managers in EDB ErgoGroup and Itera about their insignificant participation in influencing and changing processes in the whole group. Moreover, in Itera the subsidiary wants to be more autonomous (such as the sole lead of some of Norwegian customers and audit by the Ukrainian member firm of KPMG), i.e. to get the position, similar to what Miratech and Infopulse have. For Scandinavian House, however, it is not a big issue, because the behaviour control is less formalized than in other two companies.

5.3. Linking offshoring configuration with MCS design: MCS chains

ased on the considerations presented in theoretical chapter and empirical data it is possible to make the following propositions on linking IT offshoring configuration with MCS design:

1. The company that chooses offshore outsourcing of IT services is primarily concentrated on cybernetic controls by assessing compliance with the quality standards and standards of IT security, as well as the cost of IT services and time of delivery. The customer of IT services considers suppliers as independent sellers, and can easily switch between them. Administrative controls are minimal with an accent on rules and policies and procedures through the industrywide requirements and standards. Cultural controls in such inter-organizational relationships consist mainly in supplier selection.
2. The company, which uses offshore development centres, applies wider set of MCS instruments towards its partner comparing to offshore outsourcing. Although cybernetic and reward and compensation controls are used almost in the same way as in offshore outsourcing, their role is not so exclusive. The team in offshore development centre that provides IT services for the customer is taken into account by the latter in planning controls as the company's external unit. Administrative controls are exercised directly towards the team, but are still considerably limited, since legally and organizationally the team belongs to the supplier, though the specific requirements and standards can be demanded. Therefore, the customer company pays more attention to cultural controls, especially through partner selecting and training team members.

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3. The company, which is doing captive offshoring, has the fully-fledged set of MCS elements in inter-organizational relationships. The customer and supplier are integrated in a way they are the parent and subsidiary respectively. Thereby, the most important element in MCS package is administrative controls with the well-defined organizational and governance structure as well as detailed rules, policies and procedures. The other types of controls are used mainly to support administrative ones. Planning controls is exercised by setting goals and defining actions for the subsidiary; cybernetic and reward and compensation controls are aimed at not only stimulating goal achievement, but ensuring compliance with the behaviour defined by the parent company (in agreements and/or code of conduct). In cultural controls the supplier should share mission, vision and values of the customer, and the whole corporate culture is built so as to create maximum integrity and loyalty.

However, this work, due to its focus, confirms only the third proposition. The information obtained from interviews provides certain evidence that the first two points are also correct, but the separate researches on this topic are needed to be able to assert it with a higher level of confidence.

Though some elements are the same in the MCS of Norwegian IT companies and their subsidiaries (such as employee survey or group rewards), the MCS of Norwegian and Ukrainian parties do not fully coincide. The Norwegian IT companies set norms, rules and procedures concerning the relationships both with the subsidiary and, to a lesser extent, between subsidiary and its employees, but each of the parties has MCS which are much wider than what is defined by hierarchical company-subsidary relationships. Moreover, it can be noticed that the MCS of subsidiaries deal primarily with operational issues, while MCS of relations between the parent company and subsidiary have basically strategic focus. For example, in planning controls in all three cases it is the Norwegian company that sets goals for the Ukrainian party, and the latter elaborates own action plans. In cybernetic controls the Norwegian company follows the subsidiary using general reports according to IFRS, while Ukrainian managers influence the operational activities on the basis of their own scorecards and provide reports to local authorities according to the Ukrainian standards. In reward and compensation controls the Norwegian party deals mainly with salaries and bonuses of the Ukrainian top-managers, who, in turn, have responsibility and certain autonomy for the remuneration of Ukrainian employees. The same is relevant to administrative controls, where the managerial contacts between Norwegian and Ukrainian companies mainly take place on the level of top-managers, and Ukrainian IT consultants are directly governed by Norwegians only in the case of getting dedicated team. In

cultural controls it is the Norwegian company that outlines general principles of behaviour and corporate culture, while Ukrainian managers are in charge of informing employees, hiring suitable people that fall within the defined system of values, etc. In Igor Mendzebrovski's words, the Norwegian company manages strategic variables and the Ukrainian company influences operational ones.

Moreover, the MCS of each IT company and its subsidiary/subsidiaries are influenced not only by hierarchical company-subsidary relationships between them, but also by the external clients. A client company shapes the MCS of the parent company and its subsidiary mainly by setting standards and requirements on security, quality, time-frames, location and status of IT programmers and, thereby, their salary (if they should be in Norway, they are paid more than they are in Ukraine), cultural aspects, etc. If the client company outsources considerable volume of its IT services, the degree of influence on the Norwegian IT company can be large.

Therefore, both levels of the Norwegian IT offshoring to Ukraine have their influence on the MCS of the companies through the inter-organizational relationships and hierarchical company-subsidary relationships. In the simplest case with one client company and one IT company, which has one subsidiary, the whole set of MCS emerging in the course of offshoring relationships, can be presented as a MCS chain (Figure 11). Company A is a client company, company B is an IT company, and company C is the IT's company subsidiary. All three companies, in fact, have their own MCS, some elements of which are nevertheless interconnected, forming a kind of "MCS chain junction". Naturally, the degree of interconnection between the IT company and its subsidiary is much higher than between the client and the IT company. In addition, the chain can be extended in both directions, if the client has a parent company, or the IT subsidiary has sub-subsidiary or partner. This model can be more or less applied to the MCS of Scandinavian House AS.

Thus, in the most general sense **MCS chain** can be defined as interconnected and interdependent series of MCS in inter-organizational relationships, which include MCS inside participating organizations and MCS concerning relations between them.

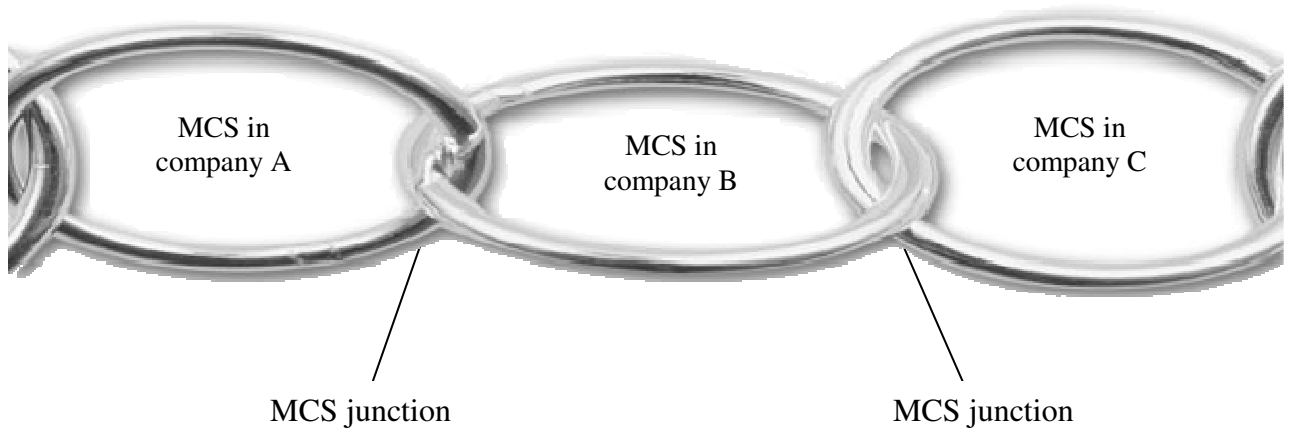


Figure 11. MCS chain

Source: made by author

MCS junction means actually MCS that are applied in the relations between organizations. With respect to the concept of MCS package, MCS junction is presented in Figure 12. The wavy lines show that the degree of interconnection and interdependence of MCS elements can vary in different kinds of inter-organizational relationships, and in certain cases some of the control types actually can be absent or reduced (such as in offshore outsourcing or offshore development centres).

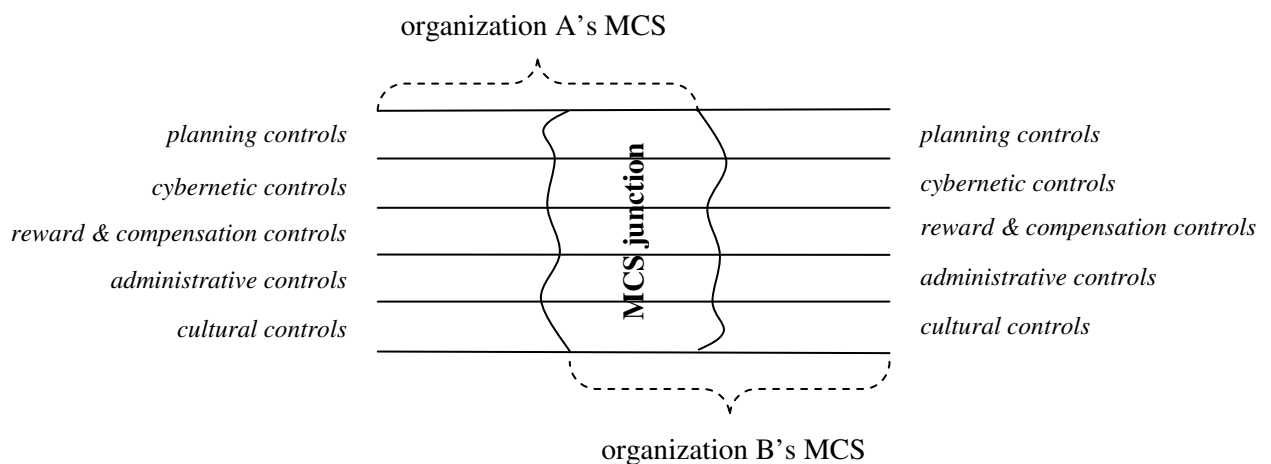


Figure 12. MCS junction

Source: made by author

However, bigger companies, such as EDB ErgoGroup ASA and Itera ASA, with several subsidiaries and various working schemes with clients, have more complex MCS chains. In this case there is actually a set of MCS chains, forming a MCS chains network that does not have so linear structure. In other words, **MCS chains network** is an interconnected and interdependent

complex of MCS chains. Figure 13 shows one of the possible MCS chains networks: the IT company, which provides IT offshoring services, has three subsidiaries, one supplier, which is independent from the company, and four clients. Client A is a subsidiary and has a parent company, client B just buys IT services from the IT company, thus, being indirectly engaged in offshore outsourcing. Companies C and D use offshore development centres, but C does it on-site (bringing offshore employees to its country of residence), while D does it off-site (in the employees' country of residence). Subsidiary 1 has also the external customer in addition to the IT company (which is both owner and internal customer for the subsidiary). Theoretically, number of links is not limited, and each of the chain links can be extended.

As it can be seen, the degree of interconnections of MCS differs depending on the type of offshoring. For example, MCS of client B and independent supplier are loosely coupled to the MCS of the IT company, while MCS of client D, subsidiary 3 and the IT company have several interlinks. The latter reflects the situation, when client D gets under control a customer team from subsidiary 3, and thus, sets specific requirements and standards towards them, but manages relations and buys services through the IT company.

Thus, all three studied companies have strategic intent of commercial exploitation, which in fact embraces two other kinds of strategic intent, IS improvement and business impact. It can be seen from the companies' offshoring motivation and strategies that include not only selling self-existing IT assets externally, developing new IT products and services, creating new market processes and establishing new businesses, but also cost reduction, acquisition of new technical skills, and developing new business capabilities. The companies have chosen the way of setting subsidiary in Ukraine, i.e. captive offshoring type, which corresponds to hierarchy. The MCS in the relations between the Norwegian and Ukrainian companies are based on elaborated norms, standards, rules and prescribed procedures, which is typical for the bureaucracy based MC pattern. The control is exercised mainly through the behaviour control mechanisms, and the MCS package with all five controls types is aimed in the first place at encouraging desirable behaviour in employees.

Going further, it may be assumed that changes in MCS of one of the companies in the chain might cause a kind of chain reactions in MCS of the related organizations. If it happens as one-way process, not mutual (for example, it is only parent/client company that influences the MCS of the organization), the managers in the organization feel certain discontent and have desire and willingness to be more proactive towards the parent/client company.

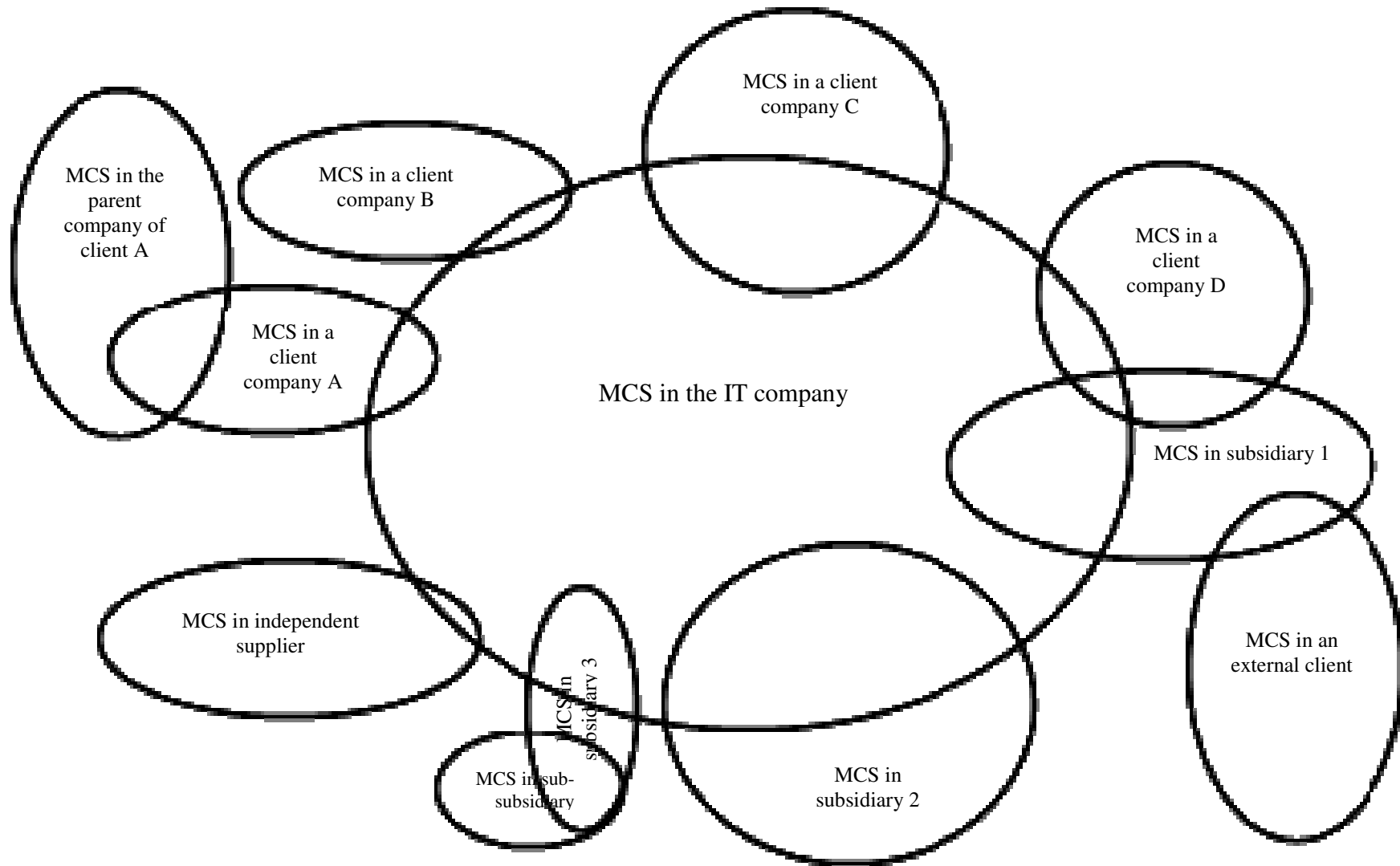



Figure 13. MCS chains network

5.4. MCS design in IT offshoring within its context: catalysts and inhibitors of isomorphism

 Although identification of offshoring configuration can explain certain similarities in MCS design of the studied companies, it does not imply differences, since all three companies have the same strategic intent behind their offshoring activity. The more comprehensive picture on similarities and differences can be obtained from the analysis of MCS design on the basis of contingency and institutional theories.

External environment

One of the important features of Norwegian IT offshoring to Ukraine is that the studied companies try to avoid the Ukrainian business environment as much as possible: they do not provide services on the Ukrainian market (or, in the EEG case, carefully choose their customers), introduce and apply Scandinavian management techniques towards managers and employees, the ownership structure preserves the Norwegian companies from the Ukrainian court system, etc. Moreover, though formally Norwegian/Scandinavian customers buy services from the Norwegian IT companies, the possibility of using services provided by Ukrainian consultants is not always perceived positively, which entails customers visits to Ukraine and bringing Ukrainian employees to Norway. In other words, the Ukrainian environment is perceived as hostile and turbulent by the studied companies, so the reliance on formal controls and an emphasis on traditional budgets are considerable. However, the Norwegian external environment also considerably influences the offshoring relationships: for example, the cost of Ukrainian IT consultants rises, when they are in Norway, due to the UDI requirements; EDB ErgoGroup and Itera have to follow rules of Oslo Stock Exchange, where they are registered, etc.

With respect to the Ukrainian context, the Norwegian IT companies prefer rather to cooperate than to compete. They share each other's knowledge and experience, discussing possibilities, and use business lobby to solve certain problems. This entails certain existing and coming similarities in MCS of the companies and, thereby, represents an example of mimetic isomorphism. For instance, EDB ErgoGroup introduced participative budgeting for Infopulse and Miratech in the beginning of 2011, while Itera Consulting Ukraine had it before. In turn, Itera Consulting Ukraine is striving for being audited by the Ukrainian subsidiary of the Itera's external auditor, while Infopulse and Miratech are already audited by the Ukrainian subsidiary of EDB ErgoGroup's external auditor. The managers in the Ukrainian companies of both EDB

ErgoGroup and Itera want to be able to participate actively in decision-making for the whole group.

The general situation in the Ukrainian IT industry is also an important cause of similarities, which can be regarded as a normative isomorphism. For instance, the companies use the system of private entrepreneurs not only because of cost saving, but because almost the whole industry works in this way and almost all newcomers have been working as private entrepreneurs for their previous employers.

Thus, the Ukrainian external environment of the studied companies influences their MCS design by making it more homogeneous.

Technology

Providing IT services is not large-batch and mass production, and does not require complex technologies. All, what is actually needed, is high-skilled specialists, computers with necessary soft and Internet access, and office. Since the main asset of IT companies is people, the hourly rate (i.e. direct labour) is the key element of calculating the projects costs, which explains the use of direct cost approach by all three companies. At the same time, although processes in IT companies are well understood, the IT services are non-standard and vary from customer to customer. In other words, the studied companies are organizations that provide customized services but employ reasonably automated processes. Thus, it is not enough for the companies to use only traditional formal controls, but the more open and informal controls are required. Various trainings, courses, seminars, visits, working trips, corporate events, mission, vision, values and slogans are examples of such informal controls used in EDB ErgoGroup, Itera and Scandinavian House.

Thus, technology is a contextual variable that also gives rise to similarities in MCS design of the studied companies.

Organizational structure

EDB ErgoGroup ASA and Itera ASA are large stock-registered companies with many subsidiaries. It means they have to follow certain rules and regulations imposed by the state authorities with respect to the organizational structure, policies and procedures, and they have

much more decentralized structure as compared to Scandinavian House. That is one of the reasons why the MCS in EDB ErgoGroup and Itera are more formalized than in Scandinavian House. For example, the first two companies use special electronic reporting systems for collection and consolidation of information, hold formal meetings, have elaborated internal control and surveillance (such as country representative and internal auditor in EDB ErgoGroup), etc. In turn, in Scandinavian House CEO and Managing director are the same person, and the whole management team in Norway consists of “one and a half persons”. The information exchange in Scandinavian House is regular, but rather informal (such as daily conversation by Skype), and the CEO does not need extensive monthly reports or additional documentation, since the whole information about all projects continuously goes through him.

Another aspect of organizational structure relates to ownership structure. Since EDB ErgoGroup owns 60.1% of its Ukrainian subsidiaries as opposed to Itera and Scandinavian House that own 100% of their Ukrainian companies, it needs to use more control mechanisms to ensure observance of behavioural rules, and this is one of the reasons of strong emphasis on code of conduct. On the other hand, EDB ErgoGroup also gets additional benefit: since the top-managers of the Ukrainian subsidiaries are the minor owners, which are presented in the respective boards, they have additional motivation to work more efficiently.

The use of participative budgeting in EDB ErgoGroup and Itera can be explained by the fact the functional differentiation in IT companies is based on research and development, the leadership style is characterized by a consideration (orientation towards interpersonal relationships, mutual trust and friendship, i.e. what is typical for Scandinavian management style). Though Scandinavian House has the same presuppositions, its level of decentralization is much lower than in the first two companies, so there is no need for formal participative budgeting. The use of teams in all three companies also explains similarities in approaches towards using team-based MC tools.

Thus, organizational structure is one of the sources of both similarities and differences in MCS design of the studied companies.

Size

Size is closely associated with organizational structure, since the bigger size, the more sophisticated organizational structure is needed. The studied companies are very different in size,

and it can be noticed that with the size increase from Scandinavian House to Itera and EDB ErgoGroup the formalization of procedures, specialization of functions, divisionalization of organizational structure, participation in budgets and sophistication of controls increase. In Scandinavian House there is rather one-man control, and hence, there are the minimum of formalization, simplified information exchange, disuse of private entrepreneurs system, use of small local auditor, familiarity in cultural controls, etc. On the contrary, in EDB ErgoGroup the control rests upon relatively great number of elaborated procedures and instruments compared to the other two companies.

Thus, for the studied companies size is one of contextual variables that explain differences in MCS design.

Strategy

The studied companies share almost the same offshoring motivation, which entails certain similarity in their strategies in the part of cost leadership that is associated with formal, traditional MCS focused on cost control and budget controls. However, in general the strategic of the companies are different. EDB ErgoGroup is aimed at “clear Nordic leadership”, Itera have set a goal to become “one billion company”, while Scandinavian House wants to continue with the idea of being “small, efficient and low-cost organization”. Thus, the strategies of EDB ErgoGroup and Itera are characterized by aggressive growth. This explains the recent and on-going changes in MCS of EDB ErgoGroup and Itera and is also one of the reasons of mimetic isomorphism. For example, the policies and procedures in EDB have started to change after the merge with ErgoGroup in 2010, as well as in the course of transformation processes in 2010 Itera changed its vision and values to ones that look like balanced scorecard. Scandinavian House, in turn, is rather focused on strengthening of positions in its niche with a business idea of rather reliable mediator than first-hand service provider, and thus, has more stable MCS.

Another difference in strategies is related to the way of starting offshoring to Ukraine. EDB ErgoGroup decided to buy its subsidiaries instead of establishing new ones as Itera and Scandinavian House did. This entailed the necessity of special MC tools for EDB that could ensure effective integration of companies with their own existing MCS into the whole group (for example, special training on code of conduct), while Itera and Scandinavian House just started from scratch. However, all three companies apply towards and require from their subsidiaries Scandinavian management style, and in this connection it was important for all of them to have

management teams in Ukraine, which consisted of people that were used to work in/with Western or Western-oriented companies.

In addition, EDB ErgoGroup has plans to penetrate local Ukrainian market, but through cautious selecting of customers. For EDB ErgoGroup it means that it needs even more than other companies to rely upon not only formal mechanisms of selecting, but also informal ones based on business networks.

Thus, strategy is a contextual variable that is a driver for both similarities and differences in MCS design of the studied companies.

Culture

Culture seems to be one of the most important contextual variables in IT offshoring, because usually the cultural differences are significant in the client's country and offshoring destination (if we compare, for example, Norway and India or China). Although the respondents admit that Norwegian and Ukrainian cultures are relatively similar, all companies stated there were challenges related to cultural dimension, which they had to take into account or cope with.

Among such challenges there are different job approach, young age and career ambitions of Ukrainian specialists, difficulties with the implementation of Scandinavian management style, relationships-based Ukrainian culture, different perception of what the experienced worker is, the effect on culture of the wide spread between salaries, etc. In order to overcome the challenges, the companies use special trainings on cultural differences, formal and informal conversations for sharing the knowledge, experience and explaining cultural peculiarities, seminars and visits for learning through seeing.

Since all three companies are Norwegian and they work with Ukrainians, it may be argued that they have more or less the same cultural contexts, which is a source of similarities in MCS design of the studied companies.

5.5. MCS design peculiarities: metaphorical interpretation

Comparing similarities and differences in the studied companies, it was decided to resort to the means of metaphors in order to outline the general features of MCS design in offshoring of the

Norwegian IT companies to Ukraine. According to Morgan (1998), metaphor is an important tool for stretching thinking and deepening understanding by creating meaning through the use of one element of experience to understand another.

In this work new metaphors, which seem to be suitable for the companies' MCS and roles on the market, are proposed. Since offshoring deals with inter-organizational relationships, it was chosen to draw analogy with interpersonal relationships in human society. Taking into account the fact that all three companies outsource to Ukraine through the subsidiaries, family relationships and, more precisely, parenthood, seem to be the most relevant.


EDB ErgoGroup's role and nature of relationships with the subsidiaries can be expressed as **"elder stepfather and grown-up children"**. With its half-century experience, contacts and influence in both Norway and Ukraine, EDB ErgoGroup is the elder of the Norwegian IT market. Meanwhile, the company decided to buy companies with relatively long experience rather than to establish new entities, thus, becoming "stepfather" for "grown-up" Infopulse and Miratech. Just as it is extremely hard (if not impossible) to re-educate behaviour and habits of adults at once, it could be excessively hard for EDB ErgoGroup to change MCS in the subsidiaries just after purchase. EDB ErgoGroup acted as a wise elder and did it gradually. The main challenge in the relationships is to always keep in mind the fact that the grown-up children have their own characters as well to prevent the possible "Cinderella effect".

Itera and its Ukrainian subsidiary, with their concentration on the public image, slogans, love to changes, concept of being premium class company and working with people in the top 5%, pioneering MC tools (such as participative budgeting or budget flexibility in monthly terms) as compared to other two companies, and the subsidiary's desire to be more autonomous as well as influence processes in the parent company, can be depicted as **"dandy daddy and ambitious child"**. The main challenge for the daddy is to steer the child's ambitions in the right direction, not suppressing, but not leaving it to the mercy of fate either.

Finally, taking into account the role Scandinavian House plays for EDB ErgoGroup, Itera and other companies, helping them to buy/establish the subsidiaries, settle problems with UDI and consulting in different issues, bringing partners together, etc., and considering willingness of the company to stay in a small niche as well as strong individual control of the Norwegian CEO, it was chosen to portray Scandinavian House and its subsidiary as **"godfather and quiet child"**.

The main challenge here is to maintain authority in order to avoid being pushed out from the market.

5.6. Summary

he analysis carried out in this chapter shows that the Norwegian IT offshoring to Ukraine has two levels, connected as a daisy chain: the Norwegian non-IT companies (clients) buy IT services from the Norwegian IT companies that outsource tasks in part or whole to their Ukrainian subsidiaries. Thus, clients have the strategic intents of cost reduction or business impact and use either onshoring or, indirectly, offshore development centres, while the Norwegian IT companies use captive offshoring, having commercial exploitation as strategic intent. In general, the choice of captive offshoring can be explained by influence of both internal and external determinants: from the internal context perspective IT business functions and processes are key activities for the IT companies, and from the external context perspective the companies try to secure themselves from hostility and turbulence of the Ukrainian business environment.

The use of captive offshoring entails the fact that all three studied companies have hierarchical inter-organizational relationships with their Ukrainian companies and use the fully-fledged set of MCS aimed at control of behaviour. However, the MCS of the Norwegian IT companies and their subsidiaries do not coincide. Moreover, they are influenced not only by company-subsidiary relationships, but also by the external clients. As a result, there appear MCS chain and, in more complex cases, MCS chains network.

There are both similarities and differences in MCS design of the studied companies. Combining contingency and institutional theories it is possible to argue that such contextual variables as external environment, technology and culture are sources of isomorphism in MCS design of the studied companies; size explains differences, while organizational structure and strategy give rise to both similarities and differences in MCS design.

On the basis of comparison of the MCS design in the studied companies as well as their roles in relations with subsidiaries, clients and competitors, the following metaphors for each of the companies can be defined: “elder stepfather and grown-up children” (EDB ErgoGroup), “dandy daddy and ambitious child” (Itera), and “godfather and quiet child” (Scandinavian House).

6. CONCLUSIONS

Every new beginning comes from some other beginning's end.

Seneca

6.1. Summary of the research



This work was aimed at exploring MCS design in offshoring on the basis of three companies, operating in the same context combination: offshoring of the Norwegian IT companies to Ukraine. The choice of EDB ErgoGroup ASA, Itera ASA and Scandinavian House AS was determined by the fact that these companies are the only Norwegian companies engaged in IT offshoring to Ukraine. The problem statement entailed formulation of four interrelated research questions, concerning offshoring design, MCS design, their interconnection and context.

However, during analysis of relevant literature it was found out that so far there was no special theoretical approach towards MCS in offshoring. The existing literature deals mainly with its wider form, outsourcing, and in most cases examines it within theory of inter-organizational relationships on the basis of transaction cost theory. Moreover, even the definition of offshoring itself is still vague and used in different meanings across researchers. In this work offshoring is defined as outsourcing abroad and its place in sourcing relationships as well as offshoring stage model are proposed. With a purpose of analyzing MCS in IT offshoring within its context it was decided to choose the combination of the concept of MCS package, contingency theory, institutional theory and theory of inter-organizational relationships in order to elaborate the theoretical model.

Concerning the first research question about motivation and configuration of the Norwegian IT offshoring to Ukraine, it was discovered that the Norwegian IT companies use offshoring mainly as a tool to reduce their costs and improve efficiency through taking advantage of low-cost and high-skilled labour force. The offshoring services in Ukraine are provided by the companies' subsidiaries. Although this work was focused on the Norwegian IT companies, the data, obtained during investigation, revealed interesting fact: Norwegian companies with IT as non-core activity do not outsource IT services to Ukraine directly, but through the studied companies, being their clients. In other words, formally transactions take place in Norway, though clients can use dedicated teams of the Norwegian IT companies in Ukraine. All this makes it possible to

argue that the Norwegian IT offshoring to Ukraine can be presented as a daisy chain, where two levels of outsourcing relations (Norwegian non-IT companies-Norwegian IT companies; Norwegian IT companies-Ukrainian subsidiaries of the Norwegian IT companies) are sequentially connected.

The second research question was to describe MCS design in the Norwegian IT offshoring to Ukraine and reveal similarities and differences across the studied companies. Comparison of MCS in offshoring of EDB ErgoGroup, Itera and Scandinavian House shows that all three companies have hierarchical inter-organizational relationships with their Ukrainian companies and use the fully-fledged set of MCS aimed at strict behaviour control. The most important element in MCS package is administrative controls with the well-defined organizational and governance structure as well as detailed rules, policies and procedures, while the other controls types are used mainly to support administrative ones. However, the formalization degree varies from the lowest in Scandinavian House to the highest one in EDB ErgoGroup.

In addition, comparison of the MCS design in the studied companies as well as their roles in relations with subsidiaries, clients and competitors enabled use of metaphors towards each of the companies. Thus, EDB ErgoGroup and its Ukrainian subsidiaries Infopulse and Miratech were portrayed as “elder stepfather and grown-up children”, Itera and Itera Consulting Ukraine as “dandy daddy and ambitious child”, and Scandinavian House and Scandinavian House Ukraina as “godfather and quiet child”.


The third question was about linking offshoring configuration and MCS design. The interesting peculiarity was noticed when looking at the whole system of relationships that occur in offshoring process. The MCS of the Norwegian IT companies and their subsidiaries do not coincide. However, they are influenced not only by company-subsidiary relationships, but also by the external clients. Thus, MCS design in offshoring is shaped by both organization’s internal processes and MCS of other companies involved in the process. As a result, there appears MCS chain that can be defined as interconnected and interdependent series of MCS in inter-organizational relationships, which include MCS inside participating organizations and MCS concerning relations between them. However, the singular MCS chain is rather rarity in real-life conditions, and with certain reservations it can be applied only to small offshoring companies (for example, Scandinavian House). In more complex cases, such as Itera and, especially, EDB ErgoGroup, there is actually a set of MCS chains, forming a MCS chains network, which does not have so linear structure.

In connection with the concepts of MCS chain and MCS network another interesting observation can be made. These concepts imply that a company has to take into account, accept, change or adapt to MCS elements in other organizations, while designing own MCS. Thus, changes in MCS of one of the companies in the chain might cause a kind of chain reactions in MCS of the related organizations. If it happens as one-way process, not mutual (for example, it is only parent/client company that influences the MCS of the organization), the managers in the organization feel certain discontent and have desire and willingness to be more proactive towards the parent/client company.

Answering the fourth question concerning MCS design within its context helped to analyze reasons for similarities and differences in MCS design across the cases. The facts that all three companies are Norwegian ones, they operate in IT industry and outsource to Ukraine give opportunity to say that they are influenced by external environment, technology and culture in a similar way, which gives rise to similarities in MCS of the studied companies. On the other hand, EDB ErgoGroup, Itera and Scandinavian House differ in size very much, and this entails differences in MCS. Finally, organizational structure and strategy of the companies have both similarities and differences, which have respective effects on MCS.

On the basis of analysis it is also possible to make a proposition concerning context: the more turbulent and hostile the business environment in offshoring destination the higher possibility the participants would not operate on the local market. This statement makes sense towards the studied context of Norwegian IT offshoring to Ukraine, but needs to be tested on other contexts.

6.2. Proposals for further research

 The issue of MCS design in offshoring is a rich field for academic investigations, and this master thesis is only one link in the long chain of possible researches, both theoretical and empirical ones. For example, with respect to the Norwegian IT offshoring to Ukraine, it might be explorative research on the relationships that occur between Norwegian non-IT and IT companies, with the following descriptive research covering as many partners as possible on all levels, which would give evidences for or against theoretical model of linking offshoring configuration to MCS design as well as concepts of MCS chain and MCS chain networks. The study of changes in MCS of offshoring partners might prove or refute the proposition about chain reactions in MCS.

Exploring MCS design in the Norwegian IT offshoring, this master thesis gives rather general overview and describes differences and similarities within the context in the general terms. The separate studies on each of controls types or even certain MC tool in one or several companies might bring more detailed pictures, while causal researches would provide more clear evidence on influence of different factors on MCS design.

Another look on the phenomenon can be made from the perspective of other theoretical approaches and their combinations, such as resource-based view, resource dependency theory, principal-agent theory, relational governance, actor-network theory, etc., in addition to the theories used in this master thesis.

By going beyond the scope of chosen Norway-Ukraine context and even IT sphere, it is possible to do researches with respect to other pairs of countries, as well as multi-country studies. It might help to identify in MCS design in offshoring both general features that do not depend on context, and peculiarities caused by differences in the cultural, industrial and other contexts.

Considering the fact that the offshoring contexts are changing due to external factors (e.g. changes in legislations or industry) as well as internal ones (e.g., changes in strategies, trust, etc.), participant observation of offshoring relationships development might also be an interesting research opportunity.

With each new research the list of proposals for further researches can become longer and longer. As Alexandre Pope, the famous 18th-century English poet, said,

*“Lulled in the countless chambers of the brain,
Our thoughts are linked by many a hidden chain;
Awake but one, and lo, what myriads rise!”*

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Gartner <http://www.gartner.com>

Infopulse Ukraine <http://www.infopulse.com.ua/>

IT Ukraine <http://www.itukraine.org.ua>

Itera Consulting Ukraine <http://www.iteraconsulting.com.ua/>

Itera <http://www.itera.no/>

Miratech <http://www.miratechgroup.com/>

Scandinavian House <http://www.scandinavianhouse.no/>

Ukraine Development Gateway Project <http://www.ukraine-gateway.org.ua>

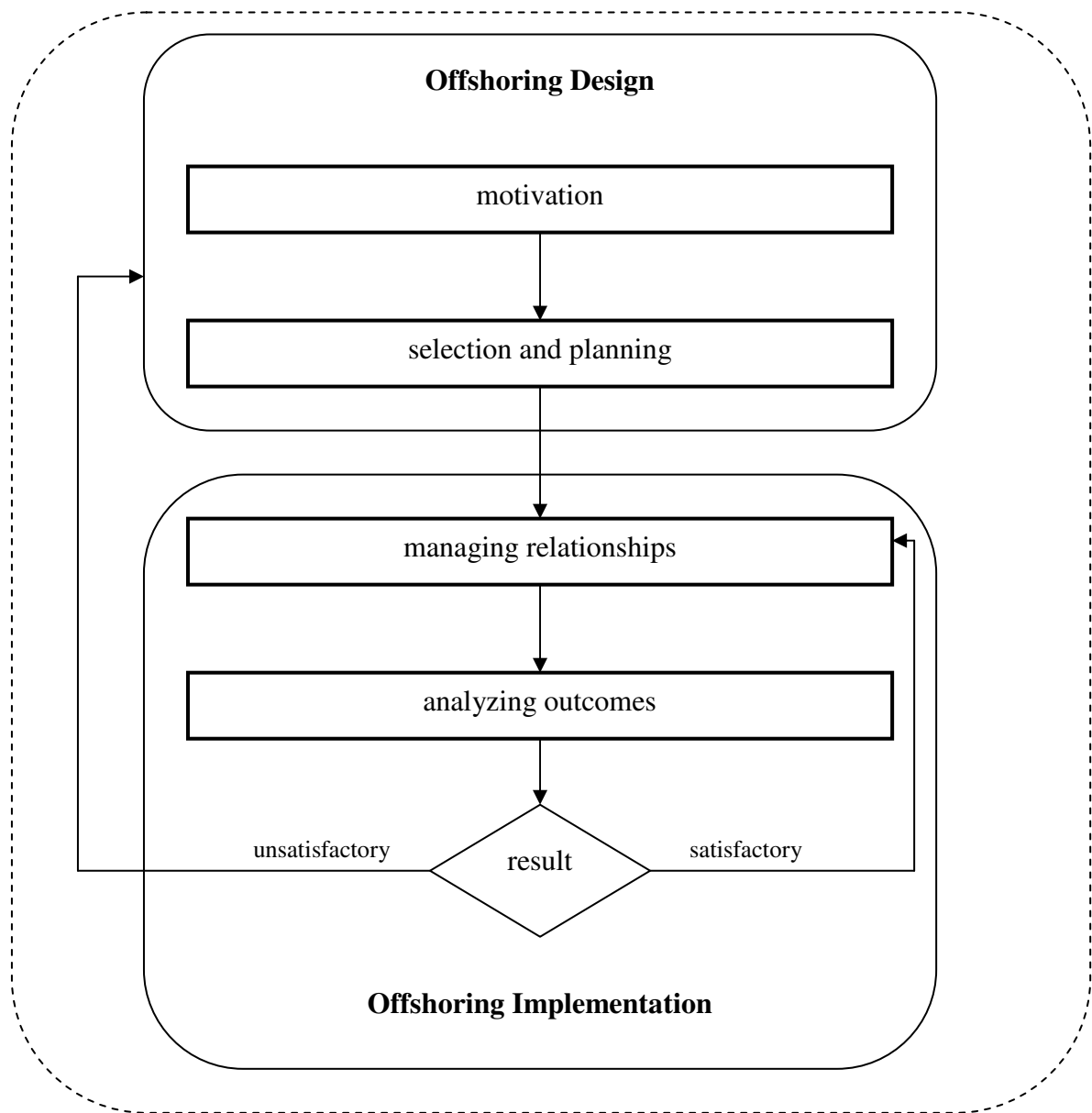
Ukrainian Hi-Tech Initiative <http://www.hi-tech.org.ua>

Appendix 1. Definitions of IT/IS outsourcing

Author(s)	Definition	Key Aspect
Apte et al., 1997	turning over to a vendor some or all of the IS functions	turning over some or all of the IS functions
Chaudhury et al., 1995	the contracting of various information systems' sub-functions by user firms to outside information systems vendors	contracting of IS sub-functions
Cheon et al., 1995	the organizational decision to turn over part or all of an organization's IS functions to external service provider(s) in order for an organization to be able to achieve its goals	turning over some or all of the IS functions
Dibbern et al. (2004)	organizational arrangement instituted for obtaining IS services and the management of resources and activities required for producing these services	obtaining IS services and their management
Fitzgerald & Willcocks, 1994	the commissioning of a third party (or a number of third parties) to manage a client organization's IT assets, people and/or activities (or part thereof) to required results	managing IT assets, people and/or activities
Hancox & Hackney, 1999	the third party provision of IT products and services	provisioning IT products and services
Hu et al., 1997	business practice in which a company contracts all or part of its information systems operations to one or more outside information service suppliers	contracting of some or all of the IS functions
Kern, 1997	a decision taken by an organization to contract-out or sell the organization's IT assets, people, and/or activities to a third party vendor, who in exchange provides and manages assets and services for monetary returns over an agreed time period	contracting-out or selling of IT assets, people, and/or activities
Lacity & Hirschheim, 1993	the purchase of a good or service that was previously provided internally	purchasing of good and services
Lacity et al., 1995	handing over to third-party management, for required result, some or all of an organization's IT information systems (IS) and related services	handing over of some or all of IT IS and related services
Loh & Venkatraman, 1992	the transfer of property or decision rights in varying degrees over the IT infrastructure by a user organization to an external organization	transferring IT property or decision rights
Willcocks & Kern, 1998	the handing over to a third party management of IT/IS assets, resources, and/or activities for required results	handing over of IT/IS assets, resources and/or activities

Source: made by author

Appendix 2. Offshoring stage model as rational decision-making



Source: made by author

Appendix 3. Types of strategic intent for IT outsourcing

Strategic Intent	Goals	Levels of ambition	Contract type	Performance Measures	Success factors	Failure factors
IS Improvement	<ul style="list-style-type: none"> - cost reduction - service quality improvement - acquisition of new technical skills and management competencies 	<ol style="list-style-type: none"> 1) improving productivity of existing IT resources 2) upgrading existing IT resources and skills 3) introducing new IT resources and skills 4) transforming IT resources and skills 	<ul style="list-style-type: none"> - specialized contracts - standard contracts 	<ul style="list-style-type: none"> - IS costs - IS quality - IS productivity - IS user satisfaction 	<ul style="list-style-type: none"> - exploiting economies of scale and expertise - deploying proven processes for cost reduction and service improvement - bringing distinctive technical expertise to bear for the client 	<ul style="list-style-type: none"> - vendor's lack of appropriate technical and management skills - cost shifts and postponements instead of real reductions - added coordination costs that exceed the savings from outsourcing
Business Impact	<ul style="list-style-type: none"> - deploying IT to significantly improve critical aspects of business performance 	<ol style="list-style-type: none"> 1) better aligning IT with the business 2) developing new IT-based business capabilities 3) implementing IT-enabled business change 4) performing IT-intensive business processes 	<ul style="list-style-type: none"> - strategic alliances - preferred supplier 	<ul style="list-style-type: none"> - business costs - business quality - business productivity - business customer satisfaction 	<p>more business oriented than technical:</p> <ul style="list-style-type: none"> - understanding the operation - fitting IT to business needs - being able to manage change projects - having the right balance of management expertise and technical know-how 	<ul style="list-style-type: none"> - losing ownership of the user management and IT innovation processes focusing on the discovery of new ways to exploit technology in the business - vaguely defined continuous transfer of knowledge about the impact of emerging technologies in outsourcing contract
Commercial Exploitation	<ul style="list-style-type: none"> - improving the return on IT investment by generating new revenue and profit or by offsetting costs 	<ol style="list-style-type: none"> 1) selling self-existing IT assets externally 2) developing new IT products and services 3) creating new market processes and channels 4) establishing new IT-based businesses 	<ul style="list-style-type: none"> - equity ownership - parent / subsidiary 	<ul style="list-style-type: none"> - return on assets - revenue - market share 	<ul style="list-style-type: none"> - product development, - technical innovation - sales and marketing 	<ul style="list-style-type: none"> - misjudging or failing to realize synergies of assets and capabilities - failing to fulfil commitments to internal customers - ensuring that the rewards received by the partners are commensurate with the risks that each assumes

Source: made by author based on DiRomualdo & Gurbaxani (1998).

Appendix 4. Interview guide

Short description. Here are topics which I would like you to tell about. It is not strict questionnaire, so feel free to describe as much as you can in depth, especially in the main-part questions.

“Offshoring” is used here as “outsourcing abroad”. The idea is to reveal what the main peculiarities in coordination and controlling systems of Norwegian-Ukrainian offshoring parties are.

Motivation for offshoring (in short)

1. When and why did you decide to outsource? What did you consider as possible benefits?
2. Why did you choose Ukraine?

Business environment (in short)

1. Could you, please, describe your business environment in Ukraine?

Offshoring relationships characteristics (in short)

1. Offshoring relationships can be organized in three main ways: either purchasing products from the independent supplier in Ukraine, or using offshore development centres, or setting a wholly-owned division (subsidiary). Which way have you chosen? Why?
2. Could you, please, describe the relationships between Norwegian and Ukrainian parties (how dependent/interdependent/independent they are)?

Control mechanisms (main part)

1. Could you, please, describe what the Norwegian party uses for coordination and controlling the Ukrainian party? Leading questions:
 - How is planning process organized? Do you use short-term (up to 1 year) and long-term plans? What are the main goals, and who sets them?
 - How is budgeting process organized? What do you think about budgets? Do they help to work more efficiently or, on the contrary, put obstacles and limitations?
 - Which financial and non-financial measures do you use to evaluate performance?

- What kind of rewards and penalties do you use?
 - What is your organizational and governance structure?
 - What kind of standards, rules and regulations do you use towards the Ukrainian party?
 - Which role do trust, personal contacts and reputation play?
2. Is there need for constant or frequent control and monitoring? What do you use in this case?
 3. Which control mechanisms are used by the Ukrainian party for managing the process in Ukraine (planning, budgeting, performance measures, rules, rewards etc.)?
 4. Which national, cultural, legislative and other differences and uncertainties influence the choice of control mechanisms and how?
 5. Are there substantial differences in accounting and management systems between Norwegian and Ukrainian parties? How do you handle it?
 6. Do Norwegian and Ukrainian parties have the same core values (mission, vision)? What are they? How do they influence employees' behaviour?
 7. Are there some changes in control mechanisms of a company in the course of time? What are they and why did they occur?

Concluding questions (in short)

1. Are you generally satisfied with offshoring to Ukraine? Do you get the benefits you expected?

Appendix 5. Comparison of EDB ErgoGroup ASA, Itera ASA, Scandinavian House AS

company			
characteristic	EDB ErgoGroup ASA	Itera ASA	Scandinavian House AS
Date of establishment	1961	1999	2005
Operating revenue (2010)	NOK 8.7 billion	NOK 384 million	NOK 3 million
Motivation for IT offshoring	cost reduction and efficiency improvement through taking advantage of low-cost and high-skilled labour force; strengthening market position through expanding; getting part of the growth on the emerging market	cost reduction and efficiency improvement through taking advantage of low-cost and high-skilled labour force	
Alternatives for IT offshoring	Baltic countries, Slovakia, Hungary, Belarus, Turkey, Ukraine	India, Sri-Lanka, Poland, Hungary, Romania, Bulgaria, Russia, Ukraine	China, Ukraine
Reasons for choosing Ukraine	short geographical distance; low labour costs; large population; large number of IT specialists; relatively high democratic level; similar culture; business network and advises; low possibility of moving Ukrainian specialists to the EU; good language skills; Western-oriented IT industry; EU standards adopting		
Start of IT offshoring to Ukraine	2007	2008	2005
Suppliers	Infopulse and Miratech (subsidiaries)	Itera Consulting Ukraine (subsidiary)	Scandinavian House Ukraina (subsidiary); reliable independent partners
Main customers	Scandinavian companies		
Customers in Ukraine	few reliable customers	no	no
Main competitors	Western IT companies that regard Ukraine as offshoring location		
Cooperation	the three companies prefer rather to cooperate than to compete with each other and considerably rely on business networks		
MCS package	planning controls	the Norwegian company sets goals for the Ukrainian party, which, in turn, elaborates action plans	
		offshoring strategy is mainly concerned with cost leadership	
		the Ukrainians companies are allowed to serve external customers and penetrate Ukrainian market in addition to serving EEG	The Ukrainian company is seen as one of subdivisions, which contributes to the common goal

characteristic		company	EDB ErgoGroup ASA	Itera ASA	Scandinavian House AS	
MCS package (cont.)	cybernetic controls	budget	participative budgeting (from 2011); budget fixed with monthly partitioning	participative budgeting; budget fixed in annual terms, but flexible in monthly terms	fixed budget with monthly partitioning	
		financial measures	the Norwegian company evaluates activity on the basis of monthly reports according to IFRS, while Ukrainian managers pay attention to their own operational indicators and mainly to the share of billable/non-billable employees; direct cost approach			
		non-financial measures	IT security checks; customers' visits; check of compliance with EEG regulations; capacity utilization; employee turnover; employee survey	capacity utilization, quality tests; employee turnover, employee survey	customers' visits	
	rewards & compensation	financial	salary, strong emphasis on various bonuses attached to financial and non-financial objectives	salary, bonuses for administrative staff, occasional unexpected bonuses for some IT consultants or teams	salary, bonuses	
		non-financial	additional training; IT courses; corporate events; career system; trips to Norway			
	administrative controls	ownership	60.1%	100%		
		governance	The Norwegian company governs the Ukrainian party mainly through the Ukrainian top-managers; in the case of dedicated customer team clients get possibility to control the team directly			
			Ukrainian top-managers participate in relevant board meetings as minor owners of the Ukrainian companies	Ukrainian top-manager participates in general meetings as a subdivision's director	the Norwegian CEO is at the same time a managing director	
		management team	the Ukrainian companies are managed by Ukrainians who have experience of working in/with Western or Western-oriented companies			
		management style	the Ukrainian company should apply Scandinavian management style			
		legal status of employees	80-90% are private entrepreneurs, the rest is in staff			all employees are in staff
		number of Ukrainian employees	about 1000 persons (totally in two companies), 300 of them work directly for EEG	about 50 persons	about 10 persons	
		employees organization	project teams (in average about 5-10 persons)			project teams (about 3 persons)
		employee utilization	the Ukrainian companies allocate employees between EEG and external customers	the Ukrainian company uses either own employees or unoccupied employees of other companies	the company uses either own employees or acts as a mediator between client and independent supplier	

characteristic		company			
		EDB ErgoGroup ASA	Itera ASA	Scandinavian House AS	
MCS package (cont.)	administrative controls (cont.)	internal reporting and surveillance	constant country representative and auditor outside the Ukrainian companies; reporting through Oracle Hyperion system; frequent two-way managerial visits	reporting through ERP Maconomy System; frequent two-way managerial visits	monthly invoices and budget report; active participation of the Norwegian CEO in projects; daily communication; CEO's visits
		information exchange	intranet, e-mail, phone, meetings		e-mail, phone, meetings
		external audit	the Norwegian company is audited by Ernst & Young – Norway, while the Ukrainian companies by Ernst & Young – Ukraine	both the Norwegian and Ukrainian companies are audited by KPMG Norway	the Norwegian company is audited by Inter Revisjon, while the Ukrainian by small local auditor
	cultural controls	vision, mission, values	All three companies have own vision, mission and values, but the Ukrainian companies adapt theirs to the parent company	the Ukrainian company shares the mission, vision and values of the Norwegian one	
		emphasis	code of conduct	public image	familiarity
		idea of control	make Ukrainian employees “feel happy”		
		recruiting	the personal qualities are more important than the technical skills		
		corporate culture development	gradual transition to Scandinavian style through learning and experience sharing	immediate introduction of Scandinavian style	
		ambitions	the Ukrainian managers want to be able to participate actively in decision-making for the whole group	the Ukrainian managers want to be more autonomous and able to participate actively in decision-making for the whole group	the Ukrainian managers are satisfied with relations
		informal groups	sport teams; professional groups; family members; friends	family members; friends	friends

Source: made by author