



The Appeal of the Appropriate: Accounting, Risk Management, and the Competition for the Supply of Control Systems

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**THE APPEAL OF THE APPROPRIATE:
ACCOUNTING, RISK MANAGEMENT, AND THE COMPETITION FOR THE SUPPLY OF CONTROL
SYSTEMS**

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Abstract

How do certain risk measurements in organizations come to be seen as more reliable and acceptable than others? Taking a multiple-control perspective, I investigate the aftermath of a control debacle at a financial services company (MultiBank), focusing on its insurance division (EurInsurance), which suffered large losses in the European insurance crisis of 2002-2003. At MultiBank, the insurance crisis opened up a field of contestability in which new control agents got the opportunity to become implicated in divisional control. The struggle for custody over divisional control was a micropolitical process of interprofessional competition, played out between accountants and risk controllers who promoted conflicting measures of the key strategic uncertainty, EurInsurance's capital adequacy. The control agents engaged in credentializing strategies (Power, 1992); they mobilized and drew on different cultural resources to construct the reliability of their techniques and to discredit and "minoritize" the others'. This credibility contest was won by the accountants who (unlike their opponents) were able to demonstrate the "institutional appropriateness" of their controls. Importantly, the fate of the competing control systems was contingent, not on how well their technologies addressed the problem of EurInsurance's capital adequacy, but rather on the controllers' capacity to generate top managerial acceptance and a widespread consensus among both internal and external stakeholders. The outcome of this type of professional competition is not determined by claims about representing the underlying economic reality, but by claims about representing those who care about it most. While competing controller groups have been observed to appeal to top management's logic of functionalism, this paper argues that, in certain circumstances, controller groups may successfully draw on the logic of appropriateness as they supply new control systems.

1. Introduction

My first assumption is that people who have been running a business for years are not stupid. If they don't look at certain things, there are reasons why they do not look at certain things. (Chief Risk Officer, MultiBank)

That the future is uncertain is obvious and trivial... Less obvious and less trivial is the process by which some technologies for knowing the future come to be regarded at specific times and places as more reliable and acceptable than others. (Power, 2010: 198)

The financial crisis of 2007-2009 highlighted the controversial role of the banks' ubiquitous risk-measurement models² in creating at least some of the conditions for what turned out to be the most severe economic crisis since the Great Depression (Power, 2009). Risk measurement draws on the techniques and cultural authority of financial economics. However, continuing debacles, such as the multibillion-dollar loss suffered by JPMorgan Chase & Co. in 2012, keep reopening the controversy around risk

² See, for example, "System error: Why computer models proved unequal to market turmoil," by Anuj Gangahar and Gillian Tett, *Financial Times*, August 15, 2007.

measurement,³ leaving the impression that the institutionalization of measurement-based risk management is not a linear progression of historical inevitability, but a messy process characterized by halts-and-spurts, setbacks, and a radical open-endedness.

In fact, the rise of risk measurement reflects much more than the rise of a new technical measurement convention. The parallel story of the “financialization” of accounting through fair value accounting also raises Michael Power’s crucial question: How and why do some value-measurement technologies “come to be regarded at specific times and places as more reliable and acceptable than others?” (Power, 2010: 198). While Power (2009, 2010) pinpoints the cultural authority of financial economics as a key condition that gave institutional support to both the proponents of fair value and the advocates of measurement-based risk management, he acknowledges that a more complete analysis would need to address the role and power of key individuals in shaping the rise and fall of these technologies. Such “more complete” accounts would need to locate these technologies not only in their institutional contexts, but also inside organizations, where their fates are decided by the micropolitics of (professional) competition (Ezzamel and Burns, 2005). Organizational research has long documented an ongoing competition between various professionals to supply control systems inside organizations (Burchell et al., 1980; Armstrong, 1985; Dent, 1991; Mouritsen, 1999; Ezzamel and Burns, 2005). The question thus becomes: How do risk controllers compete with other controller groups in order to advance their representations as more reliable and their control solutions as superior?

This paper presents a longitudinal field study which demonstrates that, even though risk controllers do draw on the authority of financial economics, as Power (2012) suggests, such credentials do not automatically translate into credibility inside the organization. What then determines the outcome of professional competition between an organization’s competing controller groups who draw on multiple and competing institutional credentials? I argue that control agents engage in various credentializing strategies (Power, 1992) to advance their solutions to organizational problems. While competing

³ See, for example, “Fears deepen over risk model,” by Tracy Alloway, *Financial Times*, May 14, 2012; LEX: “Value at risk,” *Financial Times*, May 14, 2012.

controller groups have been observed to appeal to top management's logic of functionalism (Ezzamel and Burns, 2005; Mouritsen, 1999), this paper argues that, in certain circumstances, controller groups may be more successful drawing on the logic of appropriateness as they construct the credibility of their representations. Hence, the criteria for a top management consensus on the relevance of representations and the reliability of control systems are complex and are not determined solely, or even primarily, by the functional logic of the controls in question. Certain risk measurements may be regarded as credible not because they are inherently more realistic, but because the measurement experts who promote them are more trusted. Conversely, risk measurements that are claimed to have superior representation qualities may still be deemed unreliable and will go underutilized if the experts who advance them fail to gain credibility. To paraphrase Power (1992), top managers believe in particular control systems because they believe in particular controllers, not the other way around.

The focus of my investigation is the aftermath of a control debacle in the early 2000s at MultiBank, a global financial services firm, and its insurance subsidiary, EurInsurance, itself a multinational company.⁴ During the 2002-2003 stock market "correction," EurInsurance was among many European insurance companies to suffer considerable losses on their equity investments. After a series of such market losses forced EurInsurance to disclose write-downs of close to \$1 billion each, MultiBank set out to readjust its control grip over its subsidiary. At the time of the crisis, top management actively engaged with multiple divisional controls, drawing on both legalistic rules-based accounting and financial market-simulating risk controls. Soon enough, however, accounting and risk controls came into conflict, both conceptually (as they provided management with conflicting messages about the key strategic uncertainty—EurInsurance's capital adequacy) and politically (as their proponents clashed and attempted to undermine each other's credibility). What ensued was a form of interprofessional competition, played out inside an organization, which was won by the accounting controllers. This study investigates how and why accounting controllers came to dominate the organizational agenda and what implications arise for

⁴ The company names are disguised for confidentiality.

interprofessional competition and the emergence and fate of new measurement technologies in accounting and risk management. Importantly, the fate of the claims put forward by the competing controller groups was contingent, not on how well their chosen methods addressed the problem of EurInsurance's capital adequacy, but rather on their capacity to generate top managerial acceptance and a widespread consensus among both internal and external stakeholders. The outcome of this kind of professional competition is not determined by claims about representing the underlying economic reality, but by claims about representing those who care about it most.

Although MultiBank's losses were not comparable to those suffered by financial institutions in the 2007-2009 financial crisis, its control debacle foreshadowed those firms' current concerns with capital adequacy and risk measurement. This case study underlines the validity of a point Power (1992) made in the context of the brand accounting debate: Seemingly technical debates about the "right" (most decision-relevant) representations of uncertainty cannot be abstracted from social questions of the credibility and legitimacy of the experts, such as accountants and risk managers, who promote these measurements.

In the next section, I outline three research perspectives that may help us explain how and why certain representations of uncertainty gain acceptance inside organizations, while others do not. Section 3 sets the scene for the case discussion by introducing the research methods and site, MultiBank's predicament in 2002, the control systems implicated in divisional control, and the cultural principles behind these systems. Next, I relate the longitudinal case, focusing on the tightening of divisional control (section 4) and rivalry between proponents of accounting-measurement-based and financial-risk-measurement-based controls (section 5) during a period of financial distress and recovery. The Discussion section brings the study into conversation with previous studies of competing controller groups and interprofessional competition inside organizations. While competing controller groups have been observed to appeal to top management's logic of functionalism, I argue that, in certain circumstances, controller groups may be more successful drawing on the logic of appropriateness as they construct the credibility of their representations.

2. The intraorganizational competition to supply management control systems

Organizational researchers have found a highly competitive market in information, both outside and inside organizations, of which accounting systems are only one part (Burchell et al., 1980). Behind every information system there is a controller group that competes for the attention of key organizational decision-makers in a “marketplace” of ideas and issues (Dutton et al., 1997, 2001).

How and why does a certain control system gain acceptance inside an organization, while others do not? Why do some controls have greater visibility and influence (by setting important organizational agendas) than others? Such questions have motivated a longstanding research agenda in management accounting, which can be loosely grouped into three strands: the information content perspective, the process perspective, and, most recently, the institutional perspective. This section addresses each in turn.

2.1. *The information content perspective*

From an *information content* perspective, the main rationale for information is its role in reducing the uncertainty faced by decision makers (March, 1987) and its “relevancy in improving organizational efficiency and the maintenance of organizational control” (Burchell et al., 1980). Consequently, accounting systems are seen as essential products of the uncertainty and complexity of the organizational environment (Khandwalla, 1977) and any accounting system complements other information systems and control practices, which are seen as part of a decision support system for managers, financial analysts, investors, regulators, and others with a stake in the organization (Kaplan, 2011).

Following this line of argument, Simons’s work (1990, 1991) proposes that time-constrained top management with a clear strategic vision will select a control system that offers it the highest information relevance and will use it *interactively*; that is, to personally and regularly involve themselves in subordinates’ decisions.⁵ Starting with a study of 30 businesses in the U.S. healthcare products industry,

⁵ Simons (1991) defines interactive use as follows: “Based on the amount of top management attention directed to a control system, a management control system can be labelled as interactive when top managers use that system to personally and regularly involve themselves in the decisions of subordinates.” Simons postulates that

Simons (1991) observed how selectively top managers used multiple control systems. He argues that top managers select a control system for interactive use because it addresses the firm's key strategic uncertainties. The interactive control system will, in turn, provide signals to organizational participants about what issues are important for top management and where new ideas should be tested. Thus, the chosen system will be consequential in directing not only top management's attention, but also subordinates' aspirations and concerns. Ultimately, it will influence organizational learning and action. Other formal controls complement the interactive control in a more low-key fashion; they draw attention only when pre-set limits are breached and management intervention is required (diagnostic controls).

Top management infers a management control system's informational relevance from the system's ability to collect information about the firm's key strategic uncertainties—those that are critical to top management's objectives. Accordingly, it is the functionalism of management control systems that determines their relevance and their acceptance by top management for interactive use. From this perspective, top managers are endowed with the *logic of functionalism* (March and Olsen, 1989) in their selection, take-up, and use of control systems. By the logic of functionalism, an efficient control-selection process is one that moves rapidly to a unique choice, conditional on current organizational or environmental factors (e.g. what top management sees as the key strategic uncertainties) and on the set of control systems available to the firm. The assumption of top management's top-down control choice makes this perspective largely indifferent to the behavioral reality of the ongoing competition between controller groups to supply control systems. The role of competition is merely to sideline control systems that are less efficient in providing information about key strategic uncertainties.

By focusing on interactive controls, Simons (1990) does not suggest that diagnostic controls are unimportant. Neither does he imply in his subsequent work (Simons, 1991) that other levers of control (boundary systems, belief systems) are less important than interactive controls. However, his process

when systems are used interactively, four conditions are typically present: (1) The information generated by the control system is important and is on the recurring agenda addressed by the highest levels of management. (2) The control process demands frequent and regular attention from operating managers at all levels. (3) Data are interpreted and discussed in face-to-face meetings of supervisors, subordinates, and peers. (4) The process relies on the continual challenge and debate of underlying data, assumptions, and action plans.

model indicates that the significance of interactive control is twofold. First, interactive control is deemed by top management to be the most informationally relevant (regarding strategic uncertainties) and, will direct important agendas, discussions, and—ultimately—organizational learning and action. Second—although this is not stated explicitly in Simons’ process model—in the competitive organizational marketplace for control solutions, a control that is used interactively by top management accords more visibility and voice in decision making to the controller group who is behind it. Conversely, as top management isn’t personally and frequently involved in monitoring diagnostic control systems, the latter afford their proponents limited visibility and voice in agenda-setting.

Simons’s work (1990, 1991) gave rise to much interest in how top management distributes its limited attention among various control systems and the consequences that arise once decision-makers have chosen specific control systems for interactive use (Bisbe and Otley, 2004; Henri, 2006; Widener, 2007). All these studies presume that a logic of functionalism guides top management as it makes a rational choice to focus its attention on certain control systems in specific strategic settings, based on its assessment of key strategic uncertainties. It is assumed that the most useful and robust information systems “will out,” based on intrinsic merits that can bring them to the attention of the appropriate people (Woolgar, 2004). Nothing is said, however, about the processes by which these controls are brought to decision makers’ attention or about the people who promote them and compete with other staff groups to gain visibility and voice in the decision-making process.

2.2. The process perspective

From a *process* perspective, the fate of any management control system is radically open-ended and its passage from conception to practice requires assistance (Woolgar, 2004). New controls, irrespective of their eventual use as interactive or diagnostic systems, cannot just by themselves become part of a broader multiple-control package; without enablers and enabling conditions, they can be marginalized and aborted (Otley, 1980; Cooper, 1981; Cooper et al., 1996; Malmi and Brown, 2008;

Malmi and Granlund, 2009). From this perspective, we ought to be concerned with the *processes* by which new controls are deployed and the organizational actors and dynamics that enable specific measurement techniques to complement or compete with others (Howard-Grenville, 2007). These actors compete for the attention of key organizational decision-makers by, for example, “issue selling” in the early stages of decision making; that is, by guiding top management to pay attention to particular issues, events, developments, and trends that have implications for organizational performance and to understand them in certain ways (Dutton et al., 1997, 2001). Studies in the process perspective focus on why particular controller groups gain or lose visibility and influence in decision making.

Armstrong (1985) argues that the intraorganizational competition for control is also an interprofessional competition between controller groups. Professional bodies, such as those that certify accountants, engineers, and human resources specialists, engage in “collective mobility projects” (Armstrong, 1985): They identify key problems in the macro environment confronting organizations and develop their solutions based on the techniques of the profession. Individuals whose careers originate in these professions can then draw on these techniques in the intraorganizational competition for control. For example, they can stress the inadequacy of existing methods of coping with particular organizational problems and develop (supposedly) better solutions based on the techniques of their profession (Armstrong, 1985; Ezzamel and Burns, 2005).

Professional competition can highlight the potential incompatibility of—and substitution effects among—control systems. Dent (1991) and Mouritsen (1999) showcase organizational controller groups who clash over fundamentally incompatible control systems. In both studies, accounting was the “new” control mechanism that enabled adherents to challenge what came to be seen as old and dated (engineering and operational controls in Dent’s work) or elusive and improper (hands-on, tacit production controls in Mouritsen’s). These stories did not seem to allow for complementarities between control systems; one system had to defeat the other. Further, these stories demonstrate how certain controller groups can deploy a control system (such as accounting control) as an “ammunition machine” (Burchell et

al., 1980) in their struggles to gain organizational power and influence. From these studies, it appears that management control system rivalry can be either the result of strategic reorientation or the cause of it. The direction of change is explained with reference to the implications of the particular control system that becomes dominant, suggesting that it is essential for competing controller groups to mobilize and appeal to a perceived logic of functionalism. In that vein, Mouritsen's study characterizes different control systems as representing fundamentally different "versions of what flexibility, innovation and productivity could look like" (Mouritsen, 1999: 53). Management control issues were important because, as Mouritsen argues, they "gradually took on strategy in its totality"; that is, questions of the constitution of customers and the boundaries of the firm. Proponents of the "hands-on" production controls called for the implementation of a new costing system but did not call for any strategic change, while the CFO mobilizing a rival "paper" control system suggested a new strategy—outsourcing. The CEO adopted the latter; a new control system that gave higher visibility into indirect costs, which could then be made variable by outsourcing certain operations to subcontractors. Thus, a new strategy resulted from a new system. In Dent's study, a cultural change occurred in the course of a complete organizational reorientation as the company was privatized and the old service-focused operational management culture gave way to a more commercial managerial ethos. Here, a new control system resulted from a new strategy. Top management's reliance on the new accounting controls subsequently led to the dominance of a new language and of calculative practices that redefined future priorities and opportunities. Importantly, having drawn on the techniques of the accounting profession, the new accounting controllers succeeded in reshaping the culture as a result of their appeal to the logic of functionalism in the organization.

2.3. The institutional appropriateness perspective

Should an institutional theorist analyze Dent's field data from Eurorail, she would likely applaud the study as helping us understand how culture shapes action and vice versa. However, she would further attribute Eurorail's cultural reorientation to the change in the dominant *institutional logic* of the

company's environment; that is, a shift from the old "railway" (service) logic to a commercial one. However, Dent's study is silent about how macro-level institutional logics become available and accessible to people inside the organization.

A core premise of contemporary institutional theory is that the interests, identities, values, and assumptions of individuals and organizations are embedded in prevailing institutional logics (Thornton et al., 2012: 6). At the industry level, logics are embodied in the common identity of industry players (e.g., professions and "rules of the game"); at the level of organizational actions and decisions, logics provide the formal and informal rules of action and interpretation that guide or constrain actors (Thornton and Ocasio, 1999). But how do institutional logics explain the diversity of actors and practices (Lounsbury, 2008; Thornton et al., 2012) competing to supply control solutions inside organizations? Thornton and Ocasio (1999) mobilize a theory of attention (Ocasio, 1997) to link macro-logics to micro-behaviors and micro-decisions. In the context of a historical study in the higher education publishing industry, they argue that institutional logics (such as the "railway" logic and "commercial logic" described in Dent's study) determine what issues managers attend to and what answers and control solutions are appropriate. They describe two ideal types of institutional logic in the industry: an editorial logic of publishing as a profession (which prevailed during the 1960s and early 1970s) and a market logic of publishing as a business (which has prevailed since the mid-1970s). With this shift came a change in the dominant forms of leadership and power (from editors to professional managers) as well as changes in the *appropriateness* of particular control mechanisms. The study suggests that institutional logics, once they become dominant, affect control practices by structuring the attention of executives toward the set of issues that are consistent with the industry's dominant logic—whether editorial or market—and away from issues that are not (Thornton and Ocasio, 1999: 837).

While the idea of firms—and, in particular, controller groups—seeking compliance with prevailing macro-logics (and thereby demonstrating *institutional appropriateness*) has a strong explanatory appeal, the institutional logic perspective raises some questions. It appears, for example, that dominant

institutional logics do not necessarily displace other logics for good; older logics can reemerge (Marquis and Lounsbury, 2007) and multiple institutional logics may prevail and compete in the same institution. In such contexts, institutional logics alone cannot explain why top managerial attention shifts amongst control practices. We need to know how logics shape organizational decision makers' choices and which aspects of institutional logics are activated inside an organization by whom and with what outcome.

2.4. Bringing the three perspectives together

Based on the literatures reviewed, it can be argued that competing controller groups may draw on the professions in which their careers originated as technical, political, cultural and institutional resources. Indeed, the professional competition observed in process studies of competing controller groups suggests that controllers mobilize the abstract knowledge bases, techniques, and ideologies of their professions (Ezzamel and Burns, 2005). As professional credentials do not automatically translate into internal credibility and influence; competing professionals in an organization may have to demonstrate not only the functionalism, but also the appropriateness of their proposed control solutions. As Fligstein (1987) argues in his study of the shifting power of organizational units in the 100 largest U.S. firms between 1919 and 1979, successful executives develop conceptions of control that come to dominate their industries and are in accordance with appropriate standards of behavior. As the environment changes, actors change their perceptions of the appropriate standards of behavior in the environment and new actors can claim to define and resolve important problems.

Inside organizations, there is a power struggle as multiple professional groups (engineers, marketers, finance professionals) compete with their specific interpretations of the external and internal environment. Fligstein argues that the key resources that actors draw on are their interpretations of certain aspects of the organization and its environment and that their power rests on the success of their claims to redefine and solve important organizational problems. Actors may also draw on the firm's existing strategy and structure as internal resources. Those who are able to shape strategy will have power, as will

those to whom the organizational structure accords information and resources. However, Fligstein's historical study says little about how competing and conflicting claims are resolved inside firms. The question becomes: How can (and do) competing controller groups demonstrate greater institutional appropriateness than those they wish to defeat?

In the specific context of regulatory agenda setting, Young (1994) studied the emergence of issues onto the agenda of the U.S. Financial Accounting Standard Board (FASB). She argued that agenda formation (the selection of issues from amongst those advanced by several competing actors) included the FASB's own interpretation of the institutionalized expectations about the role and purpose of itself, as a standard-setting organization. The FASB's choices could not be interpreted as responses to any "prevailing institutional logics," as knee-jerk reactions to "pressures" from various interested actors, or as the result of detached cost-benefit calculations and rankings of issues. Importantly, as the regulatory space was crowded with multiple, conflicting perspectives on the description of what issues constituted "the accounting problem" at the time, the FASB's response could not arise from functionalist decision-making (March and Olsen, 1989), but rather from the standard-setters' perceived duties and obligations. In sum, Young (1994) suggests the relevance of the "logic of appropriateness," as defined by March and Olsen (1989), in understanding the issue selection problem amidst multiple conflicting perspectives.

Applying this perspective inside organizations where controller groups compete to supply problem definitions and solutions, there may be conditions under which the consequential decision-making described by Simons (1990) will not determine which controls top management will accept. Instead, controllers may have to demonstrate that their control system matches the demands of the particular position top management perceives itself to be in by trying to clarify the rules, norms, conventions, and technologies that apply to that position. Absent such fit, controllers will not be able to claim appropriateness for their control solutions.

In the context of financial accounting standards, it has also been observed that actors engage in *credentializing strategies* in order to promote their technologies and discredit others'. These strategies are

“the rhetorical means by which narrow technical arguments can be attached to, and made to represent, a broad field of interest[s]” (Power, 1992: 51). Having studied the brand accounting debate in the United Kingdom, Power (1992) identified six credentializing strategies as “most clearly visible”: credibility by realism, credibility by acceptance, credibility by association, credibility by representation, credibility by legitimacy, and credibility by mystique. Some of these strategies appeal to functionalism, particularly the claims made in the name of “commercial realism” and “accurate representation” (credibility by realism). But mostly, credentializing strategies appeal to the logic of appropriateness: What is acceptable practice in a given context (credibility by acceptance)? What is credible measurement given its association with existing well-established practices (credibility by association)? What is credible measurement based on the diversity of constituencies it represents (credibility by representation)? What is credible measurement based on its auditability (credibility by legitimacy)? What is credible measurement given its professional credentials (credibility by mystique)? Actors pursuing the last strategy draw on the cultural resources that underpin their original professions or expertise; for example, they may draw on the cultural authority of financial economics or that of legalistic accruals accounting (Power, 2011). They do so by referring to the principles of their knowledge base, but without disclosing details of it, thereby investing their expertise with a certain mystique. Cultural authority underlined by the mystique of expertise makes measurements an “easy argument” and their alternatives much more difficult to defend (Mouritsen et al., 2012).

The concept of credentializing is related to that of “boundary work,” which involves the rhetorical claims that map and demarcate a “cultural space” that an expert group claims to occupy (Gieryn, 1999) in order to protect it from interlopers. Credentializing strategies can help fortify a boundary which excludes (and effectively discredits) the “nonexpert.” As controller groups have been observed engaging in boundary work inside organizations (Ezzamel and Burns, 2005; Mikes, 2011), we can also expect them to engage in credentializing strategies. It is, however, not clear under what conditions competing controller groups are more likely to appeal to the logic of functionalism, the logic of appropriateness, or both.

Further, it is an empirical question what type of credentializing strategies are mobilized under different conditions by different controller groups and which ones are more likely to succeed in a given context.

This paper attempts to answer these questions based on a case study in which a crisis and a new strategic uncertainty (the capital adequacy of the troubled insurance division) prompted the parent company to reconsider divisional control over the business unit. Top management's demand for "better control" attracted two controller groups—accounting and risk management—to supply their interpretations of the problem and their suggested solutions. Legalistic, rules-based accounting controls and financial, market-driven, market-simulating risk controls produced conflicting interpretations and solutions, which prevented the two control systems from becoming complementary; one had to defeat the other. The credibility contest in this case was won by the accountants who, unlike their opponents, were able to demonstrate the institutional appropriateness of their controls, even though the economic representativeness (the functionalism) of those controls was highly questionable.

Such contests—and how they are decided—matter. At stake is the control effectiveness of complex financial organizations, as made abundantly clear by recent control debacles in the global financial services industry.

3. Setting the scene

3.1. Research site and methods

The idea of this case study was born during the field work I undertook as a doctoral student comparing risk management processes in two financial services firms. I chose MultiBank as a study site following a theoretical sampling rationale (Eisenhardt and Graebner, 2007) to form a matched pair with my other research site; each had a reputation for relatively mature, "leading-edge" risk management practices. MultiBank assigned two senior executive sponsors (a director from the CFO division and a director from the risk management function) to be my primary liaisons with interviewees. During my fieldwork, those sponsors drew my attention to the "problem of EurInsurance" and offered to arrange

additional access to the insurance division (and to all those implicated in divisional control), should I want to study the aftermath of the control debacle. It was impossible to say no to such an offer! I produced and delivered my first analysis of the control debacle when I left the research site in 2005, as part of a presentation of my initial findings in front of MultiBank's executive board. I tried to capture and preserve the actors' accounts of events as they perceived them and then triangulated these accounts (particularly through publicly available documents, such as annual reports) to produce a more comprehensive picture of the organizational control changes (Abbott, 1992). In this way, I identified actor-presented themes in the data (Glaser and Strauss, 1967); in particular, the following four themes came up frequently amongst all controller groups: (1) How early can we recognize a performance crisis? (2) Why did EurInsurance's crisis occur? (3) How should EurInsurance's capital adequacy be measured? (4) How should the performance of the insurance subsidiary be monitored going forward? These discourses allowed me to track credentializing strategies as the rhetorical means by which controllers attached narrow technical arguments to broader concerns in an attempt to construct the credibility of their solutions and discredit those of their opponents.

The case study is primarily derived from 54 in-depth interviews conducted between 2002 and 2004 at MultiBank and EurInsurance. I interviewed senior and middle-managerial finance, lending, strategy, accounting, and risk staff, as well as two persons from the Group Executive Board. At the start of each interview, I assured interviewees of the confidentiality of the study and of the anonymity of all quoted individuals. I taped and transcribed all interviews and, after drafting the first version of this paper as part of my doctoral thesis, I received a "blanket approval" from the senior-executive sponsors of the study for the use of all quotes in subsequent publications. Within the boundaries of confidentiality, they also provided me with historical and other documentary evidence, such as annual reports, presentations, and internal documents. During my visits to MultiBank, I occupied a spare office in the risk-management department and the naturally occurring conversations I had with staff members and their visitors (from other staff functions) helped me to understand the "real-life context" (Silvermann, 1983). I gradually

absorbed the language and technologies used around me; I probed people on their interpretations of the organization's (dismal) performance; I listened to day-to-day concerns and long-term aspirations. Considering the coincidence of the research horizon with MultiBank's self-inflicted crisis, access was provided with an unexpected openness and generosity. Perhaps it was the crisis that made people want to air their opinions, frustrations, and concerns. My presence, curiosity, and status as an independent researcher might have encouraged those practitioners to reflect. I complemented the interviews and documents collected at both organizations with library research (the financial press) in order to complete the timeline of events from MultiBank's acquisition of EurInsurance to the post-crisis recovery.

MultiBank Group was a major player in the global financial services industry. A vision of global expansion underpinned a growth strategy that resulted in the group acquiring an almost 150-year-old insurance company (EurInsurance) in 1996. The latter was itself an international business with presence in 16 countries. MultiBank's acquisition of EurInsurance was hailed by analysts and commentators at the time. An optimistic market sentiment about MultiBank Group's future helped the company to quadruple its market capitalisation over the next three years. The move promised to integrate banking and insurance services—to realize the so called “bancassurance”⁶ model of doing business. Structurally, MultiBank Group was managed as a group of two main organizations: the investment bank and a combination of the insurance company and a traditional bank with private, retail, and corporate banking services. My study concerns the latter organization—MultiBank. In the management structure, EurInsurance was a business unit of MultiBank and both were managed independently of the investment banking arm of the Group.

Following Ezzamel and Hart (1987), *divisional control* is taken here as a subset of a broader organizational control system. I adopt Anthony's (1965) distinction between control process and control systems. The *control process* consists of the headquarters' activities concerning controlling and governing the division. *Control systems* are defined here as the information sources and functional areas on which these control activities are based. Simons's (1990, 1991) definition of management controls emphasizes

⁶ *The Economist*, 2002.

the importance of the formalized procedural aspect of management controls.⁷ My study acknowledges the possible presence of informal controls in divisional control, as defined by Ezzamel and Hart (1987), but regards informal control as part of the control process rather than as a separate control system.

I found four management control systems at work in divisional control: (1) accounting control at headquarters, (2) risk control at headquarters, (3) accounting control in the division, and (4) risk control in the division. The next section outlines the cultural principles that underlay these systems, as explained by the controllers who advanced them in 2002, at the beginning of my study (see Figure 1).

	Accounting control in EurInsurance	Accounting control in MultiBank	Risk control in EurInsurance	Risk control in MultiBank
Cultural roots	Accruals / historic cost accounting (U.S. GAAP) AND Legal directives (Directive 98/78/EC)	Accruals / historic cost accounting (U.S. GAAP)	Financial economics	Financial economics AND Legal directives (Basel II regulations)
Corresponding principles	<ul style="list-style-type: none"> •Mixed measurement approach to balance sheet valuation •Semi-annual reporting 	<ul style="list-style-type: none"> •Mixed measurement approach to balance sheet valuation •Monthly reporting 	Full-fair-value accounting approach to balance sheet valuation Market-driven and/or market-simulating model estimations of: <ul style="list-style-type: none"> •Insurance ERC •Market ERC •Daily /weekly /monthly reporting	Full-fair-value accounting approach to balance sheet valuation Market-driven and/or market-simulating model estimations of: <ul style="list-style-type: none"> •Market risk ERC •Credit risk ERC Legalistic estimation of: <ul style="list-style-type: none"> •Operational risk ERC (as prescribed by Basel II) •Daily /weekly /monthly reporting

Figure 1. The cultural principles underlying MultiBank’s risk-management and accounting controls

3.2. The cultural principles underlying MultiBank’s risk-management and accounting controls

All calculation is rooted in cultural principles (Mouritsen et al., 2012). MultiBank’s risk controllers drew on the cultural authority of financial economics as they applied “full fair value accounting” in the measurement of their flagship risk metric, economic risk capital (ERC). In the words of MultiBank’s annual report, “Regular assessments of mark-to-market revaluations of *all balance sheet positions* and interest rate scenarios are the basis for these analyses” (*MultiBank Annual Report 2002*: 91-92 [emphasis added]).

⁷ Control systems are “formalised routines and procedures that use information to maintain or alter patterns in organisational activity” (Simons, 1991: 49).

Internal documents describing this risk metric offer the following definition: ERC is “the *economic capital* needed to remain solvent and in business even under extreme conditions. . . . ERC is defined as an *estimate* of the unexpected level of loss in *economic value* over a certain period (e.g. 1 year) that is *exceeded with only a small probability (e.g. 1%)*” [emphasis added].⁸ The language of this definition is strikingly different from that of the annual report: MultiBank’s risk controllers described their key metric to internal constituents not as “mark-to-market valuations” but as a measure of “economic value.” They also revealed that their valuations were based on the principles of financial economics. They calculated an estimate for a critical “unexpected” (not-likely-to-be-surpassed) tail-loss event with a high level of confidence, essentially predicting that there was only a one-percent probability that this loss would be surpassed over the next year.

The risk controllers calculated and mobilized this tail-loss estimate to determine their view of the “economic capital needed” to buffer the organization against such a worst-case loss. They applied econometric models to simulate the probability distribution of losses as measured in two silos: market risk and credit risk (risk controllers in EurInsurance, on the other hand, modelled insurance risk instead of credit risk). They then derived corresponding ERC calculations. Operational risk was not modelled; the corresponding “operational risk ERC” number was calculated—in accordance with the Basel II regulations—as an appropriate percentage (to be decided by management) of revenues and regarded as a proxy figure, driven by managerial judgment. The ERC components were then aggregated and, after adjusting for a statistically estimated “diversification benefit,” a total ERC was derived, both for MultiBank and for the insurance unit. Thereafter, total ERC (for the bank or for its insurance subsidiary) was put forward to be compared with the (accounting) capital reported by the accounting function and, depending on the result of this comparison, to trigger action (raise more capital or reduce capital). The risk controllers’ choice of language shows how deliberately they drew on the cultural authority of financial economics and how they differentiated themselves from accounting expertise by not using the term

⁸ Economic Risk Capital: An Introduction to [MultiBank Group]’s Economic Capital Model. Version 0.15, 20 January 2002. [Internal publication]

“mark-to-market accounting” or any of its variants, even though it was one of the inputs to their econometric modelling. Through their choice of emphasizing econometric rather than marking-to-market practices (even though both were required for ERC), risk controllers distanced themselves culturally from accounting and packaged their expertise as related to financial economics.

The MultiBank internal document further describes ERC as “1. a consistent and comprehensive risk management tool; 2. *an element in the capital management and planning process*; 3. *an element in the performance measurement process*” [emphasis added]. Although the document gives no evidence for the actual use of ERC in decision-making within MultiBank, it expresses the risk controllers’ aspiration to have their say in capital planning and performance measurement, in accordance with the principles of mark-to-market (fair value) accounting, which would, by frequent reporting—daily, weekly, and monthly—focus key decision-makers’ attention on a delimited set of capital management and performance measurement issues and solutions. At the time of the publication of this internal report (January 2002), however, these decision-making areas were the province of the rival accounting controls.

With respect to the capital need of the insurance subsidiary, MultiBank’s accounting controllers (and indeed, EurInsurance’s accountants) had a different approach. As per its accounting policies, EurInsurance “calculates its group solvency according to Directive 98/78/EC of the European Parliament and of the Council of October 27, 1998 on the supplementary supervision of insurance undertakings in an insurance group” (MultiBank, 2002 Amended Form 20-F: 67-68). European insurance regulators required firms to maintain a so-called “solvency ratio”⁹ above a (seemingly) arbitrary threshold of 150%. In calculating this ratio, one had to relate the insurer’s reported capital to an accounting-revenue-based figure; if the ratio was above the 150% threshold, the insurer was deemed adequately capitalized. EurInsurance’s accounting controls represented this legalistic view (as opposed to the risk function’s

⁹ The solvency ratio of an insurance company is defined as the amount of its capital relative to net premiums written. The solvency ratio defines capital adequacy as a proxy measure of the insurer’s ability to absorb insurance claims from the contracts it has written.

“economic” view) of capital adequacy. The accountants calculated, monitored, and reported the solvency margin, a “juridical representational device” (Power, 2010) which accorded with regulatory requirements.

As for balance sheet valuation, the accounting controls applied the mixed-measurement (accruals) approach and, under the “lower of cost or market” principle, marked only EurInsurance’s short-term investments assets to market values rather than frequently (daily, weekly, and monthly) fair-valuing the entire balance sheet, as the risk controllers did. Again, accounting controls drew on the cultural authority of rules-based, legalistic traditional accruals accounting.

Accounting controls at MultiBank reported monthly, with detailed cost accounting. EurInsurance’s accounting controls collected information only semiannually, with much less costing detail.

Despite the differences in reporting frequency, accountants at both levels strongly opposed the “full fair value” principle, reflecting an industry-wide cultural preference at that time for the mixed-measurement approach. The opposition was particularly strong among EurInsurance’s accountants. The Geneva Association, a group of leading insurance company chief executives, asserted that fair-valuing the full balance sheet was “unlikely to result in high quality accounting standards for insurance.”¹⁰ AIG’s then chief executive plainly declared that fair value accounting “has no place in the insurance industry”¹¹ and AIG chief financial officer Howard Smith argued that “it’s easy to say you can value a long-term liability, but in practice, it doesn’t always work.”¹² At the time of my study of MultiBank and EurInsurance, insurance companies applied a mixed-measurement approach: They fair-valued only their trading assets, available-for-sale securities, and derivative assets; applied the “lower of cost or market” principle to financial investments; and valued long-term assets and securities held to maturity at cost. Generally, insurance liabilities were not accounted for at current value, either (Horton and Macve, 2000, 2002).

It thus appears that, by the early 2000s, the stage was set in MultiBank for the clash of two fundamentally differing professions as they proposed different control solutions for EurInsurance’s capital management issues.

¹⁰ FT, 29 July 2003.

¹¹ Reuters News, 31 July 2003.

¹² Dow Jones News Service, 28 October 2002.

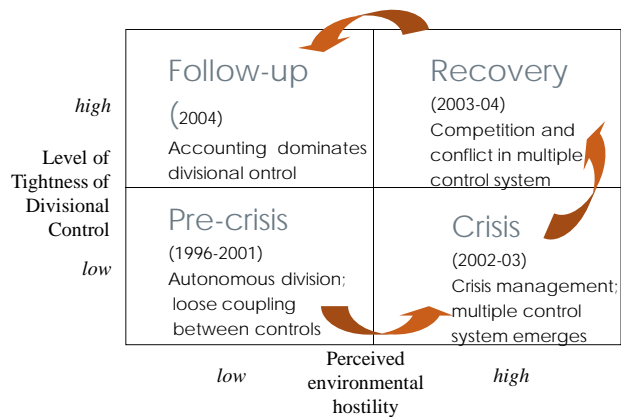
4. The aftermath of the control debacle: Control tightening

EurInsurance's brief history as a subsidiary of MultiBank had four stages—pre-crisis, crisis (triggered by a control debacle), recovery, and follow-up—characterized by varying degrees of environmental hostility, which rose in response to the insurance division's debacle and stayed high throughout the recovery year but had ebbed away by the time of my follow-up visit in 2004. The crisis was triggered by a worldwide stock-market decline, which started in March 2000, and caused heavy losses particularly in the European insurance industry, which proved to be “overexposed” to stock markets. MultiBank's 2002 year-end results saw heavy write-offs due to equity impairments and a consequent weakening of the Group's capital base. Regulators, rating agencies and analysts began to doubt the bank's financial health, particularly EurInsurance's capital position. Only repeated capital injections from the Group saved the insurance business from the embarrassment of breaching minimum regulatory capital requirements. Disappointed investors claimed that *‘the group's balance sheet was ‘polluted’ by the erosion of the capital cushion in [EurInsurance]’* and many would have liked to see *‘the insurance arm spun off.’* Others added sceptically that this might not be possible given that *‘EurInsurance looks increasingly like a poison pill.’*¹³ Over 2002, the Group lost more than half of its year-2000 market value. A downgrade from an international rating agency in 2003 was an additional blow. This period saw the departure of several top-level managers on both the banking and the insurance sides. Newly appointed leaders were under great pressure to reverse the Group's fortunes.

In response to high perceived environmental hostility, MultiBank started to tighten divisional control over EurInsurance (Figure 2). This was in line with empirical studies of decline that unanimously suggest that “an almost reflexive response of management to a decline situation is one of tightening control. Managers are both advised to clamp down . . . and are willing to do so” (Czarniawska-Joerges, 1988). The actual manifestations of such control-tightening can vary across settings from replacing the “disgraced management team” with trusted managers from the corporate center to centralizing operations

¹³ Quotes are taken from the Financial Times

and increasing the integration of organizational subsystems. In Czarniawska-Joerges’s study on the dynamics of divisional control at Berol Kemi, a Swedish chemicals company, tighter controls reduced the autonomy of the subsidiary in decline. Czarniawska-Joerges argues that, by “tightening the couplings between organizational subsystems,” Berol Kemi’s new management strengthened the organization in the face of the crisis and, at the same time, legitimated itself by signalling to the outside world that it had a grip.



5

MultiBank’s top management concluded that EurInsurance had been (in the words of a director from the finance division) “previously too independent.” They replaced the division’s CEO with a senior banking executive and, as part of several staff changes at the division, appointed a new CFO and a new CRO. During the crisis, MultiBank’s top management were personally involved with major decisions at EurInsurance that resulted in a “stop loss” strategy. After changes were made to senior divisional personnel, MultiBank’s accounting and risk controllers set out to tighten their grip over the troubled business unit. The crisis offered both groups an opportunity to impose their own controlling blueprints on EurInsurance, as will be shown next.

4.1.The tightening of accounting controls

MultiBank's business units sent profit-and-loss data monthly to the central management accounting function (called Controlling). But EurInsurance, during its years of its semiautonomy before the crisis, was an exception. Due to the nature of insurance accounting, that unit closed its accounts only semiannually.

It was only when the heavy write-downs went through EurInsurance's accounts that MultiBank became alarmed. Top management started to ask for detailed and frequent accounting information. Initially, MultiBank's Head of Controlling expressed frustration with EurInsurance's accounting controls:

When we ask [EurInsurance] questions that bankers are used to asking, we are often surprised that they haven't got any reasonable answers to them. The insurance business is managed differently. We are working on tying them more in. But they are rather slow.

His team devised a new reporting template that required EurInsurance to collect information that was compatible with the Bank's own reporting practices. EurInsurance's accountants considered it a hybrid reporting format and came to refer to it as "the bancassurance view," an excessively detailed account of the cost structure of the insurance unit and its subsidiaries. EurInsurance's Head of Financial Management explained:

Insurance is a fundamentally different business model than banking and so we look at things differently. We look at our costs differently, our investment income is integrated much more into our technical result. . . . It is a very integrated P&L we deal with. What we are striving for is to have a good understanding of our business in the insurance view. When we are asked to look at a bancassurance view, there is some mapping that takes place to reflect the banking view.

The new template stretched EurInsurance's internal reporting capabilities considerably, as the unit's accounting director recalled:

Within two years, first of all we switched to US GAAP, then [MultiBank] asked for quarterly [reporting], and now they are asking for monthly, so it has been an enormous cultural change for [EurInsurance]. We have done a lot and the countries [EurInsurance's international business units] have accomplished a lot. But you really need to understand the impact of this because you can really drown if you are continuously asking for

information. We already provide monthly reporting and we need to improve the quality of that. From a [MultiBank] perspective, they are able to close daily, but it is different in an insurance company.

She accepted the head office's need for more frequent and more detailed information. But delivering that information presented not only technical difficulties, but also the need to overcome the reservations that divisional managers held about the relevance of the bancassurance view that MultiBank had imposed on them. One of them commented:

We spend a lot of time every month on management reporting, twisting numbers into this bancassurance view, which is not particularly relevant to us.

MultiBank's controllers dictated the parameters of an accounting control system that transformed divisional control considerably and increased EurInsurance's level of integration. Divisional control, formerly based on EurInsurance's own accounting performance reports, was now tightened - though bancassurance might have remained unrealized as a strategy, it was succeeding both as a divisional control system and as an integrative device.

4.2. The tightening of risk controls

MultiBank Group's risk control practices advocated a risk metric, ERC, as the common denominator for all measurable risk types. EurInsurance's risk controllers were successful in adding insurance ERC to this framework. But because the division's control over its market risk turned out to be insufficient, MultiBank's risk controllers pressed for changes not only in the amount and type of risk information they were getting from EurInsurance, but also for changes in risk personnel. As the Bank's Chief Risk Officer put it:

Nobody questions that they understand insurance [risk]. What we question is that they understand the markets. . . . You can try to convince [EurInsurance] about the relevance of information requested by the Bank and that's what we did. When we saw they did not deliver, we got frustrated and said, "Let's stop the discussion." Then we changed the people [at EurInsurance].

As part of several personnel and structural changes at EurInsurance, a new divisional chief risk officer was appointed to head the unit's risk controls. He was required to report not only to his own CFO,

but also directly to the CRO at MultiBank. EurInsurance's risk-reporting templates, risk committee structures, meeting agendas, and reporting and committee frequencies became identical to those at MultiBank. The new divisional CRO was amenable to the changes and noted the increased personal involvement of MultiBank's CRO with EurInsurance's affairs, as the latter now attended risk committee meetings at the insurance unit:

This is for me a very good way to involve our shareholder in the important issues. I think it is a huge step forward. It means transparency on our side, so he [MultiBank's CRO] sees everything that is of concern to risk people in [EurInsurance]. He is also taking on responsibility in that he sits here—he is part of what is going on. He has a chance to give his opinion, and even if he doesn't give his opinion, he has been part of what has been decided and it is more difficult for [MultiBank] to say to [EurInsurance]: "You did it wrong."

MultiBank's top managers were informed frequently and regularly by risk controls during the process of reducing EurInsurance's risk profile. There was a correction in the investment strategy and a reduction of the insurance unit's market risk profile. MultiBank's new CEO personally steered and monitored a defensive stop-loss strategy and assumed personal oversight of EurInsurance's investment management department. Further, ERC was used as a tool to communicate the Group's decreasing risk profile to the outside world. For example, the 2002 and 2003 annual reports disclosed the Group's "Key Risk Trends" and ERC was featured, "showing substantial reduction in equity exposures."¹⁴ While the 1999 annual statement devoted 10 pages to the risk controls, by 2002 its risk disclosure section had tripled in size. Deployed in investor communications, risk controls not only signalled that the crisis was passing, but also conveyed a subtler message that an innovative, firm-wide, consistent, and homogeneous risk reporting and control framework was being applied in the Group.

5. Control system rivalry

In the recovery stage that followed the crisis, MultiBank's management had to assess EurInsurance's capital adequacy in order to know which parts of the division were more (or less)

¹⁴ MultiBank Group, 2000-01 Annual Report.

capitalized. The ultimate goal was to determine whether to keep the division or to sell it (or sell parts of it) in order to restore the Group's capital adequacy as a whole. In August 2003, under the oversight of MultiBank's CEO, a cross-functional task force was set up, in the words of a director from MultiBank's finance division, to "figure out what the ideal structure would be for [EurInsurance], going forward." By the end of 2003, it had presented its recommendations. Because the task force included senior accounting and risk controllers from MultiBank and EurInsurance who had to meet regularly, it was there that controller groups competed to supply solutions and, when they found themselves in disagreement, clashed over the appropriateness of their systems and the implications for action.

The task force meetings made it clear to all participants that the new divisional control system had a number of fault lines with regard to accounting and risk controls, however closely these mirrored MultiBank's own accounting and risk controls. Three questions occupied task force participants: How did EurInsurance's crisis occur? How should EurInsurance's capital adequacy be measured? How should the insurance subsidiary's performance be measured going forward? Each controller group came up with its own explanation for the crisis; each proposed a different measurement for the key strategic uncertainty (the insurance division's capital adequacy); and each championed a different indicator for performance management going forward.

5.1. How did the crisis occur?

EurInsurance's risk control function had picked up a worsening trend in the firm's equity portfolio well before the losses went through the accounting system. However, corrective action took place only after it became clear that the P&L account had suffered. This apparent disregard of the risk controls in favor of the accounting controls puzzled MultiBank's risk controllers:

We have done a lot of soul searching around the [EurInsurance] situation. How could that happen? It always showed up in the scenario reports: a massive equity market ERC. Why was there no action?

EurInsurance's own risk controllers blamed the nature of accounting controls for delaying action in the wake of the worsening investment position:

...there was no change in investment strategy. The problem here is highly related to the way insurance companies do accounting. In 2001, [EurInsurance] showed a profit of \$1 billion. This is pure accounting! Looking at these [ERC] figures [speaker points at internal risk report], you would not believe it. From the outside world, looking at P&L, you get delayed information: Impairment occurs after six months of “staying below market value.” But you cannot impair earlier. If you want to do so, you have to sell stock and buy it back. The accounting representation is delayed and distorted.

The risk controllers’ answer to the technical question of how to recognize loss was “marking-to-market” the equity portfolio, which they did daily. Consequently, they recognized the loss earlier than the accountants did: as their models “marked to market” EurInsurance’s investment portfolio daily, the impact of the falling stock markets on EurInsurance’s balance sheet was recorded (and flagged) straight away. Accounting controls delayed the recognition of the worsening equity market positions in accordance with accounting standards: “Recognition of an impairment loss on equity securities is recorded if a decline in fair value below the cost basis of an investment is considered other than temporary. Declines in fair value below cost which persist for more than six months or which exceed 20% are considered strong indicators of an other-than-temporary impairment which leads to impairment loss recognition.”¹⁵

The “when” of loss recognition was not only linked to the technical expertise but also to the status of “who” did the recognizing. In 2001, Multibank management’s view was guided by the EurInsurance accounting view; EurInsurance risk controllers did not have the clout to challenge their accounting colleagues. MultiBank’s top management was satisfied with EurInsurance’s half-yearly performance updates. Only when the impairments hit the income statement did top management recognize the “problem of EurInsurance.”

With the benefit of hindsight, risk controllers were more successful in detecting the insurance company’s deteriorating investment performance than the accounting controllers had been. The risk controllers’ visibility increased as they were active in crisis management and successfully communicated the decreasing risk trends to internal and external stakeholders. During the crisis management phase, risk

¹⁵ MultiBank annual Report 2002—Accounting Policies:129-130.

controls achieved a level of visibility similar to that of the accounting controls. Risk controllers then set out to keep those controls visible and influential in the forthcoming top managerial discussions about the future of EurInsurance and entered the task force with their own ideas, which they were prepared to pitch against those of the accounting controllers.

5.2. How should EurInsurance's capital adequacy be measured?

Capital management—the assessment and monitoring of capital adequacy—became a critical subject in the wake of EurInsurance's financial crisis. The division had to be recapitalized and its capital adequacy had to be monitored while its country portfolio was to be rationalized.

The task force set up by MultiBank's CEO to investigate various alternatives for controlling EurInsurance going forward identified several possible approaches to the assessment of EurInsurance's capital adequacy. The risk controllers now claimed expertise in the capital management area, which, prior to the introduction of ERC calculations, had been considered an accounting issue and a matter of legal (regulatory) compliance.

MultiBank's central risk function asserted that ERC's appeal was to complement accounting-based discussions: "It is called 'economic' capital because it measures risk in terms of economic realities rather than regulatory or accounting rules."¹⁶ Internally, it appeared that the risk controllers promoted an economic view because they saw it as superior to the accounting view of capital adequacy. The risk function built on ERC's perceived timeliness in detecting the deteriorating market risk profile of the insurance division (even if this information was not acted upon at the time by EurInsurance's management). Once ERC had gained a higher profile as a controlling tool during the crisis management phase, risk controllers contrasted this success with the perceived inadequacy of the accounting-based controls over EurInsurance's solvency:

In the past, no one perceived [EurInsurance] as a risky business. We always wondered why the ERC for [EurInsurance] was so high. People doubted if the methodology applied for [EurInsurance] was right. It was

¹⁶ Annual Report 2002-3, MultiBank Group.

only in 2002 when risk management was regarded better at [EurInsurance]. I think the ERC methodology—the concept of ERC—is now much more credible than before.

So the seemingly technical questions of loss recognition and equity investment valuation were linked to the social questions of what made different kinds of expertise credible. Paraphrasing Power (1992), MultiBank’s top management believed in particular valuations because they believed in those valuers, not the other way round. Before the crisis, the accounting controllers had not necessarily won a technical argument, but they had apparently had MultiBank top management’s trust. EurInsurance had been assessing its capital adequacy with the accounting solvency ratio, which used revenues and growth as the proxy measures for an insurance company’s riskiness and corresponding capital need. The risk controllers initially saw a technical argument when they proposed the ERC ratio, an “economic” measure for the continuing assessment of EurInsurance’s capital adequacy. Their proposed ratio related available capital to ERC, the latter being a proxy measure of the total risk profile. Due to their familiarity with the ERC ratio, risk controllers in the insurance division welcomed it and started to promote it as a tool preferable to the accounting solvency ratio:

I would prefer to have limits on the ERC ratio. If we have enough capital, why would we bother about increasing risk? It is the [lack of] capital base which should make us bother about risk.

But more work was required to “credentialize” the ratio.

EurInsurance’s accounting function firmly resisted the ERC ratio as a capital management tool. MultiBank’s Head of Controlling discounted risk controllers’ claim of having more timely risk indicators than accounting controls did:

Anybody who would have been interested in reading the [accounting] numbers could have learned a lot out of them without any fancy calculations of ERC.

Accounting controllers saw the ERC ratio not as a complementary, but as a *competing* control tool.

They resented it:

There is a solvency ratio in place, which is the regulatory requirement; it has to be greater than 150%. . . . This is the main tool of statutory regulation. The solvency ratio has not got ERC in its numerator; it reflects the accounting view. The denominator is a certain percentage of net premium written. If premiums go up, the

denominator goes up and the ratio decreases. [AM: So what happens if they [EurInsurance] breach the solvency ratio limit?] There was a capital injection in June, a capital injection in September, they have to focus on businesses which are well capitalized.

By all evidence, EurInsurance's recapitalization was timed and calculated according to the requirements of the solvency ratio, a metric monitored by the accountants who highlighted the institutional appropriateness of this control tool. Also, the subsequent reconsideration of EurInsurance's country portfolio and the wave of divestitures of weakly capitalized insurance subsidiaries were driven by accounting-based solvency considerations.

Post-crisis, MultiBank's top management showed continued interest in capital management issues, as perceived by a director from the CFO (finance) division:

The focus is so much on capital management now. This situation highlighted that we need a better way of—or more aggressive or proactive capital management, if you will. So the term “capital management” you could see on various executive protocols, presentations, etc. [Speaker leafs through presentations piled on the table.] As for issues of capital management—issues like, “Gee, how do we reduce our capital need? Do we need to get rid of some noncore businesses?”—I think the management awareness at every level in the organization, up to the board, is very, very heightened.

Top management used accounting solvency indicators in regular face-to-face meetings hosted by MultiBank's CFO. As MultiBank's internal magazine featured the Head of Controlling on its cover and ran a lengthy article that described him as the ‘Man behind the Recovery,’ the visibility of the accounting control function increased throughout the organization. Meanwhile, the risk controllers (and the ERC metric) failed to achieve this prominence. When MultiBank's risk control team put forward a capital adequacy analysis of EurInsurance's country portfolio based on the ERC ratio, the soundness and relevance of their insights were challenged. They responded with a technical explanation, but the battle for relevance could not be won by technical arguments alone. The senior risk controller who advocated the ERC ratio recalled:

In the [divestiture] case, we highlighted that the risk situation was tense in terms of the ERC ratio. But then [the CRO] came back from an executive meeting and said the feedback was, “We have to understand why ERC was

giving that signal.” I said it was because the ERC convention was to take a “haircut” on deferred acquisition costs, just like on goodwill and other intangibles [when calculating available economic capital]. Then he said, “Well, maybe we made a mistake in applying the ‘haircut’.” When we eventually presented it at the Risk Management Committee, the decision was already made.

In sum, during the recovery period, accounting control maintained its relevance and status as an important control system that MultiBank’s top management team continued to rely on as it kept a close watch on EurInsurance’s capital profile. Risk controls no longer seemed to have a high visibility; their use by top management was at best diagnostic, if not outright ignored.

5.3. How should the insurance subsidiary’s performance be measured going forward?

Risk controllers claimed that ERC was “economic” in the sense that it marked the entire balance sheet to market. They contrasted this with accounting’s mixed-measurement approach, which fair-valued only certain assets and held liability values at cost. Risk controllers regarded the accountants’ asymmetric treatment of the balance sheet as a failure to mark to market, branding it “noneconomic”:

Economically, we have [on EurInsurance’s balance sheet] assets with 20-30 years duration, but we also have liabilities with duration of 50 years. With [accounting], every interest rate change matters. We have long duration of assets. If interest rates go up, we lose value from the assets, but it leaves the liability side alone, so our equity shrinks.¹⁷

Risk controllers argued that the consequence of the accounting treatment was undesired volatility in the bank’s capital as each change in interest rate would also change the market value of the asset side but would not affect the valuation of the liabilities. Consequently, as interest rates changed, so did the value of the insurer’s capital (measured as the difference between the values of assets and liabilities). Further, MultiBank’s risk controllers argued that risk controls (ERC and the ERC ratio) and accounting controls created conflicting messages for balance sheet management. On one hand, in order to match the duration of the asset side with the typically longer-term liability side, risk controllers suggested that EurInsurance should increase the duration of its assets. However, the market value of “longer” assets is

¹⁷ Vice President, Economic Risk Capital and Capital Management, MultiBank.

more sensitive than that of “shorter” assets to interest rate changes. Under accounting standards, if an insurer increases the duration of its assets, the sensitivity of these assets’ marked-to-market value to changes in interest rate increases, too, leading to higher volatility in the value of the capital recorded on the balance sheet. EurInsurance’s management team was incentivized based on the division’s return on capital; that is, its accounting performance. They could reduce unwelcome volatility surprises in the balance sheet by “shortening” assets, as those with shorter duration are less sensitive to interest rate changes. But this would go against the implication of the “economic” controls operated by risk managers. This conflict over the appropriate duration target for EurInsurance’s assets shows how risk controls and accounting controls (due to their different principles) had the capacity to direct the attention of decision-makers to different sets of issues and solutions (Lounsbury, 2008). While the accounting-return-based incentives suggested that management should favour assets with shorter duration in EurInsurance’s investment portfolio, risk controls suggested the opposite: that performance measured by “return on ERC” will incentivise management to lengthen the duration of the assets in the insurance portfolio. The conflicting implications prompted risk controllers to question the primacy of accounting controls in performance measurement. As a risk controller from the task force put it:

In my view, the biggest problem of this organization is that somebody some time ago decided to manage it on a US GAAP [accounting standards] basis and not on an economic basis. . . . They decided to move the management incentives on a US GAAP basis, too. That means we have not much focus on the economic view and on the ERC.¹⁸

However, risk controllers shied away from an outright contest over performance measurement:

[The accounting controllers’] point of view is that “this [return on capital] is what we publish, so it is important.” If we ask ourselves, “Can we act against the accounting standards?” the answer is no, the analysts and the rating agencies would not recognize [accept] that.¹⁹

The Head of the Economic Risk Capital team concurred:

¹⁸ Vice President, Economic Risk Capital and Capital Management, MultiBank.

¹⁹ Vice President, Economic Risk Capital and Capital Management, MultiBank.

. . . the question arises if you want to steer the business from an accounting or an economic perspective. Following public opinion, it is more accounting-driven because of the problems highlighted by the rating agencies in public.

It appears that, even though the risk controllers challenged the economic rationale of the accounting control system, they did not challenge its institutional appropriateness.

Discussion

The case study explored the changing context and internal dynamics of a multiple-control system deployed in divisional control. Discussing the study further, I seek to explain why certain control systems became implicated in the post-crisis divisional control while others were replaced or marginalized.

Which matters more—functionalism or appropriateness?

In the wake of the 2002-2003 European insurance crisis, MultiBank's top management demanded a control technology for assessing its key strategic uncertainty. (As a director from the CFO division put it earlier, "This situation [the insurance division's crisis] highlighted that we need a better way of—or more aggressive or proactive capital management, if you will.") For them, the insurance industry crisis translated into a control puzzle: how to capture capital adequacy (and its uncertainties) in an actionable way? By shifting the discourse from the insurance crisis to that of "the problem of EurInsurance," they were able to reduce a bigger problem (of the world) into a manageable smaller one (of control). It is in this context that EurInsurance's strategic dilemmas (its recapitalization and the fate of its country portfolio) created an opportunity for the two controller groups to claim relevance.

Previous research has yielded a number of results that appear to answer the question of how and why certain control systems come to be regarded as more acceptable and reliable by top management than others. Simons (1991) observed that at times of increased environmental hostility, top management resorts to using more than one control system interactively and we have evidence from Chapman (1998) that the role of informal controls complementing formal accounting systems intensifies under conditions of high

uncertainty. During the EurInsurance crisis, the visibility of both accounting and risk controls heightened and some of MultiBank's top managers became personally involved in running EurInsurance. As the role of personal interactions between headquarters and division—both between top managers and between controllers—intensified, informal controls complemented the control-tightening that was taking place.

However, the interesting lesson from the case of divisional control at MultiBank is not so much about top management's use of different controls, but about the competition among controller groups to supply control systems that can become relevant in new and important organizational debates and decisions as the environment radically changes (Fligstein, 1987).

After the EurInsurance crisis, the meetings of the CEO's cross-functional task force made it clear to all participants that risk and accounting controls did not complement each other functionally; rather, they conflicted. Simons's levers-of-control perspective would predict that top management would select one of the available control systems for interactive control, taking into account the key strategic uncertainty of the time—EurInsurance's capital (in)adequacy. But is this what happened? Indeed, a choice was made, implied by the observation that decisions about the future of EurInsurance were made under the guidance of accounting controls (the solvency ratio played a part in those discussions), while risk controls were deemed irrelevant.

But why *this* choice? Risk controls had been proven informationally relevant to capital management issues during the crisis! This suggests that top management's choice of interactive controls is underdetermined by their functional rationality.

At the task force meetings, the accounting controls and the risk controls were both visible but presented decision makers with different and (in the case of performance, capital, and balance-sheet management) conflicting signals. The apparently technical differences between the controls expressed tensions between a traditional, legalistic, rules-based accounting expertise and a forward-looking, economics-based, market-oriented risk expertise. As in the brand accounting debate, which also played out between two such expertises (traditional cost accounting versus market-based, forward looking brand-

valuation), debates about the right approach to divisional control took place in an “interpretative space” (Power, 1992) in which controllers advanced their competing interpretations of EurInsurance’s risk profile and capital adequacy. They did this by also advancing their credentials and their claims to provide the applicable measurement technology (Power, 1992). The efforts of risk and accounting controllers to deploy different tools in controlling EurInsurance were tied up with their competition for visibility and voice in top managerial decision making, which led to a series of credibility contests, staged at the CEO’s task force meetings. Like the contestants in the brand accounting debate, MultiBank controllers tried to construct trust in their expertises by engaging in strategies to credentialize themselves and to contest their competitors’ credibility (Power, 1992, 2003). In the end, the fate of their claims was contingent, not on how well their chosen methods addressed the problem of EurInsurance’s capital adequacy, but rather on their capacity to generate top managerial acceptance and a widespread consensus among both internal and external stakeholders.

The context-dependency of successful credentializing strategies

MultiBank’s risk controllers and accountants deployed very different credentializing strategies.

First, risk controllers contested the economic rationale of accounting controls. In front of the task force, they drew attention to the unsuitability of EurInsurance’s pre-crisis accounting controls as a basis for divisional control. In effect, they deployed *credibility by realism*, pointing out that existing controls were ill-equipped to reflect economic reality. They also drew on the cultural authority of financial economics; notably, though, without offering an explicit and detailed description of the underlying inputs and modelling assumptions of their own ERC methodology. Such withholding of detail could be justified on confidentiality grounds or on the grounds of “not making it too complicated for others”; either way, it had important consequences. Risk controllers could shield their “full fair value” expertise from criticism by not revealing it fully and, at the same time, reinforced their *credibility by mystique* (Power, 1992). Finally, risk controllers appealed to the “established” nature of their measurement practice, endowing it

with *credibility by acceptance*. As the MultiBank Group's 2003 annual report put it, "In our industry, economic capital represents the emerging best practice for measuring and reporting all quantifiable risks."²⁰

In response to the risk controllers' credentializing strategies, accountants defended the economic rationale of their controls by arguing that "[a]nybody who would have been interested in reading the numbers could have learned a lot out of them without any fancy calculations of ERC." They constructed a narrative of the crisis which disagreed with the risk controllers' *post mortem*. While the latter faulted EurInsurance's (accounting) controls on the grounds of their lack of timeliness, accountants argued that the division's reporting practices lacked detail and were too infrequent. During the crisis, they swiftly moved a new reporting template into the divisional control space that was more aligned with MultiBank top managers' experience of how financial services firms worked. The bancassurance control template gained *credibility by association*: It stressed points of similarity between the performance drivers of the insurance business and the performance drivers of other divisions that top management already understood well. The bancassurance template was a useful rhetorical and technical device that provided MultiBank's top management with a much-needed sense of familiarity and control.

In the capital management area, accountants mobilized the solvency ratio, which, in their eyes, had gained *credibility by acceptance* as an established regulatory metric. Their third and perhaps most crucial strategy involved positioning the solvency ratio (and other accounting disclosures) as the basis of broader discussions of performance management and strategy. They argued that if accounting numbers are important for external users, then surely they must also be relevant and credible for internal decision makers: "This is what we publish, so it is important." Accountants were thus able to promote the credibility of their controls by appearing to represent a broad constituency of stakeholders which included regulators, analysts, rating agencies, and the business press. The power of this strategy (*credibility by*

²⁰ MultiBank Group Annual Report 2003.

representation) is to deprive the opposition of a voice (Power, 1992); to be against accounting controls is presented as being against the business itself.

On balance, even risk controllers accepted the accountants' rationale: "If we ask ourselves, 'Can we act against the accounting standards?' the answer is no, the analysts and the rating agencies would not recognize [accept] that."

In sum, the EurInsurance crisis opened up a field of contestability over the division's capital management and performance measurement. But these technical questions provided an interpretative space in which claims to expertise were promoted and contested. In the end, the accounting controllers came to dominate important agendas that determined EurInsurance future and the risk controllers were not consulted. It appeared that management made a choice about the basis of divisional control, but just as the choice was not based on pure functionality, neither was it determined entirely by the credentializing strategies both sides deployed. Rather, I argue that, in order to assess the controllers' arguments, top management seems to have deployed the logic of appropriateness (March and Olsen, 1999; Young, 1994), which, in the insurance context, bestowed greater institutional appropriateness on the accounting controls than on the risk controls.

It is important, of course, to emphasize that there was a shock as a triggering event—EurInsurance's huge losses—and to clarify what role that shock played in the ensuing competition. As shocks, by definition, present management with new strategic uncertainties (in this case, EurInsurance's capital adequacy), there is a lack of clarity about the functionally appropriate control solutions. Thus, competing control agents not only promote their own solutions to the new organizational problem, but they also engage in various credentializing strategies to advance their causes. The competing controller groups used the control debacle as a resource, constructing their own explanations for it, in the course of which they defended their controls and attempted to undermine those of their opponents. In sum, the crisis is important in this story for two reasons: first, as a triggering event (it triggered the competition for the

supply of divisional control solutions) and, second, as a resource for controllers in constructing their narratives and credentializing strategies.

Professional competition and the appeal of the appropriate

Previous studies that locate the competition of controller groups to supply control systems in interprofessional competition argue that it is easier for accountants, who can trace their claims to statutory requirements, to challenge nonaccountants, who cannot (Ezzamel and Burns, 2007). Further, Ezzamel and Burns argue that those who can originate their control solutions in distinctive bodies of knowledge that form their domain of expertise can contest less-codified, weakly classified knowledge.

In the current case, however, the professional backgrounds and cultural roots of the competing controller groups were both authoritative. Both accountants and risk controllers could point to their codified abstract knowledge bases and to statutory and regulatory requirements that warranted the application of their favored control systems.

From a professional competition perspective, the risk controllers were in no weaker position than their accounting counterparts. The insurance division's capital management crisis opened an opportunity window for both to offer their characteristic interpretations and remedies. They did not do this as a territorial extension of one risk control domain at the expense of another; this case, unlike previous studies, shows professional competition for a *new* control domain, which only became defined as a control problem as a result of EurInsurance's crisis.

Previous studies show competing controller groups directly challenging each other's professional identities. For example, in Ezzamel and Burns's study, when the supply chain experts (buyers and merchandisers) challenged the accountants on the basis of their short-sightedness and "obsession with cost," the accountants fought back, labeling their opponents' decision-making style "ad hoc and impressionistic." The discourses appealed to management's implied functionalism: Both sides presented the consequences their solutions would have for inventory levels, sales, and the bottom line.

MultiBank's accountants and risk controllers did not challenge each other's professional identities and did not mobilize detailed calculations of the differential consequences of adopting the ERC ratio as opposed to the solvency ratio (or vice versa) on MultiBank's capital adequacy and profitability. While risk controllers made some claims about the realism and functional implication of their controls, they appealed to the logic of appropriateness by emphasizing the acceptance of their techniques in certain parts of the institutional environment. In turn, the accounting controllers emphasized the appropriateness and acceptability of their principles and technologies in another part of the macro environment, which turned out to be one of the closest to top management's concerns ("the insurance world"). The outcome of this professional competition was not determined by claims about representing the underlying economic reality, but by claims about representing those who cared about it most. In this context, the strategy of credibility by representation had the highest currency and came to dominate weaker strategies, particularly those that claimed representational faithfulness (credibility by realism).

Risk experts found accounting practices such as the mixed-measurement approach and the solvency ratio questionable, contrasting accounting-based capital management with their own econometrics-based and market-oriented valuation expertise. But their failure to undermine the credibility of the accountants highlights that the use of risk or accounting controls in response to a crisis depends not only on the economic conditions but also on whether existing criteria for institutional appropriateness legitimate one or the other.

When multiple institutional logics prevail

One of the key takeaways that risk controllers drew from the task force discussions was that (in the words of a task-force member) they "needed to educate the outside world about the shortcomings of US GAAP." The apparently technical parameters of the debate about EurInsurance's capital management suggested to them that discrediting their accounting opponents was a matter of time and persistence. However, our analysis shows that there is much more required to compete successfully in a multiple-

control environment in which uncertainties abound and participants can draw on diverse cultural principles originating in various institutional logics.

In the institutional environment, there was no “prevailing logic” of how to assess the capital adequacy of financial services companies. The issue was very much contested by regulators and professional groups. While insurance regulators mobilized accounting techniques, bank regulators increasingly relied on a financial-economics-based risk expertise. In this context, bancassurance companies, bound by both banking and insurance regulations, had to live with the conflicts. While bank regulators expected MultiBank to extend its ERC methodology to all of its subsidiaries in order to determine its capital need at the Group level, insurance regulators (as well as rating agencies), who monitored EurInsurance’s capital position separately, were largely indifferent to the division’s ERC ratio and probed its capital adequacy based on its solvency ratio.

From an institutionalist perspective, the observable diversity of controls deployed in MultiBank and at EurInsurance resulted from different controllers’ appeals to—and compliance with—fundamentally different institutional logics. The solvency ratio reflected the insurance regulatory principle, then prevalent in the EU. It drew on accounting standards, which promoted the traditional accounting approach to asset valuation. The same solvency ratio was also monitored by credit rating agencies which were regularly assessing EurInsurance’s capital adequacy and credit quality. As rating agencies downgraded EurInsurance’s debt in the wake of the control debacle, in order to regain its previously highest-quality credit rating, EurInsurance needed to demonstrate it complied with a high solvency standard, over and above the minimum regulatory requirement. The bancassurance reporting template reflected the same accounting rationale as well as a banking-style view of the organization’s performance drivers and cost structure. In sum, accounting controls drew on the cultural authority of accounting as a legalistic, rules-based practice while risk controls drew on the cultural authority of financial economics, with ERC reflecting the full fair value principle.

How did MultiBank’s top managers reconcile these conflicting institutional influences?

In the wake of the crisis, with the institutional environment crowded with conflicting perspectives on the solution to EurInsurance's capital adequacy problem, it was impossible for MultiBank's top management to discern the true economic reality. Their response did not, therefore, arise from functionalist decision-making (March and Olsen, 1989), but rather, arose from their perceived duties and obligations to stakeholders. So the managerial dilemma shifted from "which control system gave true representation" to "which one was more appropriate in the insurance environment."

Given that the regulation of capital adequacy in the insurance industry builds on accounting technologies such as the solvency ratio, accounting controls could more credibly claim institutional appropriateness by claiming to represent the capital adequacy concerns of EurInsurance's constituencies: regulators, rating agencies, investors, and analysts. MultiBank's risk controls complied with a fundamentally different regulatory regime—that of banking capital adequacy. Their economic view was legitimate in the banking world and was used as an important input in top managerial discussions about how to reduce risk within EurInsurance and how to measure and communicate the decreasing risk trends during the crisis, as the capital adequacy of the entire group was at stake. After the crisis, however, in the day-to-day management of the division, this view conflicted with the accrual accounting view seen as appropriate in the insurance world. As for the discussions of EurInsurance's capital adequacy, performance measurement, and balance sheet management, risk controllers had to give way to the greater institutional appropriateness of the accounting controls.

Conclusion

Behind the various control systems there are active controller groups who, in competition for executive-level visibility, promote their solutions to organizational control problems. Environmental shocks, such as the crisis presented in this case, can create a ground of contestation—an interpretative space—into which controller groups can enter and compete to supply their interpretations and control solutions. As shocks, by definition, present management with new strategic uncertainties (such as

EurInsurance's capital adequacy), there is a lack of clarity about the functionally appropriate control solutions. Thus, competing control agents engage in various credentializing strategies (Power, 1992) to advance their solutions to the new problems. Some of these credentializing strategies appeal to the logic of functionalism, others to the logic of appropriateness (March and Olsen, 1999). While competing controller groups have been observed to appeal to top management's logic of functionalism (Ezzamel and Burns, 2005; Mouritsen, 1999), this paper argues that in certain circumstances, they may be more successful drawing on the logic of appropriateness as they construct the credibility of their representations. In our case, in an institutional environment crowded with conflicting perspectives on the solution to EurInsurance's capital-adequacy problem, it was impossible for MultiBank's top management to discern the true economic reality. Its response could not, therefore, arise from functionalist decision-making (March and Olsen, 1989), but rather, arose from its perceived duties and obligations to stakeholders. So the managerial dilemma shifted from "which control system gave true representation" (quite possibly the risk management controls) to "which one was more appropriate in the insurance environment" (the accounting controls). The strongest credentializing strategy thus proved to be the one that could represent the widest range of stakeholders to whom top management catered—regulators, analysts, investors, and rating agencies.

This analysis drew on a relatively recent trend in institutional theory, which investigates fields "comprised of multiple logics, and thus, multiple forms of institutionally-based rationality" (Lounsbury, 2008: 354). However, the concept of institutional logic may be too broad to describe the specific institutional and cultural resources that MultiBank's controller groups were drawing on. Instead of loosely defined "logics," we can actually point to the specific professional principles and the cultural resources that were in play. The study showed that multiple cultural resources can create diversity in practice even within a single organization as controllers vie for the attention of top management by identifying different problems and solutions. In particular, ERC and the ERC ratio emerged as technologies responding to the then growing authority of financial economics in banking, while MultiBank accountants mobilized the

solvency ratio (rooted in traditional accruals accounting and the regulatory principle) in their discussions of EurInsurance's capital management. These multiple cultural roots also created diversity in organizational solutions (for example, how to set duration targets for EurInsurance's balance sheet and how to measure its managers' performance) that evoke the image of the organizational garbage can (Cohen et al., 1972), in which the sorting mechanism was, at a time of looming uncertainty, not the logic of consequentiality but that of appropriateness.

It has to be highlighted that the apparent dominance of institutional appropriateness in top management's privileging of accounting controls occurred in the specific discussions about EurInsurance's post-crisis future. We need further studies to investigate how pervasive macro-logics (or specific cultural resources such as financial economics and accruals accounting) can be in the design, promotion, and take-up of multiple controls in organizations and how top managers respond to these via their choice of controls. On one hand, multiplicity can create huge ambiguity, leading to blending and the continued emergence of new practices (Lounsbury, 2008), which was not observed in this case. On the other hand, organizations may respond to the same macro-logics in multiple ways. As forcefully argued by Oliver (1991), firms may deploy diverse strategic responses to institutional pressures, ranging from proactive manipulation to passive conformity. Further research is needed to study and reconcile the radical open-endedness of the macro-logics themselves with the emerging institutional understanding of the professional competition triggered in the context of multiple control systems.

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