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MANCHESTER

**Privatisation and Management Accounting Changes (MACs)–A Case Study in Iran**

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## ABSTRACT

Despite increasing changes in the business environment, the results of the studies reveal that management accounting systems do not change or change at a much slower rate than expected. This failure has raised much debates at the topic of management accounting research during the last recent decades, investigating the change of management accounting in response to increasing changing of business environment. Despite this focus, there is still less empirical evidence in the field of MAC and the dynamics of MAC, especially concerning the relationship between MAC and privatisation as an important evidence of environmental change. In particular, in the context of developing and less developed countries (LDCs) there is much less empirical evidence in this area of research and so far the majority of studies has been done in context of developed countries. In response to this lack, this study aimed to investigate the change of management accounting practices of an Iranian automobile manufacturing company after privatisation. The most important emphasis of this study was about the change dynamics of management accounting systems, focusing on the complex interactions between internal (such as power relationship and organisational culture) and external factors (such as religion oriented political condition and the regulatory system) which shaped the privatised company's management accounting practices. In this regard, the study provided empirical findings relating to this case study, where the design of the MASs were shaped by dynamics of an unusual socio-political and institutional environment, Iran's, mix, "religious and political ideology and privatisation".

To achieve this purpose, the study employed an interpretive approach and the research empirical data primarily collected from face-to-face semi-structured interviews as the primary method of data collection. The study's theoretical framework was based upon institutional theory and its extensions, as well as structuration theory, introducing a new theoretical framework by combining three frameworks namely: 1) Dillard *et al.*, (2004) framework; 2) Seo & Creed (2002) framework; and 3) Bums & Scapens (2000). The research findings revealed the change of management accounting systems that occurred in the Iranian automobile case company after privatisation over a period of 27 years that is from 1993 to 2020, through the implementation of an integrated management system, including changes to budgeting process and system, the costing system and performance measurement system. Additionally, the findings identified the application of some new-developed practices such as Balanced Scorecard (BSC) system that played a ceremonial role

in this case study. The case company also applied Activity Based Costing (ABC) system after privatisation, a new system that failed in initial stage of its implementation.

The findings of this study extended the MA and MAC literature by using of alternative approaches, which is not common in case of LDCs. The combined-institutional framework utilised in this study helped in explaining, interpreting and understanding MACs which occurred within the particular context of the case company in the Iranian automobile industry. The conceptual framework developed in this study highlights the role which wider political and economic structures can play in shaping processes of MAC, and it helps the understanding of the reasons for change, stability and resistance to change in organisational level. The case illustrates that the differing political ideology and new regulatory system as well as uncertain socio-economic condition were crucial factors underlying the MACs in this case company. By changing existing management strategy based on new political ideology and emergence new regulatory system, along with wider socio and economic pressures, the privatised company's management accounting system changed, sought to legitimise the new management accounting system based on new socio-political and economic conditions. Additionally, the case revealed that the company's MACs after privatisation was relatively well received by users "outside" the management accounting department and therefore faced not internal resistance. This findings research, however, does not confirm the known behavioural implications of the direct relationship between the processes of MAC and privatisation, rejecting this idea that privatisation automatically resulted in MAC in this case study. In this case study, the research findings suggest that the impact of privatisation on MASs was conditional and much more complicated, significantly was influenced by particular wider socio-economic and political context of Iran.

Keywords: Management accounting change, management control systems, institutional theory, structuration theory, privatisation and transition economy, less developed countries.

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## LIST OF ABBREVIATION

ABC	Activity Based Costing
ANT	Actor-Network Theory
AOE	Assembly of Experts (AOE)
BOM	Bill of Materials
BSC	Balanced Scorecard
CPE	Criteria of political and economic level
CPPO	Consumers and Producers Protection Organisation
COF	Criteria of Organisational Field level
EMS	Environmental Management System
ERP	Enterprise Resource Planning
IACPA	Iranian Association of Certified Public Accountants
IAPMA	Iran Auto Parts Manufacturers Association
IAO	Iranian Auditing Organisation
ICAA	Iran Chartered Accountants Association
IDRO	Industrial Development and Renovation Organisation
IKCO	Iran Khodro Company
IKIG	Iran Khodro Industrial Group
IKRIC	Iran Khodro Research and Innovation Center
IAPMA	Iran Auto Parts Manufacturers Association
IPO	Iranian Privatisation Organisation
IMF	International Monetary Fund
IMO	Industrial Management Organisation
IPO	Iranian Privatisation Organisation
IOAS	Iran's Official Accountant Society
IRGG	Islamic Revolutionary Guard Group
ISA	Iran Sanctions Act
ISQCC	Iranian Standards and Quality Control Company
JCPOA	Joint Comprehensive Plan of Action

JIT	Just in Time
JVs	Joint Ventures
KPI	key performance indicators
LDCs	less Developed Countries
MA	Management Accounting
MAS	Management Accounting System
MAR	Management Accounting Research
MAP	Management Accounting Practice
MACs	Management Accounting Changes
MCIT	Ministry of Commerce and Information Technology
MEAF	Ministry of Economy Affairs and Finance
MIM	Ministry of Industry, Mines
MIM	Ministry of Industry, Mines and Trade
MOP	Modes of Production
MSRT	Ministry of Science Research and Technology
NIE	New Institutional Economics
NIOI	National Industries Organisation of Iran
NIS	New Institutional Sociology
NCC	National Competition Council
NPD	New Product Development Center
NSOI	National Standard Organisation of Iran
OCM	Organizational Change Management
OF	Organisational field level
OL	Organisational level
OIE	Old Institutional Economics (OIE)
OPCP	Protection of Consumers and Producers
PDP	Product Development Process
PE	Political and Economic level
QMS	Quality Management System
SAP	Structural Adjustment Program

SAP	System Analysis and Program
SAPCO	Supplying Automotive Parts Company
SCM	Supply Chain Management
SMA	Strategic Management Accounting
SOEs	State-Owned Enterprises
SSO	Social Security Organisation
TCE	Transaction Costs Economics
TPS	Total Production System
TQM	Total Quality Management
TSE	Tehran Stock Exchange
WTO	World Trade Organisation

## CHAPTER ONE: INTRODUCTION

### 1.1. Introduction

The topic of management accounting change (MAC) has become a center of much debate, numerous studies have been dedicated to understanding and predicting changes of management accounting and control systems during last recent decades (Granlund, 2001; Waweru *et al.*, 2004; Lasyoud *et al.*, 2018, Divino, 2014). In this sense, several studies have sought to address the relationship between privatisation and MAC (Craig & Amernic, 2006, p.84), suggesting privatisation as an instance of major environmental change stimulate MAC in organisations (Adams & Mengistu, 2008). The assumption is that privatisation as a fundamental environmental change can lead to significant change in business environment in terms of liberalisation, deregulation, market mechanism and competition, institutional, structural and cultural changes. Clearly, these changes can have a significant impact on the managerial behavior of the organisation, influencing its management system including MASs. Gupta, (2005) argues that privatisation increases efficiency and managerial system of privatised organisations firstly because private owners monitor the firm's performance more intensively than state owners do. Secondly, in state-owned organisations, managers pursue political objectives that are detrimental to profit maximisation and motivation but privatisation removes political influences and hence improves the firm's performance. Additionally, one of the main justification for the privatisation is because it provides the room for higher competition and market pressure, which would promote managerial systems with emphasis on efficiency, profitability and shareholder's values (Hoque & Alam, 2004). As a result, privatisation may stimulate the design of superior management systems (Redda, 2007), creating formal, revolutionary and progressive change in MASs (Burns & Scapens, 2000; Macias, 2002).

Despite such debates, so far only a small number of empirical studies have examined the consequences of privatisation on organisational change (Tsamenyi *et al.*, 2008), but the main stream of the research has tended to focus on the impact of privatisation on macro financial- issues like GDP and government revenue (Wickramasinghe & Hopper, 2005; Tsamenyi *et al.*, 2010). Consequently, our knowledge on the relationship between MAC and privatisation is narrow; calling for contributions in this area of research (Tsamenyi *et al.*, 2010). Particularly, it is notable



that the most available research was written in western countries (Ogden, 1993; Uddin & Hopper, 2003; Wickramasinghe *et al.*, 2004; Alawattage *et al.*, 2007), and therefore there is relatively little research in the context of LDCs, especially those that were written by local writers. In particular, due to importance of contextual factors, there has been much controversy debate in MA literature, as to whether the impact privatisation on MASs can have the same results for both advanced capitalist countries and LDCs (Uddin & Tsamenyi, 2005; Tsamenyi *et al.*, 2010). The importance of this area of research is further when we consider that over the past recent decades many developing countries have adopted the wide-scale structural reform programs including privatisation of state-owned enterprises, which were imposed and supported by the international agencies such as the World Bank and the International Monetary Fund (IMF). Similar with many of less developed countries (LDCs), Iran has been under major structural reforms during the last three decades since 1991. In Iran, the “Structural Adjustment Program” (SAP) was introduced due to several reasons including the continual pressure from budget deficits resulting from a wide-scale corruption of SOEs (Dezhbakhsh, 2004), as well as the external pressures of international financial agencies in particular the IMF and the World Bank. In Iran, since 1989s, a series of five-year economic development plans have been introduced and followed, which allowed the Iranian government to move ahead with major socio-economic structural reforms in terms of trade liberalisation, diversification and large-scale privatisation programs.

In this connection, the main purpose of the thesis was to examine the changes in MAPs of an Iranian automobile company after privatisation. The result of this study contributed to the recent literature on the MAC and in particular in case of LDCs. More especially, as Iran has never been a research site for systematic and detailed MA research, the findings of this research should provide original inputs for an analysis of the processes of MAC in the particular social and political location of Iran. This chapter continued with the purpose of the study, research questions, research methods, research contributions and the structure of the thesis.

## **1.2. Purposes of the Study**

During the last recent decades, MAR has been often criticised for being increasingly detached from practice (Tucker & Schaltegger, 2016; Jansen, 2018). Critics believe that although MA academics have sought to develop MA theory, tools and techniques, they have failed to address

the needs of the practitioners (Jansen, 2018). Consequently, from the 1960s onwards the new literature on accounting has moved from “normative” theories, often in the form of tools or techniques, towards to critically understanding MASs in practice (Baldvinsdottir *et al.*, 2010). In this respect, it is now widely accepted that accounting is not as a merely technical practice, but it is an intrinsically dynamic and social practice, which link to a multiplicity of interests and contextual factors (Miller, 1994; Van der Steen, 2005). In this connection, having contextual perspective, there are two different ways in the study MAP, that is, the effects of MA on social and organisational change, as well as, MA as an artifact of its social and organisational environment. In the case of this thesis, the latter approach is adopted in order to discuss and explain MAP and MAC after privatisation with reference to impacts interactions of both inters and intra organisational factors. In this connection, clearly, it is important to consider the general outline of the Iran’s socio-economic and political environment including the most important events during last recent decades which have directly or indirectly influenced the country’s business environment. As the most important event, after the emergence of the Iran’s Islamic revolution in January 1979, Iran transformed from a monarchy to an Islamic Republic. After revelation, the religious leader as Iran’s new political rulers believed the country’s authority should be vested in the Shariah, or fiqh, which resulted in clerical supremacy in Iran’s political area. At this time, many economic structural changes took place in the Iran’s business market by emphasis on the new ideologies of social justice, populist, nationalist, and in particular Islamic policies. For example, under populist ideology against capitalism, the political-religion government has been granted countless power, majority of the economic areas was nationalised or all were confiscated and granted to Islamic foundation, named Islamic Bonyads and also laws, regulations and education sectors in Iran Islamised. In particular, the Islamic Revolutionary Guards Group, (IRGG) was initially introduced in order to increase Iran’s defense capabilities, but latter, IRGG economic penetration significantly grew which has allowed this organisation to expand its political and economic activities into different economic sectors including oil, industrial, housing, agriculture, mining, and transportation sectors, among others. However, these parallel foundations (Bonyads) have not been subject to government levies and audits or to public scrutiny (Azad, 2010) but they are accountable only to the Supreme Leader. Furthermore, after the victory of Islamic Revolution, the US, UN, and EU relations with Iranian governments were broken for different reasons largely because of their concerns over possible military dimensions of Iran’s nuclear

program. After the Islamic Revolution, thus, the economy of Iran has been subject to wide international sanctions which have adversely influenced the Iran's business environment which targeted Iran's investments, industrial activities, exports, imports and business transactions include banking and insurance dealings (including with the Central Bank of Iran), shipping, web-hosting services for commercial activities, and dominant name registration services. As another important event after Islamic Revolution, in 1988 after the end of war in Iran, a series of the four-years economic development plans introduced by the Iranian governments, highlighting the economic structural changes and the era of reconstruction' (Sazendegi) in terms of liberalisation and privatisation programs. However, economic reform program started in Iran when Iran's business environment was characterised by the highly politically regulated context, dominated by government as well as some religious, military and political foundations. Clearly, being an unusual environment, Iran's, mix, "religious and political ideology and privatisation", forms a discussion for analysing how MAP including control systems come to be a social and institutional practice in a specific organisational context (Hopwood & Miller, 1994). In particular, after privatisation the IRGG's as a military organisation as well as religious organisations reach into wide scale economic activities, provided the greatest power for them by extending its economic, security-political, defense and military positions, which would significantly influence and control the government policies in area of reforms and privatisation program. Such context clearly influences the process of MAC at the organisational level as focus of this investigation.

To conduct this study, a case study approach is the most appropriate research method in this study because it provides contextual explanations on the social and institutional aspects of MAC, which are difficult to quantify (Ryan *et al.*, 2002; Yin, 1994, 2003). In-depth case study helps this study to collect holistic data (Ribeiro & Scapens, 2006, p.95), interpret the interplay between external and internal organisational factors such as historical events, government regulations, culture, meanings and attitudes of individuals in the process of MAC (Lowe, 2001). Yin (1994) suggests that case study approach is particularly appropriate when the research questions begin with how or why. Therefore, by considering the research purpose and questions posed by this thesis, the case study can be the most appropriate approach for the purpose of this study. To conduct this study as an interpretive case study, there are several alternative approaches to provide useful explanations on the social, political and institutional aspects of the subject under investigation (Noravesh *et al.*, 2007), explaining the processes of MAC from which it may emerge by the multiple contextual

elements (Andon *et al.*, 2007). In particular, “in recent years, institutional theories have been prominent in extending the study of MA, and MAC, to include the social and institutional dimensions of organisations and their environments”, (Ribeiro & Scapens, 2006, p.95). In this regard, a considerable number of studies in MAC draw on the old institutional economics (OIE) (see e.g., Burns & Scapens, 2000; Burns & Vaivio, 2001; Lukka, 2007) to support the analysis of internal processes and factors in the process of MAC. Many other studies used the new institutional sociology (NIS) to analyse and explain the external processes and pressures, which influence the process of MAC in organisations (e.g., Covaleski, *et al.*, 2003; Major & Hopper, 2004; Yazdifar & Tsamenyi, 2005).

Accordingly, this thesis draws on alternative approaches including both institutional theories and structuration theory to consider the dynamic processes of MACs in different social levels of this case study (see Yazdifar *et al.*, 2008 for the use of an integrated model of NIS and OIE). In this respect, NIS is useful for the purpose of this thesis because it provides useful explanations on how MACs is influenced by the inter-organisational processes and pressures. On other hand, OIE is an appropriate theory to explain internal processes and factors of institutionalisation of MAC in this case study. Additionally, structuration theory has been widely applied to study organisational and MA change (Busco, 2009), focusing on the concept of “duality of structure” including the role of both structures and agency in the process of MAC. Drawing on both institutional and structuration theories, the thesis uses a triangulation theoretical models introduced by: Burns and Scapens, 2000 (OIE for internal processes and factors); Dillard *et al.*, 2004 (NIS for external processes and pressures); and a dialectical approach of Seo & Creed (2002) to understand MAC as a dynamic institutional process.

### **1.3. Research Questions**

In this thesis, the general research question is:

***“How MAS in a former state-owned car manufacturing company in Iran was shaped by the interactions between intra and inter organisational factors, after the privatisation”?***

To answer this general question, the thesis proposes the following main research questions and sub-questions:

1. How did privatisation occur in Iran?
2. After privatisation, what changes have taken place in MAPs in this case company?
3. How the MACs shaped by the interplay between inter-institutional pressures and intra-institutional factors in the car manufacturing company that privatised?
  - 3.1. What were sources and influences of inter and intra institutional pressures in the process of MA changes?
  - 3.2. When, why and how did organisational actors decide to enact the MACs?
  - 3.3. Were changes in MAP embedded as values and believe in the case company?

#### **1.4. Research Methods**

The case study approach has increasingly adopted in MA studies (e.g. Granlund, 2001; Modell, 2005; Kholeif *et al.*, 2007), as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, when the gap between the phenomenon and the context are not clearly obvious, and in which multiple sources of evidence are used” (Yin, 2003, p.13). Ribeiro & Scapens, (2006) argue that the case study is a suitable approach for an interpretive study by type questions (what, how and why), enable researchers to provides holistic data on the phenomenon under research (Kumara, 2002; Yin, 2003). Additionally, there is an important advantage of the case study approach due to use of multiple methods of data collection in order to study closely with extensive detail (Gallier, 1992). Collecting multiple sources of evidence makes it possible to access to available various measures for the same event (Yin, 2003). Therefore, different methods can complement each other (Hassabelnaby *et al.*, 2003), increasing the validity of research evidence (Lee *et al.*, 2007).

This study used an interpretive case study approach to investigate the process of MAC in an automobile company following privatisation program. In particular, since Iran has never been a research site for systematic and detailed MA research, the case study should be the best approach to provide original inputs for an analysis of the processes of MAC relating to complexities of the economic, political, social contexts of LDCs in Iran. In this study, the relevant data collected from different sources including interviews, documentary evidence and direct observation. The

interview method is the cornerstone of case study research (Marginson, 2004), and this method is the primary method of gathering data in this research. The interview method helps to collect qualitative research data, at various hierarchy levels of analysis including wider political and economic, organisational field and organisational levels. Clearly, access to a wide variety of interviewees allows to assess MAP in its broadest context, measuring the extent of change, and to provide the analysis with an in-depth insight on the influences of interrelated internal and external contextual factors. Verbal data collected from interviews subsequently match with documentary evidence to enhance validity of research data. Documentary evidence includes different accounting and MA documents, accounting systems' manuals, published budgets, various operational reports, management reports, annual reports, financial regulations, training program materials, and internal bulletins and journals. In addition to the interviews and documentary evidence, other source of data are collected from direct observation that allows the researchers to observe situations and space that interviewees themselves might not be concerned with or are refusing to speak about, which this method can increase validity of findings of the research (Zoubi, 2011).

### **1.5. Research Contributions**

Despite many discussions about the subject of MAC (Lasyoud *et al.*, 2018), less attention is given to understanding MAC as a empirical evidence, explaining why and how MA emerges in the manner it does, over time, and within specific organisational contexts (Alsharari *et al.*, 2015). In this regard, Scapens' (2006b, p. 1) suggests that "to make sense of diversity in management accounting practices we need to understand the complex mish-mash of inter-related influences which shape practices in individual organisations". Taking this call for understanding MA in practice, this thesis aims to explain the processes of MAC within specific organisational context of a privatised automobile company in Iran. The study analyses the process of MAC in respect to the impacts of the complex "mixture" of interrelated factors at multi-institutional levels including political and economic level, organisational field level and organisational level. In this regard, it is now widely recognised that institutional theory constitutes the dominant perspective on organisational behaviour and structure that viewed organisations actions and behaviours as acts of conformity under wider institutional pressures (Aksom & Chorny, 2018). However, institutional arguments appeared to have some limitations and scope for extensions, which include the interplay of internal and external institutions and the impact of power in institutional change (Scapens 2006),

is unable to explain how change inside mature fields occur and how actors may recognise their needs and interests if latest are institutionally defined (Aksom & Chorny, 2018). Having an institutional perspective, this thesis aims to extend institutional theories, by combining institutional theories, namely NIS and OIE, and a dialectical approach of structuration theory, draws on theoretical triangulation of three frameworks developed by Burns & Scapens (2000), Soe & Creed (2002) and Dillard *et al.*, (2004). The new contextual framework challenges to eliminate the limitations of institutional theory by integrating institutional theories with other theories to understand MACs while exploring the multiple inter-linkages between MAC, inter-organisational pressures, market forces and intra-organisational factors in this case company. At the same time, thesis theoretical framework allows to challenge institutional theory limitation by focus on the role of human agency in the process of MAC. The combination of the theoretical frameworks allows the development of a theory that can gain a more complete insight into the complex and interrelated relations between external and internal factors in shaping the process of MAC in organisations without ontological and epistemological incompatibilities.

Additionally, to date, only limited empirical evidence provided in the critical and interpretive MA literature in the context of developing countries and LDCs (Wickramasinghe, *et al.*, 2004). As a contribution, this study extended the recent debate on the MAR, particularly in case of Iran, where has never been a research site for a systematic and detailed MAR. In particular, by a comparison is made between findings from previous studies in LDCs, it indicates that in spite of the limitation of the empirical evidence with reference to political ideology and policies; so far, there does not appear to be any research, which has been attached to religious ideology. This thesis looked at the social and organisational complexities surrounding the effects of religious ideology and the privatisation program in Iran. To the researcher's knowledge, the bundling of "religious political ideology" with the agenda of "privatisation" and the exploration of emerging issues from a social and institutional perspective has never studied in MAR. Additionally, one of the significances of this study is to examine the way in which Western theory on the change of MA applied, refined or developed in accordance to the characteristics of the LDCs. As a result, the structure, theoretical framework and empirical evidence of this study used as a basis for similar research in other developing countries. Furthermore, Malmi & Granlund (2009) argued that the focus of academic research is on writing for other researchers rather than for practitioners, who might gain advantage from MAR to address practical issues. Accordingly, Scapens (2006, 28) gives a call for a change

in accounting research by saying that “academics in MA who want to present practically useful recommendations have to use a theoretically informed understanding to provide insights, which are applicable and useful for practitioners; for MA research to have more of an impact on practice”. Taking this call for the new challenge to practically understanding MASs, it is important to discuss what the practical contributions of this thesis. Having an institutional perspective, the findings of this case study research should provide original inputs for policy debates on public sector reforms, in general, and systems change in economic enterprises, in particular. Additionally, a deeper and more complete understanding of the change drivers by the use of an interpretive case study approach should help managers and practitioners to be more aware of the issues involved in changing the MASs.

## **1.6. Structure of the Study**

This thesis contains ten chapters.

Next chapter provided a review of relevant literature in the area of MA and MAC, as a basis for analysis of this research. This chapter also reviewed the relevant literature regarding privatisation and MAC in particular in case of developing countries and LDCs.

Following this, chapter 3 proposed the theoretical framework that adopted to inform the research problem in this study. The selection of appropriate theoretical framework before entering to the field study provides useful insights on the complexities of the phenomenon under research. This chapter examined and explained different theories that can provide adequate explanation for conducting this study, presented the thesis theoretical framework and the justifications for the thesis theoretical framework.

Chapter 4 presented the research methodology and the research methods of this thesis. The chapter initially addressed the philosophical assumptions underpinning the research in order to justify the research methodology. This chapter also presented the key methodological issues, research design and research methods in order to explain how this research was conducted and how the thesis results were derived.

Chapter 5 provided a background on the automobile industry in the world and in particular in Iran. This chapter is important because the process of MAC and the relationship between MA change



and privatisation is subject to the general outline of global and national industry business environment. The chapter initially presented a background on the global automobile industry. After that it provided the reader with background knowledge about the current stand of the Iranian Auto Industry, explain its historical background, key players, and the most important opportunities and threats, which have influenced this industry in Iran. This chapter provides an overview of IKCO's history, strategy, structure and MAP, and the key associations of the Iranian automobile industry that have some forms of influence on IKCO's MAC.

Chapter 6 purported to explain how privatisation occurred in Iran and in the Iranian automotive industry. The chapter reviewed the literature on privatisation in Iran; explained the processes and the major obstacles in privatisation and the structural reform program in Iran, with a particular emphasis on the Iranian automotive industry. This chapter also addressed the regulatory and the accounting regulatory reforms in Iran and automotive industry, which the case company was obliged to adopt after privatisation.

Chapter 7 presented and discussed empirical findings including the organisational and MACs in IKCO after privatisation program since 1993. This study focused on four main MACs including the costing and pricing system, budgetary system, the performance measurement system, and the reporting system.

Chapter 8 focused on analysis of the empirical data to explain the process of MACs in IKCO over time after privatisation. According to the adopted theoretical framework, the chapter initially presented and discussed the change drivers and then it analysed and explained the process of MACs in this case company thorough three levels of social structures including socio-economic and political level as well as organisational level.

Lastly, chapter 9 concluded the assessment of the research findings and provided a summary of the research results. This chapter also included the research contributions, the research limitations and further research as well as recommendations.

## CHAPTER TWO: LITERATURE REVIEW \_MANAGEMENT ACCOUNTING CHANGE

### 2.1. Introduction

The topic of MAC has been the center issue of a large number of studies for the last four decades (Innes & Mitchell, 1990; Libby & Waterhouse, 1996; Burns & Scapens, 2000; Quattrone & Hopper, 2005; Ribeiro & Scapens, 2006; Lukka, 2007; Ja`rvenpa`a, 2009; Yazdifar *et al.*, 2008; Alsharari *et al.*, 2015; Lasyoud, *et al.*, 2018). The assumption is that the business environment is changing fast, demanding the new role for MASs if they are to be relevant in practice, contribute effectively to the success of organisations (Atkinson, *et al.*, 1997; Baines & Lang Field-Smith, 2003). However, the relevance of MASs in practice has been often criticised by many MA research (Jansen, 2018), suggesting that despite the existence of important sources of environmental changes over the past decades, changes to MA are difficult or very slow, and have often not been significant in practice (Guerreiro *et al.*, 2006; Lukka, 2007; Da Costa Robalo, 2007). This criticism was initially proposed by Johnson & Kaplan (1987), and since then MAR has been supported by a wide range of studies, whose results are not homogeneous but are sometimes contradictory (Busco, 2006).

In response to these criticisms, several studies in MA research have moved towards alternative approach, studying MAP as a social practice, which can influences and influenced by its institutional context. For example, the interpretive research as an alternative approach aims to challenge existing MA theory and seek to develop new or refine existing theory with the objective of understanding the MA everyday practices of a specific organisation (Granlund & Lukka, 2017). Despite such shift in MAR, comparatively, there seems to be a lack of adequate research on alternative theories in MA, providing empirical findings in the process of MAC in specific context (Alsharari *et al.*, 2015). In particular, in this field, the most studies have been written in developed countries and their contexts, but small number studies have been conducted about MAC in developing nations (Sulaiman & Mitchell, 2005). More especially, there is few studies in MA research that target the study of change in MA in the emerging and transitional economies which can distinguish them from those written on the developed countries in terms of their specific broad

political and economic systems including macro-context factors, such as the socio-political climate, regulations, competition, market mechanism, and industrial relations.

Using alternative approach, despite many calls for the institutional theoretical framework to support the understanding of the dynamic nature of MA in practice, there has been, respectively, limited theory-building research appearing within the broad field of MAC to date (Alsharari *et al.*, 2015). The advantage of this approach is due to its demonstrated capacity to consider the complex mishmash of inter-related factors at both extra and intra-organisational levels that pressure MAPs to change (Scapens, 2006). Contributing to the literature, this thesis aims to study MACs in a privatised automobile company in Iran, adopting an institutional perspective in the analysis of the research findings. The thesis provides a relevant body of literature about MA and MAC, in particular regarding to the relationship between MAC and privatisation in context of LDCs in Iran. The rest of the chapter proceeds with a review of the literature on the definition and the nature of MAP, the topic of MAC, and the relationship between MAC and privatisation. Next section, thus, proceeds with a discussion about the meaning and definition of MAP. After that the chapter continued to literature review on the concept of MAC including key dimensions and perspectives in MAC research. Next, the section 2.4 reviews literature on the relation between MAC and privatisation as issue under focus. Finally, the conclusion presented in section 2.5.

## **2.2. Concept of Management Accounting**

Despite, the exists quite extensive literatures, there is no universally agreed-upon definition of the “management accounting” (Mitter & Hiebl, 2017). Anthony (1965) for example defined MA and control system as “the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organisation’s objectives” (cited in Otley *et al.*, 1995, p.532). Malmi & Brown (2008, p. 290) defined MASs as “accounting systems that are designed to support decision making at any organisational level” (Burns *et al.*, 2013). Henri (2006) also defined MA as a capability which moderating the connection between resources and competitive advantage: capabilities let the successful orchestration of resources, so an appropriate MAS can create competitive advantage (Sirmon *et al.*, 2011; Mitter & Hiebl, 2017).

Although the above definitions suggest that the core role of MA is the provision of information for managers and other organisational decision makers (Burns *et al.*, 2013), the relevance of MA has

been the focus of much debate over the past few decades (Alsharari, 2018). In this regard, for the first time, Kaplan & Hopwood in (1983) and then Johnson & Kaplan (1987) in their book 'Relevance Lost: The Rise and Fall of Management Accounting' criticised the relevance of traditional MA textbooks. They argued that the origin of traditional MASs dates back to the first half of the 20th century (specifically 1920s) which is not fit with practitioner's requirements in response to changes of business environment (Johnson & Kaplan, 1987). Similarly, there are many other studies that support this idea that traditional MA cannot be longer proper to practice and therefore there is an urgent need to extend the scopes of MAS consistent within the new complex business environment (Burns & Vaivio, 2001). In response to this calls, there has been a resurgence of interest in understanding new role of MASs, and therefore MAC has become an interesting field in MA literature (Sulaiman & Mitchell, 2005; Yassin & El Guindy, 2017). Hopwood (1987) argued that MA is not a static phenomenon but it needs to change continuously over time in order to create new patterns of organisational life. Bhimani, (2009) defines MA as an integral part of the organisational process, and management accountants, as organisational strategic partners, contribute to the organisation to achieve its objectives. From this perspective, the main objective of MAS is to provide management with useful strategic MA information include both financial and non-financial information, promote flexibility, strategic planning, innovation and organisational learning process (Chenhall & Langfield-Smith, 2003). As a result, an appropriate MAS enable an organisation to improve its competitiveness on basis quality, productivity and efficiency (Baines & Langfield-Smith, 2003).

Since 1990s, consequently, there was a large amount of investigation on contemporary problems of conventional MASs, aiming to introduce improve the relevance of MA theory in response to the new requirements in the business environment (Alsharari, 2018). Kaplan, (1998) argued that traditional MA lost its relevance and it must be regained through the development and innovation in MASs. As a result, several advanced MA techniques introduced such as Total Quality Management (TQM) (Hoque, 2003); Just in Time system (JIT) (Malone, 2003); Strategic Management Accounting (SMA) (Langfield-Smith, 2008), Activity-Based Costing (ABC) and Activity-Based Management (ABM) (Soin *et al.*, 2002); and Balanced Scorecard (BSC) (Kaplan & Norton, 1996). Although such innovations aimed to reduce the gap and improve the relevance of MASs in practice, their implementation faced with a number of problems (Alsharari, 2018). In this regard, the results of several studies revealed that despite introduction such innovations in

terms of new advanced MASs, traditional MA techniques (especially budgeting) have continued to be prevalent in practice (see Adler *et al.*, 2000; Burns & Vaivio, 2001; Burns & Yazdifar, 2001). In this respect, several researchers examined the impact and success of implementation of advanced MASs and therefore the debate of relevance has again contributed significantly to the recent literature on MAC. For example, while some authors argue that the implementation of advanced MASs was not successful and traditional MASs have continued to be dominate (Jansen, 2018, Burns & Yazdifar, 2001), the findings of others revealed that there have been changes in MAPs after introduction of new innovations (Laitinen, 2001). Scapens & Burns (2000) argued that the change in MA undoubtedly took place in many organisations, but this change was in terms of methods used rather than the adoption of new advanced systems (Scapens & Burns, 2000). Scapens & Burns, (2000, p.9) discussed why accounting practices and systems have been particularly slowly to change, despite the rapidly changing technological and organisational environment in recent years. In general, in the relevant literature as Burns & Scapens (2000, p. 3) declare that “whether management accounting has not changed, has changed, or should change, have all been discussed”. Burns & Scapens (2000) acknowledge that, despite this fact that MAC has become a common topic of much debate in recent years, all views require more practical research. Lukka & Granlund, (2002) argued that this problem is largely due to domination of normative theories in MAR and because there is a lack of communication between MA practitioners and MA academic. They argued that MAR is typically from the fields of economics, organisation theory so-called mainstream studies, (see Ryan *et al.*, 2002), which strongly rely on the core assumptions of neo-classical economics of market equilibrium and economic rationality (Scapens, 1994). Additionally, MA researchers are primarily have focused on writing for other researchers rather than for practitioners and the users of MA information such as management accountants, managers and society, who might benefit from MAR to address practical issues (Malmi & Granlund, 2009).

As a result, the debate of relevance has again contributed significantly to the recent literature on MA and MAC to shift towards new insights, using alternative approaches include both interpretive and critical approaches to understand MA as social practice with emphasis on multiple causes and roles of MA in practice (Parker, 2012). Currently, there has been a resurgence of interest in qualitative MA research, suggesting that MA is not “a compact “toolbox” of functional techniques and neutral systems to assist rational choice and control”. Rather, it is a dynamic, organisationally embedded social phenomenon, which is highly contingent, and situational specific (Vaivio, 2008,

p.67). From this perspective, Scapens, (1994) explained MA as a set of social and institutional practices, which can be interpreted through understanding what is actually happening in practice related to the organisations and their wider socio-economic contexts. Similarly, Ribeiro & Scapens, (2006), define MA as a dynamic and social institution, subject to changes under its historical circumstances (Ribeiro & Scapens, 2006). Birkett & Poullaos, (2001) define MA as an artifact of four interrelated environmental factors: social institutions (e.g. professions and the government), organisational context, technologies and research contributions, is to serve certain managerial rationales in evolving socio-economic systems.

In response to these calls, several alternative approaches provided new insights in MAR to understand and explain organisational changes and MACs within its broader social and economic context (Hopwood & Miller, 1994). These alternative approaches have generated different insights to explain organisational change as a dynamic and social constructed institution, which is subject to its historical and social conditions (Wickramasinghe & Alawattage, 2007). Alternative academics are being asked researchers focus on social and historical aspects of accounting to better understand how accounting influences, and/or is influenced by, a “multiplicity of agents, agencies, institutions and processes” (Miller, 1994, p. 1; Dillard *et al.*, 2004; Alsharari & Abougamos, 2017). In this connection, several studies revealed the advantages of institutional theories, to explain MA that is experienced in practice (Scapens, 1994). Buylen, (2010) argues that an institutional framework with holistic, historical and processual perspectives enables the researcher to understand the evolutionary nature of change and to focus on interplay between inter and intra-organisational factors in the process of change.

The purpose of the current thesis is to explain the processes of MAC in an automobile company, which have emerged through privatisation and reform programs in Iran. This thesis defines MAC as a complex and ongoing process, influenced and shaped by institutions (structural properties) and agents. Therefore, the process of MAC is product of the complex interrelations between external as well as intra-organisational institutions. From this perspective, although the choice of a new MASs by agents may appear quite intentional and rational, current institutions will influence its choice, propose and implementation (Siti-Nabiha & Scapens, 2005). Having institutional perspective, this study examines MAC in terms of new “institutionalised routines which enable organisations to reproduce and legitimate behaviour and to achieve organisational cohesion”

(Scapens, 1994, p.301). Thus, MAC include a set of formal rules (MA systems) as the ways in which “things should be done” which refers to formalised and predetermined statements of procedures which are needed to direct and give meaning to the actions of individuals and groups in the attainment of organisational objectives (Burns & Scapens, 2000, p.6). MAC is also concerned with routines in which “things are actually done” including formal and informal procedures, as they are enacted and reproduced and finally to become institutionalised (Burns & Scapens, 2000, p.6). Following the discussion of the definition of MA and MAC, the next subsection contains a literature review, addressing key dimensions and different approaches in MAC research.

### **2.3. Research in MAC**

The topic of MAC has been the focus of wide array of researchers, whose findings are not homogeneous but they are sometimes contradictory (Burns *et al.*, 2003). Quattrone & Hopper, (2001) argue that although the topic of MAC has often discussed by many researchers, the study of MAC is not uniform phenomenon, but it covers wide diversity (Kanter *et al.*, 1992; Lasyoud *et al.*, 2018; Sulaiman & Mitchell, 2005). In MAC literature, for example, numerous studies exist on the nature of change, typologies of change (Sulaiman & Mitchell, 2005), process of change (Lukka, 2007), and the diffusion of MA innovations (Jones & Dugdale, 2002; Lukka, 2007; Yazdifar & Askarany, 2012). Pettigrew (1995) discussed different aspects of change: the speed of change, quantity and quality of change, suggesting that adoption of appropriate theory would help researcher to focus on different aspects of MAC. Several studies have examined factors that influence MAC, either as forces or barriers (Schwarze *et al.*, 2007). In field of MAC, Lukka (2007) classified research into four clusters: (1) the consulting genre cluster relating to the successful implementation of new MA techniques. (2) Change studies that focus on organisational tensions, conflicts, and resistance or failure of MACs. (3) Models of changes (Innes & Mitchell, 1990) identify the factors that cause the change and (4) understanding the change as a process (see Burns, 2000; Burns & Scapens, 2000). In general, the diversity of interpretations of MAC literature implies that change of MA is a complex, dynamic and ongoing process with different dimensions, aspects and forms (Li, 2010), which make it difficult to fully conceptualise the study of MAC (Busco *et al.*, 2007). In this sense, Busco *et al.*, (2007, p.125), suggest that it is “time for systematising the analysis of MAC research along some key dimensions”. In this connection, two

special issues of the Management Accounting Research Journal edited by Burns & Vaivio (2001) and Busco *et al.*, (2007) were important attempts as guidance for conducting research in MAC along some key dimensions.

### **2.3.1. Special Issues in MAC Research**

Special issue reviews and reflects the key themes and findings in a particular field of study (Mellett & Ryan, 2008). The emergence of a special issues are motivated by the need to provide a deeper understanding of different, often incompatible research perspectives on phenomenon, and they seek to provide a reliable basis and guidance in research on particular subjects (Burns & Vaivio, 2001). The next section reviewed and compared the findings of two special issues from the MA Research Journal, seek to present a platform for conducting research in the field of MAC (Tsamenyi & Cullen, 2010).

#### **2.3.1.1. First Special Issue**

Burns & Vaivio (2001) edited the first special issue on MA research as a “beginner’s guide” for researchers. This study focused on three key dimensions of MAC in terms of the nature, the logic and the management of change:

##### **2.3.1.1.1. Epistemological Nature of Change**

Burns & Vaivio (2001) address the epistemological status of change by dealing what is MAC. They encourage researchers to study MAC “as an evidenced empirical phenomenon” (Burns & Vaivio, 2001, p.393), rather than what is established by normative claims in the MA literature. Burns & Vaivio (2001) classify change into phenomenon and non-phenomenon such as an illusion, suggesting change as “a priori as a positive phenomenon-as something that reforms the present towards the better” (Burns & Vaivio, 2001, p.393). However, change can also result in negative consequences, and it can “introduce substantial problems instead of the pursued improvement” (Burns & Vaivio, 2001, p.393). Regressive change deals with ceremonial ways in order to support existing interests and power relationships. This special issue also integrates some of the ideas in the literature on the issues of stability and change to discuss “whether change can be studied as a



distinct, observable episode, which has a beginning and an end, or whether we should approach change as an ongoing phenomenon” (p.393). While some studies tried to distinguish or perceive a contradictory dichotomy between stability and change (Granlund, 2001), change and the stability cannot be understood as mutually exclusive, but as co-existing elements of reality which proceed as evolutionary paths (Burns & Vaivio, 2001). In this regard, Dawson (1994, p. 10), defines change as a continuous process “any alteration in tasks or activities,” which can be progressive and regressive and has both intended and unintended consequences. Burns & Vaivio, (2001) presented an epistemology debate by the raising the question: “[I]s MACs a disruptive revolutionary phenomenon that has shattering impacts within organisations, or should it be understood as a more incremental evolutionary chain of development”. Revolutionary change refers to rapid and major change that is unlikely to happen unless significant events like takeovers and privatisation emerge. Evolutionary change in contrast is a path-dependence and cumulative change that appears to be gradual, is difficult to observe (Burns & Vaivio, 2001), and therefore is difficult to grasp and define (Shearer & Arrington, 1993). According to Burns & Vaivio (2001) although some revolutionary events may cause change, the change of MA is a path-dependent process rather than a revolutionary process.

#### **2.3.1.1.2. Logic of Change**

The second key dimension in this special issue was the logic of MAC. This dimension deals with the reasons that an organisation decides to undertake the change. Burns & Vaivio identified two separate logics for change in terms of formal (managed) and informal (unmanaged) changes. Organisational actors design formal change, which implemented in preordained ways, aims to achieve premeditated objectives of the organisation. In contrast, informal and unmanaged changes are not an intentionally planned and rationally executed part of reality but as an unmanaged event, that contains informal elements (Burns & Vaivio, 2001). From this perspective, an unexpected crisis, like privatisation, may lead to popular MA fashions and various implicit pressures causing change in MAP. The logic of MAC can be also analysed in terms of linear and non-linear change. Linear change is predictable and systematic, which follows a logical sequence towards particular and precise objectives. Non-linear change, on the other hand, is “more unsystematic and unpredictable - including ambiguous goals, unforeseen incidents, sudden turns and unwanted phases of development” (Burns & Vaivio, 2001, p.394). Burns & Vaivio (2001) argue that

although the functional logic has its importance, MAC is rarely a consensual and neutral activity, and therefore the logic of change may be functional or politically orientated.

### **2.3.1.1.3. Management of Change**

This issue focuses on the management of the process of MAC. In this regard, Burns & Vaivio (2001) classify the change as: (1) a centrally driven effort and (2) a fundamentally local concern. Change as a centrally driven effort concentrates on planning, organising and supervising practices. The main players in this type of change are top managers and through a top-down relationships and authorities, the local participants have a secondary role in implementing a centrally initiated MAC. Change as a local concern, on the other hand, can be characterised within larger, decentralised structures; in which local participants are real architects and mobilising agents of change. Here the focus is on a bottom-up relationships in which change may be realised in terms of a minor change in a single time/space niche, rather than of being massive, overarching organisational change. This type of MAC deals with internal concerns, such as power relations, political and cultural concerns and local experimental permeates. Here the focus is to interpret how MAC intertwined with organisational culture, and the organisation's core values, beliefs and ways of thinking.

### **2.3.1.2. The Second Special Issue**

The second special issue published by the journal of Management Accounting Research that edited by Busco *et al.*, (2007). This issue aimed to integrate some of the key issues in MAC, suggesting possible directions for research in MAC with emphasis on four key dimensions, namely, the agents and objects of change, the form and ratio of change, the space and time of change and the interplay between change and stability. They admitted that this structure is never sequential and its elements intrinsically related to each other.

#### **2.3.1.2.1. Agent and Object of Change**

In MAC research, two key questions are about: (1) what and who makes the change happen? (2) What and who is subject to change? In the relation to the first question, an important issue is

whether there is some hidden structural force, some clear individual agency, an opaque combination of the two or even something else (Busco *et al.*, 2007). Busco *et al.*, (2007) argued that the change can be attributed to both human and non-human factors and there is a wide variety of socio-economic and institutional contextual dynamics involved in the process of MACs. In this regard, for example, the actor-network theory (ANT) provide useful explanations on the diffusion of MAC within organisations (Busco *et al.*, 2007).

The second key question in field of MAC is about what and who is subject to change. This question tends to focus on some of the prevailing ambiguities regarding to the epistemological and ontological nature of MAC. In relation to this issue, Busco *et al.*, (2007) integrate some of the ideas in the literature (see Law & Singleton, 2005), to suggest that the object of change is complex and difficult to theorise, because it is subjective. The difficulty of understanding the object of change can be termed ‘epistemological’, in which simply means different things to different people and constitutes a means to create communication between different communities of practice (Busco *et al.*, 2007).

#### **2.3.1.2.2. Form and Ratio of Change**

The issue of form and ratio of change reveal how and why change can be occurred. Busco *et al.*, (2007) ANT (Actor-network Theory) helps to concentrate on the diffusion of MAC, understanding and explaining how MA innovation can be emerged and successfully implemented in a wider population. Busco *et al.*, (2007) argued that in MA research there is still little knowledge about diffusion of change, explaining how new MA techniques spread and become practised in an organisation, how do organisations manage to involve practitioners from different and sometimes opposing agendas in process of change? how do they manage to instill hope (of solving a problem, be it at the personal level of the manager or at the institutional level of the organisation) in the perspective user? Clearly, a better understanding of the change process through which these happen (how) would enables researchers to explore why the change can happen.

#### **2.3.1.2.3. The Space and Time of Change**

This issue refers to space and time of change seek to investigate when and where does change happen in MA. In this respect, Busco *et al.*, (2007)’s study supports this idea that change would

engages differently with the various actors and centers and therefore it is difficult for researchers to access a distinct pace and time of change. MAP disperses across various functions (spaces) at indiscriminate intervals (times) and therefore MAC does not occur on a linear timeline that can be monitored. As a result, the change can be happened in a semantic network of relationships that would form multiple spaces and times whose richness is very complex to identify (Quattrone & Hopper, 2001). Through this analysis, Busco, *et al.*, (2007) concluded that “despite the length of time spent within the organisational context, researchers need to confront the impossibility of fully representing and understanding the object of their enquiry as if it was out there, evolving in front of them along a linear pattern” (Busco, *et al.*, 2007, p.140).

#### **2.3.1.2.4. Interplay between Change and Stability**

The dichotomy between change and stability is another key attention of this special issue. Busco *et al.*, (2007) argue that the dichotomy between change and stability can be conceptualised if the ‘object’ of change can be theorised. However, change cannot fully stabilise or be complete, because it is a non-linear process, which a new object is also subject to change. Busco *et al.*, (2007, p.142) argued that “how we can assume the stability of a practice (even for a limited period of time) without reifying the practice itself and limiting enactment possibilities?” As a result, the change of MA cannot be seen necessarily as a single, stable phenomenon at a particular point of time, but stability and change appear to co-exist in structures and associations which are still to be deciphered (Busco *et al.*, 2007).

According to table 1, comparatively there are many similarities between these two special issues, suggesting that MAC’s research is dominated by some key issues relating to the nature of change, change drivers and the process of change. Therefore, a good insight on the key dimensions helps researchers for systematising their research on the analysis of MAC.

## Two Special Issues in MA Research

Summary	Dimensions	Similarities	Dissimilarities
<b>Special Issue 1:</b> <b>Burns &amp; vaivio, (2001)</b>	1. The epistemological nature of change; 2. The logic of change; 3. The management of change.	1. This research aimed at guiding MAC researchers. 2. In the analysis of the change concept, it focused on the epistemological nature of change dimension.	1. This issue highlights, providing more detail on the issues of politics, power and organizational cultures in process of MAC. 2. This paper mentioned to the interplay between change and stability with less attention. 3. This paper does not provide discussion about research method.
<b>Special Issue 2:</b> <b>Busco <i>et al</i>, (2007)</b>	1. The agents and object of change; 2. The form and ratio of change; 3. The space and time of change; 4. The interplay between change and stability.	1. This research aimed at guiding MAC researchers. 2. In the analysis of the concept of change, focused on the agent and object of change' dimension.	1. This issue presents less attention on the issues of politics, power and organizational cultures in process of MAC. 2. This paper largely stressed on the subject, object, and forms of change, as well as the interplay between change and stability. 3. This paper does not provide discussion about research method

**Table 1. Two Special Issues in MA Research**

Source: Burns & Vaivio (2001); Busco *et al.*, (2007)

The comparison between these two especial issues provides a general insight on MAC research as the subject under this investigation. Burns & Vaivio (2001) categorise existing issues on the field of MAC into three dimension: 1) the epistemology of change, which covers different aspects: the problems of empirical change; positive and negative phenomenon; the interplay of change and stability; and change as an ongoing process view and episodic change. 2) The logic (s) of change

including both formal and informal phenomenon, which follows a functional logic, or may involve political gaming and power struggles. 3) Management of change which may be centrally or locally applicable, and MAPs could passively reflect or actively shape the change. Having Burns & Vaivio (2001, p.393) perspective, this study considers the epistemology nature of change “as an evidenced empirical phenomenon”, includes both phenomenon and non-phenomenon such as beliefs and meanings which are dynamic and subject to ongoing process. From this perspective, although a significant environmental event such as privatisation may cause change of MAPs, change is path-dependent and cumulative processes, which appear to be gradual and evolutionary process. This thesis also uses the proposition of Burns & Vaivio (2001) to argue that the logic of change may be functional or politically oriented. From this perspective, it can be argued that after privatisation although MAC may be promoted by rational motivations such as further efficiency gains, the complex socio-economic and political processes includes the distribution of organisational power may influence the change of MAPs in this particular case study (Vaivio, 2008; Yazdifar, 2004; Burns, 2000). Additionally, this thesis uses Busco *et al.*,’s (2007)’s discussions about subject, object, and form of change, as well as time and space of MAC. Following this special issue, questions of what or who makes change happen; who or what is changing; how and why change occurs, and to where and when it occurs, provide a systematic perspective from which to validate the theoretical framework proposed by this study. In line with Busco *et al.*, (2007), this thesis also proposes that the longitudinal case study is the best approach for the study of the process of MAC. Additionally, according the suggestion of Busco *et al.*, (2007), this thesis examines MAC as process in forms of both rules and routines, focusing on the complex interplay between inter and intra-organisational factors in the process of MAC in this case study. In MA literature, a few studies have used alternative approaches to clarify the process of MAC (Li, 2010). Generally, many researchers have concentrated on change in MA as an outcome rather than emphasising the process involved in implementing or introducing new MAS or in modifying existing systems within organisations (Lasyoud *et al.*, 2018). Additionally, there is limited knowledge about the interplay between inter- and intra-organisational factors and the relevance of the roles of organisational actors in the process of MAC (Burns, 2000). In particular, despite an urgent call for extend the MAC research in different settings (Uddin & Hopper, 2001; Craig & Amernic, 2006; Wickramasinghe & Hopper, 2005), the most empirical evidence is from developed countries (Uddin & Hopper, 2001; Waweru *et al.*, 2004; Wickramasinghe, *et al.*, 2004; Hopper & Bui, 2016).

Therefore, very limited research has written in context of developing countries and LDCs (Baines & Langfield-Smith, 2003) and especially the application of alternative approaches is not common (Hopper & Bui, 2016), and those that exist focus on the influence of external environmental factors (Li, 2010). It is notable that the studies of MAC in developing and emerging countries is important, because accounting and organisational change in these countries are problematic, is tightly linked to political and macro institutional levels (Thrane & Balslev, 2017) which is a neglected area of research (Wickramasinghe, *et al.*, 2004).

This thesis contributes to extant literature by using dialectic, institutional theoretical and structuration perspectives to analyse the process of MACs of an Iranian automobile company in relation to the change of its business environment after privatisation over the period stretching from 1993 to 2019. In particular, the context of Iran is unique because the available MAC research in LDCs presented in the context of poor ex-colonial countries, such as Bangladesh, Sri Lanka and Ghana, with their focus on colonial legacies and neo-colonial initiatives. However, Iran has never been a colony and therefore this thesis relates to a particular type of country with a political context based on religious ideology within the process of privatisation. As a result, bundling political context based on religious ideology with the agenda of “privatisation” in context of Iranian car companies, this thesis aims to address how MASs may operate in such a way to become an institutionally and organisational practice (Hopwood & Miller, 1994). In particular, this study investigates a particular type of firm which is quasi-privatised—neither fully public nor fully private, which it highlights the importance about governance. Additionally, as long as Iran has never been a research site for systematic and detailed MA research, and as this thesis is the first study in Iran about the relation between MAC and privatisation, the findings should contribute to accounting research in Iran. In addition, the findings of this thesis should be original inputs for policy debates on public sector reforms, in general, and systems changes in economic enterprises, in particular. The next section provides a literature review on the relationship between MA and privatisation. To this end, the alternative perspective (interpretive & critical) is suitable for this study because it seeks to explain accounting and organisational change as processes over time rather than focusing only on the outcomes of change (Alsharari, 2018; Wickramasinghe & Alawattage, 2007). Alternative approach has developed different theories, such as institutional and structuration theories, explaining the process of accounting and organisational change as a dynamic and socially constructed process; subject to changes of its historical conditions

(Wickramasinghe & Alawattage, 2007). In this connection, for example, it is now widely recognised that institutional theory constitutes the dominant perspective on organisational behavior and structure (Modell, 2009b; Aksom & Chorny, 2018). Guerreiro *et al.*, (2006) argue that although the institutional approach is not the single approach (nor even the best approach) for analysing all aspects of MACs, it does provide useful insights about the nature of MACs, explaining why and how change in the manner it does, through time, and within specific institutional location (Burns, 2000). Having a holistic perspective, an institutional analysis provides adequate explanation on relevant factors both inter and intra organisational factors (Vaivio, 2008) giving emphasis to the dynamic process of change (Lasyoud *et al.*, 2018). Additionally, structuration theory has been widely applied to study organisational and MAC (Burns & Scapens, 2000), focusing on “the modalities of structuration in the reproduction of systems of interaction, by the same token reconstituting their structural properties” (Giddens, 1984b, p.28).

Having institutional as well as structuration perspectives (discussed in detail in chapter 4), this study aims to investigate the change in MAPs of an Iranian automobile company. In this respect, New Institutional Sociology (NIS)’s theory provides this study with an advance understanding of macro-level pressures in the process of MAC, explaining the legitimating processes through three major types of isomorphic mechanisms including coercive (political influences and the legitimacy), normative (resulting from professionalisation) and mimetic (resulting from standard responses to uncertainty). On other hands, Old Institutional Economics (OIE) allows this study to explain the process of institutionalisation of MAC through four stages including encoding, enacting, reproduction and institutionalisation when newly introduced MAPs turn out to be collectively acceptable values, habits and routines in organisations. OIE also provides useful explanation on issues of stability and resistance to change, focusing on the role of intra-organisational factors in the process of MAC in this case study. Additionally, although structuration perspective is not proper for explaining the processes of MAC because it ignores historical events (Burns & Scapens, 2000), it extends the scope of institutional theory by focus on the concept of duality, offering a useful explanation of the primary dynamics of institutionalisation of change with emphasis on the concepts of legitimating, signification and domination in different levels of analysis of MAC in this case study.



## 2.4. MAC and Privatisation

Privatisation and economic structural reforms have been pursued various objectives, but the overriding one is that it is a policy of change, aiming to bring greater commercialisation into the activities of previously purely governmental enterprises (Mador, *et al.*, 2007). In this sense, several studies have sought to address the changes of MA after privatisation with several underlying rationales for MAC as a major environmental event (Craig & Amernic, 2006; Hoque & Alam, 2004; Boubakri *et al.*, 2005). As a result, privatisation may change the mechanisms and structures of firms, change the motives of business managers and will consequently improve firm performance and management control systems (Laffont & Tirole, 1991).

For example, several studies argued that under a more competitive environment after privatisation, organisations are more likely to undertake change and rearrange their control system and MAPs, and to become more similar to the ones practised by private sector firms (see Szychta, 2002; Tsamenyi *et al.*, 2008). Privatisation changes the principle-agent relationship, helps organisations to move from those principles and priorities that impose by politicians toward those principles and objectives that aim to maximize efficiency, profitability, and shareholders' value (Tsamenyi *et al.*, 2010, Nurani & Ladary, 2011). Tsamenyi *et al.*, (2010) argue that due to a much clearer and improved principle-agent relationship, privatisation would improve the organisation's MASs. Furthermore, some studies have linked the MAC to privatisation by focus on cultural change (Hoque & Alam, 2004) argue that privatisation influence institutionalised value, patterns of behaviour, and expectations of members of the organisation (Hopper *et al.*, 2003; Hoque & Alam, 2004). It was argued that by the nature of State-Owned Enterprises (SOEs), managers and individuals have a lower degree of power, and fewer level of responsibility and interest alignment (Kumar, 2004). However, Privatisation changes the power relationships by making owners and managers free of bureaucratic or political intervention, to make decisions based on their best interest (Bozeman, 1987). Redda, (2007) also argues that after privatisation individuals are faced with more pressures associated with the private market environment and are expected to modify their core values and missions instantly to adopt a more focused and goal-oriented perspectives.

The above discussions point that privatisation influences the process of MACs to become more efficient in terms of planning, cost allocation and price mechanisms, which grounds on the change

of traditional bureaucratic processes and control systems in SOEs (Boycko *et al.*, 1996; Baines & Langfield-Smith, 2003). Burns & Scapens, (2007) states that privatisation may stimulate the design of superior management systems, creating formal, revolutionary and progressive change in MASs. Burns & Vaivio (2001) distinguish MAC into formal and informal change, explaining formal change as planned and consciously managed changes, implemented in a preordained way, aims to achieve the premeditated objectives of the organisation. Revolutionary change refers to a rapid and major change in the existing patterns of MAPs (Busco *et al.*, 2006). Progressive change in contrast to regressive change suggests that change is “a priori as a positive phenomenon”, being “something that reforms the present towards the better” (Burns & Vaivio, 2001, p.393).

#### **2.4.1. Research in MAC and Privatisation**

Some extant MA research has sought to reveal the relationship between MAC and privatisation. Studies on MAC and privatisation split into two different streams. The first stream seeks to explore how MA would facilitate the process of privatisation of state-owned organisations (Ogden, 1995; Arnold & Cooper, 1999; Craig & Amernic, 2006). For example, Ogden & Anderson (1999) highlight the role of accounting in the process of the reform program within the water industry in the UK. In similar vein, Arnold & Cooper (1999) examined the role of accounting in the process of privatisation in shipping facility in Medway Port. Ogden (1995) also focused on the potential of transformative abilities of accounting, to suggest that accounting enables the organisation to cope with new circumstances after privatisation. Hoque & Moll (2001) also suggest that accounting plays a significant role in reform programs in terms of promoting accountability, efficiency and effectiveness of service sectors. The second stream of research in this area focuses on how the process of implementing change in MAP is affected by the privatisation (Hoque & Hopper, 1994; Anderson & Lanen, 1999; Uddin & Hopper, 2003; Hopper *et al.*, 2003; Hoque & Alam, 2004; Major & Hopper, 2004; Uddin & Tsamenyi, 2005; Tsamenyi, *et al.*, 2006; Tsamenyi *et al.*, 2008). Accordingly, this thesis seeks to explore the impact of privatisation on the process of MAC in a privatised Iranian automobile company. Given this emphasis, the remaining parts of this chapter will deal with a review of the existing literature on the relationship between privatisation and MAC; aim to set a scene for the adopted theoretical framework in the next chapter. In MA literature, researchers have used different theories including both conventional and alternative approaches to study the impact of privatisation on MAC. Several of these studies have used

conventional approaches, including contingency and economic theories based on surveys and statistical approaches, by focus on a set of calculative practices that mainly intended to increase economic efficiency and effectiveness. The emphasis of these studies has been on the factors that can facilitate or hinder the change in MA, where privatisation is regarded as a factor that can facilitate change to induce superior MA in an organisation (Vickers & Yarrow, 1988a.). Anderson & Lanen (1999), for example, used a survey to examine the effects of privatisation on the MACs for firms with international partnerships in India. The results of this study revealed that privatisation created the improvements in planning and budgeting procedures, employee involvement in planning, and collection and analysis of cost data. Boubakri & Cosset, (1998) also used a survey to examine the change of accounting systems of 79 companies from 21 developing countries those that experienced full or partial privatisation. Cragg & Dyck (1999) also investigated the relationships between ownership and MAC for state-owned, privatised and publicly trading firms in the UK. This study concluded that state-owned-companies focus on non-commercial objectives, but privatisation may change the objectives of state-owned organisations to focus on profitability and commercial oriented objectives. Tsamenyi *et al.*, (2010) also examined the claim of World Bank/IMF about the success of privatisation in two large privatised companies in Ghana. They concluded that both companies' performances improved after privatisation, and that the improvements occurred with the improvement of the specific organisational changes, including changes in the MASs and control systems. In this study, they examined the impact of privatisation on MAC in terms of the adoption of the BSC system including five main perspectives: financial, customers, internal business process, learning and growth, and the community. Alipour, (2012) also investigated the effects of privatisation on the performance of SOEs, using the data from Iranian firms during the period 1998-2006. His findings indicated that privatisation did not have a positive effect on the profitability of the Iranian firms after privatisation; rather, the effect of privatisation was negative. Furthermore, he argues that privatisation has had no effect on sales effectiveness and efficiency of these firms; instead, their debts and risks of these firms have increased. He concluded that improved performance of privatised firms cannot be taken for granted merely by ownership change, but privatisation must be accompanied by other economic adjustments such as adjustment of the capital market and the national banking system as well as formulation of corporate rules and regulations. Additionally, in the study the relationship between MAC and privatisation, growing numbers of researchers have

adopted alternative approaches. From the alternative perspective, MA is seen as socially and politically constructed practices and therefore the study of change of MA after privatisation cannot be understood by only the influence of market pressures (Uddin & Hopper, 2003), but with respect to the influence of internal organisational factors as well as their connections with the socio-economic and political context. Some common theories used in this area of research are institutional theory, structuration theory and labour process theory. For example, Uddin & Hopper (2001) used labour process theory model to examine the impact of privatisation on accounting systems in a case study of soap manufacturing company in Bangladesh. The result of this study reveals that after privatisation, accounting in this case study changed in such a way that the top management team used the budget to assess the performance. Therefore, the budget become more market-oriented, and accounting practices were associated with new computerised systems. This study also expresses the issue of conflict within capitalist enterprises to investigate whether MA can facilitate the process of control by coercion or consent. They used 'factory regimes' to discuss why and how socio-economic factors shaped accounting controls in the case study and concluded that: (1) Diverse regimes influenced accounting in Bangladesh. (2) MA information was largely used as a ceremony to meet external legitimacy. (3) The change of ownership did not make a significant change to MAS. (4) Similar to before privatisation, after privatisation the MASs legitimacy oriented and/or as a tool of coercive pressure over the labour force. (5) In Bangladesh, the state and international agencies played a weak and insufficient role to support the process of privatisation. Wickramasinghe & Hopper (2005) also used cultural political economy, drawing from political and economic history, and modes of production (MOP) theory, to inform a longitudinal case study in a textile mill in a traditional Sinhalese village in Sri Lanka. This study found that after privatisation the performance in this mill improved mostly due to the adoption of commercial oriented budgeting practices. However, these successive attempts failed largely due to workers' resistance and problems of cultural asymmetry, which were rooted in ancestors' traditions. They conclude that MA, as a product of capitalist MOP and modern industrial culture, took unforeseen roles in this mill when confronted by a traditional, rural culture based on kinship commitments. This study encourages researchers to conduct further research on MA in the case of the Third World. Accordingly, Hopper *et al.*, (2009) examined the change of MA systems in less developed ex-British colonies (LDCs) in both state-owned and privatised large commercial organisations from colonial times on wards. This paper identifies five key historical political

phases (colonial despotism, state capitalism, political factionalism, market capitalism, and politicised capitalism) each with its own distinctive MA system. Using political economy theories, including labour process theory, modes of production theory and a political view of culture, they concluded that each historical regime is formed by contextual factors that are MOP, culture, ethnicity and race, the state, regulation and the law, political parties and industrial relations, and international finance. MAC is thus contextually oriented; develop historically, and, in turn, a socially constructed practice. Drawing on the political economy theory and the concept of factory regimes, Xu & Uddin (2008, p.175), also examined the changes of accounting for controls and accountability in a privatised company in China. The results of this study revealed that after privatization the control activities changed, with severe results principally for lower level employees. Budgets were changed to become more market-oriented, but more centralised. Lower level managers exerted little influence on control practices, but they had to execute top managerial commands that were directly influenced by the dominant shareholder. Controls over workers became coercive, by the increased use of low paid, temporary labours and by widespread redundancies. The key justification for these actions was rhetoric of market economy and accounting priorities, such as cost savings, productivity and profitability. Therefore, after privatisation accounting information was not changed for efficient forms of control and accountability for further efficiency gains, but it tended to be used to control lower level employees. They concluded, “Control problems in state-owned enterprises are associated with political interventions and wider socio-economic institutional arrangements”, and therefore “these political linkages will not go away simply as a result of a change in ownership or of implementing reforms” (Xu & Uddin, 2008, p.175). They believed that “accounting controls, central to privatisation policies, are socially and politically constructed” and therefore “it is unwise to assume that the efficient forms of accounting controls expected by productive efficiency theories will automatically flow from policies advocating privatisation” (Xu & Uddin, 2008, p.175).

Additionally, a number of investigations into the impacts of privatisation on the MAC used the Structuration theory. For example, focusing on the influence of regulation, Conrad (2005) used structuration theory to examine the notion of conflicts and contradictions in the process of accounting change in the privatised gas industry in the UK. Based on a case study, this study traced the change since when the company was a British public sector until more than a decade after it was privatised (i.e. 1986–1998). Conrad (2005) in his study highlighted the interactions between

agency and social structures in the production, reproduction and regulation of social orders, and their influences on the process of MAC in this case study. Uddin & Tsamenyi (2005) used also a longitudinal case study to examine the change of budgeting practice in a Ghanaian Food Distribution Corporation after privatisation. This study suggested structuration theory useful for studying MAC in practice, in particular in the case of LDCs. Gurd (2007) also used structuration theory and Laughlin's framework (as a middle-range theory based on Habermas), to examine the implementation of ABC after privatisation in a specific section of the Electricity Trust of South Australia (ETSA). They suggested that although these two theories are significantly different, they would complement each other and provide useful insights on the study of MAC. Additionally, institutional theory is popular framework in extending the study of privatisation and MAC to include the social and institutional dimensions of different levels of analysis of change. Firth (1996), for example, used NIS to examine the impact of privatisation on the diffusion of management accounting innovations in some companies in China. The result of this study reveals that companies that have collaborated with foreign partners had more chance to make change in MASs. Hassan (2005) also used institutional theory together with structuration theory to examine the notion of elements of system contradiction in the analysis of MAC in a hospital in Egypt. This study used NIS to link the change of accounting to the wider social and institutional change after privatisation. Tsamenyi *et al.*, (2006) used the both institutional theory and structuration theory to explain how the change in accounting was shaped after privatisation in one of the major electricity companies in Spain. Tsamenyi *et al.*, (2006) explained that they used institutional theory because it is particularly relevant for analysing organisations that they have to compete for political and institutional legitimacy and market position. They assert that although the change in their case study was driven by changes in the inter-organisational context and market competition, intra-organisational power relations played important role in the process of change in this case study. This study found that the implementation of the new systems created resistance among local employees because they supposed that the new systems took power away from them. Major & Hopper (2004) used institutional theory to examine reasons and consequences of the implementation of a new costing system (ABC) in a Portuguese settle communication firm after privatisation. By focusing on inter-linkages between these changes and intra-organisational factors this study draws on Burns & Scapens's framework to address the processes of the institutionalisation of accounting change. Wanderley, (2010) investigated the change of MASs of

a privatised Brazilian electricity distribution company, focusing on interactions between inter (e.g. the electricity sector regulation system) and intra organisational (e.g. organisational culture and power relations within the company) factors which influenced the process of change in MAPs.

In sum, the relationship between privatisation and MAC has been evaluated from various perspectives. Each of the lenses, however, has its limitations, for example, some studies portrayed organisations as more or less static and with clearly defined boundaries and some ignore the larger pictures of national and international context of organisation. On the other hands, some studies focused on the macro environment typically and therefore they ignore the internal dynamics of the organisation and the role of its organisation's members, and their interactions (Wezel & Saka-Helmhout, 2005, Mador, *et al.*, 2007). To address these shortcomings, this study acknowledges that organisations operate within a multi-dimensional perspective, including complex interactions between inter and intra organisational factors those would influence the relationship between MAC and privatisation. From this perspective, organisations have their own particular circumstances including lengthy history, culture, structure, systems that create stable patterns of their behaviour (Teece *et al.*, 1997). The process of privatisation affects the markets in which the organisation operates on the one hand, and changes the internal dynamics needed to operate successfully within them on the other. Additionally, organisations and their context change over time; which they are not always easy to describe or classify (Mador, 2007). From these perspectives, this study acknowledges that institutional theory would provide a holistic theoretical perspective on the processes of organisational and accounting change through which it moves toward privatisation, taking into consideration such flexible and changing dynamics and conditions. From institutional perspective, external, economic and political factors would influence the results of privatisation, and when privatisation begins the change begins within the organisation, and which is therefore enacted by employees. Eventually, the new practices that repeatedly changed with the change of ownership and new governance reproduced and finally institutionalised (Erakovic & Wilson, 2005). In particular, this theory is appropriate for this case study because it is neither fully public nor fully private, which highlights important questions for this study about the change of governance after privatisation related to the change of MA in this case study. Despite an urgent call for study MAC in its context, so far, there is little empirical evidence on the interplay between inter- and intra-organisational factors and market pressures in the MAC literature (Redda, 2007). In particular, so the way in which organisation's management accounting actually changes and

whether privatisation results meet its expectations have not been explored sufficiently in the context of LDCs (Redda, 2007). In particular, in case of developing countries and LDCs, privatisation has been a controversial issue (see Uddin & Hopper, 2003; Wickramasinghe & Hopper, 2005; Redda, 2007), raising doubts on the claim of conventional studies that privatisation will automatically result in improvement of MASs. These studies suggest that the success of privatisation is influenced by particular socio-economic and political context in developing countries which is different from the context of developed countries. As a result, for the most LDCs the impact of privatisation is much more complicated due to a number of factors, such as the lack competition, weak regulatory structures and the failure of financial markets (Tsamanyi *et al.*, 2010). In this connection, Uddin & Hopper (2003) examined changes in accounting practices and financial performance in a privatised soap manufacturing company in Bangladesh. They compared the results of their own investigation with the result of the World Bank report, arguing that the results of World Bank report were incomplete and incorrect because the sources of information used by the World Bank were not reliable. They concluded that in case of Bangladesh, privatisation did not achieve the expected results that had been established by the World Bank mostly due to the particular socio-economic conditions of the country. They suggested that the change of accounting after privatisation is influenced by the wider socio-economic and political factors including the level of competition in market, the macroeconomic conditions and regulatory policies (Uddin & Hopper, 2003). As a result, researchers are unsure about the positive relationship between privatisation and MAC in LDCs (Wickramasinghe, *et al.*, 2004), and therefore there is little or no improvement or even a decline in financial and management controls of the privatised companies (see Chen *et al.*, 2008; Wang, 2005; Garcia & Anson, 2007; Limi, 2003). The assumption is that the change of MA in LDCs should not be taken for granted merely by ownership change, but there are numerous factors that can influence the desired outcomes of privatisation in the processes of MAC (see Hoque & Hopper, 1997; Hoque & Alam, 1999; Burns & Scapens, 2000; Xu & Uddin, 2008). Based on these arguments, this thesis support this idea that the relationship between privatisation and MAC in this particular case study cannot be understood regardless of influences of both inter and intra organisational context. With considering this fact, the next chapter reviewed the different theoretical perspectives and presented the theoretical framework chosen for this thesis with emphasis on this importance.



## 2.5. Conclusion

The chapter discusses the literature about the meaning and definition of MA and the key dimensions of MAC. Section 2.2 addressed a review of the objectives and definitions of MA in order to understand and present what management accounting means in this thesis. Then the chapter reviewed the management accounting change literature. MAR includes a wide range of dimensions and perspectives, and it is difficult to conceptualise fully the area of the MAR. As a result, the use of special issues in journals can assist to clarify our analysis based on some key dimensions in management accounting change research (Busco *et al.*, 2007). For this purpose, the section (2.2) reviewed two special issues in 2001 and 2007, which allow the thesis to probe deeper into the key dimensions of subject of research such as the nature, logic, and process of management accounting change. Accordingly, this thesis is to understand and present MA as a social constructed practice by use of an appropriate alternative approach with emphasis on socio-economic and political perspectives. At the next section, it argued that in general the environment has created a demand for management accounting to cover environmental issues. The section continued by a literature review on the relationship between privatisation and MAC to set the scene for adopted theoretical framework at the next chapter. The section argued that the process of MAC is influenced by different factors including the institutional drivers as well as market pressure after privatisation. Therefore, this study has adopted a multi-institutional framework to investigate the processes of MAC after privatisation with respect to both inter and intra organisational factors of the case study in Iran. The next chapter concentrates on the thesis theoretical framework, informing the issues under investigation.

## CHAPTER THREE: THEORETICAL MODELS

### 3.1. Introduction

The subject of change in MA has been the central issue of an extensive research during the past four decades (Burns & Scapens, 2000; Alkizza, 2006; Lukka, 2007; Yazdifar *et al.*, 2008; Jansen, 2011; Zoubi, 2011; Alsharari *et al.*, 2015; Lasyoud *et al.*, 2018). The criticisms questioned the relevance of MA with new features of the current business environment, suggesting that MASs has not changed or changed very little (Alsharari *et al.*, 2015). As a result, the topic of MAC has been subject of a wide array research, using different theories and perspectives. In this connection, many studies focused on outcome of MAC, suggesting MAC as introduction of new MASs (Busco & Scapens, 2011). On other hand, there is an increasing interest to extend the scope of MAC research, calling for the study of MAC as the process in the manner in which traditional or/and new systems are actually being used (Scapens, 1994). In response to this call, alternative perspectives have presented various theories, such as institutional and structuration theories, in which accounting and organisational change is regarded as a dynamic and social institution, subject to historical contexts wherein it operates (Wickramasinghe & Alawattage, 2007).

Having institutional perspectives, this study aimed to analyse and explain the processes of MAC by focus on multiple inter-linkages between different social structures from the individual, to the organisation and to society levels. However, according to Scapens (2006), institutional theory has some restrictions and scope for expansions, which include the interaction of internal and external institutions and the role of agency in institutional change. Taking these boundaries into consideration, this study relies on multi-institutional perspectives include different approaches, namely, new institutional sociology (NIS), old institutional economics (OIE), structuration theory and dialectical perspective. Specifically, the proposed framework combines three different frameworks, namely, Burns & Scapens (2000), Dillard *et al.*, (2004) and uses the insights drawn from a dialectical model of Seo & Creed (2002). Burns & Scapens's (2000) framework uses OIE, and is a useful model to explain the institutionalisation process of change by focus on how institutions interact with the actions in the process of MAC. The framework of Dillard *et al.*, (2004), on other hand, combines OIE and NIS, to analyse the interplay between inter- and intra-

organisational factors in the processes of MAC. Additionally, Seo & Creed's (2002) model is a dialectical approach that is used to complete the institutional framework by focusing on the role of organisational actors in the process of MAC.

Before starting the discussion on the theoretical framework, it is essential to provide an overview of different perspectives that have been applied in MAC research. The next section is aimed at reviewing the background literature on the origin, the perspectives, contribution and limitations of each institutional theory, namely, new institutional economics (NIE), NIS and OIE in studying management accounting change. It also presents and discusses the contributions and limitations of the three theoretical models of Burns & Scapens (2000), Dillard *et al.*, (2004) and Seo & Creed (2002) as basis of theoretical model of this study. In section 3.4, the thesis' theoretical framework will be presented and discuss the justification for its adoption. Finally, the section 3.5 presents a conclusion to the chapter.

### **3.2. MAC Research**

Over the past few decades, there has been an increasing growth in theoretical bases employed in the MAR (Malmi & Granlund, 2009). In particular, growing interest shown by those involved in understanding the change of MA with a variety of theoretical frameworks and a range of different research methods (Riccaboni *et al.*, 2006; Lasyoud *et al.*, 2018). It is obvious that MAR has moved from a positivistic approach towards anon-positivistic or interpretive perspective (Ryan *et al.*, 2002). Accounting and organisational change literature have classified theoretical perspectives into two main groups: the rational perspective; and the interpretive and critical perspective (Cooper & Hopper, 2006; Wickramasinghe & Alawattage, 2007). The rational perspectives on MAC including two approaches, normative economic models and positive economic models, connected to neoclassical economic theories. These conventional studies seek to test hypotheses and obtain predictions on MAC through its cause-and-effect relationships. Therefore, many rational-based studies focused on development and introduction of set of decision techniques to help managers in their day-to-day work and to find optimal solutions (Scapens, 1984). Other studies based on organisational theories, such as contingency and agency aim to study the relationships between different organisational factors and MACs (Baines & Langfield-Smith, 2003), and others have concentrated on MAC typology (Sulaiman & Mitchell, 2005). In contrast, the "interpretive and

critical perspectives”, as alternative literature perceives the MAC not as simply technical phenomenon, but as a non-linear, unpredictable, and context-bound phenomenon (Kassim *et al.*, 2011). Alternative approach unlike rational perspectives, aims to explain the processes of accounting and organisational change as a dynamic and social constructed institution, which is subject to changes historical conditions. In spite of the diversity in the classifications, in general, the theoretical basis in MAC research is divided into two broad categories of mainstream and alternative approaches. For example, Li (2010) classified MAC research into two categories. He argued that while the nature of change has received much attention, other scholars have tended to discuss why and how MA has changed in a particular organisational setting. He suggested that if the researchers seek to study why and how MA has changed; they have to focus on the factors that influence MAC, either as forces or barriers to change (Schwarze *et al.*, 2007). Modell (2007) also classified research in MAC into two broadly groups: factor studies and process-oriented approaches. Factor studies connected to neoclassical economic theories, focusing efficiency perspective of MAC, seek to identify the drivers and obstructions for a successful implementation of MA tools and techniques. Process-orientated approaches however are concerned with the socio-political dynamics of the change of MA; aim to understand MAC as a complex and dynamic process that takes into consideration the historical circumstances with all the relevant factors, which are woven together (Dugger & Sherman, 1994). Burns, (2000) also classified MAC research into two distinct streams consisting of outcome studies and processual (or contextualist) studies (Burns, 2000). While outcome studies use statistical and economic approach to focus more on the cause and effect relationship between the change variables and MACs, processual approaches apply usually the case study approach to examine MAC as an institutional constructed practice, shaped by its historical circumstances (Kassim *et al.*, 2011). Details discussions about these approaches explained below.

### **3.2.1. Outcome Studies**

Outcome studies can be characterised by introducing MA as a set of calculative practices. These studies draw mainly on survey and quantitative approaches based on statistically testable theories (Granlund, 2001), aims to examine certain MACs with focus on the factors that influence MAC, either as forces or barriers (Kasurinen, 2002; Lukka, 2007). For example, Innes & Mitchell (1990) identified different potentials that cause change in MA in seven case studies including motivators,

catalysts and facilitators. Motivators provide decision makers with the reasons and grounds to initiate and permit change, which motivated by general changes in the wider organisational environment, such as the globalisation of the market, privatisation, the increasing complexity of the business environment, and production technology. Catalyst factors refer to factors that are directly associated with MACs, such as poor financial performance, loss of market share, launch of competing products, new accountants, and other organisational changes. Additionally, facilitator factors are required but are not enough, per se, to result in change. The availability of accounting staff resources, computing resources and the degree of autonomy that organisations allocate to management accountants will provide promising conditions for MACs in the organisation. Cobb *et al.*, (1995) deal with both facilitators and hindrances of changes in MAPs in a large multinational bank. The findings of this study revealed the change of MA failed or faced with severe obstacles due to internal barriers such as resistant to change. In this model, a great deal of weight was given to the role of individuals as leaders to facilitate or remove barriers to MAC. Their findings show that the adoption of MA initiatives may fail, delayed or faced with severe problems mostly because of internal barriers such as changing priorities, accounting staff turnover and staff attitudes. They argue that the assessment of interactions between barriers, momentum and the roles of individuals as facilitator of change will help to provide a better insight on the outcomes of change in MA. In this connection, a substantial amount of recent research has focused on the barriers to MACs (Kasurinen, 2002). Kasurinen (2002) extended Cobb *et al's* (1995) MAC model by focusing on the types of barrier that may hinder, delay or even prevent MACs. Referring to the rather fragmented structure of the existing outcome literature, this study declares that its model aims to collect the barriers to change in a single framework in order to develop a deeper insight into MACs. Kasurinen, (2002, p.338)'s model (see Figure 1) classified the barriers of MAC into three groups of confusers, frustrators and delayers. Confusers refer to an individual's resistance to change (gaps between objectives of divisions and business unit management, project uncertainty). Frustrators include the wider organisational context including structural barriers, organisational culture and power distribution (changes not reflecting local level needs, business unit managers' preference for operational measures rather than strategic performance evaluation), and delayers are technical and procedural barriers (lack of clearly articulated strategies, data collection problems) (Parker, 2012).

## Model of Management Accounting Change (MAC)

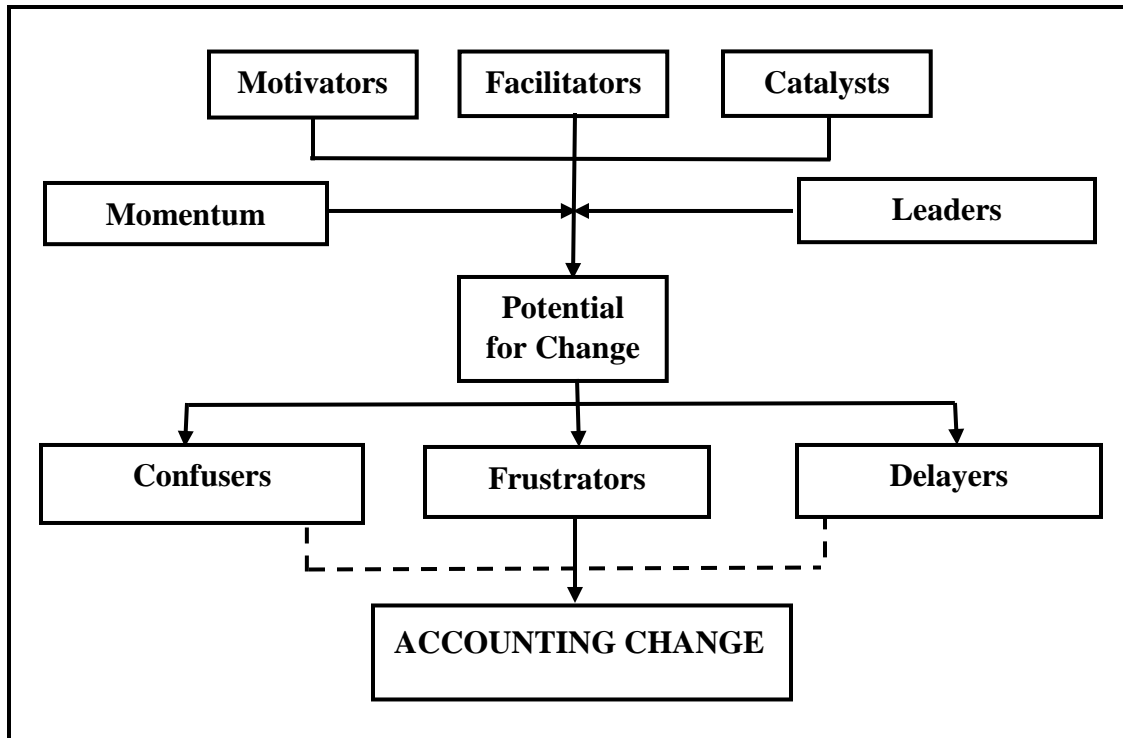


Figure 1. Model of MAC

Source: Kasurinen, (2002, p.338)

Based on the above contentions, outcome studies (mostly drew on the contingency theory) seek to demonstrate a cause and effect relationship between the change variables and MAC (Kassim *et al.*, 2011), explaining that there are many factors that can influence the changes of MAPs, either as forces or barriers (Schwarze *et al.*, 2007). Nor-Aziah & Scapens (2007), for example identified additional barriers of MAC including persistent institutionalised ways of thinking, inconsistency among top management or other stakeholder demands (for larger efficiency and improved services), the absence of trust between managers and accountants, and the change of power relationship between key stakeholders. Siti-Nabiha & Scapens (2005) also argue that institutional allegiances to establish processes can be as a major barrier to MAC. They identified some resources of resistance to the change of MA, namely, untrained managers, confusion about the application of new MA measures, disagreement between the rival interests of organisational groups, employee anxiety about resulting job security and limitations of MA measures to reflect

the complexity of organisational positions and activities. Although it can be said that the outcomes of MAC are unpredictable, Schwarze *et al.*, (2007) also suggests that manager's attitudes should be a major factor that can influence the process of change in MA in organisations. Additionally, they identified a positive relationship between transparency, profitability, IT capabilities with managers' attitudes and willingness of participants in the changes in MAPs. Yazdifar & Tsamenyi (2005) also compared and listed the major drivers of change in MASs in dependent and independent organisations including information technology, organisational restructuring, customer-oriented initiatives, ecommerce/electronic business, new accounting software, external reporting requirements, new management styles, core competency aims, globalisation, quality-oriented initiatives, new accounting techniques, take-over/merger, external consultants' advice and production technologies. Tillema (2005) & Malmi (1999) argued that fads and fashions are important influential dynamics in the process of change in MASs. Scapens *et al.*, (2003) recognised that four recent environmental changes have influenced MAP in UK firms, which are: (a) globalisation and customer focus, (b) technological change, (c) changing organisational structure and (d) fashion and other internal factors. In addition, several other studies have found that under environmental uncertainty and hostility resulting from severe competition, the choice of strategy, organisational structure and formal control mechanisms tend to automatically change (Otley, 1978), to become more market oriented and provide frequent information for detailed and complex analysis (Hoque & Hopper, 1994; Chenhall, 2003). Haldma & Lääts (2002) also used contingency theory to examine MAC in Estonian manufacturing companies. The finding of this study revealed that the emergence of radical political and structural change led to development of cost accounting methods in manufacturing companies in Estonian. They concluded that the change in cost and MAPs in Estonian connected to shifts in the business and accounting environment as external contingencies, and with those in technology and organisational aspects as internal contingencies. Lawrence & Sharma, (2002) argue that an organisation may pursue consciously the change of its MA systems for further efficiency rather than as a result of an unconscious choice for legitimacy from external pressures (Lawrence & Sharma, 2002).

The findings of outcome studies reveal that there is a wide variety of influences on MAC, either as forces or as barriers (Parker, 2001; Kasurinen 2002; Deegan, 2002; Schwarze *et al.*, 2007). These factors include external pressures, such as regulation, market pressures, customer expectations, technological change and socio-political factors as well as internal factors, such as

the change of power relationships, culture, and change in the size and structural changes (Greenwood & Hinings, 1996). The particular contribution of outcome studies to this thesis is that they provide evidence that the successful implementation of MAC has been contingent upon both the efficiency and legitimacy. However, these studies could simply explain certain changes that happen in the organisation without emphasising the relevance between change variables and MAC (Quattrone & Hopper, 2001). Quattrone & Hopper (2001) argue that this approach tends to explain MAC as a dependent variable, rather than as dynamic, complex and often unpredictable process that changes through time (Burns, 2000). Burns & Scapens (2000) also argued that outcome studies are concerned with the stability of MAC, rather than the process of change. Therefore, this approach is unable to explain why and how MACs take place, and become embedded in practice. Additionally, Granlund, (2001, p.144) argues that outcome studies focus mostly on the influences of economic and technical variables, rather than the impact of social and political dynamics and the role of human behaviour in terms of resistance and conflict. According to the research questions, this thesis aimed to explore why and how the MAPs changed after privatisation by the interplay between intra-organisational and extra-organisational factors in a former Iranian state-owned car company. This study regards MACs process, resultant of social interactions among the social actors whether at social or organisational level, which is subject to the influence of historical circumstances. As a result, the outcome approach seems to be inadequate for purpose of this thesis because it cannot provide adequate explanations on the process of MAC as dynamic, social and historical event. Additionally, this thesis aims to investigate why and how new MA systems are adopted, implemented and used or abandoned in practice, taking into consideration the interplay between social and organisational forces in the process of MAC (Ryan *et al.*, 2002). However, in outcome studies there is a lack of attention on the interplay between relevant forces in the study of the process of MAC.

### **3.2.2. Processual (or Contextualist) Studies**

MA literature has been criticized because “it often fails to consider change in systems over time, their functioning in dynamic conditions and the general dearth of empirical evidence” (Jones, 1985: 178,). As a result, there has recently been an increasing interest in processual research to target more intensive case-study research, to improve the understanding of the process of MAC in practice (Baker & Bettner, 1997). Burns (2000, p.568) explains, “a processual approach means



exploring the temporal dimensions of change, unfolding over time, through reference to the past, the present and the future”. Processual perspective argue that longitudinal case studies not only provide rich and detailed analyses of a phenomenon, but also make possible the study of context, processes and dynamics of change (Taylor, 2018). From processual perspective, MAC as non-linear, un-predictable, uncontrollable process includes a diversity of ways, by a multitude of agents within a broad range of organisational processes and circumstances (Vaivio, 2008). Therefore, interpreting processes of MAC need a holistic, processual (evolutionary) and historical perspective (Vaivio, 2008), understanding the complex, multi-dimensional and dynamic relationship between MAC and of changing social, cultural, political and economic conditions that surround it (Ribeiro & Scapens, 2006). Processual perspective has extended the theoretical domain of accounting theory into organisational and social realm (Alsharari, 2018; Pettigrew, 1990), suggesting that theory plays an important role in MAC research. As a result, researchers who are investigating processes of MAC have to draw on a range of social theories to inform their research and provide a focus on the issue of under investigation. In this connection, using case-study approach, alternative perspectives have presented different theories, including critical and interpretive theories such as structuration theory, institutional theories, labour process theory, actor-network theory (ANT) (Stringer, 2007), to explain accounting and organisational change as a dynamic and social institution, within its broader social and economic and historical conditions (Hopwood & Miller, 1994). For example, along with the interpretive perspective, several researchers have used the ideas from ANT to explain MAC as social system in both organisational and broader historical and societal levels (El Safty, 2009). ANT focuses on the process of diffusion of MA innovations (Chua, 1995), to suggest that MAC as “a heterogeneous object; i.e. which appears homogeneous and spreads across the organisation, not because it is fixed and immutable, but because it attracts diversity and heterogeneity” (Busco *et al.*, 2007, p. 143). ANT explains the notion of change as including four interrelated processes: problematisation, interessement, enrolment and mobilisation. Problematisation addresses actors’ efforts to induce others to accept their vision by focusing on external elements such as cultural and discursive resources. Interessement refers to communications between the interests of the various stakeholders and signifies the link between different interests. Enrolment process focuses on alliance networks. It builds up agreement amongst the stakeholders concerning their interests and finally mobilisation concerns the process of monitoring different interests so that they not subsequently will be questioned for at least some

time (Alcouffe *et al.*, 2008). Relying on ANT, Alcouffe *et al.*, (2008) examined how and why MA innovations as GPM and ABC were created and/or modified and then eventually became accepted in France. Their findings reveal that the adoption of GPM failed because the inventor did not consider the interests of actors who could support his invention. On other hand, in case of adoption of ABC in France, there were heterogeneous actors who supported, directly or indirectly, the adoption of this innovation such as academic peoples, conferences, published articles, and the publishers of ABC. They concluded that the adoption of an innovation directly or indirectly, is influenced by changeable interactions between actors who involve in the networks. From this perspective, accounting innovations are diffused because they translate the changing and transitory interests of various groups of actors who are looking to maintain their position within organisations and society. In a similar vein, Jones & Dugdale (2002) used ANT to examine the adoption of ABC, explaining why and how this system initiated, modified and accepted in companies in the USA. Quattrone & Hopper, (2005) also used ANT to explain the impact of implementing an enterprise resource planning system upon MA in two multinational companies. Mouritsen (2005, p.111) also used ANT to distinguish between the design and mobilisation in the process of MAC, explain, “how change and transformation are developed by all sorts of actors including accounting and management control systems themselves, and that the future is no predetermined project”.

ANT studies have contributed to MAC research, explaining the process of the diffusion of change within an uncertain nature in a non-linear fashion (Briers & Chua, 2001). Along with the ANT perspective, however, there is little knowledge about the interplay between intra-organisational factors, inter-institutional pressures and market forces in the process of MAC. This examination is necessary for this thesis because the central phenomenon to be examined in this thesis is to explain how changes in MA in this case study was shaped by the interplay between socio-economic and organisational factors. Additionally, ANT focuses on stability to explain the process of MAC in terms of the monitoring of the various interests so that the change is seen more or less stable (Mouritsen *et al.*, 2001). Additionally, the ANT perspective does not adequate explanation on when, why and how organisational actors decide to change the MAPs, which is one of purpose of this study.

Along with the interpretive perspective, researchers in the alternative MAC have used the critical perspectives to link MAPs to ‘the politics of emancipation’ (Giddens, 1998, p. 41). These studies

draw on the ideas of Marx (see Atkinson, 1972), the Frankfurt school (Habermas, 1968, 1976), and the labour process literature (Braverman, 1974) to focus on the causality variables between seeking power and using recourses for legitimising, when MA can be regarded as one of significance of these resources (Bryer, 2005). These studies seek to reveal how the MAP can be used in the creation and maintenance of an unequal society. In this respect, although MACs concern the aspects of a micro context at the organisational level, the organisation is only one part of our complex society and therefore accounting and organisational change can be shaped by many factors outside the workplace. The critical researches are mainly historical (Baxter & Chua, 2003). In case of MA, the critical studies stressed on political applications of MA information by addressing that politically skilled embedded agents may use or manipulate MA information to fit their personal agenda (Hiebl, 2018). Cooper & Hopper, (2006) refer to three broad critical approaches (labour process theory, critical theory and post-structuralism theory) to address the contributions of critical perspectives in MAC research through: (1) the idea of changing regimes when accounting has the potential for documenting the regimes of power business systems in terms of both local and international regimes. (2) The macro conditions when critical approaches provide a better explanation about how accounting change cannot be regarded as a predictable outcome of market forces or technological change but as a mirror of political, social and economic conflicts (history, regulation and the state). (3) When MA relates to control practices, which stem from organisational processes and their socio-economic context; both macro and micro are equally related. Local conflicts over rewards and extracting worker effort are associated with broader struggles involving governance, ideology and knowledge that sustain and legitimate dominant regimes of economic calculation and control. (4) When the critical approach rejects the idea of atomized and deterministic portrayals of the person: so, the issues of individual agency, subjectivity and identity are linked to conflict and consent in life, which is an integral part of any analysis in the critical approach.

Labour process theory is one of the most important approaches among the critical perspectives, suggesting contradiction and crisis as important themes in the analysis of MACs (Bryer, 2005). Major & Hopper (2005), for example, used labour process theory to examine the resistance and conflict related with the implantation of ABC in a Portuguese telecommunication company. Wickramasinghe & Hopper (2003) used a political economy framework as another critical approach to suggest that the relationships between (MOPs), the state, culture and MACs are

complex and reciprocal. They argue that theorising MACs must be developed bottom-up iterating indigenous data with a theory that incorporates the result of changing MOPs and cultures upon social and political dynamics. In general, critical approaches focus on the conflicting components of systems of power and interests in wider social and political contexts that tend to explore the ideological pressures and group interests in the process of MAC (Hopper & Powell, 1985). In these studies, however, minimal attention has been devoted specifically to understanding and explaining the process of MAC at the micro organisational level and to explain how the process of change can be influenced by a variety of intra-organisational factors. However, this thesis does not consider MACs solely resulting from changes in organisational behaviour in response to inter-organisational pressures, as do critical approaches, but resulting from both inter and intra-organisational factors including power relations, perceptions, meaning and values of organisational participants. Additionally, this thesis is to explain MAC as a process over time rather than focusing only on the outcomes and therefore the critical approach does not seem to be adequate to gain insights on the research questions of this thesis. Having processual perspective, this thesis views MACs as social oriented processes that are shaped by the interactions among the social actors whether at a social or organisational level. In this connection, the alternative perspective based on diversity of theoretical frameworks can provide this study with broad insights on the relation between MAC and its context including both inter-organisational aspects and intra-organisational factors. Before starting the discussion on the study's theoretical framework, it is essential to provide an overview of the structuration theory and the three institutional theories, namely, old institutional economics (OIE), new institutional economics (NIE) and new institutional sociology (NIS) as theoretical basis of this study.

### **3.2.2.1. Structuration Theory**

The theory of structuration has been a helpful framework of alternative research to study of the organisational and accounting change at organisational and wider societal levels (cf. Giddens, 1984; Macintosh & Scapens, 1990; Macintosh, 1994; Conrad, 2005; Busco, 2009; Coad & Herbert, 2009; Moore, 2011). Macintosh & Scapens (1990, p.455) states that “structuration theory is more focused, informative, integrative, yet efficient way to analyse how accounting systems are implicated in the construction, maintenance, and change of the social order of an organisation, than many frameworks used in previous studies”. Accordingly, Macintosh & Scapens (1990) identified

contributions of structuration theory as: (1) using duality modality of structuration theory in understanding the social interactions. (2) Analysing the nature of accounting based on three dimensions of structure- signification, legitimisation and domination. (3) Focusing on MAR beyond the purely technical to encompass social and political phenomena (Scapens & Macintosh, 1996).

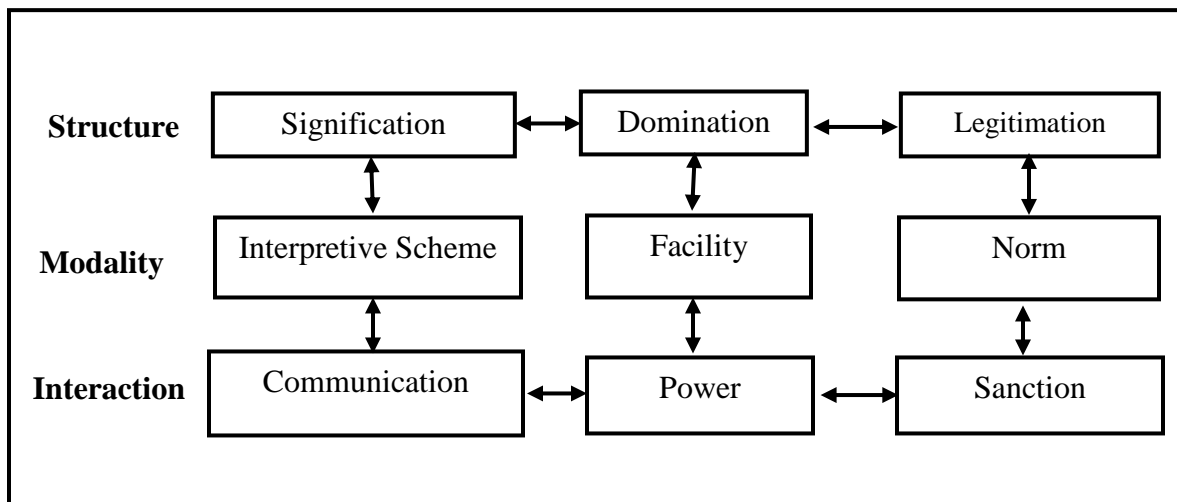
Structuration theory aims to conceptualise the interactions between the action of knowledgeable individuals and the reproduction of social structures including rules and resources (Baxter & Chua, 2003). Therefore, the concept of the duality of structure is the central to the structuration theory, suggesting that action and structure cannot be seen two independent phenomena, a dualism, but they mutually constitute each other (Busco, 2009). Giddens (1979, 1984b) stated that structures shape agent's behaviours and actions and, over time, and in turn, agent's actions build, reproduce and change structures. Giddens, (1984) in his analytical model separate social systems from social structures argue that systems are not structures, but rather systems have structures, which are organised as regular social practices by relations between actors or collectivities in time and space (Giddens, 1984a, p. 25). Giddens, (1984a, p. 25), defines structure as "rules and resources, or sets of transformation relations, organised as properties of social systems" (Giddens, 1984a, p. 25) which has practical status as memory traces (Coad & Herbert, 2009). These structures are recursively associate in social systems, exist out of time and space, but in indefinite time and space can be institutionalized by agents during interaction in specific time-space setting (Macintosh, 1994). Structural properties include two interrelated parts of rules and resources. The rules of social life include both normative or interpretive rules refer to the "techniques or generalisable procedures applied in the enactment/reproduction of social practices" (Giddens, 1984a, p. 21). While, normative rules relate to the legitimation structure and are "the actualization of rights and enactment of obligations" (Busco, 2009, p. 251), interpretive schemes as stocks of tacit knowledge, relate to signification structure or symbolic systems are the center of shared knowledge, providing techniques for agents to communicate and interpret social events. Resources as another component of structures relates to domination structure which are about the exercise of power due to "reproduced relations of autonomy and dependence in social interaction" (Busco, 2009, p. 251). Giddens, (1979) argues that power itself cannot create domination structure but resources account the bases of power, facilities for reaching specific outcomes by those actors controlling the resources. Giddens, (1979) identified two types of resources in the structuration theory including

allocative and authoritative (Giddens, 1979). While allocative resources relate to economic resources, authoritative resources are resulted from human domination over other human actors. Giddens (1984a) argue that the most autonomous agent is in some degree dependent and the most dependent actor in a relation retains some autonomy. Therefore, power is never one directional because “there is no condition where one party possesses absolute power while the other possesses no power at all” (Uddin & Tsamenyi, 2005).

From a structuration perspective, change endogenously created, even if triggered by contextual factors (Makrygiannakis & Jack, 2016). Therefore, placing the focus on the role of agency in the duality of structure, structuration theory addresses “how and why actors tend to bring certain issues and events into processes of structuration” (Englund *et al.*, 2011, p. 508). According to Giddens (1984a, p. 9), "agency concerns events of which an individual is the perpetrator, in the sense that the individual could, at any phase in a given sequence of conduct, and have acted differently. Whatever happened would not have if that individual had not intervened". Giddens (1979; 1984a) outlines the stratification model on human behaviour include three dimensions of the agent's personality: practical consciousness, discursive consciousness and the unconscious. Practical consciousness as reflexive monitoring of action, relates to the actor's tacit knowledge about their social conditions, which agents cannot speak about that. Discursive consciousness refers to rationalisation of action, which is the indirectly available knowledge and actors can express it verbally, including the social conditions. This type of consciousness is accounted for the vast bulk of the stocks of knowledge; provide agents with rationales for their activities as basis of the social relationships. The unconscious motives as basic motivation and potential for action, relate to the desires that prompt the action. This type of conscious provides general plans or programs and have a direct impact on action only in the un-institutionalisation, which disrupted reutilised character or the continuity of social structures. The theory of structuration Giddens's, (1984a) focuses on the dialectical perspective of the production of interactions, suggesting that socially constructed structures both enable and limit human agency (Coad & Herbert, 2009). This theory directs empirical research in study of action towards the analytical distinction of three dimensions of structure- signification, domination and legitimation. Signification structure is semantic rules refer to interaction of meanings, legitimation structure is the use of moral sanctions/reward and domination structure is the exercise of power includes the rules and resources. According to figure (2), interactions between action and structures along each of these dimensions are materialised

through three modalities: interpretive schemes, norms and facilities. Interpretive schemes are the center of shared knowledge (Busco, 2009), outline in the processes of meaning (re)production. Norms tie to the legitimation structure and refers to “the actualisation of rights and enactment of obligations” and resources represent the facilities which concerns domination structure includes the rules and resources. As it is shown in figure 2, during processes of the interaction with others, actors draw upon stocks of knowledge based on the modalities of structuration including interpretive schemes, norms and facilities to achieve their intention or pursue their interests. From this perspective, a practice can be studied as analytical components of systems of social interaction centered upon the communication of meaning, the exercise of power and the function of normative rewards or sanctions (Willmott, 1987).

### Interaction between Action and Structures



**Figure 2. Structure, Interaction and Modalities**

Source: Giddens, (1984, p.29)

The earliest use of structuration theory in MAR concentrated on the practical role of MAS in relation to conceptualisation of structure. From this perspective, MA was interpreted as a way of regularizing organisational functions across time and space, complementing local meanings and norms by imposing regulation on the work of spread organisational members (Roberts & Scapens, 1985). Latter structuration studies focused on the role of agency in the relationship between the activities of knowledgeable human actors and the structuring of social systems (see Roberts 1990; Macintosh & Scapens, 1990). From this perspective, the role accounting system was seen in sense

of local accountability through the domination structure in order to provide power for particular organisational participants or groups. On other hands, the notion of domination in MA comes to be realised only in the context of the signification and legitimation structures (Riccaboni *et al.*, 2006). Roberts (1990) in case of a multinational case study demonstrated how face-to-face meetings lead to development of different form of accountability from divisionalised systems of measurement and control, causing shared meanings and strong systems of reciprocity to be built both locally and interpersonally. Despite such contribution, this theory has been criticised by several commentators in MAR. Boland, (1993: 126) argues structuration theory “does not really allow us to see the —knowledgeable, purposive human actor (...) who is producing and reproducing social structure through management accounting practice”. Archer (1995, p.65), also discusses that structuration theory cannot integrate historical time in which “that structure and agency can only be linked by examining the interplay between them over time, and without the proper incorporation of time the problem of structure and agency can never be satisfactorily resolved”. Several commentators also argue that Giddens was a meta-theorist, whose theory has doubtful application for empirical research (Coad & Herbert, 2009). For example, Englund *et al.*, (2011) argue that Giddens’ structuration theory presents only general guidelines for the analysis of the reproduction or transformation of accounting practice. Stones (2005) identified that Giddens’ perspective was tending significantly at abstract philosophical levels and was moved towards introducing a general set of concepts that has epistemological and methodological restrictions in a given time or place. Therefore, this theory has focused on ontology-in-general rather than ontology-in-place. Stones (2005) also argues that there are original limitations with Giddens’ work in terms of the relationships between agents and the external pressures. In response to these limitations, Srones (2005) promoted a sub-filed sociology called “‘structuration studies’”, which focus on new research strategy which moves from the overwhelmingly abstract ontological concepts apparent in the theory of Giddens, toward used the structuration theory to understand definite event in particular time and place. In this attempt, Stones (2005) introduced the 'strong' theory of structuration with focus on issues of research design, and on the specificities of how, why, when, and by whom change may come about (Coad *et al.*, 2015; Parker, 2006). Strong structuration theory seeks to understand external structures connected to specific time-space positional agents – indicating that these structures are supposed as external by the agents-in-focus and not that they are external from agency (Makrygiannakis & Jack, 2016). From this perspective,



a distinctive characteristic of strong structuration theory is its focus on action horizon as perceived by positioned agents in terms of time (2005, pp. 81-84) what Stones calls the intermediate zone of position-practices. Additionally, Stones, (2005) used the concept of quadripartite nature of structuration (QNS) to explain how agents situated in specific settings at a specific time experience the process. Stones, (2005) argue that agents-in-focus need constantly be conceptualised as being caught up in the ebb and flow of position-practice relations. The QNS model helps to understand the direction of structural reproduction or adaptation, explaining how actors draw upon combination the causalities both external structures and internal structures in order to act, and though their action the structures are reproduced or modified. In order to elaborate this interplay, Stones (2005) identified four different but interrelated aspects of the duality of structure of structuration theory. They include (1) external structures, which provide conditions of action, (2) Internal structures along with agent, (3) active agency related to the ways in which agents routinely or strategically draw upon internal structures, and (4) outcomes include external and internal structures. Outcomes refer to either the change or reproduction and continuation of existing structures together with other outcomes representing intended or unintended consequences of agents' purposive actions.

A number of studies have applied the Stone's 'strong structuration' (Coad & Herbert, 2009; Jack & Kholeif, 2007, 2008; Makrygiannakis & Jack, 2016), but still this topic has attracted limited attention in MAR (Englund & Gerdin, 2014; Makrygiannakis & Jack, 2016). For example, Makrygiannakis & Jack (2016), also uses a strong structuration theory (SST) to investigate the impact of the 2008 financial crisis on budgeting and control practices in the Greek hotel chain case. The SST for studying MAC balances structural conditions of action, with action and interaction, help to study how, why, and by who institutionalised MAPs may change. The findings of this study reveal that the agents in the case, influenced by the crisis, gradually come to criticise the way they practice budgeting. They argue that the first reaction was more normatively, but later they criticise and modify these norms. They concluded that differences in the agents's ways draw upon structures – unreflectively or critically – and on how they act to reproduce structures – routinely or strategically – characterise change in MA. Coad & Herbert (2009) examined the potential of Stones structuration process, exploring its use in the analysis of an illustrative case study of MAPs in a privatised utility company. The findings of this study reveal that investigation of position-practices focuses attention on the strategic conduct of agents, the importance of power

in social interactions, and a plurality of structures and theories of action. They argue that although the quadripartite model signifies the phenomenology, hermeneutics and practices of agents, it provides few direct insights into the processes of change in MA. They suggest this limitation can be overcome by combination of structuration theory with other theoretical perspectives, which focus on path dependency, contradiction and praxis.

In general, structuration theory has “created a small but distinctive contribution to .... Management accounting research” (Baxter & Chua, 2003). Therefore, this theory is more helpful to gain deeper understanding of MAPs than what can be provided by those research that concentrates on institutional context or the behavioural of agents, alone (Coad & Herbert, 2009). As a result, structuration theory involved structuralist and actor-oriented positions and therefore has provided a foundation for analysing MAC as both institutional and driven by actors (Balslev, 2017). Additionally, Burns & Scapens, (2000) confirm that structuration theory is not particularly useful for exploring the processes of change, does not provide enough explanation on how, why and when knowledgeable agents tend to bring change into processes of structuration. As a result, several studies have integrated the structuration theory with other perspectives in order to use potential contribution of structuration theory to MAC research and other hand to reduce its limitations. Such works especially highlighted by the study of Burns & Scapens (2000) model, when they integrated structuration theory with OIE and the work of Barley & Tolbert (1997), presenting an evolutionary perspective on the manners rules and routines structure the actions in the organisation over time. From a structuration perspective, change in MA is generated through selecting important norms, values, beliefs (signification); justifying the choices (legitimation); and maintaining the same (domination). Domination structure gives power to shape the action of agents. Furthermore, Dillard *et al.*, (2004) integrated the structuration theory with institutional theory to explain aspects of accountability and the interactions between legitimacy, signification and power over time in the process of change. In the context of this study, although this thesis accepts the duality principle of structuration theory, this theory cannot be adequate for purpose of this study because historical events excluded by structuration theory and it is not useful for investigating the process of change (Burns & Scapens, 2000). However, the combination of institutional theory with structuration theory is more helpful to gain deeper understanding of MAPs than what can be provided by those research that concentrates on institutional context or the behavioural of agents, alone (Coad & Herbert, 2009). This combination can be useful theoretical

basis to help this thesis to study the change in MASs in this case study, understanding the interplay between management accountants and other agents of changes at both organisational level and wider societal level (Conrad, 2005).

### **3.2.2.2. Institutional Theory**

There are three widely recognised forms of institutional theory, namely new institutional economics (NIE) (or transaction cost economics) (Johnson & Kaplan 1987; Williamson, 1975), new institutional sociology (NIS) (DiMaggio & Powell, 1983) and old institutional economics (OIE) (Scapens, 1994). All three institutional theories used in accounting research, use the concept of institutions from different perspectives (Burns & Scapens, 2000; Scapens, 2006). Each of these three institutional theories explained below.

#### **3.2.2.2.1. New Institutional Economics (NIE)**

Williamson (1975) applied the term of “New Institutional Economics”, (NIE) to differentiate it from the Old Institutional Economics (OIE). NIE is an extension of neoclassical theory based on institutional elements of classical, neoclassical and Austrian economics (Rutherford, 1994). The two main principles of NIE are human as ‘homo transaction cost economics’ and the evolution principle (Van der Steen, 2005). The first principle is that humans naturally seek efficiency gains by minimizing the transaction cost (Buckley & Chapman, 1997). The evolution principle signifies that “the market will favor the most efficient organisational form and that it will eventually drive out those that are less efficient” (Van der Steen, 2005, p.12). NIE theories highlight the role of structures in shaping agency behaviours and the governance of economic transactions. They focus on the role of the institution, but necessarily relate to structural arrangements (Scapens, 1994).

NIE has different strands, like, Agency Theory, Game Theory, Behavioural Theory, Transaction Cost Theory and Public Choice Processes of, for example, rent seeking (Van der Steen, 2005). Transaction Costs Economics (TCE) has been regarded as an extension of NIE theory (see Scapens, 1994), and has received the most attention in accounting literature (Moll *et al.*, 2006). TCE focuses on the concept of the transaction and its associated costs as the primary unit of analysis, suggesting that organisations need to choose and sustain the optimal governance structure that minimises their transaction costs better than other alternative forms (Van der Steen, 2005,

Scapens, 2006). This theory builds on the notion of individuals' economic behaviour but also modifies the severe assumption of neo-classical economics regarding the maximising behaviour of agents (Van de Meer-Kooistra & Vosselman, 2000). From TCE perspective organisational decision-makers are rational and choose optimum solutions, however, they do not have access to all information and alternatives to maximise the utility, but can only optimise based on the information at their disposal. TCE uses the behavioural perspectives of opportunism and bounded rationality in its analysis. While agents behave opportunistically, bounded rationality refers to the idea of optimisation on a (limited) number of alternatives. In this tradition, there is a need to structure and arrange elaborate contracting that will economise on bounded rationality "while simultaneously safeguarding those transactions against the hazards of opportunism" (Williamson & Ouchi, 1981, p.351).

Currently, a quite extensive MA literature exists on NIE theories, which explains the rise and fall of MA research ('relevance lost' of Johnson & Kaplan, 1987), and offers a variety of institutional arrangements for the control and governance of transactions. According to Wickramasinghe & Alawattage (2007), TCE has been used in explicating various MA phenomena under three main areas: (1) MA history, (2) inter-organisational relationships and (3) management control structures. From a TCE perspective, accounting is a useful structure that enables organisations to affect transactions as efficiently as possible (Johnson, 1983). In TCE studies, organisational hierarchies as a control and coordinating device (such as management accounting systems) are said to provide a better alternative to the market mechanisms of economic coordination, provided that their 'transactions costs' are lower than those of market coordination (Alawattage & Wickramasinghe, 2008). NIE refers to the notion of economic behaviour and optimisation, and focuses especially on market pressures. It suggests that organisations either need useful accounting information to increase organisational competitiveness and maintain and/or enhance the efficiency of organisations (Shotter, 2001). From NIE perspective, efficiency is the main motive for MAC and the firm's management is the main actors responsible for MAC. Here, MAC is consequence of the natural propensity of individuals to act as efficiently as possible and/or results from economic institutional pressures because of competition and market pressures (Rees, 1985: cited in Wickramasinghe *et al.*, 2004; Redda, 2007; Zoubi, 2011). However, NIE is criticised by those who argue that although efficiency can be an important motivation for MAC, there are many processes leading to change that are not for efficiency purposes (Langlois, 1989). According to Langlois,

(1989, p.294) institutions economise on transaction costs and this can be “an important part of the story; but it is not the whole story” (Langlois, 1989, p.294). Additionally, Van der Steen (2005) argues that TCE does not describe or explain processes of organisational adaptation of change, but it focuses on optimal future states of the organisation’s governance structure under specific condition. In particular, the inconclusive empirical evidence collected on the effects of privatisation on MAC in the context of LDCs (Redda, 2007; Zoubi, 2011), suggests that NIE is unable to theorize the relationship between privatisation and MAC (Zoubi, 2011). As mentioned above, the findings, in general, appear to indicate that privatisation has not always led to improved MA in the context of LDCs, but the success of privatisation depends on other contextual factors related to where the organisation operates. In this connection, Redda (2007) argues that NIE theories are inadequate in studying the relationship between MAC and privatisation in the context of LDCs for the following reasons: (1) Complete information is hardly ever available in practice and, thus, information processing is extremely complex. (2) Internal contradictions undermine communication between organisational actors. (3) In LDCs, the competitive markets are still poorly organised, and the economic relationships and motivations are much more complex than portrayed by NIE theories. In sum, although NIE can be a useful theory in the analysis of the economic motivations of MAC, it cannot be a suitable theoretical framework to provide adequate explanations on the research questions of this study related to the institutionalisation process of MAC and the multiple inter-linkages between a company’s MAC and inter- and intra-organisational contexts.

#### **3.2.2.2.2. New Institutional Sociology (NIS)**

New Institutional Sociology (NIS) grew out of the seminal paper by Meyer & Rowan (1977), which came after research into the educational sector in the USA. This study addressed the issue of the decoupling of formal structures from actual practices, which existing neoclassical theories were unable to explain (Guerreiro *et al.*, 2006). NIS as an alternative to NIE theory and suggests that the adoption of particular structure may be rational from a social perspective rather than from an economic perspective. This is based on the argument that different actors working in and around organisations can generate the institutional pressures that guide individual organisations to adopt specific structures and procedures (Ribeiro & Scapens, 2006). As a result, organisations and individuals will behave in accordance with social rules (values, beliefs, rules and customs) without

any resistance. From this perspective, one of the main components of NIS is the search for legitimacy. Legitimacy refers to “a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions” (Suchman, 1995, p.574). NIS examines the legitimation processes through the concept of isomorphism (Carpenter & Feroz, 2001; Hussain & Hoque, 2002), as “a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions”. Isomorphism includes two types of competitive and institutional isomorphism (DiMaggio & Powell, 1983). Competitive isomorphism refers to the pressures relating to efficiency, when organisation may adopt one alternative efficient MA system that provides the economic, cheapest or best way for doing things (Greenwood & Hinings, 1996). Therefore, under conditions of a competitive market, firms may find themselves adopting similar MA systems, which could help increase efficiency. Institutional isomorphism, on the other hand, suggests that under the same institutional environment, organisations tend to pursue the formal structures and procedures that are accepted in their social and cultural environment in order to attain legitimacy and to guarantee the resources that are necessary for their survival (Ribeiro & Scapens, 2006).

NIS researchers focus on institutional isomorphism in terms of the importance of rules, symbols and beliefs to which individuals and organisations have to conform to achieve social legitimacy and support (Hassan, 2005; Da Costa Robalo, 2007). NIS identifies three sources through which institutional isomorphism can take place, namely, coercive isomorphism, normative isomorphism and mimetic isomorphism (DiMaggio & Powell, 1983). Coercive isomorphism largely stems from the political influence exerted by institutions such as the state, laws and regulations, which organisations have to obey resulting from both formal and informal pressures (Kholeif, 2008). Organisations may adopt structures or procedures directly as consequences of political and regulative influences and/or in response to social expectations and values (DiMaggio & Powell, 1983). Mimetic isomorphism as the second source of institutional isomorphism arises “when organisations are not sure what to do, they usually look to a successful reference group and imitate what they do” (DiMaggio & Powell, 1983 p, 151). In this situation “organisations have a desire to adopt what is deemed to be ‘normal’, particularly where there is great uncertainty about what is the correct way to behave” (Scott, 1995, p.43). Normative isomorphism refers to institutionalised social practices resulting from professionalisation by means of professional groups (Kholeif et al.,

2007). Professionalisation refers to the collective practice of members of an occupation to define the conditions and methods of work (Dillard *et al.*, 2004), which are sophisticated through the educational and professional training processes (Hassan, 2005). According to DiMaggio & Powell (1983), there are two aspects of normative isomorphism: (1) the grounding of formal education and of legitimation on a cognitive base produced by university specialists. (2) The growth and influence of professional networks that allow new practices to be diffused rapidly across organisations (Van der Steen, 2005). In the MA literature, the NIS approach has made a fruitful contribution to explain how accounting practice conforms to external pressures by macroeconomic, political and social institutions and why formal management accounting practices may become decoupled from actual practice (Hussain & Hoque, 2002; Dillard *et al.*, 2004; Yazdifar & Tsamenyi, 2005; Scapens, 2006). From this perspective, “organisations may face conflicts and inconsistencies between the demands for efficiency and the need to conform to ceremonial rules and myths of the institutional context” (Dillard *et al.*, 2004). Under such conditions, it argued that MA might be used ceremonially to provide the established rules and norms of dominant institutions to provide support and legitimacy rather than for economic efficiency (Scapens, 2006). Ribeiro & Scapens, (2006) argue that especially under highly institutionalised environments when organisations are faced with uncertainties and, as a result, have to compete for political and institutional legitimacy and market position, MA is more likely to be used as symbolic, ‘non-rational’, mythical or ceremonial practice.

NIS theory, however, was criticised because of some shortcomings. NIS fails to capture the institutionalisation process of organisational change and is unable to theorise sufficiently the importance of intra-organisational power relations and market competition (Oliver, 1992; Tsamenyi *et al.*, 2006; Jaärvnnpäa, 2009). According to Barley & Tolbert (1997), NIS primarily focuses on the role of given external institutions in shaping the actions of organisations and their actors rather than the response of pro-active agency in constructing institutions (Ribeiro & Scapens, 2006). NIS explains changes in organisational practices (such as MAPs), in terms of institutional isomorphism by focusing on the emergence of stable organisational configurations, however, it cannot explain how the process of the implementation of change proceeds (Seo & Creed, 2002). This thesis uses the NIS to identify the influence of inter-institutional pressures in shaping the processes of MACs in the case companies. However, in context of this study, one of the limitations of NIS theory is its neglect of the role of market forces in the analysis of the process

of MAC. In this connection, there are a few studies that have examined how the processes of MA can be influenced by the interplay between the institutional environment and market forces (Hussain & Hoque, 2002; Tsamenyi *et al.*, 2006). Some previous studies have found that institutional forces may be in conflict with market forces (Oliver, 1992) and others argue that both institutional factors and market forces can influence the processes of accounting change (Hussain & Hoque, 2002). Hoque & Hopper (1997), for example, argue that the market competition has positive effects on the change of MAPs, while institutional forces have negative effects. They argue that under intensive political and institutional circumstances, management accounting practices tend to be used ceremonially, and they become decoupled from MAPs. Overall, these studies have addressed some ambiguity about this issue that warrants future research, and which is the focus of one of the research questions of this thesis. For purpose of this study, NIS is unable to capture the role of intra-organisational factors (Ribeiro & Scapens, 2006) that explain why and how the processes of MAC are shaped at the organisational or individual level. In this case, the insights of supplementary theory are particularly important to inform the research questions relating to the institutionalisation processes of change and the influence of intra-organisational factors in the process of MAC. In the next section, the chapter proposes OIE as a supportive theory in studying the process of MAC at the organisational or individual level.

### **3.2.2.2.3. Old Institutional Economics (OIE)**

The start of old institutional economic theory (OIE) goes back to more than 100 years (Moll *et al.*, 2006a) to the late nineteenth/early twentieth century (Burns, 2000). OIE introduced by the American institutionalists, such as Veblen, Darwin, Commons, Myrdal & Lindblom (Guerreiro *et al.*, 2006). Veblen (1898; 1909; 1919), firstly initiated OIE (Burns, 2000), to discuss “why economics is not an evolutionary science” (Veblen, 1898, p.374). This issue later identified by Darwin and guided him to develop a theory of institutional advancement that was just causal in nature (Johansson & Siverbo, 2009). In contrast to NIE, OIE seek to clarify why individuals appear to be opportunistic (Scapens, 2006), and why and how economic behaviour leads to what they are, or are not, over time (Burns, 2000). From this perspective, OIE uses the notion of the institution as the unit of analysis, suggesting that organisational behaviour such as MAP is a dynamic socially constructed practice (Johansson & Siverbo, 2009), that is subject to change by numerous and cumulative causation over time (Scapens 1994; Van der Steen, 2005; Johansson & Siverbo, 2009).



Van der Steen, (2005) stated that OIE is not a clearly delineated theory in itself, but has inspired a number of theorists and principles and uses in other disciplines, such as psychology, sociology and anthropology in order to explain institutions including common beliefs, norms and values that bind together action patterns in the process of institutional change. Rutherford (1994, p.1), explains that OIE “does not represent a single well-defined or unified body of thought, methodology, or program of research ... [and] ... because of this it is not easy to pinpoint a core or mainstream theoretical framework in OIE”. Hodgson (2000, p.318) identified five general principles for OIE theory: (1) This theory does not tend to offer any policy proposals, but seeks to focus on the practical relevance of theory (2) OIE theory uses different data from other disciplines, such as psychology, sociology and anthropology in order to develop a richer analysis of institutions and human behaviour. (3) OIE purposes institutions as the key elements of any economic activity and therefore the main concern is to study institutions and the processes of institutional conservation, innovation and change. (4) OIE presumes that the economy is an open and evolving system, positioned in a natural environment, influenced by technological changes, and embedded in a broader set of social, cultural, political and power relationships. (5) OIE perspective criticises the concept of the utility-maximizing nature of agents and suggests that institutionalism does not take the individual as given, but organisational actors are influenced by their institutional and cultural situations. On other words, the institution is dependent to organisational actors; and it is “part of, the individual (inter) actions” (Sjöstrand, 1995, p.21). The general principles of economic behaviour are evidently different from those explained by NIE and NIS.

In the discipline of MA, Scapens (1994) and Burns & Scapens (2000) introduced these general principles of OIE into accounting research when they used the earlier works of Veblen, (1919) & Hamilton, (1932) in study the institutionalisation processes of MAC (Alawattage & Wickramasinghe, 2008; Lukka, 2007). Scapens (1994) used OIE to explain MAP as an institution that allows organisations to reproduce and legitimize behaviour and to gain organisational cohesion. Burns & Scapens (2000) advanced this line of thought by introducing a framework to explain why MAC does (or does not) occur in an organisation. They assert that their framework is a starting point and encouraged researchers to develop this framework further. As a result, there is now a considerable and growing literature which draws on this framework by attempting to extend and redefine it (see Burns, 2000; Soim *et al.*, 2002; Hoque & Alam, 2004; Coad & Cullen, 2006; Scapens, 2006; Lukka, 2007; Nor-Aziah & Scapens, 2007; Yazdifar *et al.*, 2008). Focusing on the

dynamic nature of institutions, the particular contribution of OIE is its focus on the evolutionary nature of the processes of MAC. This approach is to expand the literature from practical perspectives by focusing on the importance of habits and routines in the evolution of MAPs in the internal life of the organisation (Da Costa Robalo, 2007). With this in mind, this study adopts OIE because this framework has a processual/contextualist perspective in that a holistic, processual (evolutionary) and historical approach is emphasised in studying MAC at the organisational level (Siti-Nabiha & Scapens, 2005). This approach is particularly helpful to discuss and explain practical issues by focusing on how MAPs have changed over time and why they changed in that manner, what internal pressures or limitations influenced the processes of MAC after privatisation within the case study. However, OIE theory is not without its limitations. Dillard *et al.*, (2004) argued that even though OIE theory recognises the dialectical relation between institutions and individual behavior, little attention is paid on how institutionally constrained agents generate institutional change. In other words, focusing on institutions rather than role of agency, this theory deals mostly with how the process of organisational change is constrained by institutions, and tends to focus on institutional stability rather than the institutional change (Scott, 2001; Dillard *et al.*, 2004). As a result, this theory does not clarify when and how agents enable change, come to collective recognition and action that existing rules and routines needs to change (Van der Steen, 2005). To deal with this limitation, this study adopts a dialectical approach as a supplementary theory to OIE in order to highlight dialectical relationships between institutions and agency by focusing on change rather than stability of MA.

Additionally, the OIE theory has been concerned mostly with the intra-institutional environment at organisational and individual levels (Abrahamson & Gerdinl, 2006). However, minimal attention has been devoted specifically to understanding and explaining the process of institutional change with reference to pressures from the external organisational environment. In this case, this thesis will adopt both NIS and OIE to interpret and explain the processes of MAC with respect to inter-organisational pressures as well as the intra-organisational environment. The use of a multi-institutional framework helps us to avoid the individual criticisms of NIS and OIE (Ma & Tayles, 2009) and provides a more holistic interpretation MAPs in the case study (Hoque & Hopper, 1997). Accordingly, this study applies the multi-institutional framework with a dialectical perspective in an attempt to gain further understanding of the processes of MAC in this case study.

### **3.3. Multi-Institutional Framework and a Dialectical Approach**

By relying on a multi-institutional theory and a dialectical approach, this thesis uses three different models, namely, Burns & Scapens (2000), Dillard *et al.*, (2004), and Seo & Creed (2002) to develop a theoretical framework for this research project. The next section outlines Burns & Scapens's (2000) framework, which draws on multiple theoretical insights of OIE (Scapens, 1994), evolutionary economics and ideas from NIS and structuration theory to explain the institutionalisation process of changes and the analysis of the intra-organisational environment in the process of MAC.

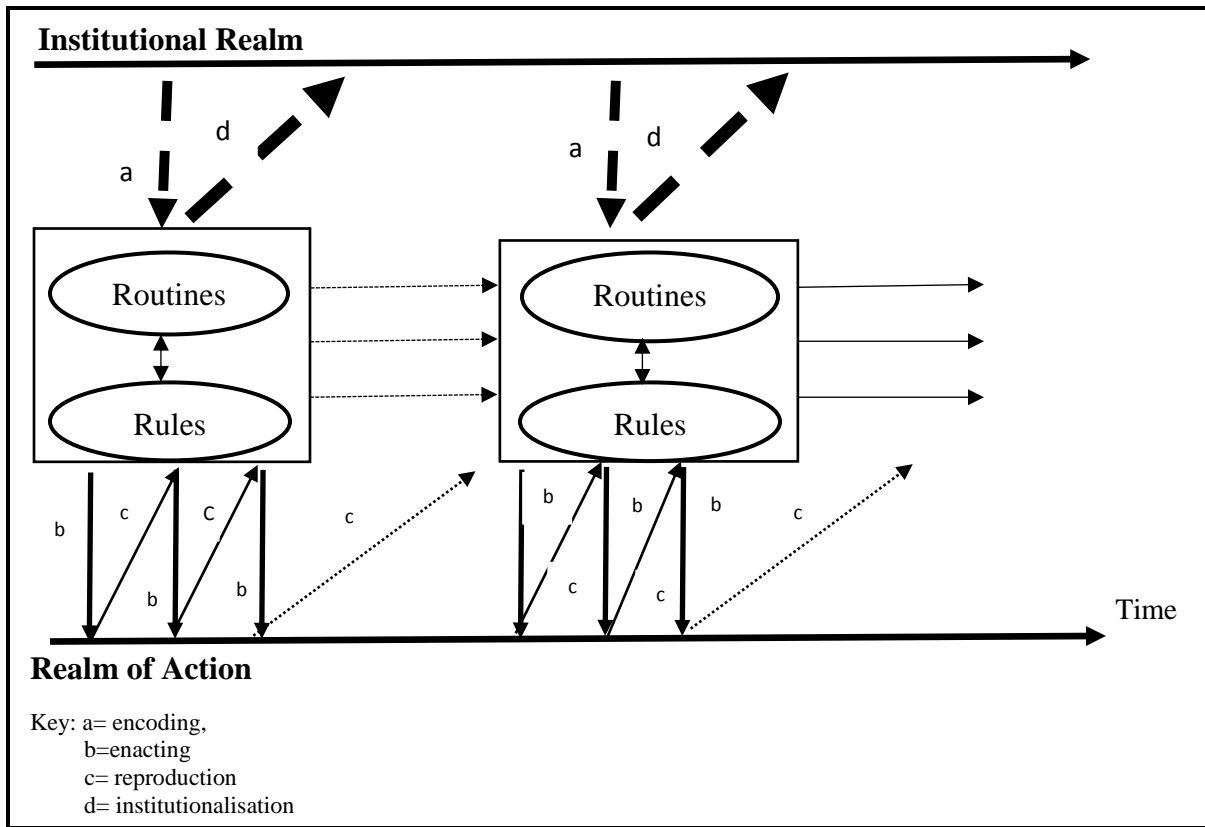
#### **3.3.1. Institutional Framework of Burns & Scapens (2000)**

Burns & Scapens' (2000) framework is based on the work of earlier studies of Nelson & Winter (1982) & Dawson (1994), and, in particular, Barley & Tolbert (1997) (Wanderley *et al.*, 2011). In this respect, Barley & Tolbert's (1997) model combines institutional theory and structuration theory (Jārvenpāa, 2009), to modify Giddens' (1976) static structuration theory into a dynamic model of social structuration (Guerreiro *et al.*, 2006). In their framework, Barley & Tolbert's (1997) used the concepts of "institutional realm" and "realm of action" and "scripts", to explain the evolutionary process of the institutionalisation of organisational change. Institutional realm as a social constructed structure derived from a cumulative history of past action and interaction (Barley & Tolbert, 1997, p.97) that provide a particular way of thinking common to action (Burns, 2000). In contrast, the realm of action refers to actual people arrangements; "objects and events in the minute-by-minute flow of social lives unfolding" including communication, power relations and sanction (Barley & Tolbert, 1997, p.98). Barley & Tolbert (1997) used the notion of script to link the institutional realm to the realm of action, to suggest that institutions are encoded in 'scripts' and then scripts are enacted in 'the realm of action' (p.98). Barley & Tolbert (1997) argue that some researchers view scripts as cognitive phenomena, however, scripts as behavioural regularities presented in "an actor's stock of practical knowledge in the form of interpretive schemes, meanings, norms and values which adapted to particular setting. As a result, scripts as individual habitual behaviours are characterised as "observable, recurrent activities and patterns of interaction characteristic of a particular setting" (Barley & Tolbert, 1997, p.98).

Using the three above mentioned concepts of “institutional realm”, “realm of action” and “scripts”, Barley & Tolbert (1997) explain the institutionalisation process of organisational change through five processes of encoding, enacting, replicating (or revising), externalising, and objectifying. In the first stage, scripts encode institutional principles. Institutional principles are “general rules that are defined at the institutional realm and thereby become a source that are utilised by actors for engaging in ongoing interactions” (Sawabe & Ushio, 2009, p.134). In the second stage, the scripts are enacted in the actions, and therefore, the institutions are externalised by individual scripts (Van der Steen, 2005). According to Barley & Tolbert (1997), the degree that institutions are encoded in an actor’s stock of practical knowledge (script) influences the realm of action in an actor’s communication, power relations and determines what behaviours to sanction and rewards. At this stage, decision making on the enactment of scripts is usually unconscious because actors usually act according to “the way things are” (Barley & Tolbert, 1997, p.102). At the next stage, the action fosters reapplications of scripts, and then the scripts objectified and taken for granted. Barley & Tolbert, (1997, p.96) define the institution as “shared ‘taken-for-granted’ assumptions which identify categories of human actors and their appropriate activities and relationships”. Burns & Scapens (2000) used Barley & Tolbert’s (1997) general model to develop a modified evolutionary model of the institutionalisation process in MA research (Sawabe & Ushio, 2009). Burns & Scapens (2000) integrate two fundamental concepts of OIE, namely, rules (formal rules and procedures) and routines (actual practices) as a substitute for the concept of “script”. In their model, MAP is a set of rules and routines, which are closely interrelated, but “it is important not to confuse the two” elements (Burns & Scapens, 2000, p.7). Sawabe & Ushio, (2009), argue that the separation of rules and routines allows us to employ the model of institutionalisation as it clearly captures a particular feature of a MA phenomenon, the prominence of formalised MA procedures and the MAPs that are related to, but quite often autonomous from, the formalisation. Rules refer to formalised statements of MA procedures, which they are in accordance with the established procedures in guidelines, and normally will change by explicit decisions only at discrete intervals (Lukka, 2007; Sawabe & Ushio, 2009). Rules are necessary to co-ordinate and give coherence to the actions of an organisation’s individuals or groups (Alawattage & Wickramasinghe, 2008; Lukka, 2007; Wanderley *et al.*, 2011). In contrast, routines refer to the actual practices that embedded in institutions (Burns & Scapens, 2000; Kasurinen, 2002; Van der Steen, 2009; Buylen, 2010). Routines are mostly located at the level of tacit knowledge as

collective behavioural patterns which change in cumulative processes of daily action (Kasurinen, 2002) and therefore they are complex and difficult to predict (Van der Steen, 2009), but can be explained (Kasurinen, 2002). Referring to their model, Burns & Scapens (2000) modified the general institutionalisation process of Barley & Tolbert (1997) into four sub-processes, namely “encoding”, “enacting”, “reproduction”, and “institutionalisation” (see Figure 3). As Figure 3 shows, through the sub-process of encoding (arrow a), institutional principles are encoded in rules and routines (Kasurinen, 2002). In this stage, new rules and routines are interpreted through their existence in the institutional realm through values, norms and the taken for-granted (institutions) of the group who use the system (Wanderley *et al.*, 2011). The second sub-process enacts these new rules and routines in the realm of action through the day-to-day activities (arrow b). With the first two stages, the institutional realm and the realm of action bonded by rules and routines (Guerreiro *et al.*, 2006). As Figure 3 shows the arrow (b) is a solid line because “there is a direct connection between the rules and routines and the realm of action”, whereas arrow (a) is depicted as a broad dotted line, because “institutions are normally general, and the connection (to rules and routines) is more abstract and indirect” (Burns *et al.*, 2003, p.19). In the second stage of the institutionalisation process, resistance to change is likely to emerge specially, if the existing institutions are not conforming to new rules and routines and/or actors have significant power to pass up the process of enactment (Burns & Scapens, 2000). However, it needs to be noted that although the enactment of these new rules and routines may involve conscious choices, by the existence of agent’s tacit knowledge, the enactment is generally the outcome of reflexive monitoring rather than conscious choice (Kasurinen, 2002). Burns & Scapens (2000) argue that at the third stage the reproduction process of new rules and routines may be conscious and/or unconscious. When individuals can understand the rationales behind the new rules and routines, the change is likely to be conscious, while unconscious change happens when actors are not able to understand the rationale behind new rules and routines. The final stage (arrow d) shows the ‘institutionalisation’ process when these new rules and routines are being constituted as part of the taken for granted assumptions and beliefs by organisational actors over time (Burns & Scapens, 2000, p.9). MAPs and routines can be characterised as ‘institutionalised’ practice when they become so widely accepted in the organisation by the large collective of actors.

### Process of Institutionalisation of Change



**Figure 3. The Process of Institutionalisation**  
**Source: Burns & Scapens, (2000, p.9)**

Burns and Scapens’ model is based on both the synchronic (on the points in time) and diachronic (the sequence) elements, which suggests that “whereas institutions constrain and shape actions synchronically (i.e. at a specific point time), actions produce and reproduce institutions diachronically (i.e. through their cumulative influence over time)” (Burns & Scapens, 2000, p.9-10). This model has been popular as the general model in explaining the institutionalisation process of MAC at the organisational level (Buylen, 2010). Burns & Scapens, (2000) make a distinction between revolutionary and evolutionary change and argue that although a major external change such as technological change and privatisation may cause revolutionary change, the extent to which the process of MAC can be influenced by the present routines and institutions is evolutionary and path-dependent. In this model intra-organisational factor including trust and power, politics and culture have been emphasised to provide a better understanding of the inter-related influences through which MAPs change (Scapens, 2006). Burns & Scapens (2000) identify

the ceremonial and instrumental institutionalisation processes of change. While ceremonially institutionalised accounting routines are organisational rituals aims to maintain the status quo and the power or interests of particular groups or individuals, instrumentally institutionalised accounting routines seek to provide informed decisions (Burns & Scapens, 2000).

The particular aspects of the Burns & Scapens' framework, which made it especially appropriate for this research, is that it focuses on change processes at the organisational level and uses a holistic processual/contextualist approach to study change (Siti-Nabiha & Scapens, 2005). Although Burns & Scapens' framework focuses only on internal institutions at the 'micro' level of analysis of the process of change - they not deny the importance of external institutions, and the pressures for institutional change, which relate to the influences of broader social, economic and political contexts (Siti-Nabiha & Scapens, 2005). In this respect, several studies have suggested that this model can be enriched by other theories in seeking a holistic understanding of MAC (Siti-Nabiha & Scapens, 2005; Scapens, 2006; Yazdifar *et al.*, 2008; Johansson & Siverbo, 2009). This study uses this proposition that the use of NIS can overcome a major limitation of Burns & Scapens' (2000) framework by focusing on the influence of the external, social, economic and political contexts in the processes of changes in MA (Dillard *et al.*, 2004). Despite advantages of the multi-institutional framework, to date, there is little understanding of how internal institutions interact with external institutions in shaping the processes of MAC within specific organisations (Siti-Nabiha & Scapens, 2005). To achieve this purpose, this thesis uses Dillard *et al.*, (2004) framework that seeks to address this issue more explicitly by a combination of NIS with OIE. The next section will explain Dillard *et al.*, (2004) model with a focus on the linkages between the inter-institutional environment and intra-institutional environment in the processes of management accounting change.

### **3.3.2. An Institutional Model of Dillard *et al.*, (2004)**

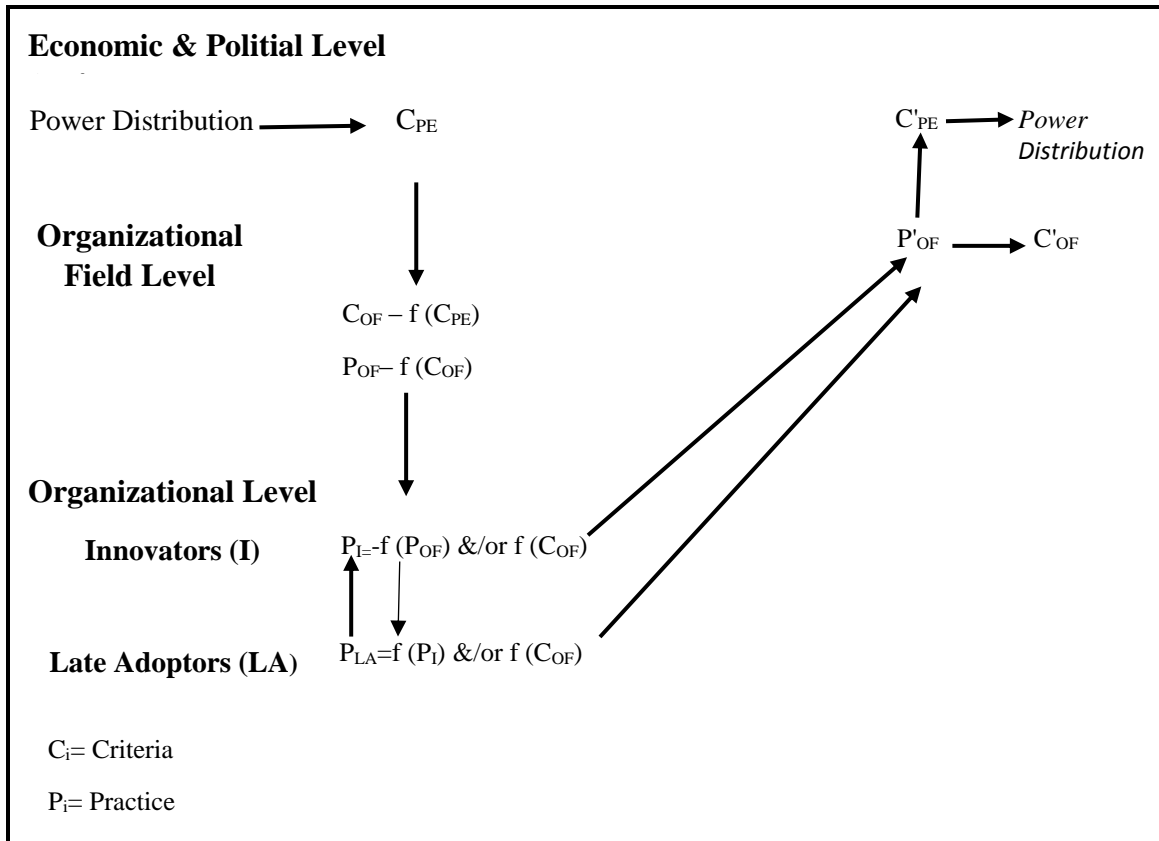
Dillard *et al.*, (2004) proposed a framework of the process of institutionalisation, which they believe existing institutional theories are unable to explain. Dillard *et al.*, (2004) argue that although institutional theory is becoming one of the dominant theoretical frameworks in MA research, they suggest that most institutional theory research has not sufficiently theorised the institutionalisation process either through which change occurs nor through the socio-political

context of the institutional formations. Although NIS perspective emphasises the symbolic nature of organisational actions, relatively little attention is given either to explain the internal drivers and the dynamics associated with the process of institutional change. Alternatively, OIE studies based on Burns & Scapens's (2000) framework, explains micro processes of institutional change at the organisational level, but does not identify the links between the organisational practices and context, including the organisational field or the possible influence of the social environment (Dillard *et al.*, 2004). Referring to these limitations, Dillard *et al.*, (2004) used theoretical triangulation to combine institutional theories including OIE and NIS, with Structuration theory and the work of Max Weber. Dillard *et al.*, (2004, p.513) developed a general framework of the process of institutionalisation that identifies the “possibility of institutions being created modified through actions of individuals and/or groups of individuals”, but within a hierarchy of institutional influence.

Dillard *et al.*, (2004)'s model shows interrelated institutional dynamics in the process of change (See figure 4). As Figure 4 shows, Dillard *et al.*, (2004) identifies three institutional levels, namely the political and economic level (PE), the organisational field level (OF), and organisational level (OL) to link the PE level to the OL level through to the organisational field. At the top level, PE systems provide the most general and widely accepted norms, values, practices and institutions (taken for granted norms) which are sometimes codified in the laws and regulations. Through symbolic criteria (CPE), such as laws and regulations and accounting standards, the PE level provides the macro context for resource allocation (through institutions that exercise primary control over resources including formal and hierarchical systems such as capital markets, commercial institutions and investor-oriented accounting and reporting regimes, community services agencies, taxing authorities and local commodity markets and cooperatives). This social context is politically developed and is influenced by the distribution of power and is regarded as context of the institutions making up an OF.



## Institutional Dynamics of Change



**Figure 4. Institutional Dynamics**

Source: Dillard *et al.*, (2004, p.512)

The concept of the organisational field (OF) is central to institutional theory represents an intermediate level of organisation and society (Alsharari, 2017). The OF as a kind of extra-organisational environment and is the second level of analysis of accounting change and includes socio-economic configurations such as public organisations, industry groups, professional bodies and consultancies (Scott, 1995). DiMaggio & Powell (1983) define OF as the organisations that constitute a recognized area of institutional life such as suppliers, customers and regulatory agencies. The organisational field criteria (COF) are influenced by societal level criteria (CPE) and provide a wide range of the legitimating criteria including norms, regulations and practices for evaluating legitimate actions at the organisational field level. In this level, socio-economic configurations such as industry groups, professional bodies, consultants and geographical collectives are established and disseminated by OF criteria (COF). COF presents legitimacy for the actions at the OF level, while in (PE) legislators, regulators and standard setter groups (CPE)

provide legitimacy for the existence of (COF) (Alawattage & Wickramasinghe, 2008). The OF provides the immediate external context of the OL. At the OL, Dillard *et al.*, (2004) classify organisations into two types: (1) innovators (I), which are organisations that develop new organisational practices (PI) and (2) later adopters (PLA), which are organisations that copy innovators' practices although this is sometimes done ceremonially (Wickramasinghe & Alawattage, 2007). For PLA, legitimacy comes from both OF and PI (Dillard *et al.*, 2004; Hopper & Major, 2007), while for innovators (I) legitimacy is provided through the practices in the organisational field (POF) and COF constraints from the OF. New innovative practices (PI) can move laterally and upwards, which they may reinforce, revise or eliminate legitimate practices in the organisational field and criteria at the OF level (COF), within which such change may bring incrementally but some may initiate revolutionary change. Dillard *et al.*, (2004) explain the role of the late adopters (PLA) in the process of institutional change. They suggest that the late adopters may encourage more late adapters and therefore support the process of institutional change at the OF level. They argue that the changes in legitimate practices (POF) and criteria (COF) at the OF level, ultimately influence and modify the political and economic system criteria (CPE). In this stage, the change of CPE is possible by the power of interest groups to support the new norms and practices or by the change of the current relationship of power at the PE level (Dillard *et al.*, 2004). Evidently, such changes in macro-institutions flow down into intra-organisational processes again. In this model although consideration is given to the ways in which a recursive and continual iterative process allows change upwards and downwards between all three levels, it has been argued that is generally sufficient stability to constrain practices (Hopper & Major, 2007). Dillard *et al.*, (2004, p.514) argued that the change at levels of PE and OF “may largely support the earlier accepted practices and criteria with some small evolutionary change, or they may involve larger or even on occasion revolutionary change”.

According to the concept of the axes of tension (Weber, 1958, 1961, 1968), and structuration theory (Giddens, 1976, 1979, 1984), Dillard *et al's*, (2004) developed their model to analyse the process of institutionalisation within a larger institutional and societal perspective (Alawattage & Wickramasinghe, 2008). The concept of axes of tension explains how criteria and action link through three social actions, namely, representation, rationality and power over three levels of social systems (Alawattage & Wickramasinghe, 2008). “Representation concerns the way reality is framed or symbolically described” (Dillard *et al.*, 2004, p.517). For Weber, rationality is the

primary factor for legitimacy. He argued, “Market behavior is influenced by rational purposeful pursuit of interests. The partner to a transaction is expected to behave according to rational legality and, in particular, to respect the formal inviolability of a promise once given” (1968, p.636). Power as another social action refers to “the means and degree of control over human and material resources” (Dillard *et al.*, 2004, p.518). At the organisational level, control can be exercised either through the accomplishment of formal hierarchical structures or through social consensus (Dillard *et al.*, 2004). Structuration theory proposed by Giddens, (1984, 1976, & 1979) introduces another classification of social actions including the three concepts of signification, legitimation and domination. Dillard *et al.*, (2004), integrates Weber’s framework with the structuration theory to develop a socio-historical framework that captures the dynamics and complexities of the process of institutionalisation in inter and intra-organisational environment. Dillard *et al.*, (2004) argues that three axes of tension are similar with three structural types, namely, representation with signification, rationality with legitimation and power with domination. These couples of social actions occur at all levels (PE, OF & OL). As a result, institutionalisation, de-institutionalisation or re-institutionalisation process would be generated through: (1) deciding on important norms, values, beliefs, etc (the representation of signification), (2) justifying the choices (rationality or legitimation), and (3) maintaining the same (power and domination) (Alawattage & Wickramasinghe, 2007). In this analysis, Dillard *et al.*, (2004) conclude that MAC as an institutional process cannot occur through the introduction of new techniques, methods and procedures for efficiency gains, but it comes out when the process of the axes of tension can be realized. Based on the Dillard *et al.*, (2004), this thesis proposes to study the ‘institutionalisation process’ which hierarchically and recursively links the inter-organisational environment to the intra-organisational level. This model helps to explain how macro-institutions flow down into intra-organisational processes in the case company, starts with the economic and political level (PE). The PE level establishes the most general and widely accepted norms and practices influenced by politically developed symbolic criteria (CPE), including accounting standards, laws and regulations. These norms and practices are shaped by powerful coalitions and represent the macro context for resource allocation (Dillard *et al.*, 2004). When CPE pass into the organisational field, they are transable into a relatively different form; depending on the expectations of the players in the organisational field. These expectations provide certain organisational field criteria (COF). COF provides legitimacy for actions at the OF level, while CPE provides legitimacy for

the existence of COF. This thesis seeks to explain MAC in the organisational level. However, the major issue in this model is to discuss and explain how the change of MAPs in IKCO was influenced by the interplay between the inter-organisational environment (PE and OF) and intra-organisational environment. Despite the contribution of the Dillard *et al's* (2004) model, it needs to be extended by triangulation with other theories to focus on the institutionalisation processes of change inside the organisation by focusing on intra-organisational factors, the role of boundary spanners, and how MA systems are established in the intra-organisational level (Hopper & Major, 2007). Based on the triangulation models of Burns & Scapens (2000) and Dillard *et al's* (2004), this thesis aims to investigate MACs in IKCO, which start with the emergence and growth of institutional contradictions resulting from inter-organisational (PE level & OF level) pressures, as well as intra-organisational factors (including existing rules and routines arising before the process of change). From this perspective, while Dillard *et al.*, (2004), draws mainly on NIS to give detail on how MA innovations come from macro level to organisation, Burns & Scapens' (2000) framework can analyse what happens to innovations thereafter through the interplay between organisational routines, rules, actions and institutions at the organisational level (Johansson & Siverbo, 2009). Burns & Scapens' (2000) framework also focus on internal institutions, and the dynamics for institutional change, which emanate from inside the organisation. In spite of particular contribution of institutional theories in studying of the processes of MAC, it is argued that these frameworks are primarily concerned with stability of change by focus on how the processes of change are constrained by the intra and inter-organisational contexts. From this perspective, institutional theories have been rather less useful (or just used less) in studying how constrained organisational actors actually intervene to establish change in MA systems in organisations (Seo & Creed, 2002; Steen, 2009). To fully understand and explain the process of MAC, Seo & Creed, (2002) developed a dialectical model to inform institutional framework with dialectical perspective in studying how change actors can construct and reconstruct institutions through their cumulative influence over time. The following explains the main issues and contributions of Seo & Creed, (2002) model to theoretical framework of this study.

### 3.3.3. A Dialectical Approach of Seo & Creed's (2002) Framework

In MA research, only to a limited extent, focus on how structural contradictions affect accounting and organisational change over extended periods and only to a limited extent investigate how actors affect development and change (Thrane & Balslev, 2017). Several studies in MAC have found that the existing streams of institutional theory do not sufficiently capture MAC processes (Seo & Creed, 2002; Van der Steen, 2005; Burns & Nielsen, 2006). Critics argue that institutional theories have not paid adequate attention to the process of MAC; rather they have been more concerned with MA stability and tend to focus on how the change process is constrained by institutions (Burns & Baldvinsdottir, 2005; Abrahamsson & Gerdinl, 2006). NIS theory, for example, regards individual behaviour such as MAPs as primarily constrained by external institutions and driven by a desire to increase the legitimacy of the organisation at a particular time (Van der Steen, 2005). OIE theory and frameworks inspired by OIE, such as Burns & Scapens (2000), attempt to theorise MAC, but the relationships between institutions and the behaviour of individual organisational actors is emphasised to a much lesser extent. Seo & Creed (2002) identified this gap in institutional framework and attempted to develop a framework to reformulate institutional change processes because of agency embedded in incompatible institutional arrangements. According to Seo & Creed (2002, p.225-226) view, dialectical perspective provides a useful explanation for the paradox of embedded agency, first by pinpointing the critical role of agents (praxis) in institutional change, and second by depicting the dialectical processes through which the actions and consciousness of those agents are shaped by the existing institutional arrangements. It is also being continuously reshaped by the institutions' inevitable by-products-institutional contradiction. They define contradiction as "various ruptures and inconsistencies both among and within the established social arrangements. On-going social construction produces a complex array of contradictions, continually generating tensions and conflicts within and across social systems, which may, under some circumstances, shape consciousness and action to change the present order" (Seo & Creed, 2002, p.225). They focus on 'institutional contradiction' as the primary reason of institutional change and suggest that the accumulation of contradictions both within and between institutions provides the seeds of institutional change in organisations.

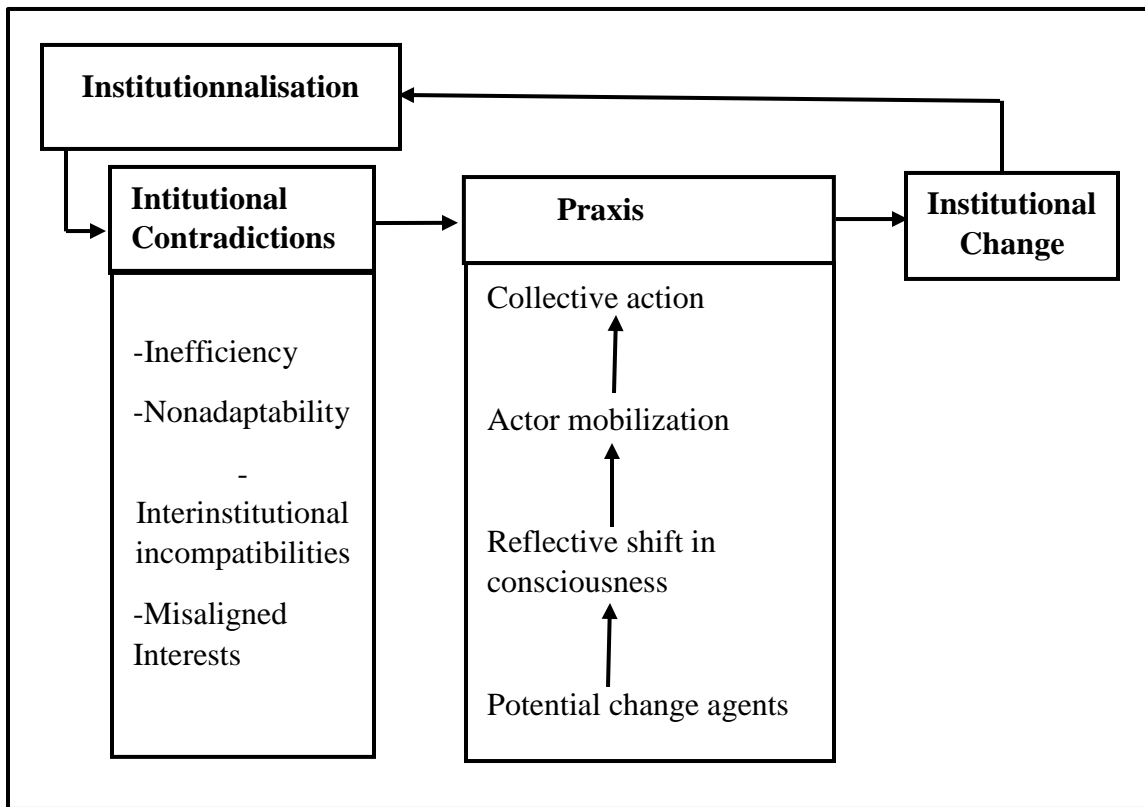
As shown in Figure 5, Seo & Creed's (2002) framework identifies different sources of contradictions that can occur within apparently stable and long-standing institutions over time.

These are the: (1) legitimacy that undermines functional efficiency, (2) adaptation that undermines adaptability, (3) intra-institutional conformity that creates inter-institutional incompatibilities and (4) isomorphism that conflicts with divergent interests. The first source of contradiction concerns the potential contraction between institutional arrangements and technical activities. It was argued by some authors (see Oliver, 1992; Hoque & Hopper, 1997; Brignall & Modell, 2000; Hussain & Hoque, 2002; Modell, 2002) that the need for legitimacy may conflict with technical activities and efficiency objectives. Institutional theorists have explained this contradiction with the idea of the decoupling of formal structures from technical activities (Meyer & Rowan, 1977). Burns & Baldvinsdottir, (2005) argue that contradiction may be an essential, but inadequate condition for MAC in organisations. According to Seo & Creed, (2002), although the organisations may make decisions to improve technical efficiency in the short-run, these decisions easily become useless if new systems do not achieve institutional legitimacy. The second source of contradiction refers to adaptation that undermines non-adaptability with the external environment. Cognitive psychology suggests that individuals develop different schemas to better process difficult practice. However, once developed, these schemas become resistant to change, regardless of their value in the face of new external conditions (Seo & Creed, 2002). From this perspective, the change of existing taken for granted practices are often resisted, since "they threaten individuals' sense of security, increase the cost of information processing, and disrupt routines" (Powell, 1991, p.194). Seo & Creed, (2002) argue that institutionalisation is an adaptive process in which institutions are likely to be both psychologically and economically locked in and therefore are isolated from external environment. Because of particular adaptation and non-adaptability with external environmental change, contradiction can be produced over time, which may result in institutional change in organisations. The third source of contradiction arises from intra-institutional conformity that creates inter-institutional incompatibilities. Organisations and their individuals are continually faced with the ongoing production and reproduction of social interactions resulting from "multiple and contradictory, yet interconnected, institutional arrangements" (Seo & Creed, 2002, p.228). However, organisations and their members tend to search for stability and conformity to certain institutional arrangements within a particular level or sector, and therefore, shifts in the institutional context in many different locations, can result in institutional contradiction that will cause institutional change in organisations. In other words, conforming to particular institutional arrangements and the related taken-for-granted behaviour can create contradiction to behavioural

expectations stemming from different institutional arrangements. The fourth source of contradiction is related to isomorphism that conflicts with divergent interests. From a dialectical perspective, institutional arrangements are resulting from political efforts among various members who have divergent interests and unequal power. However, the existing institutional arrangements are unlikely to reflect and satisfy the divergent interests of all participants. In particular, those participants whose interests are not sufficiently satisfied by the existing social arrangements are likely to be change agents who, in some conditions, may take action to change the present institutional arrangements (Seo & Creed, 2002). As a result, the fundamental misalignment between a particular form of social arrangement and the interests of diverse actors who enact, inhabit, and reproduce that social arrangement can be an important source of contradiction in organisations. Through the analysis of different sources of contradiction, Seo & Creed, (2002) conclude that these individual contradictions are not separate, rather, it is expected that “they are highly interconnected as they unfold” (Seo & Creed, 2002, p.229). Seo & Creed, (2002) argue that contradictions are the main driving forces of institutional change, but they cannot lead deterministically to institutional change. They argue that institutional contradictions can create the conditions by which groups or individuals recognise their need for change, in which this consciousness might put into practice through human praxis. As figure 5 shows the praxis mediates between institutional contradictions and institutional change, and constitutes perhaps the most important element in the process of institutional change in organisations (Benson, 1977). Seo & Creed, (2002, p.230) define praxis as “a particular type of collective human action, situated in a given socio historical context but driven by the inevitable by-products of that context social contradictions”. Therefore, the aim of praxis is “the free and creative reconstruction of social arrangements on the basis of a reasoned analysis of both the limits and the [latent] potentials of present social forms” (Benson, 1977, p.5). The notion of praxis introduced to signify agency whereby institutional arrangements restrain behaviour and consciousness, but contradictions produce unanticipated experiences that may precipitate change (Hopper & Major, 2007). Seo & Creed, (2002) identified three component parts of praxis as: (1) agent’s self-awareness who believes the existing social institutions cannot meet their interests, (2) Actors’ mobilisation, which happened by collective agreement on the potential of the new social arrangement and themselves, (3) Actors collective action to change the existing social arrangements and their condition. In this connection, praxis necessarily has two moments: (1) a reflective moment, involving the critique

of existing social patterns and the search for alternatives, and (2) an active moment, involving mobilisation and collective action (Benson, 1977). In their model (see figure 5), Seo & Creed (2002, p.231-232) classify ways that the accumulation of institutional contradictions may trigger, enable, and limit praxis for institutional change. They argue that this classification does not aim to develop a comprehensive linear causal model, but it aims to explain important relationships between institutional contradictions and particular components of praxis. This framework highlights particular linkages between institutionalisation, institutional contradictions, praxis, and institutional change, to suggest four propositions about the nature of institutional change:

### Institutionalisation of Change



**Figure 5. Institutional Contradictions, Praxis and Institutional Change**

Source: Seo & Creed, (2002, p.232)

- Proposition 1: Misaligned interests of actors provide a fundamental drive for institutional change. According to this proposition, the presence and degree of misaligned interests increase the likelihood and the scope of praxis for institutional change by generating potential change agents (Seo & Creed, 2002, p.233).



- Proposition 2: Under conditions of weak non-adaptability, efficiency gaps and inter-institutional incompatibility increase the likelihood of praxis for institutional change by gradually undermining the perceived inevitability of institutional arrangements” (Seo & Creed, 2002, p.234).
- Proposition 3: Under conditions of strong non-adaptability, efficiency gaps and inter-institutional incompatibility, mediated by institutional crisis, promote praxis for institutional change by creating the conditions for the revolutionary breakdown of institutional inertia” (Seo & Creed, 2002, p.236).
- Proposition 4: The degree and number of inter-institutional incompatibilities increase the likelihood of praxis for institutional change by increasing the number of frames and logics available for the construction of alternative models of institutional arrangements capable of legitimising and mobilising change efforts. This effect will be mediated by actors' skills at adopting and deploying the available institutional logics and frames in legitimising and mobilising their change efforts” (Seo & Creed, 2002, p.238).

This thesis adopts Seo & Creed’s (2002) framework to understand and explain the dialectical relationship between institutions and the change agency in the study of the processes of management accounting change. According to Seo & Creed’s (2002) framework, contradictions are coming from different sources: the first three sources of contradictions (inefficiency, non-adaptability, inter-institutional incompatibilities) are derived from the inter-organisational environment, the last source of contradiction arises from intra-organisational environment as a result of the diverse interests of organisational actors and power relations.

### **3.4. The Theoretical Model of the Thesis**

This thesis is based on a multi-institutional framework including both NIS and OIE as well as structuration theory, using three theoretical models suggested by Burns & Scapens (2000), Dillard *et al’s* (2004) and Seo & Creed (2002). In this regard, Dillard *et al’s* (2004) framework highlights the importance of institutional and competitive isomorphism, helping to understand the interactions between different levels of social structures in the process of MAC, in particular the impact of external pressures from both PE and OF levels. According to the recursive and hierarchy model of Dillard *et al.*, (2004), when the institutionalisation of MAC happens at the intra-organisational level, those new institutionalised rules and routines may be disseminated to the OF

level and PE level. As a result, the actions of individuals and/or groups of individuals at the intra-organisational level can influence the inter-institutional environment (the PE level by influencing OF level institutions). In this model, it is also assumed that MAC can also be product of the accumulation of institutional contradictions at the inter-institutional environment which in turn would shape organisational change at the intra-organisational level. This analysis is based on the concept of the duality of structure from structuration theory, suggesting that the structure (the institution) can shape and constrain the human behavior and action, but on the other hand, the action of humans can influence the social structures over time. In this regard, the result of thesis supports the idea of duality of structuration theory that structure as recursive rules and resources can shape human interactions in terms of its signification, legitimation and domination and, the role of the human action in the process of change is necessary and it can change the institutions. The thesis aimed to examine how the MACs in this case study was shaped by the interplay between inter-organisational pressures, market forces, and intra-organisational factors. However, the research problem did not let to this thesis to cover the investigation of how the changes in intra-organisational level in terms of MACs in IKCO can influence the inter-institutional environment including the OF and PE levels. Additionally, at the intra-organisational level, the Burns & Scapens (2000)'s framework based on OIE, informed this study to focus on internal oriented institutions and the dynamics for institutional change, in this case MACs in IKCO. Burns & Scapens' (2000) framework is helpful to analyse the institutionalisation process of MAC as being path dependent through the four sub-processes of encoding, enactment, reproduction and institutionalisation. In this regard, having a dialectical perspective, the Seo & Creed's (2002) view completed this study to understand and explain the role of agency in the process of institutionalisation of MACs in IKCO by focus on the dynamic interactions between contradictions and human praxis in order to explain how the action of humans can shape institutions over time. Seo & Creed's (2002) identified four sources of contradictions including three inherently external organisational contradiction sources (technical efficiency gap, non-adoptability and incompatibilities) and one intra-organisational source of contradiction of misaligned interests and power relations. The assumption is that the accumulations of contradiction as seeds of conflict among the organisational actors can provide potential conditions, which can enable human praxis to launch institutional change, which then may be institutionalised through four sub-processes of

encoding, enactment, reproduction and institutionalisation. Figure 6 shows the thesis's theoretical model which was developed based on the general question of this research.

### Thesis's Theoretical Framework Model

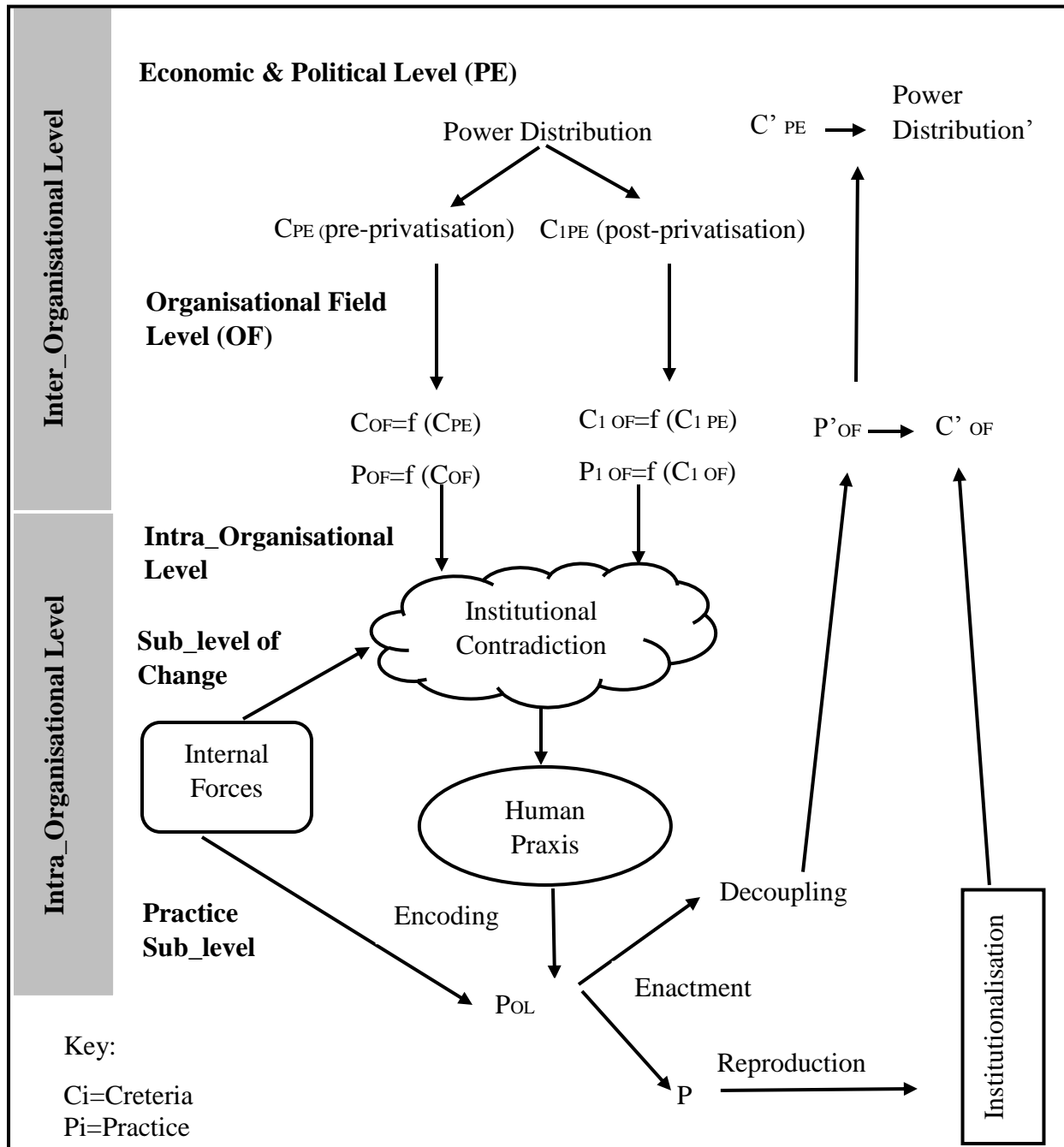


Figure 6. Thesis's Theoretical Framework Model

This framework is useful to understand and explain the interrelated interactions between intra-organisational, inter-organisational factors as well as market pressure, explaining MAC as product of dynamic social process of interactions between institutional contradictions and praxis which can be institutionalised through different stages of change process (see figure 6).

### **3.4.1. Justification of the Thesis's Framework**

The importance of MAP as a means to monitor environmental changes, as well as allow and support organisational adaptation to external change is widely acknowledged, but there is little research concentrating on MA dynamically, how MAP is adapted when the environment changes (Makrygiannakis & Jack, 2016). In the study MAC, it may sometimes be very difficult to separate different perspectives from each other. As a result, the use of theoretical triangulation helps researchers to benefit from the complementariness of different theories and achieve holistic and alternative interpretations on the change processes (Granlund, 2001). As a result, a multi-institutional model is a useful theoretical framework, provides holistic, evolutionary and historical knowledge about the processes of MAC in the multiple levels of analyses ranging from the individual, the organisation and society (Yazdifer, *et al.*, 2008). A multi-institutional framework as a holistic approach has a greater capacity to provide alternative interpretations without epistemological and ontological contradiction (Buylen, 2010; Bisman, 2010). In this connection, Hoque & Hopper (1997) referred to two types of theory triangulation: (1) using different theories with no or minimal differences in their epistemological and ontological assumptions and (2) using multiple theories that have fundamental epistemological and ontological differences. However, the use of a triangulation approach may create the danger of using theories with different epistemology and ontology that lead to theoretical opportunism and incoherence, in which to talk over the top of each other (Gurd, 2007). However, NIS and OIE shares many similar epistemological and ontological assumptions (Da Costa Robalo, 2007). A commonality of NIS and OIE is that they incorporate the meaning of culture and society into their analysis (Da Costa Robalo, 2007). Yazdifer *et al.*, (2008) assert that NIS tends to be harmonised with other institutional perspectives, which focus on internal organisational factors. Yazdifer, (2004) states that both OIE and NIS theories tease out the dynamic processes of MAC, or lack of change and both of these theories highlights the importance of culture, power and politics in organisations and society in the analysis of the processes of MAC (Yazdifer, 2004). Although NIS is concerned with the external

institutions in the organisational environment, OIE focuses on the institutions that can shape MAPs through the actions and thoughts of organisational individuals (Scapens, 2006).

The aim of this thesis is to examine the process of MAC in a privatised car company in Iran. As discussed in chapter 2 management accounting change is a complex and dynamic process, and therefore a processual approach is needed to analyse the process of change and to capture the different and complex inter-linkages between inter- and intra-organisational contexts and MAC and privatisation. The proposed theoretical framework by this study is on basis of the institutional perspectives, through the multi-institutional frameworks of NIS and OIE. The reason for interest in multi institutional framework is that these multiple theories can complement each other by using the strength of one theory to counter the weakness of another (Gurd, 2007). A multi-institutional framework informs this study to clarify two issues related to: (1) the processes of institutionalisation of MAC within the case company after privatisation, and (2) to analyse the interplay between key contextual factors such as power, politics and culture which influence the nature of the processes of change-both within organisations and externally in society. While OIE primarily focuses on intra-organisational factors in the micro level of the analysis of change, explaining the emergence, continuity and change of institutions over time, NIS helps this study to focus on the importance of external institutions, and pressures for shaping the processes of MAC, which stem from outside the organisation (Yazdifar, 2004; Siti-Nabiha & Scapens, 2005). Based on this framework, this study uses the framework set out in Burns & Scapens (2000), which draws largely from OIE. This model is adopted since it has similarities with the processual/contextualist point of views in that a holistic, processual (evolutionary) and historical approach is used in studying MAC (Siti-Nabiha & Scapens, 2005). The model of Burns & Scapens (2000), as generally presented in MA literature, offers a comprehensive conceptual basis for studying the practice of MA and the processes of MAC at the organisational level. The framework clearly addresses the political nature of MAC and provides a basis for a fuller understanding of the internal dynamics involved in such a change. This framework however leaves some gaps for addressing two important issues in studying MAC: (1) the interplay between inter- and intra-organisational factors by the lack of attention to the importance of external institutional pressures in the processes of MAC, and (2) the importance of role of change actors to explain how institutionalised constrained agency can shape the process of MAC. As a result, this study combines this model with Dillard *et al.*, (2004) in order to understand better the interplay between inter and intra-organisational factors

in the processes of change. It should be noted that the models developed by Dillard *et al.*, (2004) and Burns & Scapens (2000) share many similar assumptions regarding the world and human beings, which does not lead to ontological and epistemological problems and inconsistencies. Dillard *et al.*, (2004) asserted that the framework proposed by Burns & Scapens (2000) is consistent with their framework, but it would be located at the organisational level of the framework proposed by them. Additionally, the particular aspects of the Seo & Creed (2002) framework help this study to overcome the neglect of institutional theories in terms of the role of actors in the processes of change, explaining when, why and how do institutionally constrained individuals recognise, intervene and give form to institutional change. Overall, by employing the multiple theoretical models, a meaningful understanding achieved by addressing the research questions to explain the institutionalisation process of change including how the change in the MA system was shaped by the interplay between market pressures, intra-institutional factors and inter-institutional pressures in this case study.

### **3.5. Conclusion**

The chapter aimed to present and justify the thesis's theoretical framework prior to entering the field, which can inform the analysis of this study during the fieldwork (Siti-Nabiha, 2009). Before starting the discussion on the thesis theoretical model, the chapter provided a review on different theoretical disciplines in MAC research (see Burns, 2000). In this respect, Burns, (2000) classifies the research in MAC under two broad categories of outcome studies and processual studies. Outcome studies use economic theoretical approaches to examine MAC in relation to the outcome of certain changes resulting from formal and technical MAPs, emphasising on cause-and-effect relationships with the input variables. On other hand, a processual approach uses alternative perspectives, seek to examine the processes MAC as dynamic social-political and historical phenomenon. As discussed earlier, this thesis uses a processual approach to consider the interplay between inter and intra-organisational factors in the study MAC in IKCO after privatisation. This approach enables this thesis to investigate how new MAPs have been emerged, adopted, implemented or resisted through time in this case study. In this connection, institutional theories as alternative approaches have emerged particularly large as an informing framework in recent empirical MA studies (Parker, 2012), helping this study to understand the process of MAC in respect to changes in the institutional environment, both intra-organisational factors and inter-

organisational pressures. Having institutional perspective, the chapter continued with a review of three types of institutional theory: New Institutional Economics (NIE), New Institutional Sociology (NIS) and Old Institutional Economics (OIE). As discussed earlier, this study adopted a multi-institutional framework (incorporating both NIS & OIE) to provides potential benefits for analysing the dynamics of the processes of change over time, and, in particular, in teasing out the importance of power, politics and culture at societal and organisational levels (Yazdifar, 2004).It argued that this study should use theory triangulation, because the study of MAC demands a holistic approach to consider different perspectives and interrelationships between MAC and context in which it operates. The theoretical triangulation provides useful explanations to understand how MAP was shaped by the interplay between external institutional forces, market forces, and intra-organisational relations in privatised car companies in the context of Iran.

Relying on the multi-institutional perspectives, the next subsection explained the three models of Burns and Scapens's (2000); Dillard *et al's* (2004); and Seo, & Creed (2002) as the adopted frameworks in this study. At the intra-organisational level, Burns & Scapens's (2000) model based on OIE is helpful to understand and explain the institutionalisation process of MAC, focusing on the impact of intra-organisational factors in the specific locations of this case study. This framework completed by Dillard *et al's* (2004) model to combine NIS with OIE to explain the interplay between inter-organisational level and intra-organisational level in the analysis of the process of MAC. Finally, Seo & Creed's (2002) model provides more insights on the role of change agency, focusing on a dialectical perspective in understanding the process of MAC in this case study. The next chapter addressed the research methodology and research methods, which adopted in this thesis.

## **CHAPTER FOUR: RESEARCH METHODOLOGY**

### **4.1. Introduction**

Management accounting change (MAC) is a growing body of research, marked by differing methodological disciplines and diversity of research methods. This chapter aimed to justify the thesis philosophical underpinning and research strategy, selecting the suitable research methods in order to complete this research project. First, the chapter provided a brief review of philosophical underpinnings of different paradigms and the variety of potential research strategies in the MA field. Next, section 4.3 presented an evaluation of research methodology that forms the foundation of the thesis research methodology. After that, it addressed the research strategy and the rationales for the adopting the explanatory case study approach. The research design including preparation, collecting evidence, assessing evidence, identifying and explaining patterns, theory development and thesis writing then discussed. Finally, a brief conclusion presented.

### **4.2. Philosophical Underpinning in MA Research**

Before starting the research, it is essential to justify the philosophical underpinning and the situation of the researcher. Research philosophy reflects the researcher's approach to understanding the world that the researcher explores (Kvale, 1996; Saunders *et al.*, 2003), comprising the researcher's ontological view and related epistemological assumptions (Bisman, 2010). Therefore, it is essential for the researcher to be aware of the philosophical viewpoint (Snap and Spencer, 2003), not only because it has significant impact on what the researchers do but also in understanding what they are going to explore (Johnson & Clark, 2006). On other words, researchers need to be clear about their research philosophical perspective because the general perspective or way of thinking of the researcher would influence the choice of research strategy (Blumberg *et al.*, 2005) and the design of the research project (Saunders *et al.*, 2007). As a result, before explaining the methodological choice of this study, the next section aimed to review different philosophical underpinnings of methodological approaches in the sociological and accounting literatures.



#### 4.2.1. The Nature of Social Science

The philosophical viewpoint of the methodological approaches has been the focus of a number of researches in social science including accounting (see Burrell & Morgan, 1979; Tomkins & Groves, 1983; Hopper & Powell, 1985; Chua, 1988). For example, Burrell & Morgan (1979) framework is still accepted by recent research, and this model provides useful description in relation to a series of the methodological alternatives in the field of social sciences including accounting (Lowe, 2001; Saunders *et al.*, 2007; Kakkuri- Knuuttila *et al.*, 2008). According to Saunders *et al.*, (2007), the Burrell & Morgan framework helps researchers to: (1) Make clear their assumptions about the nature of social science and society; (2) Provide a helpful way of understanding other available approaches; (3) Recognise the best options for conducting research based on the nature of their research projects. Burrell & Morgan (1979) model (see Figure 9) distinguish two dimensions of the nature of social science and the nature of society in order to discuss the approaches to social science research (Hopper & Powell, 1985). Burrell & Morgan's (1979) framework identifies four related elements of the nature of social science, namely, (1) ontology, (2) epistemology, (3) human nature and (4) methodology (Bisman, 2010). Ontology refers to the researcher's view about the reality, which influences the way the researcher views and analyses the world and the reality. Burrell & Morgan (1979) divided ontology into two perspectives, namely: (1) Objective ontology, which refers to a social world that exists externally and as an independent reality, is objective. (2) Subjective ontology- social science is not objective but it is a subjectively constructed reality, closely bounded with the views and perceptions of the individuals (Cooper, 1983). Epistemology refers to the theory of knowledge and explains what can be regarded as acceptable and valid knowledge (Bisman, 2010). According to Bisman (2010), researchers' ontological assumptions shape their epistemological beliefs in terms of how knowledge acquired and modified. The concept of human nature as the third element of social science refers to the relations between human beings and their environment. It assesses whether human beings are a product of their environment or whether they create their environment. Burrell & Morgan (1979) argue that ontology, epistemology and human nature have direct methodological implications for the fourth element of social science research, namely methodology. Methodology refers to the processes for studying knowledge, considers which methods of inquiry are apt for the study of phenomena (Creswell, 2003). In addition to the philosophy of social science, Burrell &

Morgan (1979) identify two different dimensions about the nature of society, including order and conflict, to discuss different methodological approaches in the social research.

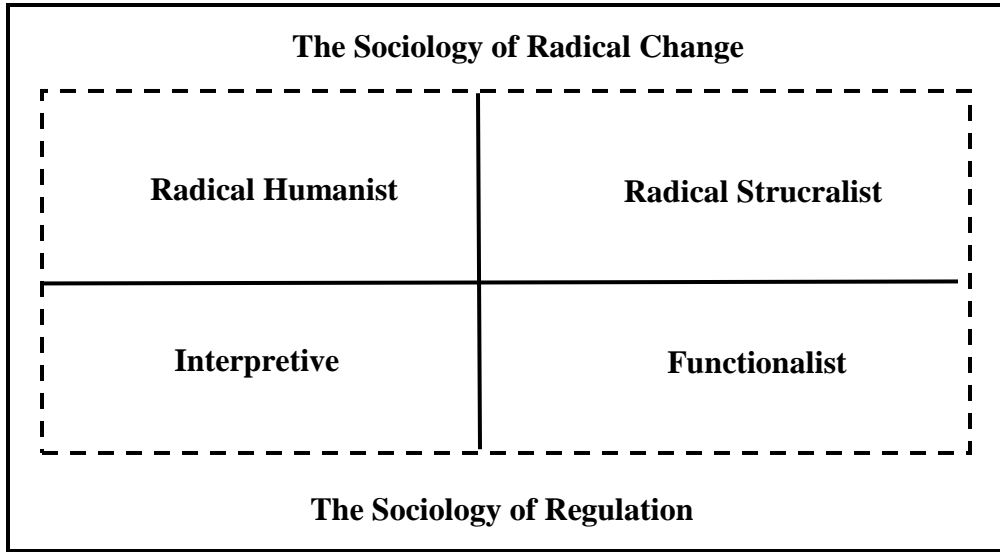
#### **4.2.2. Nature of Society**

Burrell & Morgan's (1979) framework identifies two different perspectives about the nature of society. One perspective refers to regulation and order, which regards society as relatively stable and based on consensus, while the other perspective concerns the potential for the emergence of conflict or coercion, which considers society as a constantly changing phenomenon. From the regulation perspective, knowledge is physical that aims to provide satisfaction, consensus, order, integration and equilibrium (Cooper, 1983). In contrast, the radical change perspective is more critical and concerns conflict and the emergence of basic changes rather than acceptance of the status quo (Saunders, *et al.*, 2007; Zoubi, 2011). The radical perspective focuses on schemes of how organisational activities might be modified within the existing structure of methods in which things are done (Saunders *et al.*, 2007). Based on these two dimensions, namely the nature of social science and the nature of society, Burrell & Morgan's (1979) identify different sociological paradigms as a "commonality of perspective which binds the work of a group of theorists together" (Burrell & Morgan, 1979, p.23). From this perspective, they classify all organisational theories under four broad paradigms: functionalism, interpretivism, radical structuralism and radical humanism. The following subsection aims to explain briefly Burrell & Morgan's (1979) model through the combination of two dimensions of the nature of social science and the nature of society in the analysis of different paradigms in social science.

#### **4.2.3. The Theoretical Framework of Burrell & Morgan (1979)**

The Burrell & Morgan's (1979) theoretical framework confirm that all organisational theories are established based on the philosophy of science and the theory of science. As is shown in Figure 7, the combination of the philosophy of social science and the nature of society classify all the organisational theories under four broad sociological paradigms, namely functionalist (objective/regulation), interpretative (subjective/regulation), radical humanist (subjective/radical change) and radical structuralist (objective/radical change). This model is briefly explained as below.

## Paradigms for the Analysis of Social Theory



**Figure 7. Four Paradigms for the Analysis of Social Theory**

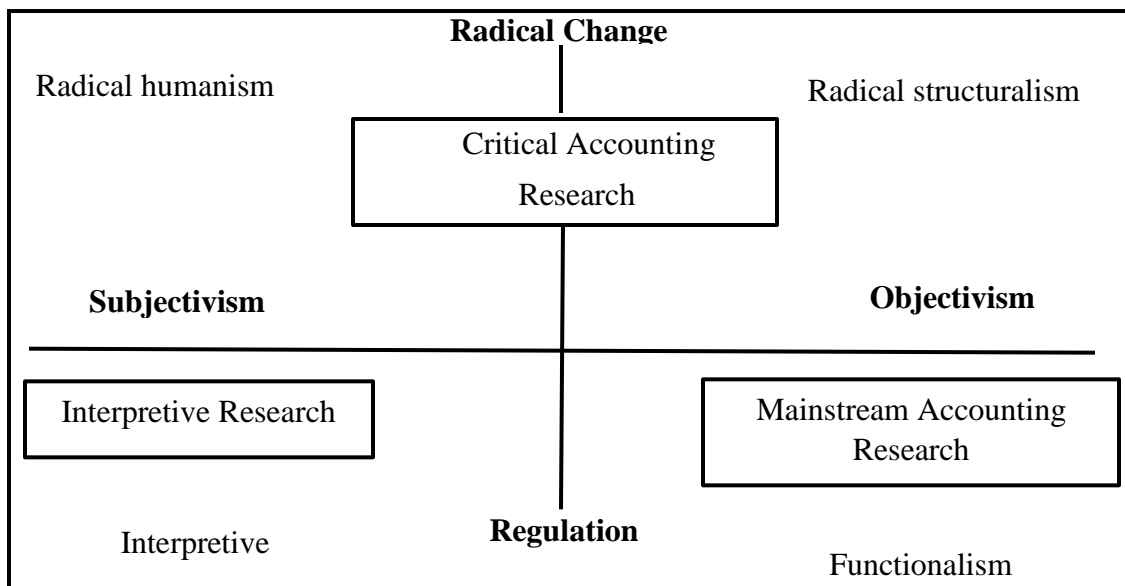
Source: Burrell & Morgan, (1979, p.22)

As figure 7 shows, the horizontal axis (objective and subjective perspectives) refers to the nature of social science, from the intense objectivism to intense subjectivism. From an intense objectivism perspective, knowledge is objective and social science is seen realist and positivist. As a result, the role of human is not significant but it reduced to the position of adopting generalised and universal laws. In contrast, from the intense subjectivist perspective, knowledge is subjective, being internally constructed and interpreted by the human minds (Bisman, 2010). As figure 7 shows, the vertical axis (regulation and radical change) explains the nature of society from regulation to radical change sociology. While the sociology of regulation focuses on the status quo to explain why society tends to hold together, radical change sociology is more critical by the analysis of the fundamental divisions of interest, conflicts and unequal distributions of power as potentials for radical change (Hopper & Powell, 1985). In their model, Burrell & Morgan (1979) combine dimensions of objective-subjective epistemology with the sociology of regulation-radical change to introduce four different research paradigms, namely, functionalist, interpretive, radical humanist and radical structuralism. The functionalist paradigm in the bottom right corner of Figure 7 stems from the sociology of regulation and objectivism dimensions. This paradigm views social science within a positivism perspective, using methods and approaches from the natural sciences (Burrell & Morgan, 1979). As a result, this paradigm is scientific, structured within a prior theoretical base,

and employs empirical validation and statistical analyses to test and verify theories (Bisman, 2010). This paradigm, however, is unable to provide an explanation for social changes (Burrell & Morgan, 1979; Baxter & Chua, 2003; Zoubi, 2011; Parker, 2012). Alternatively, the interpretative paradigm is located in the bottom left quadrant corner of Figure 7. This paradigm, like the functionalism paradigm concerns the regulation of sociology, and addresses the status quo, rather than radical change. However, the interpretive approach considers the environment as an objective dependent reality\_ closely bounding with the meanings and perceptions of the individual. In contrast to objectivity, the interpretive approach reveals that understanding complex human interaction needs interpretation based on the “the subjective states of the people acting in it” (Wellington & Szczerbinski, 2007, p.220). Therefore, knowledge is socially constructed (Lukka, 2010), and social science seeks to understand and explain how knowledge emerges from the subjective understandings of individuals and how it can be objectified through interactions between those individuals (Kakkuri- Knuuttila *et al.*, 2008). As a result, this paradigm seeks to study human behavior through qualitative approaches based on the historical analysis, ethnography, critical and sociological perspectives (Ahrens, 2008). In the top right corner of the Figure 7, the radical humanist paradigm is located between the sociology of radical change and subjectivism. Radical humanism is a brand of social theorizing that is similar to the interpretive paradigm from the perspective that it tends to be anti-positivist (Burrell & Morgan, 1979). The radical humanist paradigm views the society as anti-human, articulating “ways in which human beings can transcend the spiritual bonds and fetters which tie them into existing social patterns and thus realize their full potential” (Burrell & Morgan, 1979, p.32). However, in contrast to the interpretive paradigm, this paradigm is critical of existing organisational life (Saunders, *et al.*, 2007), and tends to focus on change rather than the status quo. Finally, in the top right corner of Figure 7, the radical structuralist paradigm is between radical change and objectivism dimensions. This paradigm tends to focus on the sociology of radical change from an objectivist perspective. This paradigm shares a common set of assumptions with the functionalist paradigm in terms of adopting a positivist perspective on social reality, but using a more critical view on organisational life (Saunders, *et al.*, 2007). As a result, this paradigm is concerned mostly with changes to existing structural patterns, such as hierarchies and reporting relationships, and the extent to which these may produce functionalities (Saunders *et al.*, 2007).

In the context of the accounting literature there are different ways of conceptualising of research philosophy, for example, Gioia & Pitre, (1990) classified accounting research philosophy in terms of epistemology, ontology and methodology (Gioia & Pitre, 1990). Saunders *et al.*, (2007) distinguished accounting philosophy under three broad paradigms, in terms of epistemology, ontology and axiology (Saunders *et al.*, 2007), and Creswell, (2003) identified four philosophy paradigms, namely, ontology, epistemology, axiology and methodology. However, these works generally influenced by Burrell & Morgan's (1979) framework to use similar assumptions related to the nature of social science and the nature of society (Hopper & Powell, 1985; Kumara, 2002; Kakkuri-Knuuttila *et al.*, 2008). In this connection, Hopper & Powell (1985), Chua (1986) and Ryan *et al.*, (2002), for example, used Burrell & Morgan's (1979) model, classified accounting philosophy under three broad paradigms, namely, mainstream, interpretive and critical (See figure 8). As figure 8 shows the taxonomy of management accounting research can be divided into four broad approaches: functionalism, interpretive, radical humanism and radical structuralism. Chua, (1986) noted that the basic assumptions of these paradigms related to beliefs about knowledge (epistemological and methodological assumptions), beliefs about physical things (ontological, human intention and rationality, societal order/conflict) and the relationship between theory and practice.

### Taxonomy of Management Accounting Research



**Figure 8. Taxonomy of MA Research**

Source: Ryan *et al.*, (2002, p.40)

From the main stream perspective, accounting is characterised with a highly objectivist view, seeking to understand accounting in terms of anything that can be perceived through the senses (Sarantakos, 2005). This paradigm suggests that the use of appropriate management control systems helps to control and removal of dysfunctional conflicts. From this perspective, individuals pursue rationality and they pursue utility-maximisation. As a result, the actions and behavior of humans are predictable, purposive- can be accurately described and be causally explained by generalised laws. This paradigm seeks for generalisability and therefore the collection and analysis of data is by quantitative methods. Theory in mainstream studies is independent from observations and the researcher uses observations to check and verify theory. Chua (1986, p.611) argues that in mainstream accounting studies “accounting concerns means not ends. A theory can be unbiased and therefore it leads to acceptance of extant institutional structures”. Alternatively, the interpretive approach considers that the accounting is far too complex to lend itself to theorising definite physical rules in the same way as the physical sciences. In accounting research, the interpretive paradigm assumes that reality is subjective, internally experienced, interpreted and constructed by the human mind and objectified through human interactions (Chua, 1986). As a result, it is “the role of the interpretivist to seek to understand the subjective reality of those that the researcher’s study in order to be able to make sense of and understand their motives, actions and intentions in a way that is meaningful for the research participants” (Saunders *et al.*, 2003, p.84). From interpretive perspective, there is social order and contradiction can be mediated through dominated social meanings as a widespread set of beliefs and values. In this paradigm, the researchers are not totally objective; but their thinking and principles become part of the research process itself (Rowland, 2005). This seeks to recognise that the researcher is potentially “biased by their own background, knowledge and prejudices to see things in certain ways and not others” (Walsham, 2006, p.321). Therefore, interpretive studies use a qualitative methodology based on, for example, ethnographic work, case studies, and participant observation as a suitable approach to understand and interpret real-life human actions, behaviours and their interactions. Additionally, theory aims to explain and provide subjective interpretation of human intention and action and therefore a theory is useful if it can be characterised by logical consistency, subjective interpretation, and agreement with actors’ common-sense interpretations (Chua, 1986). Walsham, (2006) notes that unlike the positivist perspective, interpretive perspective seeks to provide detailed descriptions on answering questions such as what, why, and how, to understand and

explain action and how social order is shaped and modified within condition of a particular organisation (Chua, 1986).

Critical accounting research, on the other hand, is a modified form of the mainstream perspective, suggesting that knowledge is an object that is shaped and modified by the subjective interpretation. From this perspective, human intention and its rationality is accepted. However, the reality must be analysed critically, due to a potential for false consciousness and ideology. In other words, there is a need to analyse unjust social, economic, and political conditions that can provide conflict and manipulate an individual's beliefs about a false reality. From this perspective, researchers can play an important role as transformative intellectuals with the ability to critically analyse human behaviour (Guba & Lincoln 1994, cited in Schurink, 2003). In terms of relationship between theory and practice, the critical approach suggests the theory as a vital means in the process of the recognition and elimination of domination and ideological practices (Chua, 1986). The criteria to evaluate the theory, which are temporal and limited by the environmental context (Chua, 1986). In this type of research, historical, ethnographic and case studies are seen as the most appropriate research strategy. Given that the main purpose of this thesis is to study and explore the process of change of MAPs in a privatised automobile company, an interpretive approach would appear to be more suitable in terms of philosophical perspective. This is because the purposes of this study are not met by the critical or mainstream approaches since the subjectivity of the individual is a prime focus of this study. In this study, philosophical assumptions reject accounting as a natural phenomenon, but accounting is socially constructed, inherently rooted within the experience and knowledge of individuals (see e.g. Chua, 1986; Ryan *et al.*, 2002; Bisman, 2010). From an interpretive perspective, the change of accounting is not an objective independent but as a reality with closely bound views and perceptions of the individuals. Accordingly, this thesis adopts an interpretive approach in an effort to explore the beliefs and motivations of individuals within the process of MACs. As a result, there is a need to understand the complex interrelated inter and intra institutional factors and human interaction which requires interpretation based on the subjective states. Therefore, the interpretive paradigm is the only appropriate approach to analyse the ways in understanding motives and process of change of MAPs in this case study. It is notable that generalisation is not the purpose of this study and the researcher is only going to focus on the Iranian Auto industry, in particular IKCO. Additionally, this study also adopts the interpretive paradigm due to its popularity in theoretical literature into the topic of MAC. In addressing the

importance of interpretive approaches in the MAC literature, numerous studies have suggested that interpretive approaches based on a diversity of theoretical perspectives provide a rich description of the real social world, particularly of the meanings attached to individuals' actions and behaviours (Wichramasinghe & Alawattage, 2007; Parker, 2012). Additionally, the ontological and epistemological underpinnings of the interpretive approach are consistent with the theoretical framework that is adopted in this thesis. From this perspective, by using OIE, this study supports the view that knowledge is subjective (Scapens, 1994) and therefore the interpretive approach seems to be appropriate in order to provide in-depth understanding about the processes of changes in MA in the case study.

### **4.3. Research Methodology**

Corresponding to the objective-subjective debate in ontology and the positive-interpretive contrast in epistemology, there is the quantitative-qualitative approaches in methodological debate. While the quantitative research refers to counts and measures of things, the qualitative research refers to the meanings, concepts, definitions, characteristics, metaphors, symbols and descriptions of things (Dabbs, 1982, p.32). Several studies distinguished qualitative and quantitative research and other studies addressed a strong preference for one or other type of study (Bryman & Bell, 2007). However, according to Cooper & Schindler (2008, p.192), "in many social sciences, such as management studies, sociology, psychology, there is no such clear predominance of qualitative or quantitative studies". Therefore, there is no preference for qualitative or quantitative studies; but the main concern is about what subject is under research and how the research questions might be investigated. For the purposes of this thesis, therefore, there is a mixed strategy, which combines both a quantitative and qualitative approach. In this respect, quantitative information would be useful to provide information related to the broad context within which the case study operates. For instance, information related to market, the number of competitors, the size and the profitability of the organisation are important element in selection of the case study in this research. However, by itself, such quantitative information is not adequate and priority, because the main purpose of this study is to understand the motivations, meaning and behavior of individual actors in the processes of change in MAPs. On other words, this thesis mainly aims to understand social phenomena through differing individual behaviour, and therefore qualitative approach helps to understand "different things to different people" and seek to explain different meanings that people



attach to their everyday social life'' (Schurink, 2003, p.2). In this regard, Mason (1996) identifies some characteristics of qualitative research and explains that: (1) Qualitative research builds on a philosophical position that is derived broadly from the interpretive paradigm to provide a rich interpretation of a complex and possibly multi-dimensional social world. (2) Methods of collection of data in qualitative research are flexible and sensitive to the social context. (3) Methods of qualitative analysis are holistic based on the rich, contextual, and detailed descriptions. Additionally, (4) although qualitative research may use some quantification, statistical forms of analysis, they are not central concern in qualitative research (Mason, 1996). Accordingly, qualitative approach is more useful for purposes of this study because:

(1) The choice of a suitable methodology depends on researcher's ontology and epistemology (Bisman, 2010). In the case of this study, MAP is a social reality, which is constructed by the people interactions and the institutional context. Therefore, the qualitative approach is the best option that can provide rich descriptions about the social nature of MA and how organisational members exercise their MA knowledge in practice (Scapens, 2008). Therefore, qualitative accounting research provides complex descriptions about human action that can involve contradictory behaviours, beliefs and relationships to interpret how people experience a given research problem (Mack et al., 2005). Adopting a qualitative approach allows the researcher to get the inside experiences of individuals, justify and clarify how meanings are formed (Gillham, 2008).

(2) From a holistic viewpoint, this study supports "the belief that social systems develop a characteristic wholeness or integrity and it is inappropriate to study their individual parts taken out of context" (Scapens, 1990, p.271). As a result, a qualitative research offers an opportunity to use multi-theoretical insights to inform empirical findings regarding different perspectives including events, processes and relationships that can provide differing, but incremental insights, into the whole of phenomenon under research (Modell, 2005). The use of multiple theoretical perspectives in qualitative research offers deeper insights about the details of practice, which, in turn, contributes to theory development and/or to the modification of existing theories (Vaivio, 2008, Parker, 2012). From this perspective, it is suggested that qualitative research can reduce the gap between MA theory and practice by exposing theories' strength and limitations, and modifying or even rejecting them (Vaivio, 2008).

(3) Qualitative research is carried out by a pre-defined theoretical framework that informs the research questions, data collection and guides empirical observation (Vaivio, 2008). The researcher uses theories to inform the meaning of events and therefore the act of interpretation and analysis of data can be the key aim of the use of theories in qualitative research (Siti-Nabiha, 2009).

(4) In MA research, the issue of change is one of the main subject areas in qualitative research rather than quantitative approaches (Parker, 2012). The qualitative research has offered particular help to provide insights about the processes of MAC including changing social, cultural, political and economic circumstances (Baxter & Chua, 2003). Therefore, qualitative methods are helpful when the researcher aims to concentrate on a dynamic process, such as MAC, since this needs a deeper analysis of behaviour and the meaning and context of complex phenomena (Snape & Spencer, 2003).

(5) Qualitative approach is flexible and more sensitive to contradictory contexts in which words, sentences and pictures are used to describe conditions (Mason, 2002). Therefore, one of the main advantages of using qualitative methods in this research is the flexibility that allow the researcher to search for detailed descriptions and access to the initial participant responses by answering questions what, why, and how (Walsham, 2006).

(6) The qualitative approach provides personal engagement in the field study, which can distinguish it from quantitative approaches (Parker, 2012). The use of semi-structured questions, provide an opportunity for participants to react in their own view rather than restricting them to decide from fixed and set responses, as is the case with quantitative methods (Nasirpourosgoei, 2014). In qualitative research, thus, the researcher needs to be in direct contact with phenomenon to try to interpret and make sense of the everyday activities and processes of people and organisations in their natural setting (Miles & Huberman, 1994). However, the ability of the researcher is important to make a critical assessment of what participants said (Mason, 2002), engaging with them according to their individual personalities, expertise, experience and styles (Nasirpourosgoei, 2014). Given the absence of the focus on inferential statistics in qualitative research (Bordens & Abbott, 1999), the results of qualitative research cannot be extended to the population at large (Ramli *et al.*, 2007). In this connection, Bisman, (2010) argues that although generalisation, in the statistical sense, is not normally a concern of qualitative research, the concept of generalisation retains importance but to somewhat interpreted differently in qualitative research.

According to Vaivio, (2008) qualitative research contributes to logical MA theory by comparing its findings with those of other relevant studies and looking for cross-case patterns that seek to promote theoretical generalisation and an increase in the external validity of research. Additionally, the most recently the accounting research literature has witnessed the emergence of mixed methods research as a third methodology approach (Hall & Howard, 2008) to combine qualitative-quantitative methods in a single study (Johnson *et al.*, 2007). An overriding aim of the use of mixed methods research is to enable researchers to benefit from strengths of different methods. Johnson & Turner, (2003, p.299) note that, “methods should be mixed in a way that has complementary strengths and non-overlapping weaknesses”. According to Grafton *et al.*, (2011) the integration of quantitative and qualitative approaches in mixed methods research can occur in both mixing methods (data collection, data analysis) and mixing methodologies (see Modell & Lee, 2001; Kakkuri-Knuutt *et al.*, 2008). In spite of advantages of mixed research, however, this research is far less frequent in the accounting literature and there is little evidence or continued debate in this area of research (Modell, 2009b; 2010). In particular, recent MA literature highlights the difficulties related to the philosophical tensions of combining the quantitative and qualitative methodological approaches (Modell, 2009b). In this connection, Grafton *et al.*, (2011) argued that in spite of several potential advantages, mixed methods research suffers from the major risk of inadequately integrating the design, execution, analysis and interpretation of research.

#### **4.4. Research Strategy**

Having established on an interpretive perspective and having adopted a combined quantitative and qualitative approach, this subsection aims to select an appropriate research strategy in order to address the research problems (Saunders *et al.*, 2009), and serves as a basis for confirming the validity of findings (Nasirpourosgoei, 2014). There are a number of research strategies including the case studies, field studies and field experiments (Moll, *et al.*, 2006; Zoubi, 2011). For example, the case study refers to “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries of the phenomenon and context are not clearly evident” (Yin, 2003, p.13). Alternatively, a field study is similar to a case study; but the field study approach often involves a comparison across organisational contexts and therefore it can be characterised by less intensive data collection than the single case study (Moll, *et al.*, 2006). Finally, in field experiments research, the researchers attempt to observe a particular predefined

range of actions in controlled situations (Moll *et al.*, 2006). Lillis & Mundy (2005) also classify research strategy under two broad types of case study and multiple case studies and identify cross-sectional case study as qualitative and quantitative research. Lillis & Mundy (2005) explain that the cross-sectional field study method involves limited-depth studies conducted at a non-random selection of field sites, therefore lying somewhere between in-depth cases and broad-based surveys. According to table 2, Yin (1994) identified five most commonly used research strategies. He argues “each of these strategies has its own advantages and disadvantages, depending on three conditions: 1) The form of research questions posed; 2) The extent of control a research has over actual behaviour; 3) The degree of focus on contemporary as opposed to historical phenomena” (Yin, 1994, p.1), as shown in Table 2.

**Relevant Situation for Different Strategies**

<b>Research Strategy</b>	<b>Form of Research Questions</b>	<b>Control Over Behavioral Events</b>	<b>Focuses on Contemporary Events</b>
<b>Experiments</b>	What, How, Why	Yes	No
<b>Surveys</b>	Why, Who, Where, How many, How much	No	Yes
<b>Archival Analysis</b>	What, Who, Where, How many, How much	No	Yes/No
<b>Histories</b>	What, Hw, Why	No	No
<b>Case Studies</b>	What, How, Why	No	Yes

**Table 2. Relevant Situation for Different Strategies**

**Source: Yin, (1994, p.6)**

Yin, (2003) argues none of these research strategies is preferable to each other, but the important issue for the researcher is just to choose the appropriate research strategy in accordance to the particular research questions that is going to answer (Yin, 2003). As the table 2 shows the basic form for research questions is: who, what, where, how, why, how much or how many. For example, if the research question concerns to ‘what’ question could be exploratory; in which the questions like this can be investigated within any of the research strategies. Alternatively, if ‘what’ question could be in terms of how many or how much; these kinds of question usually investigated by survey

or archive analysis because they deal with closed rather than open-ended answers. Additionally, for cases of 'who' and 'where' questions, a survey or archive analysis strategy are more appropriate than other strategies. In contrast, if a research questions ask 'how' or 'why, the use of experiments, histories or case studies is more appropriate. As Yin (1994, p.6) argued, "This is because such questions deal with operational links needing to be traced over time, rather than more frequencies or incidence". However, it is notable that that research strategies are not mutually exclusive but the researcher may combine the research strategies, for example use the survey strategy as part of a case study (Saunders *et al.*, 2009). According to Table 2, this research uses the question types of what, how, why and when, and therefore only histories or the case study strategy are suitable for this research because the researcher has no control over the phenomena being investigated. Additionally, this study aims to examine the process of change in MA over time, considering surrounding inter and intra organisational contexts including the role that played by individuals. Therefore, the best research strategy for this study is case study approach aimed to provide in-depth understanding of MAC in a privatised automobile company. The "case study investigates predefined phenomena but does not involve explicit control or manipulation of variables: the focus is on in-depth understanding of a phenomenon and its context" (Darke *et al.*, 1998, p.275). A case study is a detailed investigation, which an often deal with data that is collected over time (Hartley, 1994) is useful strategy to understand the process of change in this case study. Lee *et al.*, (2007) note that case study research has a capacity to draw from different data sources, to provide several levels of simultaneous analysis of organisational practices and processes.

#### **4.4.1. Case Study**

There is no simple and agreed definition of a case study in the MA literature. However, a unifying link between various views and definitions suggests that the case study strategy helps researchers by direct contact with the organisational setting, enable them to develop rich and contextualised knowledge with a deeper understanding of the behaviours and meanings of organisational actors (Parker, 2012). Yin (2003, p.13) defined a case study as, "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, when the gap between the phenomenon and the context are not clearly obvious, and in which multiple sources of evidence are used". There are different types of case study, including descriptive, illustrative, exploratory, and explanatory or a

combination of them (Scapens, 1990; Ryan *et al.*, 2002; Yin, 2003; Scapens, 2004; Adams *et al.*, 2006; Parker, 2012). A descriptive case study aims to offer a description on current accounting systems, tools and procedures that are used in practice, and it is employed frequently to advance topics and processual ready discovered by survey research (Lee *et al.*, 2007). An illustrative case study is concerned with illustrating a specific event in a descriptive manner to examine the possibility of using innovative accounting practices by particular organisations (Scapens, 2004). Alternatively, at exploratory case studies, the researcher does not aim to provide conclusive answers to research problems, but the main concern is to offer guidance for the subsequent research (Adams *et al.*, 2006). These studies are seen as preliminary research in advance of wide-scale surveys (Lee *et al.*, 2007). The explanatory case study seeks to move beyond questions about what occurs in the organisation, but considers why it happens and how observed practice happens in the manner it does. It is the only type of case study that provides a detailed understanding and description of a particular event when the case is not viewed as ancillary to more quantitative methods (Lee *et al.*, 2007). As it is shown in Table 3, Ryan *et al.*, (2002), also classifies the case studies under two general categories of positive and interpretive case study research, explaining an interpretive case study is quite different from a positive case study.

### Types of Case Study Research

Type of Research	Positive	Interpretive
View of the world	External and objective	Social construction
Type of study	Exploratory	Explanatory
Nature of explanation	Deductive	Pattern
Nature of generalisation	Statistical	Theoretical
Role of theory	Hypothesis generation	Understanding
Nature of accounting	Economic decision-making	Object of study

**Table 3. Types of Case Study Research**

**Source: Ryan *et al.*, (2002, p.146)**

Positive case study approach with conventional managerialist underpinning, views accounting and controls as external and objective phenomenon. Positive case study is scientific focused, seeks to investigate the relationships between variables by deducting it from universal and general laws.

This approach is useful to develop hypotheses, which can be tested by other research methods such as surveys (Kumara, 2002). However, this approach cannot provide explanation on how the relationships came about in the process of change (Zoubi, 2011) and fail to capture the role and impact of historical, socio-economic and institutional contexts in the analysis of these relationships. Additionally, a positive case study uses small samples and its findings cannot be statistically generalised to the larger population. In general, positive case studies are concerned with aggregation rather than specifics, and therefore their results cannot provide an adequate explanation for each specific case (Scapens, 1990). Alternatively, in MA field there have been numerous calls for the use of interpretive case study and therefore, this approach has emerged as a popular method of studying MAC (Ryan *et al.*, 2002; Lillis & Mundy, 2005; Lee *et al.*, 2007; Parker, 2012). In contrast to the positive case study, the interpretive case study implements a holistic approach to explain and interpret the relationships between various factors that shape MAPs in the context within which it operates. An interpretive case study starts from a strong and clear theoretical foundation that facilitates a rich array of perspectives and insights to understand and explain phenomenon under investigation (Covaleski & Dirsmith, 1990; Parker, 2012). This does not mean that empirical observations in interpretive case studies are constrained by predetermined theoretical assumptions, but an interpretive case study can develop theory and/or modify existing theories in order to reduce the gap between theory and practice in MA (Vaivio, 2008). This thesis adopts an interpretive case study approach due to the explanatory and descriptive nature of research questions; provide larger depth of information than other methods. In particular, the case study approach is suitable in situation where a single reason cannot present a full view of the research topic. Therefore, a holistic approach is the best option for understanding and explaining different perspectives. Considering the focus of this thesis, the ability to intensively probe and investigate the change of MA and organisational processes and individual behaviour in a contemporary setting using a variety of data sources suggests that the case study approach is a proper selection for this research. The case study approach helps this study to provide an in-depth, holistic awareness of broad, complex phenomena, and an understanding of interrelated processes, relationships, political issues and influence tactics within particular contexts. Additionally, given that this approach has no control on the object being studied, it involves the application of a variety of methods such as interviews, observations and documents to address real life practice and its context (Merchant & Van der Stede, 2006). Clearly, the use of multiple methods of data collection

is an advantage because it is possible for the researcher to access closely, in substantial detail, the case under focus (Gallier, 1992). This approach is also useful for the application of theoretical insights during the field study, helps the researcher to explain the direct observations and empirical findings. In addition, when conducting an interpretive case study, theory and data are closed in a reciprocal relationship, which improve the research design to become theory oriented. More specifically in the context of LDCs with different socio-economic, political and institutional circumstances from the West (Alawattage & Wickramasinghe, 2008), and where the gathering of data on MA issues is relatively difficult (Hopper *et al.*, 2004), the interpretive case study is an appropriate strategy for studying MA in organisations (Yin 1994; Hassan, 2005). However, the case study approach has its own set of limitations relating to generalisability, non-representiveness, and several potential biases (Scapens, 1990). A common criticism is that case studies provide little basis for generalisation (Yazdifar, 2004; Lillis & Mundy, 2005; Lee *et al.*, 2007). Scapens (1990) argues that in case study research when the sample size is too small, statistical generalisation has limited value because it is not an exact representation of the total population of case studies in other locations. Lindsay, (1995) argued that the generalisation of the findings of the case study should be increased by establishing more well-defined replication logic than turning to approaches derived from survey-based methods. Under this logic, replication comes from the research that finds theoretical explanations useful in case studies, extends the use of theory to other case studies (Van der Steen, 2005). Hence, case study research can be theoretically generalised by bringing theories into contact with practice, and therefore exposing their strengths and weaknesses and modifying them to produce general theories (Vaivio, 2008). Generally, a research strategy includes all stages of design as discussed in the next section.

#### **4.5. Research Design**

Research design is an important part of every empirical research project (Yin, 2003). Yin (1994, p.2) argued that, “a research design can be seen as a technical plan that attempts to link the beginning and the ending of a study”. The research design is a logical sequence that involves starting from the research question, which is answered through data collection and data analysis in order to arrive at conclusions (Yin, 2003). Yin (2003) explains that research design is a “blueprint” that focuses on at least four questions, namely, what questions to study, what data are relevant, what data to collect and how to analyse the outcomes. Finally, the researcher will come to their



conclusion, and there will be the possibility of generating a theory or developing the current theories. In this single case study, most of steps were followed, which suggested by several studies in the MA literature (see Scapens, 1990; Ryan *et al.*, 2002; Yin, 1994, 2003; Yazdifar, 2004). Steps includes: (1) preparation, (2) collecting evidence, (3) assessing evidence, (4) identifying and explaining patterns, (5) theory development and (6) thesis writing.

#### **4.5.1. Preparation**

Before entering the field, in an interpretive case study, the researcher needs to decide which theoretical framework is best to provide a rich array of perspectives and insights on research questions and data collection (Vaivio, 2008). To do this, the previous chapters provided a literature review and a review of suitable theories that are relevant for this research project (Scapens, 2004). Chapter 4 provided a detail of the theoretical framework that adopted in this thesis, which includes OIE, NIS and a dialectical approach.

##### **4.5.1.1. Case Study**

Vaivio (2008) suggested that other key issues in the research design are: (1) the number of case studies and (2) the reasons for the selection of the case organisation (s). A case study can be an individual or a group such as a family, or it can include an association such as a school, a company, an industry or a town. Additionally, the case study is applied either as a single case or as incorporate multiple cases (Gillham, 2008). Zoubi, (2011) argues that a case study may be a small sample because it does not aim to make a statistical generalisation. As a result, it may be rational that sampling in case study should be purposeful within a focus on information-rich case for studying in depth (Patton, 1987) rather than to focus on the population from which it is drawn (Zoubi, 2011). Yin, (1994) argues that one case is enough if it meets one of the following criteria, namely, the case is a critical one, the case is rare or extreme, or the case provides unusual access for academic research. Scapens, (2004) suggests that a critical case study can be used when the study deals with a well-focused, theoretically sound research, there is a well-formulated theory and the major research problems are clearly addressed. Accordingly, this thesis adopts a single embedded case study containing more than one sub-unit of analysis (Yin, 2003) as an empirical form of investigation suitable for this descriptive study, where the goal is to analyse the

characteristics, context, and processes of an affair (Scholz & Tietje, 2002). In this study, in-depth data collected on the process of change MAPs in a single case study of IKCO, discussing the influence of contextual factors both pre- and post- privatisation.

#### **4.5.1.2. Selection of the Research Site**

The selection of a research site is another major concern in research design in the case study method (Yin, 1994). In this research, the selection of the case study company based on the research objectives. Firstly, this study selected Iran as representative of a LDC due to lack of research in that particular kind of countries. Alawattage *et al.*, (2005, p.464) argue that “accounting change is an essential component of market-based development policies promulgated by international agencies” and so far, the studies into MAC have been related to companies operating in developed countries (Scapens, 2004). Therefore, there is in particular, a lack of literature on MAC and the influence of contextual factors on organisations in LDCs during the transition to privatization highlights a need for a stronger focus on research dealing with these issues (Alawttage *et al.*, 2007; Redda, 2007). More specifically, among LDCs, Iran is unique because the available MAC research mostly conducted in poor ex-colonial countries, such as Bangladesh, Sri Lanka and Ghana, with the focus on colonial legacies and neo-colonial initiatives. However, Iran has never been a colony but it has unique and complex context, which has never been a research site for systematic and detailed MA research. In this respect, the bundling of “religious ideology” with the agenda of “privatisation” and the exploration of emerging issues from a social and institutional perspective have never been attempted in MAC research. Additionally, the selection of Iran as the case country is because the researcher is Iranian and therefore there is no language barrier that may affect the conduct of the research. In industrial level, automobile industry is one of key economic sectors in Iran, is the second most active industry in the country after the oil and gas industry. It accounts for 10% of Iran’s GDP and has satisfied over 65% of domestic car demand in country. In addition, in Iran, the car industry is amongst the first industries that listed for privatisation and approximately 87% of the industry’s ownership privatised. Additionally, the automobile industry is appropriate case due to the manufacturing nature of industry, which has potentials for applications of many MA systems, like costing and control systems and their habitual traditions of operating. For selection the case studies, the researcher obtained a list of car companies under privatisation programs since 1990. The listed car companies each approached based of their size, market share

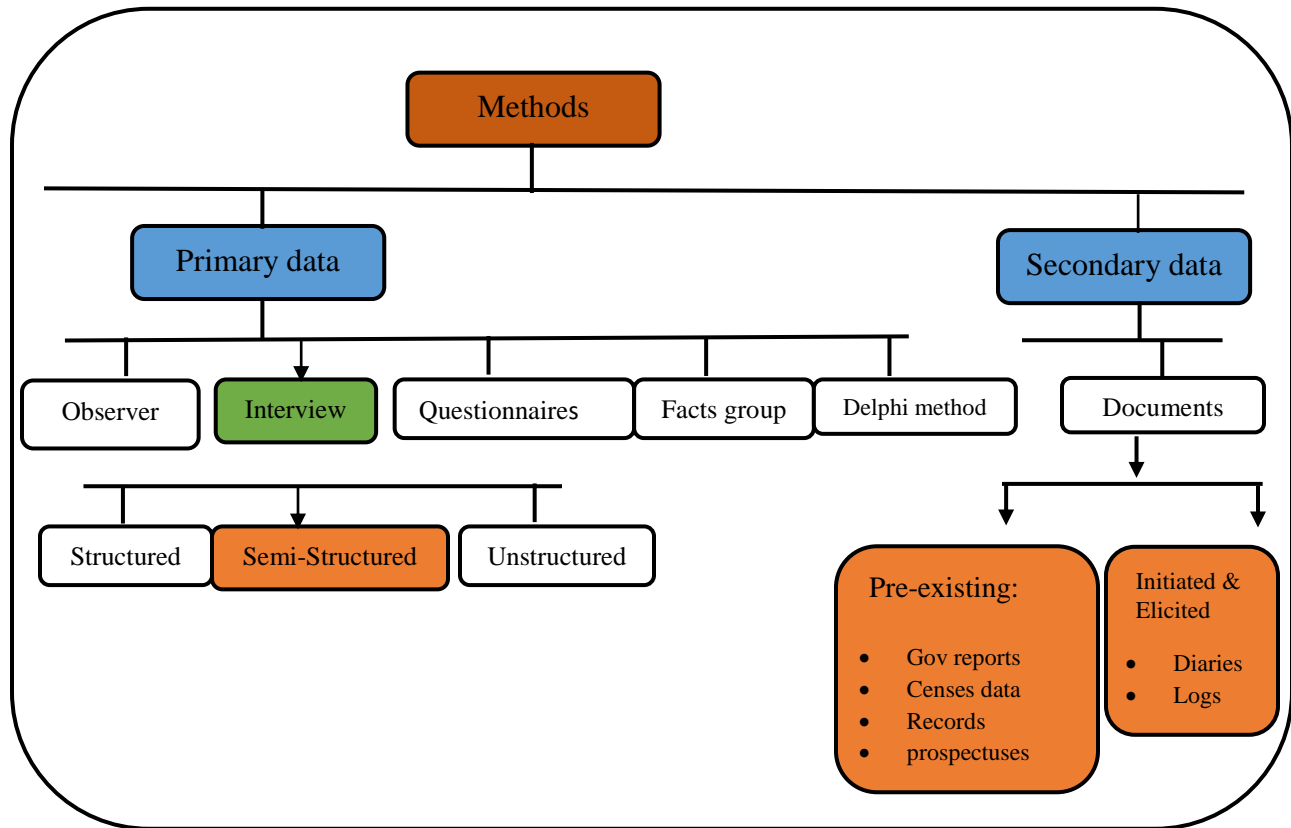
and the number of years the companies had stayed in operation because it believed that larger and older companies with more market share are likely to use a more sophisticated MASs and control systems. IKCO and Saipa were approached initially because they are the two largest car companies in Iran (having 96% of the total car production and market share in the car industry in Iran), and they were classified as being amongst the top five corporations in Iran by sales. In addition, these companies operate in both local and international markets, have been in joint ventures with some major foreign car manufacturers, such as Peugeot (France), Citroen (France), Nissan (Japan), Toyota (Japan), Volkswagen (Germany), Daewoo and Hyundai (South Korea) and Chery (China). Additionally, the selection of these two companies is because they are amongst the first companies listed for privatisation in Iran in 1991. This was an important consideration because selecting companies that privatised for about three decades there are more likely to experience organisational changes resulting from privatisation. However, one of the problems in case study research is getting access to information from actors (Yin, 1994). In this study, for accepting this research, a formal letter presented to IKCO from my supervisors by the researcher, asking for the co-operation. Additionally, the researcher had to send an introductory letter to the accounting and MA departments in the two companies, which attempted to arrange some interviews to gain further insights into relevant issues and to provide clarification about the research design. After the approval of the subject of research by the MA departments in IKCO and Saipa, the researcher had several meetings with the security departments of these companies. At these meetings, the researcher described the main objectives of the research and, more importantly, guaranteed the confidentiality of the results of the research. They permitted the disclosure of the name of the companies in this research. However, the long bureaucratic process was partly because the Iranian companies are very careful about strangers coming in to investigate their business practices. Particularly, between 2011 and 2012, the Iranian students who are studying abroad were forbid from writing any thesis or research about Iran. In this respect, the general director of the student affairs in the Science Ministry announced that, “the new rule applies not just to students on Iranian government scholarships but also to those students paying for their own education abroad” (New York Community Media Alliance, 2011). This restriction is due to different reasons largely because the political regime of the country tightly controls key state-controlled organisations, and therefore regard to engaging with international researchers can be with political ambitions. As a result, sensitive political companies such as state-controlled automakers do not permit foreign

researchers to collect information from within their organisations (Iran Times, 2011). The researcher visited Saipa in person and several meetings held with both the security department, and the accounting and MA departments. Although, this company did not refuse to co-operate with the researcher they explained that they have a tight schedule and bureaucratic processes, time restrictions for accessing data in different departments. As a result, for conducting interviews as main research method, it was difficult to access different departments of the company of Saipa. In contrast, in IKCO, the researcher had some friends, succeeded to establish a better relationship with the management members to gain their confidence. They promised to participate and to provide adequate co-operation during this research in both the company and its subsidiaries. Additionally, this study selected the Iran Khodro Company (IKCO), because this company fits the purposes of this thesis. Firstly, the IKCO being amongst the first companies listed for privatisation program in Iran. Secondly, the IKCO plays important role in Iran's economy and this company is subject to wide socio-economic and political factors. IKCO is being amongst the top five corporations in Iran is the largest and oldest Iranian's car manufacturing company in Iran, the Middle East and North Africa. This company jointly and independently produces a number of different brands of automotive, holds over 50 percentage of the total local car market, and exports vehicles to over 30 different countries. Therefore, the IKCO's features give a chance to explore the MAC process following privatisation, explaining the complex interplay between inters and intra organisational factors in the processes of change. Additionally, the study of the MAC in the Iranian automobile industry did not investigate before, and so this case study gives an opportunity to provide new insights into the process of MAC, particularly within the context of Iran.

#### **4.5.2. Data Collection**

Collecting evidence concerns the methods that are used for collecting data when conducting research. Typically, social research uses a variety of methods to collect evidence from different sources including documents, archival records, interviews, direct observation, participant observation and physical artifacts (see figure 9). Benbasat *et al.*, (1987, p.374) argued "using multiple methods of data collection offers the opportunity for triangulation and lends greater support to the researcher's conclusions". Additionally, the triangulation of data collection methods improves the level of validity of the research (Li, 2010; Bisman, 2010). Therefore, the using multiple sources of data from different sources can complement the sources collected

(Hassabelnaby *et al.*, 2003) and helps the researcher to reduce bias. The figure 9 presents a way of classifying methods of social science. As figure 9 shows, the research method is divided into two categories: primary data and secondary data that the choice of these methods depends on the nature of the research.



**Figure 9. Methods in Social Research**  
Wellington & Szczerbinski (2007, p.79)

Accordingly, this study uses multiple sources of data from different sources because any sole research method or procedure is similarly limited. The thesis applies interviews as the primary sources of data and documents and direct observation as secondary sources of data collection. Data collection through semi-structured interviews involved developing multiple interview schedules, which discussed in the next section. The document data in this research collected from different sources such as the organisation’s website, newspaper articles and company reports.

#### 4.5.2.1. Research Method-Interviews

Interviews are the most common data collection technique in case studies (Hopper *et al.*, 2004b). The interview is popular because of its capacity to reach a range of informative views and to communicate multiple perspectives on a supposed fact (Johnson, 2001). When using this method, the researcher has direct contact with organisational actors that allow the collection of a rich set of data surrounding specific research issues, as well as capturing the complexity of the context in which the organisation operates. Interviews are a flexible process that captures how interviewees think and explains the issue, phenomenon or behaviour that is being investigated (Li, 2010). The interview assists the researcher “to understand the world from the subject’s point of view, to unfold the meaning of people’s experiences, to uncover their world prior to scientific explanations” (Kvale, 1996, p.1).

There are different types of interviews in terms of the structure, purpose, the role of the interviewer and the number of participants involved in each interview (Sarantakos, 1998). Both quantitative and qualitative studies use the interview method. Generally, interviews can be categorized into three groups of structured interviews, semi-structured interviews and unstructured interviews. Quantitative research uses the structured interviews that are usually based on the survey research (Bryman, 2004, 2008). In structured interviews, the researcher does not intend to investigate more than the basic answers collected from the structured questions. As a result, the researcher provided a pre-coded questionnaire or a list of pre-arranged questions that asked on a standardised schedule (Brown, 2005). Interviews are also one of the most widely used methods of collecting data in qualitative research (Yazdifar, 2004; Bedard & Gendron, 2004). Qualitative research often uses in-depth interviews to obtain data using semi-structured to unstructured interviews (Saunders *et al.*, 2007), which are seen as a flexible process for focusing on discussion rather than answering structured questions (Yin, 2003). In unstructured interviews, the researcher encourages the participant to talk without feeling constrained by pre-formulated questions. The unstructured interviews are characterised by their open-ended character, while the semi-structured interviews use both pre-planned and unplanned questions. In semi-structured interviews, the researcher seeks to know the informant’s perspective on the affair. Therefore, a semi-structured interview calls for a well-informed interviewer who is able to challenge the minds of the interviewees without opening an argument and supportive atmosphere of the interview (Cooper & Schindler, 2008).

In this study, interview is the primary tool of data collection, aiming to provide gather valid data relevant to the research objectives. This thesis selected semi-structured interviews to combine both structure and flexibility (Legard, *et al.*, 2003), helping this study to pose new questions that followed up on interviewees' answers (Bryman & Bell, 2007). The researcher schedules semi-structured interviews with relevant participants, seek to know the informant's viewpoint on the matter. Additionally, the researcher seeks to identify whether or not the participants can verify insights and information already held by the researcher. Cooper & Schindler, (2008) argued that semi-structured interviews demand a knowledgeable researcher who is able to challenge the minds of the interviewees without opening an argument and ruining the supportive atmosphere of the interview. This approach helps to understand the perceptions and experiences of the interviewees in order to provide a broader range of unexpected extra information relating to the meanings that interviewees relate to topics and situations (Redda, 2007). Semi-structured interviews help the researcher to capture how and why something occurred, and the exact meaning attached to phenomenon (Brown, 2006). The questions in semi-structured interviews can be predetermined as a guide to allow the researcher to make sure that research questions and research themes that are going to be questioned and answered (Kumara, 2002). This approach enables the researcher to adjust questions and to direct the interviews to pursue those issues that are worthy of exploration in the research. Additionally, more questions were essential to explore the detailed replies from individuals during the interview. However, semi-structured interview is not without its limitations because the success of semi-structured interviews depends on the personality of the researcher and the need for a high degree of training of the researcher (Blumberg *et al.*, 2005). When using semi-structured interviews, there is a danger of bias from the researcher, which can have an adverse influence on the reliability and validity of the research results (Yin, 2009; Zoubi, 2011). This means that when interviewing people, the researcher needs "skill, sensitivity, concentration, interpersonal understanding, insight, mental acuity, and discipline" (Patton, 1987, p.108, cited in Yazdifar, 2004).

#### **4.5.2.1.1. Sampling**

Sampling applied because it is not possible or practical to collect information from the whole population of interest, due to of a series of restrictions on researcher such as time, fiscal resources or access (Saunders *et al.*, 2009). Additionally, in some cases especially involving multiple

elements sampling works better than assessing the whole population (Sekaran & Bougie, 2010), because it allows focusing on important issues, avoiding from research exhaustion. Accordingly, this case study is the largest automaker with several subsidies, holds over 50% of the market in terms of value and units. As a result, this company is very large and there are many candidates in terms of participants, for sampling in this study. Therefore, there is need to sampling to choose the most fitting sub groups to study within IKCO given the study focus (Sekaran & Bougie, 2010). To this end, Saunders, *et al.*, (2009, p.213) classifies sampling techniques available to researchers into two types: probabilistic and non-probabilistic (see table 4).

#### Available Sampling Techniques

<b>Sampling</b>	
<b>Probability</b>	<b>Non-Probability</b>
Simple random	Quota
Systematic	Snowball
Stratified random	Convenience
Cluster	Self-selection
Multi Stage	Purposive Extreme Case Homogeneous Heterogeneous Critical Case Typical Case

**Table 4. Available Sampling Techniques**

Source: Saunders *et al.*, (2009, p.213)

Based on the different sampling methods listed in the table 4, this study selected purposive method. This method was helpful to select samples in accordance to the research goals to provide answer for the questions raised in this research. Therefore, the sampling was restricted to particular participants who were the only ones who had the related information and also because they met the criteria set by the researcher. In this regard, Sekaran & Bougie, (2010) divided the purposive



sampling into two categories including judgment sampling and quota sampling, comparing their advantages and disadvantages (see table 5). In judgment sampling, the selection of samples is among those who have the best position to provide the needed information. For example, if the researcher's question is about the information systems, researcher selects the authority from department of information systems. However, this type of sampling is not always possible because it requires a specific position for the researcher to be able to reach the target individuals with the required information. Therefore, this kind of sampling is appropriate for cases that researcher is only looking for study specific question (Sekaran & Bougie, 2010). Alternatively, the quota sampling suggests a more constant representation across the organisation and therefore sampling quota is constructed of sub groups that are weighted in proportion to their overall volume within the organisation (Sekaran & Bougie, 2010).

### **Sampling Designs**

<b>Sampling Designs</b>	<b>Description</b>	<b>Advantages</b>	<b>Disadvantages</b>
Judgment	Subjects selected on the basis of their expertise in the subject investigated	Sometimes, the only meaningful way to investment	Generalisability is questionable; not generalisable to entire population
Quota	Subjects are conveniently chosen from targeted groups according to some predetermined number of quota.	Very useful where minority participation in a study is critical	Not easily generalisable

**Table 5. Sampling Design**

**Source: Sekaran & Bougie, (2010, p.280)**

In this research, various targeted groups were sampled for different purposes to participate in interviews. Firstly, the aim of interviewing was to explore the meanings and experience of participants about the particular research questions under investigation. As a result, interviews are done with those who had relevant information about the themes under investigation and who had enough time and were interested to take part in interviews. Additionally, the second set of participants selected for a second round of interviews to complete the needed extra information.

The second set of interviewees included some of the interviewees who participated in the first interviews and a number of newly selected participants. However, in some cases the follow-up interviews were not possible because people who participated in the first round were not accessible due to later organisational changes. It is noticeable that IKCO is a company that political factors affectively influence the managerial levels and organisational behaviour in particular after each presidential election. These changes caused varying access limitations in setting interview arrangements with the new IKCO members. The subsequent organisational charts present an apparent outlook of the case study. The study of MACs in IKCO required interviews with the best candidates in different organisational levels, and therefore understanding of the organisational structure of the case study could be of great help in this regard.

#### **4.5.2.1.1.1. IKCO's Organisational Structure**

The choice of the candidate group was among people who were associated with the process of MAPs in IKCO. According to the research objective, this research aims to compare the MAPs during pre-and post-privatisation periods in order to study how MA was involved in the process of change whether resulting from internal changes or the effect of changes in the external environment over the transition period. To achieve this objective, the majority of interviews conducted with staff within IKCO and a few interviews conducted outside the company with governmental institutions. According to Yazdifar (2004), doing interviews at different organizational levels provide different perspectives, and the shared understandings that comprise the actions and the ways of thinking of the organisation' members. In this stage, participants included both accountants and non-accountants, at high and low levels in the organisational hierarchy. The IKCO's organisational charts present an apparent outlook of the case study. Figure 10, 11, 12, and 13 presented organisational structures of IKCO, its HR and Finance.

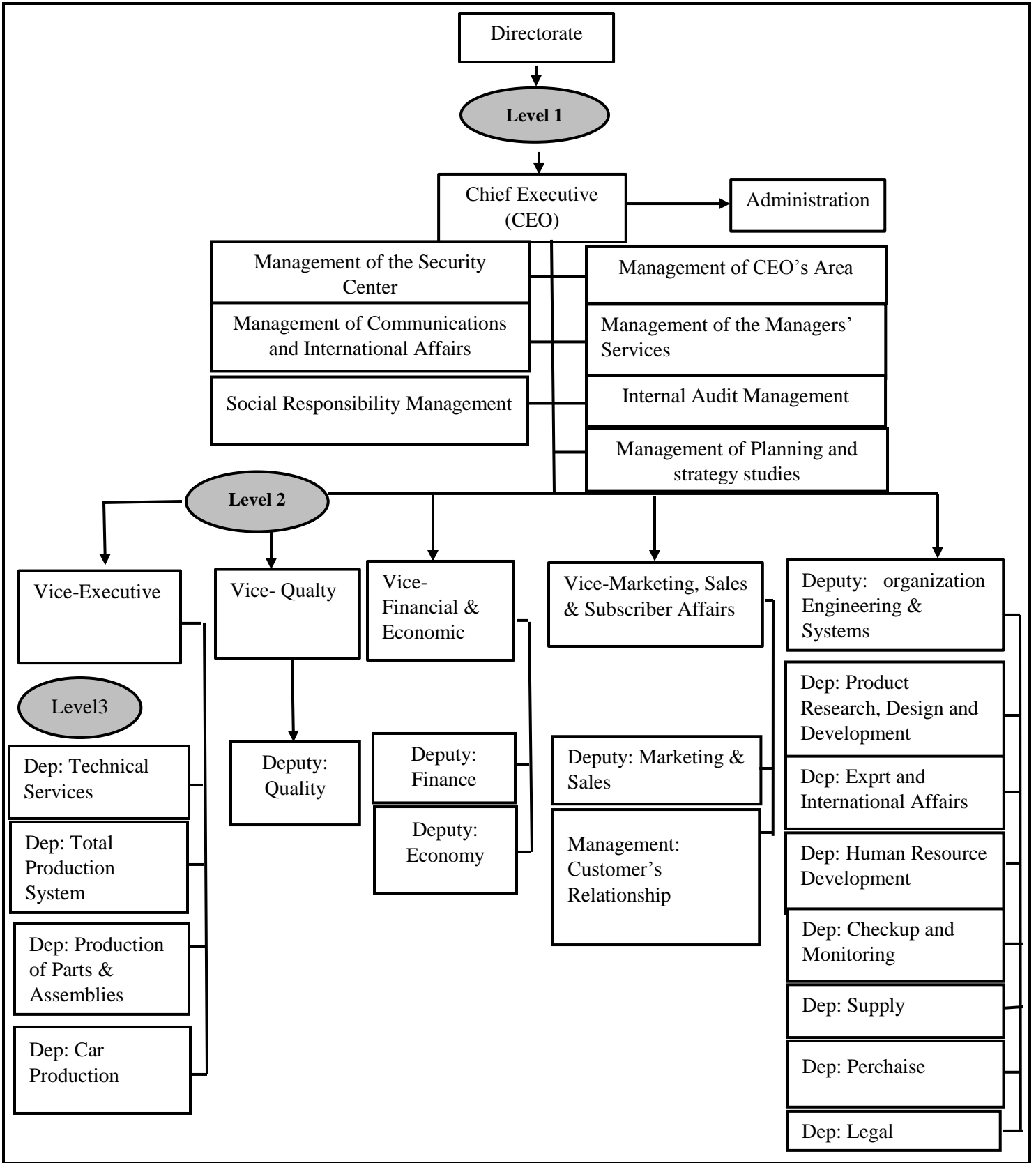


Figure 10. IKCO's Organisational Chart

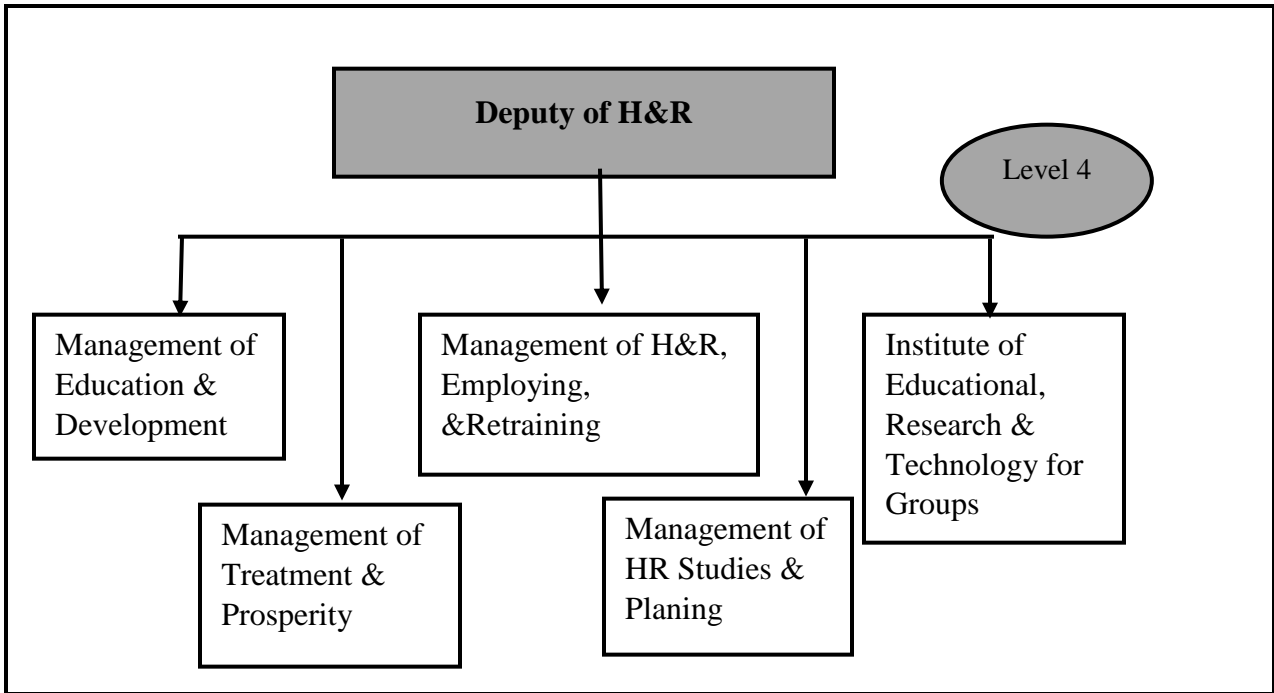


Figure 11. IKCO's Chart of H&R

Source: Internal report of IKCO, (30 March 2020)

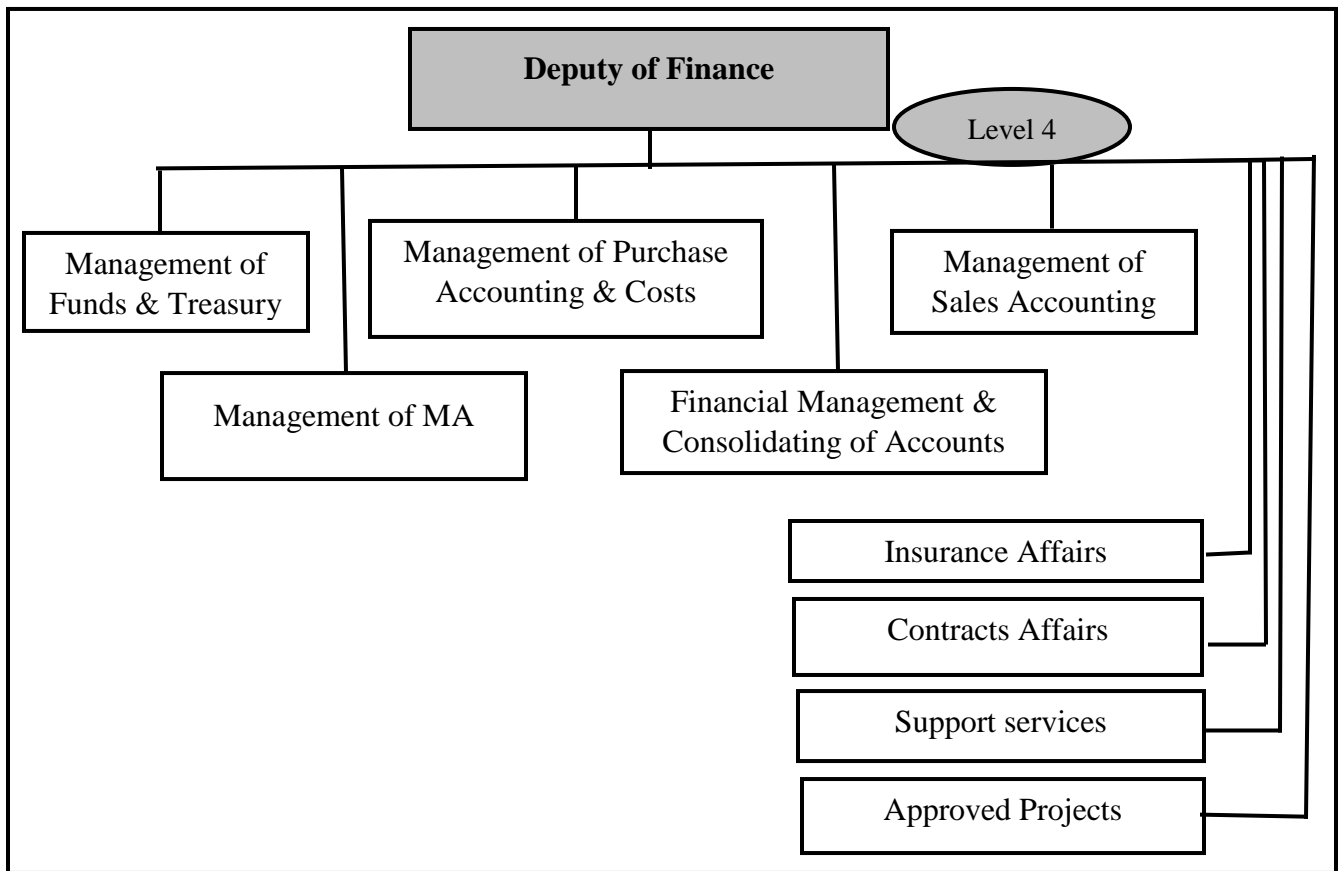
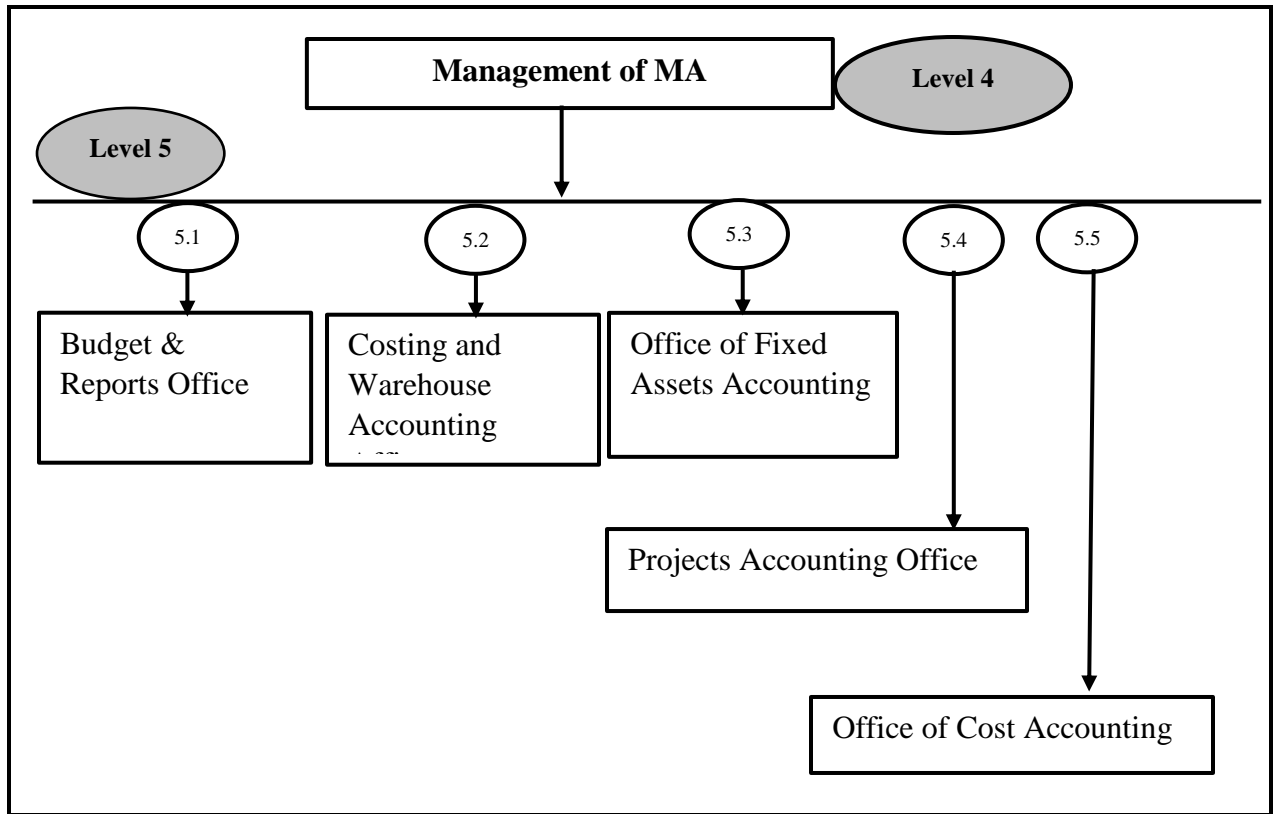


Figure 12. IKCO's Chart of Finance Deputy



**Figure 13. IKCO's Organisational Chart of Management of MA**

The following two tables (6, 7 and 8) clearly show the levels and the number of employees in IKCO's passenger car section and the finance department.

<b>IKCO's Passenger Production Line Employees</b>		
	2019	2018
Secondary School Degree	832	878
High School Degree	13662	13946
College Degree (2years College)	2351	2364
BSC & BA	2667	2578
MSc & MA	1070	929
PhD	80	74
<b>Total</b>	<b>20662</b>	<b>20769</b>

**Table 6. IKCO's Passenger Production Line Employee**

### The IKCO's Organisational Levels

Organisational levels	September of 2018	September 2019
Vice-president	19	13
Manager	144	147
Head	297	303
Administrator	729	783
Foreman	1643	1566
Expert	2680	2933
Technician	1850	1832
employee	684	670
labour	12830	12543
<b>Total</b>	<b>20876</b>	<b>20790</b>

Table 7. Organisational Levels of IKCO

Source: IKCO HR internal report, September, 2019

### IKCO's Employees in Deputy of Economic and Finance

Degree	Permanent (employees)	Contract (employees)
1-Secondary School Degree	1	1
2-High School Degree	25	25
3-College Degree (2years College)	4	8
4-BA	51	99
5-MA	18	37
6-PHD	1	0
Total	100	170

Table 8. IKCO's Employees in Deputy of Economic and Finance

Source: IKCO's Internal HR Report, (September, 2019)

As discussed earlier, this thesis is an embedded case study, containing more than one sub-unit of analysis, need to a more detailed level of inquiry, including analysing of the features, context, and processes of an affair. The next stage extensive interview sessions focused on themes concerned with the MACs in IKCO after privatisation. An important part of interviews was to obtain information about MAP during the period of public ownership. Participants in this stage were only those interviewees that had working experience from when the company was public and who are stillworking in the company at the time of the research. This task was not easy because the former personnel (before privatisation) were replaced or retired during three last decade and very limited number of employees working in the company from pre-privatisation program.

Additionally, the interviews were to examine associations between the change of MASs and contextual factors. In this stage, interviewees provided rich descriptive data related to changes in MAPs whether they were due to privatisation and/or the impacts of other contextual factors, including both inter- and intra-organisational factors. IKCO is the most important automobile manufacturer in Iran, the Middle East and North Africa and currently (in 2018) employs about 58,000 workers. As a result, the researcher had to conduct interviews in different departments, attending several meetings with different candidates from both operational and non-operational areas. This thesis also concentrated on the wider context of MA and therefore it was the intention to conduct interviews with participants outside the case study companies. This included officials from the Ministry of Industry and Mines (MIM), Industries Development and Renovation Organisation (IDRO) and Ministry of Economic Affairs and Finance. These interviews helped the researcher to look at the way in which government policies and regulations may have influenced the process of MAC in the case company. To do this, it was necessary to enlist the assistance of friends who working in these organisations. The next section gives some details about the pre-research interviews, which were held with the heads of accounting and MA of the case company of IKCO relating to the changes of MA after privatisation.

#### **4.5.2.1.1.2. MACs in the Case Study**

This section is based upon interviewees with manager of accounting and MA department of the case company (Iran Khodro) conducted by meetings and contacts by telephone. The aim of these interviews was to provide an overview of subject under investigation, in terms of which aspects of

MAC needed emphasis and the interviewees invited to discuss important issues, including any effects of changes on the MASs after privatisation. In these interviewees, it was argued that the budgeting system, be it prior to and after privatisation, has a long tradition in the company's MA system. The manager of MA explained that before privatisation the company was required to follow a detailed planning mechanism and to present budgets in accordance with requirements of the Ministry of Industry and Mines (MIM), and IDRO as its headquarter. Therefore, budgeting was committed to a series of bureaucratic structures and rule-bound reports that emphasised state requirements, rather than acting as a managerial tool for making decisions, or for control, and accountability in the level of company. The emphasis in budgeting process was on the operation of reports that were needed for regulatory obligation and the policies and targets that were established and planned by MIM. Internal coordination in the achievement of budgetary targets was not popular in this company and the main players in preparation of budgets were IDRO, CEO and the department of the Reports and Budgeting. The company had to provide revised budgets after six months and budget variances were reported to IDRO, although the variances were usually ignored by IDRO. Consequently, budget related activities were disregarded by managers and were not important to managers in the context of controlling the company. This was because managers assumed that budget information was not realistic and not relevant to managing operations. The interviewees claimed that after the privatisation the company has paid more attention to budget-related activities as a managerial and controlling tool, and budgets tend to be more mechanistic in nature, formal in communications and having more time spent on their preparation. The emphasis on budgeting resulted in the involvement of more participation from lower management/worker levels, and the delegation of responsibility to different managerial levels in the company, making them more accountable for budget variances. Additionally, before privatisation the cost information in the company was not used, for example, for price setting, profit ability analysis and other managerial purposes but was used mostly for the preparation of annual financial statements. However, the costing system after privatisation has been developed in particular with the implementation of SAP project, providing more timely, accurate, and detailed information largely for the purposes of control practices. They also referred to changes of the MA system with an E-Procurement System. He explained that, at present, a large percentage of production costs in car companies come from the costs of materials and components. As a result, the management of procurement would be one of the strategic issues for the reduction of costs, enhanced quality and



on-time delivery in this industry. Now target prices of products are determined by collaboration between the computer and system department, commercial department, finance department, manufacturing department and planning department and the company starts negotiations with component suppliers to evaluate products economically through finding possible reductions in costs and the final price for each product. He claimed that this innovation has improved inventory management and cost saving especially at part-maker subsidiaries of IKCO. Furthermore, after privatisation, IKCO has used BSC and ABC those systems that were not successfully in this company. The manager of the MA departments relates these changes to different factors such as increased financial pressures largely due to imposed severe international sanctions against Iran, and regulatory pressures and the change of ownership and market pressures. Having institutional perspective, however, this study aimed to study MACs in terms of both rules and routines. To achieve this purpose, MAPs are understood in both formal MASs itself, as well as the way that managers use MASs in day-to-day activities (Scapens, 2008), including the meanings of individuals - which objectified by the interactions between the individuals and the different social structures of which they are located.

#### **4.5.2.1.2. Secondary Sources of Data**

Interview is often the primary research method in qualitative studies. However, the method of interview can be completed with other sources of information to increase the validity of the evidence (Vaivio, 2008). Saunders *et al.*, (2009) argue that re-analysing different stored data and information that have already been provided for other purposes can present additional insights with which to answer the research questions. Nasirpourosgoei, (2014), believes stored data in terms of secondary data also provides a strong role in triangulating results and findings, helping researchers to better understanding the organisation's context and business activities process. In the context of this study, interviews are complemented by a number of secondary data sources included the documentary evidence and observations to support the empirical analysis. Kontio (2004) argued that supporting documentation is also highly valuable when corroborating evidence collected in semi-structured interviews. Documentary data includes material from the company's internal as well as external sources. Examples of internal documents are those materials related to the organisation's reports, figures, financial and non-financial reports, statistical reports, books, journals and publications. Documentary data also may be obtained from outside the company,

including government documents, public reports, international reports, and domestic and international newspaper reports, reports on privatisation policies, and regulatory and legal documents. Further insights into the case company can be obtained by direct observation of the manufacturing process. Yin (2003, p.92) explains that “by making a field visit to the case study “site” the researcher is creating the opportunity for direct observation”. Observation involves the observation, recording, description, analysis and interpretation of the behaviour of people (Saunders *et al.*, 2007). Direct observation has two related purposes. The first is to familiarise the researcher with the environment of company’s product lines, and its design and production process (Yazdifar, 2004). The second observation may allow the researcher to view the behaviour of individuals in their real-life situations (Kumara, 2002) and observe situations that interviewees themselves might not be concerned with or do not speak about (Zoubi, 2011).

#### **4.5.3. Assessing Evidence**

Assessing research design is the fourth step in the research design in this thesis. Assessing a research design indicates that the researcher needs to prove that there is a logical relationship between the data collection, questions, findings of a research. For this purpose, a researcher is required to examine and assess the quality of research design with standard logical tests that are applied in particular area of research. According to Yin (2003), to overcome the possible problem of the inaccuracy of findings, the researcher should concentrate on assessment of quality of research design from perspectives of validity and reliability and generalisability. Similarly, Kidder (1981) (cited in Yin, 1994, pp.40–41), there are four possible logical tests (see table 9) for dealing with validity, generalisability and reliability in the case study strategy as follows:

- Construct validity: establishing correct operational measures for the concepts being studied.
- Internal validity: establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships.
- External validity (or generalisability): establishing the domain to which a study’s findings can be generalised.
- Reliability: demonstrating that the operations of a study – such as the data collection procedures can be repeated, with the same results.

### Tests of Validity, Generalisability and Reliability

Test	Case-Study tactics	Phase of Research
Construct Validity	<ul style="list-style-type: none"> <li>• Use multiple sources of evidence</li> <li>• Have key informants review draft case study report</li> </ul>	<ul style="list-style-type: none"> <li>• Data collection</li> <li>• Composition</li> </ul>
Internal Validity	<ul style="list-style-type: none"> <li>• Do pattern matching</li> <li>• Do explaining building</li> </ul>	<ul style="list-style-type: none"> <li>• Data analysis</li> <li>• Data analysis</li> </ul>
Generalisability	<ul style="list-style-type: none"> <li>• Use replication logic, as opposed to statistical logic, in multiple case studies</li> </ul>	<ul style="list-style-type: none"> <li>• Research design</li> </ul>
Reliability	<ul style="list-style-type: none"> <li>• Use case study protocol</li> <li>• Develop case study data base</li> </ul>	<ul style="list-style-type: none"> <li>• Data collection</li> <li>• Data collection</li> </ul>

**Table 9. Tests of Validity, Generalisability and Reliability**

Source: Yin, (1994, p.33)

However, the methods of assessing of positivist research are considered as being of rather little significance by many qualitative researchers for judging the qualities of their research (Mason, 2002, Bisman, 2010).

#### 4.5.3.1. Generalisability

Generalisability means how to generalise the results of a research to others (Yin, 2003). The extent to which a study's findings can be generalised to other studies depends on the number of case studies undertaken (Easterby-Smith *et al.*, 1991). In this respect, Leonard-Barton, (1990, p.250) believe that a single case study can face with several potential biases, such as the misjudgment of the representativeness of a single event. Additionally, in a qualitative research, the purpose of the generalisation is not the statistical generalisability with a broad population; but the main attention is payed to provide appropriate demonstration of the study's events and to understand the key topics under research. As a result, in this type of studies the aim of study is to provide a theory for a particular context, rather than a theory that is generalisable to all populations. Therefore, "as long as a researcher does not claim that their results, conclusions or theories can be generalised, then there is no problem" (Saunders *et al.*, 2009, p.158). This study is based on a single case study of an automobile company in specific context of Iran. As a result, this thesis does not seek general laws and generalisation, but it supports theoretical generalisation for the particular context. The

findings of the thesis are, at best, generalisable only to other conditions and settings sharing the similar context as the case study; these are most likely to be other domestic automobile companies operating within the Iranian auto industry. There is a potential that the findings of this thesis will be supported empirically across a large population of organisations or create initial hypotheses for further study that ask for universal generalisation and external validity (Vaivio, 2008). As a result, this study can contribute to coherent management accounting theory which, in turn, aims to increase the external validity of research findings by conducting a well-focused and theoretically sound case study in a particular location (Lee *et al.*, 2007), in this case Iran.

#### **4.5.3.2. Validity**

The test of validity concerns “how well an instrument that is developed measures the particular concept it is intended to measure. In other words, validity is concerned with whether we measure the right concept” (Sekaran & Bougie, 2010, p.157). In qualitative studies, some authors suggested the ways that are helpful in terms of increasing validity of a research. For instance, Mason (2002) confirmed the importance of the validity of data generation and the validity of the researcher’s explanations, explaining validity in terms of how proper a particular research method is in terms of answering the research questions and providing explanations. Scapens (1990) suggested that the validity of a qualitative study could be assessed only in the context of the particular case, what Scapens (1990) calls “contextual validity”. Contextual validity is achieved by the use of multiple research methods to provide a triangulation of evidence on the same phenomenon in order to reach a well-known interpretation of a particular case (Scapens, 1990). Additionally, Lukka & Modell (2010) suggests that validity of interpretive case study can be increased by offering rich, contextually informed explanations drawing upon plausible theoretically informed explanation and empirical knowledge. Lewis & Ritchie (2003) suggested that it is also useful to consider the qualitative study’s internal and external validity. Validity is achieved when hypotheses can be tested sufficiently (internal validity) and by extending the outcome to the wider population (external validity). Internal validation is improved by accepting a continuous qualified method and identifying the importance of sudden cases when providing a better understanding of theory development. In this study, validity is apparent through utilises multiple sources of data collection including interview and documentary sources, because multiple sources of evidence provide multiple measures of the same phenomenon (Yin, 2003). Additionally, as discussed earlier the

case study method is considered appropriate in situations where we want to have holistic perspective and where a single explanation cannot provide a complete view of the issue under research. Case study strategy is also suitable for researching in-depth, complex phenomena and understanding relationships, political issues and influence tactics within specific contexts. Given the lack of information about this research topic in Iran, the use of the case study approach increased the validity of the research, by triangulating the finding from different sources of data including the use of semi-structured interviews to collect detailed descriptions and multiple informant insights to be collected on a rationally reliable basis. Furthermore, in this study, the case study strategy was used to validate existing theories and the other hands to develop a theoretical hypothesis from the evidence collected (Remenyi *et al.*, 1998). Therefore, in this study the validity increased by the use of multiple institutional theories, providing rich explanations about the research project. Additionally, this study utilised a sample group of employees and managers for interview, because it was not possible for the researcher to collect and analyse all of the available data. A sample group helped this study to save time, money, reduce access restriction and to increase the validity of this study by focus on the most appropriate available cases. However, there was a concern for researcher to trust e on just a few key persons, which could pose problems in terms of the validity of the study if the interviewees presented biased images of the investigated issues. To reduce the probability of this problem, candidates were chosen from diverse departments and from various organisational levels with different background and experience.

#### **4.5.3.3. Reliability**

According to Saunders *et al.*, (2003) there is a need to reduce the likelihood of having the false answer by focus on two elements of research design: reliability and validity. Reliability primarily concerns whether or not apiece of research is going to be repeatable in the future (Kvale, 1996; Mason, 2002; Yin, 2003; Bryman & Bell, 2007). Reliability demands an independent, impersonal investigator, which addresses “the extent to which evidence is independent of the person using it” (Scapens, 1990, p.274). As a result, reliability typically measured in terms of the stability of outcomes produced through some measurement tool, such as a survey questionnaire. However, in case of qualitative research, it is not easy to replicate results that have already been realised at two different times and in two different situations (Strauss & Corbin, 1990). Strauss & Corbin (1990) argued that different times and space in qualitative studies might not give similar results, because

the circumstances and the behaviour of the participants of the case study are not stable. Bryman & Bell (2007) confirmed that reliability and validity are two important criteria when starting and measuring the quality of research for quantitative research. However, in the qualitative research there is a lot of debate about the validity and reliability because the measurement is the focus of reliability and validity, which is of little interest among the qualitative researchers. Similarly, Bisman, (2010) argued that in qualitative research, reliability and validity are important, but these concepts are considered rather differently. In qualitative research, reliability implies an independent, impersonal investigator (Scapens, 1990) and validity implies to achieve an equivalent of understanding between the informant and the researcher (Lewis & Ritchie, 2003). Additionally, in qualitative research, the evidence should be assessed in terms of procedural reliability, which is achieved by the use of reliable research methods and logical procedures (Scapens, 1990; Scapens, 2004). Lewis & Ritchie (2003) argued that the reliability of research could be increased by testing researcher's understanding and through continuous field work, making sure that all participants have an enough opportunity to participate, and then providing supporting explanation by methodically analyzing of the evidence before finally providing a reasonable opinion. Saunders *et al.*, (2003) argued that the test of reliability is measured by considering the following three questions, (1). Will the measures achieve the same results on other occasions? (2) Will other observers reach similar observations? (3) Is there transparency in how sense was made from the raw data?

The reliability of this study increased by the appropriate procedure of the research design by recoding all stages, giving the opportunity for transparency and allowing the research to be traced from the starting to the end. In the context of this study, interviews conducted as the primary source of data. Additionally, the evidence collected from the interviews reinforced by observations and documentary sources, both from inside and outside the company. Data collected and recorded by both techniques of note taking and tape-recording, converted into transcripts and descriptive texts, and this summarized, codified and analysed to provide conclusions. These procedures increase the reliability of the findings of this thesis (Modell, 2005).

#### 4.5.4. Identifying and Explaining Patterns

This step concerns to the way that raw data is analysed in order to answer the research questions and to provide conclusions. There is not a standardised approach to the analysis of data in qualitative research (Saunders, *et al.*, 2007). Yin (2003), for example, defines data analysis as consisting of examining, categorising, tabulating or otherwise recombining both qualitative and quantitative data to address the initial intentions of research. Alternatively, Balogun & Johnson (2004) identify two levels of the process of analysis as a first order analysis and a second order analysis. The first order analysis is a solid description of the events and surroundings from the perspectives of the interviewees, the second order analysis concerns additional analysis of the phenomenon and seeks to provide explanations of the case by the use of theoretical understandings of phenomenon being researched (Van der Steen, 2005). In qualitative research, inductive content analysis is also widely used as way to recognise key themes, concepts and categories gained from the research (Hsieh & Shannon, 2005). Elo & Kyngas (2007, p.107) explained that, “the aim of using content analysis is to build a model to describe the phenomenon in a conceptual form. The inductive analysis process is represented as three main phases: preparation, organising and reporting”. Chinn and Kramer, (1999, cited in Elo & Kyngas, 2007, p.108) stated that “an approach based on inductive data moves from the specific to the general, so that particular instances are observed and then combined into a larger whole or general statement”. The inductive approach concerns developing theory, which is grounded based on data that systematically collected and analysed (Strauss & Corbin, 1994). In this regard, Thomas, (2006, p.237) summarised the main reasons for accepting inductive approach (see table 10).

<b>Purposes for Inductive Approach</b>	
1	Condense raw textual data into a brief, summary format
2	Establish clear links between the evaluation or research objectives and the summary findings derived from the raw data and finally and finally
3	Develop a framework of the underlying structure of experiences or processes that is evident in the raw data

**Table 10. Purposes for Inductive Approach**

**Source: Thomas (2006, p.237)**

In the context of this study, the data is analysed based on the analysis model introduced by Miles & Huberman (1994). This model is helpful to review relations between concept development and data collection; assisting the researcher to direct afterwards data collection towards foundations that are more constructive for dealing with the research questions (Nasirpourosgoei, 2014). This model is useful to describe data analysis as process of bringing order, structure and meaning to the multitude of collected data. It includes three sub-processes: data reduction, data display and conclusion drawing/verification. In this approach, the process of analysing data also starts at the same time as data are collected. As discussed earlier, the data collection started with sampling and the selection of the candidates of interviews. Ziebland & McPherson (2006, p.405) argued, “Analysis is very time-consuming, but careful sampling, the collection of reach materials and analytic depth mean that a relatively small number of cases can generate insights that apply well beyond the confines of the study”. At this stage, therefore, the researcher needed to prepare the reasons for the interviews and provide a list of themes and questions. Additionally, although the interviewees were encouraged to be more involved in the topics under discussion, the main questions in the interviews were predetermined to maintain some degree of structure in order to avoid extra and irrelevant information. However, this did not mean that each interview has to follow every theme (see Yazdifar, 2004), in which some questions different from interview to interview research with different order depending on the flow of the conversation.

In interview stage, all interviews recorded by methods of tape recording or note taking. There are also advantages and disadvantages of using audio recording of the data of interviews (Saunders *et al.*, 2007). In terms of advantages, Saunders *et al.*, (2007) note that tape recording may help the researcher to concentrate on listening and asking questions, and the researcher can listen to the recorded interview and identify quotes to be used in an analysis of the interview. Tape recording interviews can facilitate the research, allows the researcher become more attentive to the interviewee, concentrate on the answers and the subtler interactional sides of the interview (Yazdifar, 2004). However, the use of tape-recording can affect the relationship between the interviewee and the interviewer and therefore influence the answers of the interviewee. This can reduce reliability and possibly increase the time to transcribe the recording (Saunders *et al.*, 2007). In addition, Mack *et al.*, (2005) state that taking notes are valuable when some interviewees do not allow the researcher to switch on the tape-recorder during the interview. According to Yazdifar, (2004), taking notes has two implications: (1) it enables the researcher to search and formulate



follow up questions as the interview moves along, especially when the researcher needs to check out something that was said earlier in the interview. (2) The use of notes as a database could facilitate later analysis by taking advantage from some of the aspects derived from interviewees.

At the next stage, the researcher transcribed the interviews from Persian to Persian. For the reduction of time needed to transcribe audio-recordings, Saunders *et al.*, (2009, p.486) suggested four alternative approaches: “A) Pay a touch typist to transcribe the audio-recording. B) Borrow a transcription machine with a foot-operated play mechanism. C) Dictate the audio recordings to the computer using voice recognition software, and finally D) only transcribe those sections of each audio-recording that are pertinent to the research like data sampling. At the data reduction stage, there was a need to give order and meaning to the data collected by selecting, focusing, simplifying, abstracting, and transforming the data (Miles & Huberman, 1994). By means of open coding, data were detailed, summarised and transformed into transcripts and descriptive texts. The transcripts reviewed several times and the data were repeatedly analysed in order to reduce the unrelated data to the research objectives. At this stage, re-reading the transcripts and highlighting the summaries was helpful to come across more concepts, and important issues related to the research questions, conceptualized attain to broad and advanced themes and developed categories (Jain & Ogden, 1999). “Categorisation is the process of classifying or labelling units of data and usually qualitative researchers categorise data during the processes of coding. The essence of categorization is identifying units of data such as a page of text, as belonging to, representing or being an example of some more general phenomenon” (Spiggle, 1994, p.493). Additionally, organisational documents and secondary research data have been used as a means of triangulation to support the data collected by the researcher (Saunders *et al.*, 2009). Data display is the second stage of data analysis in this study, which involves an organised and condensed gathering of information that allows conclusion drawing (Miles & Huberman, 1994). This stage presents a challenging task for the researcher in terms of deciding whether to display the data in tables, matrices or description forms. As discussed earlier, this study is an interpretive research, examines the change of MASs as well as the change of human behaviours and participants’ actions. Therefore, in this study the combined data was displayed by different means to represent an overall view of the subject being researched. Hammersley (1987, p.67) states that, “a research account may be considered valid if it represents accurately those features of the phenomena, that it is intended to describe, explain, or theorise”. Finally, the third activity of the process of data analysis

is the drawing/verification of the data in order to arrive at a conclusion. Therefore, the researcher focuses on alternative explanations on the explored patterns, categories and inter-relations in order to analyse and make conclusion about the research. At this stage, the researcher uses the different possible alternative explanation resulting from: (1) the prior research (based on what the literature review declares, to examine how such empirical data would fit with the findings of prior studies). (2) The analysis of researcher itself, seek to recognise and design new themes based on the new evidence gained from the findings from participants' answers. Finally, the activity of the process of data analysis is theoretically relevant. This study applied the second method in the process of identification and verification research themes in order to go straight to the data collected through the interviews and try to identify and design new themes, mainly established based on the evidence collected during the field work, secondary data and the theoretical perspective, and the literature review. In the process of rival explanations, when the explanation supported from several sources of data, the researcher seeks additional data to get feedback from interviews and to make written evidence stronger (Yazdifar, 2004). Therefore, the researcher attempts to demonstrate plausibility, sturdiness and conformity of the results (Miles & Huberman, 1994). For writing up the PhD thesis, the interviews translated from Persian into English.

#### **4.5.5. Theory Development**

This thesis is an explanatory case study that used a theoretically informing framework. On other hands, a solid description of the events and surroundings from this case study identified emerging issues that addressed by the further development of existing institutional theories. As a result, although this study adopted an institutional framework as an informing framework, further development in this theoretical framework, was expected if the existing theories cannot explain the empirical findings, observations and new conditions (Scapens, 1990).

#### **4.5.6. Thesis Writing**

The last step in this case study was the writing-up of the thesis and presenting final reports. In this stage, the results of the research were written for the academic community. Scapens (1990, p.276) stated that the final report “will make the case and its explanations intelligible and plausible to outsiders, providing enough evidence to convince readers that the researcher has a good

understanding of the relevant circumstances and that the explanations are based on sound reasoning”. This study first presented the key themes that emerged from the research site, and then the theoretical framework was used to interpret and analyse the empirical results (Yazdifar, 2004). Figure 14 shows the preparation, organising, and reporting process of this research.

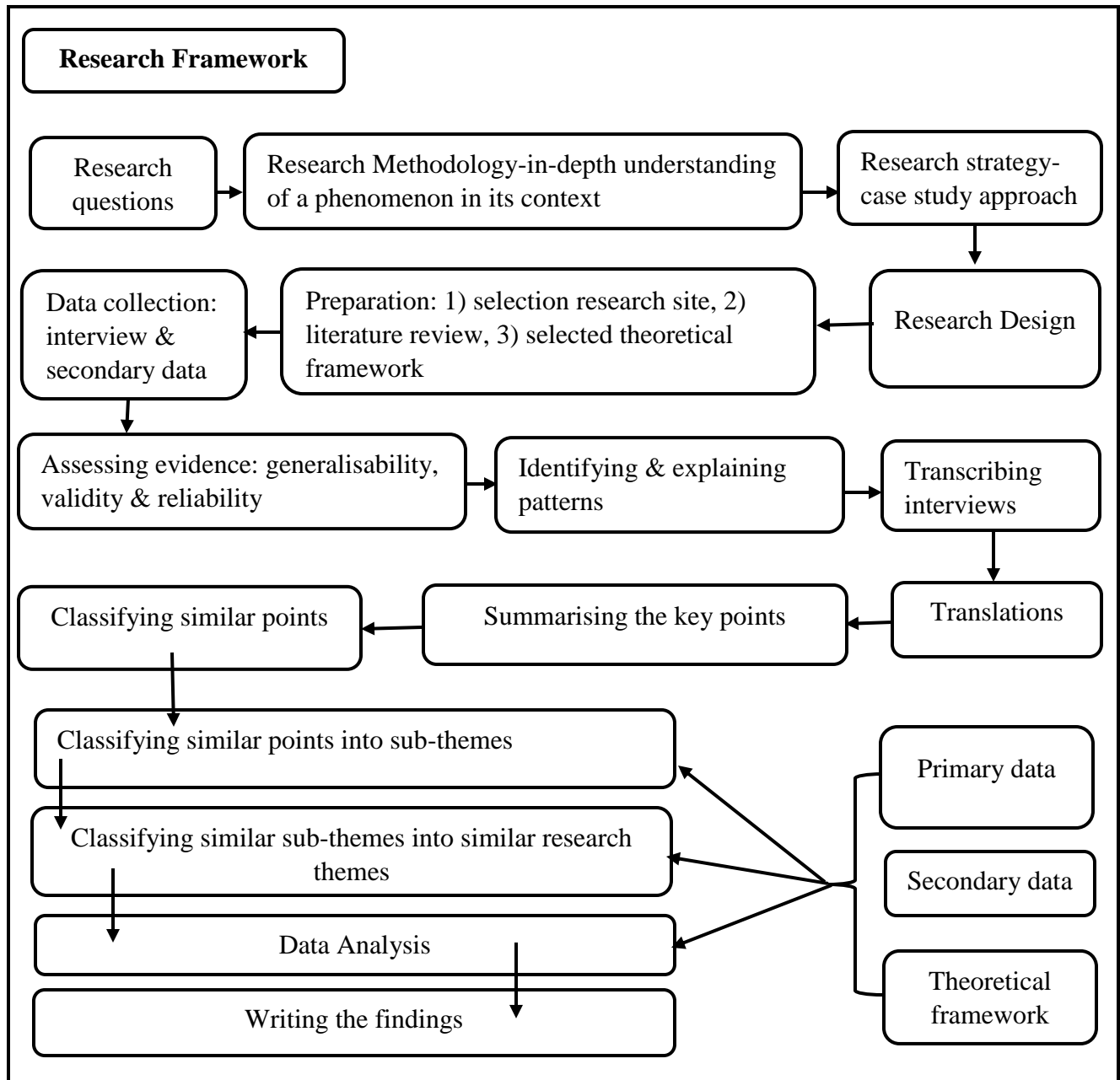


Figure 14. The Thesis’s research framework

## 4.6. Conclusion

This chapter presented and discussed the philosophical underpinning and research methods of this research. The chapter first explained different philosophical paradigms in the field of MA and then it provides details about the thesis' philosophical underpinning, which influenced by the researcher's philosophical assumptions. As discussed earlier, the research philosophy draws on the interpretative assumption rather than functionalist and critical paradigms because it meets the researcher's philosophical assumptions and reflects the research objectives (Burchell *et al.*, 1980). Having interpretive perspective, in the subsections of research methodology and research strategy, the chapter explained that this thesis draws on an explanatory case study using a qualitative research approach. An explanatory case study assists this study to understand and explain the process of MAC during the pre- and post-privatisation period in Iran, by taking into consideration the interplay between contextual factors in the process of change. The next subsection focused on explaining the thesis research design, which includes six steps, namely, preparation, data collection, assessing evidence, identifying and explaining patterns, theory development and thesis writing.

## CHAPTER FIVE: THE AUTOMOBILE INDUSTRY IN THE WORLD AND IRAN

### 5.1. Introduction

This chapter aims to provide an overview of the development of automotive industry in the world and Iran, including the case study company in this research. The chapter initially provides a background on the key issues in the global auto-industry in Iran and also the case study company. The next section introduces the background information about Iran's automotive industry from different historical, economic, political, legal and structural perspectives. The next section addresses the case study company during three periods: pre-nationalisation, nationalisation and post-privatisation periods. Finally, a conclusion of the chapter is presented.

### 5.2. World Automobile Industry

The automobile industry is one the fastest growing industries in the world, facilitating economic growth in several countries (Henry, 2015; Nag, *et al.*, 2007). This industry covers a varied range of both upstream and downstream business activities, occupying the second place in the industrial manufacturing sector and the third place in world economic activities after banking and oil industry (Iran International Magazine, 2003b). Figure 15 shows total global sales in vehicles market trend. Figure 16 presents the global light vehicles market trend between the years of 2011 and 2019.

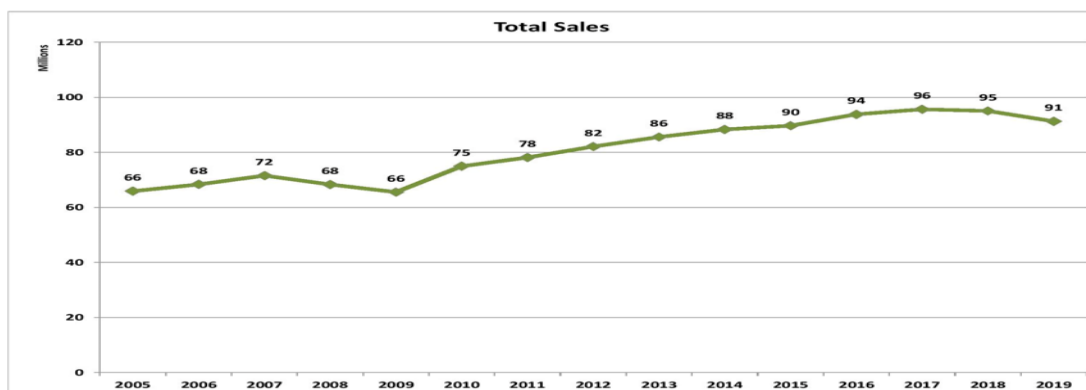
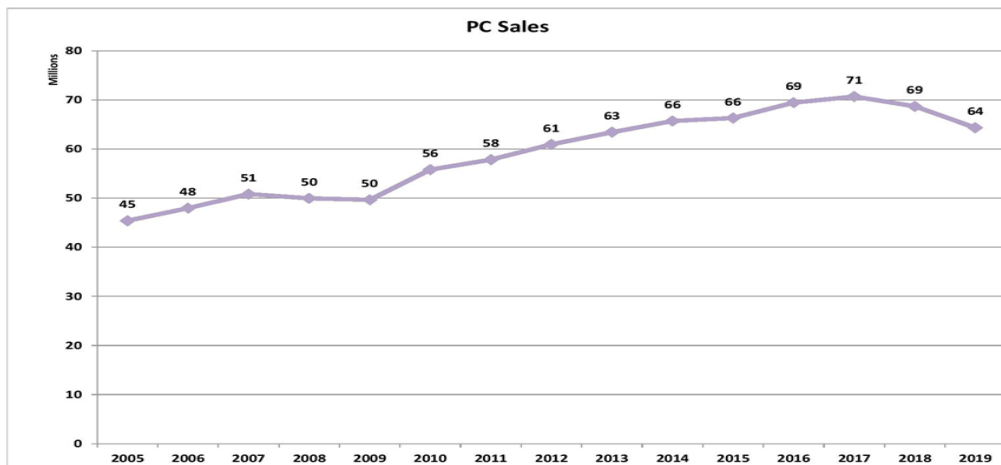


Figure 15. Total Global Sales in Vehicles Market Trend (2011-2019)

<https://www.oica.net/category/sales-statistics/>



**Figure 16. Global Light Vehicles Market Trend 2011-2019**

<https://www.oica.net/category/sales-statistics/>

During the last decades, the global automobile industry was affected by widespread revolutionary environmental changes, including globalisation, increasing competition, increasing environmental commitments, scarcity of natural resources, rising fuel prices, rapid growth of new vehicle technologies and emergence of e-business. For example, in the recently changing environment, the dramatic drop of models' life cycles significantly influenced customer expectations, accelerating modification, diversification and innovation of product portfolio in the global automobile industry. Consequently, the automobile market in the world became highly competitive from various aspects such as quality, innovation, diversity and price. Additionally, the recent climate change, global warming and environmental expectations have tightened environmental obligations in the automobile industry to meet a variety of regulatory requirements in different areas such as fuel efficiency standards, renewable energy, new standards, mandated safety equipment and recycling of scrap. Moreover, technology advancement in manufacturing systems has been strong impetus, influencing automobile industry in different aspects such as efficiency, waste disposal, safety, communication and social standards. Computer technology, including both hardware and software services, has provided automakers with new opportunities for changing the methods, using numerous software programs for innovative solutions in areas of design as well as operational and managerial processes. For example, considerable investment has been made in advanced manufacturing technology such as computer-aided manufacturing and robots in order to get

competitive advantage in terms of quality, productivity, flexibility and cost reduction. These changes have considerably influenced managerial systems, including MASs, highlighting the need for adjusted business and cost management systems the leading automobile companies. On the other hand, over the last decade, the global automobile market faced several important challenges, including financial crises, scarcity of the natural resources, rising fuel and commodity prices, merger activities and even bankruptcy. Such pressures significantly influenced the profitability margin in the global car industry, forcing the manufacturers to compete in a highly competitive market with low profit margins. As a result, the main concern of automakers was not only to predict strong sales growth, but also to control the costs for having more profit and market share in the global market. Therefore, different strategic initiatives were adopted by the global automakers, such as temporary downsizing, cost reduction, innovation, retraining, consolidation and investment in emerging markets and low-cost countries. For example, automakers shifted towards cost reduction policies by using the new approach of the next-generation platforms and platform modularisation. In contrast to traditional production lines, which were highly specialised and designed to produce only one model, platform modularisation assembly lines were developed to become more flexible in order to accommodate more models in the same line in an attempt to reduce the production costs. Platform modularisation enables carmakers to settle product commonality by adding to the number of models and at the same time reducing the number of vehicle architectures which they manufacture. Modular platforms, thus, reduced the extra costs by increasing the production volume and sharing common components between the cars and the platforms.

Furthermore, e-commerce and internet also had a major impact on the changing face of the global automotive industry. E-commerce and digital technology speeded up the level of transactions, helping to collect online information for making different decisions concerning purchasing, financing and offering insurance and after sale services. Automakers and dealers invested massively on e-commerce and digital technology, improving their skills in gathering and analysing marketing and customer care data and programs. By the new technological advancement, consumers are easily informed about different purchasing information regarding automobile specifications, prices, discounts, quality and performance, giving customers greater bargaining power. This capability led to a perpetual price and quality war and therefore sever competition in the global automotive industry, which demanded more sophisticated MASs in processes, plans and

control and decision-making activities. In sum, all of the above elements jointly forced the global auto industry to become one of the most competitive industries in the world with respect to the nature of product life cycle, quality, innovation, technology and price. In this regard, as competition and technology have advanced, the MASs in the global automobile industry have become more complex and sophisticated in order to cope with the new changing context precisely. In this respect, cost and quality controls are vital competitive advantages for automobile makers, demanding advanced cost accounting management and measurement systems as important integral parts of management accounting practice. Under this condition, managers need a new costing method based on both financial and non-financial information to identify factors that could potentially improve competitive advantages, increase customer values and at the same time consciously reduce non-value-added activities. Responding to this essential, the global leading automakers invested enormous funds on information systems including different MA techniques such as Total Quality Management (TQM), Just in Time (JIT), Flexible Manufacturing (FM), Activity-Based Management (ABM), Balanced Score Card (BSC), Benchmarking, Reengineering and Enterprise Resource Planning (ERP).

### **5.2.1. Global leaders in the Automotive Industry**

In the world, the history of the auto industry dates back to the 19th century, first in France and Germany. Then British, Italian, American and Japanese automakers joined this industry at the beginning of the 20th century. With globalisation, the automobile industry is currently dominated by the few giant and leading international automakers including five countries of Japan, Germany, USA, China and South Korea, which together account for around 68% of world vehicle production. According to Table 11, the top ten in the list of the automakers, namely Volkswagen Group, Renault, Toyota (TM), General Motors (GM) and Hyundai Group account for 51.1% of the global automobile market. In particular, during a 15-year period from 1998 to 2013, the global automobile industry witnessed emergence of high-growth countries such as China, India, South Africa, Brazil and Russia. For example, China increased its production by 167% between 2007 and 2014, and India and Mexico reached significant gains with 70% and 61% rises, respectively (OICA: World Motor Vehicle Production). Table 11 shows the top world seller of automobile and the figure 17 presents the world motor vehicle production.



Rank	Name of Company	Country	Sales	Share
1	Volkswagen Group	Germany	9.056.191	11.8%
2	Renault	France	8.706.162	11.3%
3	Toyota	Japan	8.354.921	10.9%
4	General Motor	United States	7.110.760	9.2%
5	Hyundai Group	South Korea	6.108.094	7.9%
6	Ford Group	United States	4.753.555	6.2%
7	Honda Motor	Japan	4.280.101	5.6%
8	F.C.A	Italy/ United States	4.064.328	5.3%
9	P.S.A	France	3.436419	4.5%
10	Mercedenc Daimler	Germany	2.233.870	2.9%

Table 11. Top World Seller of Automobile, (Focus2 Move.com/world)

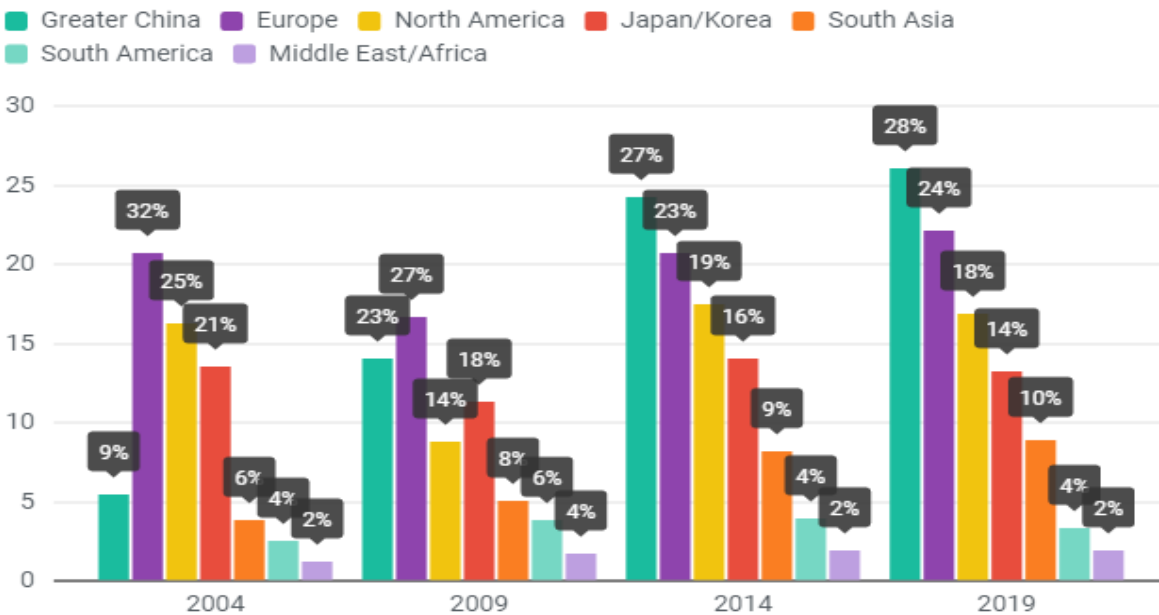


Figure 17. World Motor Vehicle Production

Source: <https://www.acea.be/statistics/article/world-production>

Additionally, due to raising suppliers' costs resulting from diversity of customers, automotive suppliers tended to become global as mega-suppliers, working closely with leading global automobile companies as the sole source for specific parts or module variants. Therefore, mergers and acquisitions in the global automotive supplying industry have been taking place at unexpected level since 2015 (Ostermann, *et al.*, 2016). This change has fostered close collaboration, making the global suppliers concentrate on the most design work of a few geographic clusters, typically near the headquarters of leading auto automakers. On the other hand, working closely with mega-suppliers, leading auto manufacturers spend a substantial amount of funds and investment on R&D projects and work jointly with their suppliers on problem-solving, quality improvement and cost reduction. As a result, in the global auto industry, suppliers' bargaining power has increased over the years, and their contribution increased from 56% in 1985 to about 82% in 2015 (Kallstrom, 2015). Currently, about 75–80 per cent of the parts of the final product are produced by suppliers rather than auto manufacturers (Kallstrom, 2015). Additionally, currently the global auto industry has moved towards brand loyalty, focusing significantly on aftersales customer services, marketing and advertising across the globe. However, brand strategy along with monopoly condition at the top level of the value chain with an emphasis on standardisation and specification has resulted in less competition in the global automobile industry. Consequently, the global supplying market section was dominated by the franchised dealers, resulting in monopoly rents on the sales of spare parts in the global auto industry on the basis of brand strategy. As a result, extremely concentrated structure of both upstream and downstream global auto-related business activities has leaved little room for new entries by medium and smaller firms, separating the world's automakers into three groups, with the first group being the few leading giant automakers such as GM, Ford, Toyota, Honda and Volkswagen, and the two remaining group of manufacturers attempting to consolidate or merge with other lower group automakers to compete with the first group (Nag *et al.*, 2007).

Under highly concentrated structure of the global automobile industry, government and policymakers in developing countries followed different tracks in terms of liberalisation as well as protectionism (Nag *et al.*, 2007). For example, when a substantial portion of auto parts are produced domestically, governments seek to stimulate their own local automotive industries through protectionist policies based on tariff regimes in order to make imported cars considerably expensive in comparison to domestic products. However, highly efficient scale in productivity with adequate potential for the local growth industry is beyond the reach of a majority developing

countries. As a result, in case of developing countries, since the late 1980s, FDI has accelerated dramatically in the auto industry by participation of large multinational automobile firms (Sturgeon, *et al.*, 2008). Thus, relying on wide reform and liberalisation programs, these countries have taken steps towards policies to support FDI and globalisation of their auto industry. In particular, under pressure from the world and International Monetary Fund (IMF), developing countries have been encouraged to adopt a liberalisation program in terms of wider structural reform programs including widespread privatisation. On the other hand, multinational automotive makers gradually shifted towards emerging markets and low-cost countries as the new potential markets for further growth and profitability. Consequently, with an emphasis on technical and economic-driven strategies, the global leading manufacturers expanded their manufacturing operations in regional assembly plants, a pattern that aimed to build vehicles close to the end markets. For example, industry-wide applications of lean production technique and Just-in-Time (JIT) module were introduced to keep parts production close to the end markets. In particular, as automobile industry became more standardised-focused, the leading giant automakers have been more willing to invest in regional assembly plants for further profitability by reducing labour costs and accessing cheap national resources (Nag *et al.*, 2007). The regional assembly plants allowed the main factories to improve their logistic operations and supply chains, affecting substantial savings in transportation and inventory costs. The next section deals with the most important features of the automotive industry in Iran, especially after the privatisation program.

### **5.3. Iranian's Automotive Industry**

In Iran, the history of the automotive industry goes back to the assembly of a few types of British and American cars in 1950s. However, the first Iranian car assembler, Iran National Industrial Corporation, named IKCO after the Islamic revolution, was established as a private company in 1962 under the license of the British Talbot Company. The first passenger car, the Hillman Hunter—a British car called Paykan in Iran—was manufactured by this company in 1967 (IranYellow, 2007). In 1966, SAIPA Khodro, the second largest Iranian car manufacturing company, was also established in order to produce some models of Citroen. In addition, General Motors (GM) entered Iran's market to produce Chevrolet in the 1970s followed by Buick and Cedillas in 1974. Additionally, Renault took over the Citroen plant and introduced an Iranian version of Renault 5 in 1970. In 1975 and with the rapid growth of the Iranian car assembly

business from just few plants to 16 companies, including 26 assembly lines, this industry succeeded in assembling 17 models of passenger cars and 14 models of commercial cars in Iran (Koochi, 2006). However, according to Iran International Magazine (2003b, p.2), this period was characterized as “a period of ‘incomplete support,’ during which the industry depended heavily on oil-related hard currency revenues and its activity was mostly of an assemblage nature”.

With the advent of the Islamic Revolution in Iran and the start of the war between Iran and Iraq in 1979, a wide nationalisation program was implemented in Iran’s economy, encompassing nationalisation of almost all major industries including the Iranian automotive industry. During the nationalisation period, Iran’s automotive industry like other industries, sank into severe recession, so that the survival of this industry largely depended on governmental subsidies and supports (Razavi & Alaedini, 2018). By the early 1990s, thus, not only did the product assembly capacity decrease sharply to about 25% (fewer than 100,000), but also the company’s plans for updating the technology was stopped (Indge & Godfrey, 1998). At this time, the Iranian car factories continued their operation with just limited assembly lines with no divisions for designing autos and no R&D programs in terms of the development plan (Forouzan & Mirasadallahi, 2008). These failures had several reasons, including new ideological and political issues after the Islamic Revolution related to the severance of dependence on the West by not relying on Western-affiliated industries like the automotive industry, war consequences and lack of priority in industrial development programs, high-end import-oriented Iranian market, low production capacity, vertically-integrated nature of the existing auto companies (requiring huge investment to increase parts and assembly productions) and failure to attract FDI and the major global assemblers (Razavi & Alaedini, 2018). At this time, the local car assemblers were heavily dependent on imported parts, which was influenced by shortage of foreign exchange in Iran, in particular between 1984 and 1993 (peaking in 1992/1993). After the mid-1990s, however, the Iranian government decided to limit imported CKDs with application of tariff regime with an emphasis on development of the Iranian national automotive industry, supporting the local carmakers in terms of utilisation of the idle capacity and encouragement of the private sector to participate in auto parts industry operations. As a result, there was a recovery period between 1995 and 2011, when Iran’s automotive industry experienced a rapid growth. For example, between 1997 and 2009, car production in Iran increased by 445 percent and many new automotive manufacturing companies were established besides a relaxation of governmental protective policies (Peimani, 2003, p. 2). At

this time, the Iranian government launched a crash program to boost car production by allocating over \$2 billion for importing components and raw materials in order to manufacture an Iranian national vehicle (BMI, 2009). By the Iranian fiscal year 2011/2012, the figure reached 1.6 million units (see Table 12) and Iran ranked as the largest vehicle producer in the Middle East after Turkey by producing 46% of all the cars produced in the region and as the world's 13th biggest automaker. At this time, this industry employed close to 170,000 workers directly, equal to 12% of the country total manufacturing jobs (MIMT, 2015, p.117). Since 2012, however, the number of the cars produced in Iran reduced from 1.65 million in 2011/2012 to 921,000 in 2012/2013 and to a low of 737,000 vehicles in 2013/2014. Although there was a 53 percent increase in the number of cars produced in 2014, the production level dropped again to 977,000 units in the next year. The main reason for the fluctuations was the severity of international sanctions imposed on Iran, and the consequences of the sanctions, such as the departure of the partners from Iran's automotive industry, problems encountered in foreign transactions and import of components and technology transfer (Razavi & Alaedini, 2018). After partial lifting of the international sanctions in 2014, however, the car production level in Iran increased to 1.1 million units (the Iranian fiscal year 2016/2017) and Iran ranked as the 16th automaker in the world in 2017 (OICA, 2017). As Table 12, figures 18 and 19 clearly show that there was growth in passenger vehicle production in the Iranian car market during the period 2000–2011. According to figure 20, during this period, the Iranian Vehicle production as a share of global total increased from 0.2 % in 2000 to 2.2% in 2011. As table 13 shows, in 2017, Iran became the 16th largest automaker in the world.

### **Passenger Vehicles Production in Iran**

<b>Year of production</b>	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Number of Vehicles produced</b>	94,400	133,800	157,000	187,000	249,100	321,400	462,000	660,900	791,900	800,000	941,184	942,219	961,653	1,367,014	1,650,000	921,000	737,000	977,000	893,275	1,056,167	1,515,396	1,100,000	770,0000

**Table 12. Passenger Vehicles Production in Iran**

### Output of the Iranian Automotive Sector

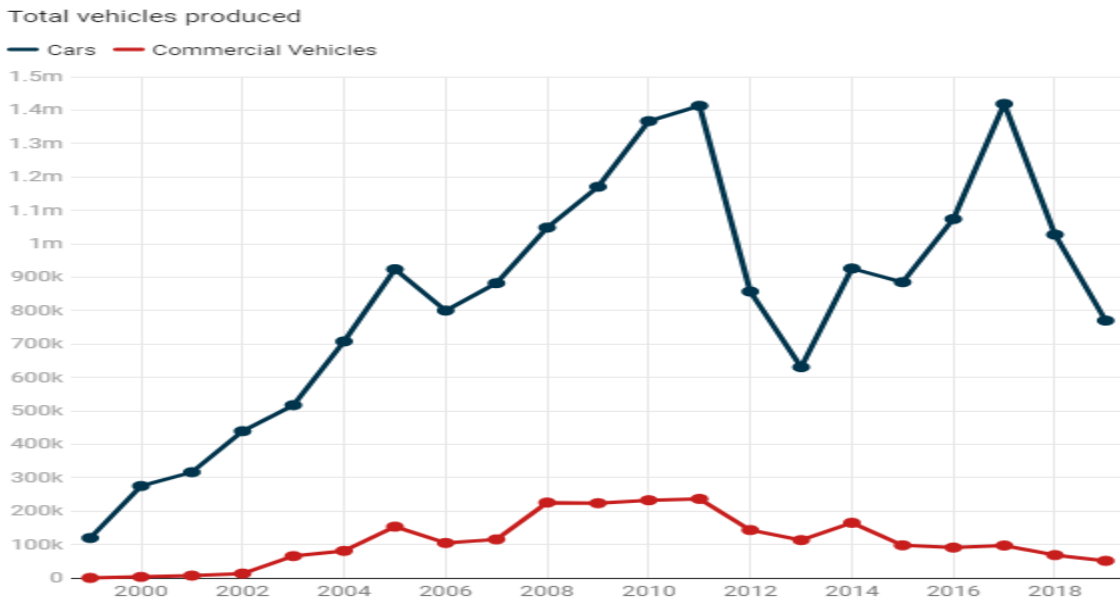


Figure 18. Output of the Iranian Automotive Sector

Source: International Organization of Motor Vehicle Manufacturers

### Iranian Vehicle Production as Share of Global Total



Figure 19. Iranian Vehicle Production as Share of Global Total

Source: International Organization of Motor Vehicle Manufacturers

### World Automakers (2017)

No	Name the Country	Unit of car	No	Name of the Country	Unit of car
1	China	29,015,434	9	Brazil	2,699,672
2	United States	11,189,985	10	France	2,227,000
3	Japan	9,693,746	11	Canada	2,199,789
4	Germany	5,645,581	12	Thailand	1,988,823
5	India	4,782,896	13	United Kingdom	1,749,385
6	South Korea	4,114,913	14	Turkey	1,695,731
7	Mexico	4,068,415	15	Russia1	1,551,293
8	Spain	2,848,335	16	Iran	1,515,396

**Table 13. World Automakers**

**Source: World Ranking of Manufacturers (2017)**

As a result, after the partial lifting of the international sanctions in 2014, global automotive companies such as Peugeot, Citroen and Renault Citroen—that already had a presence in the Iranian market—showed interest in regaining access to the Iranian auto market (Razavi & Alaedini, 2018). However, with the return of the sanctions after the USA withdrawal from JCPOA in 2017, Iran’s auto industry operations were once again adversely influenced by the intensified international sanctions against Iran. The rest of this chapter discusses the most important characteristics of Iran’s automotive industry.

#### **5.3.1. The Economic Perspectives in the Iranian Auto Industry**

In Iran, development of the national automobile industry has been one of the pillars of the country’s future economic growth and government’s industrialisation program (Omidvar, 2005). This industry is the biggest industry after the oil and gas industry, accounting as one of the fastest growing industries in Iran (Automotive Intelligence News, 2004). The car industry fulfils over 90% of Iran’s domestic automotive market in terms of unit and value, and it accounts for approximately 19% of the country’s total industries. Therefore, the auto industry is an important

industry for the government to increase the country's GDP and to save foreign currency due to increasing auto market demand. Additionally, the Iranian car industry is one of the biggest industries in the region of the Middle East, Central Asia and North Africa, producing 46 percent of all the cars in the region and exporting its products to some countries—the neighbouring countries in particular (BMI, 2010). Furthermore, Iran is one of the most populous nations in the world and the second largest country in the Middle East (The World Bank, 2016). The population in Iran is still young as 45% of the population is younger than 25 (BMI, 2014, p.12). “These young people exert pressures for social system and thus for human opportunities in various sectors. This is reflected in the increased demand for high quality education, high quality health system, job opportunities, life options, and empowerment of both men and women” (UNESCO, 2010, p.14). However, Iran has been under the pressure of high unemployment rate particularly during the last recent years. According to the Central Bank of Iran, the unemployment rate increased to 11.80 percent in the first quarter of 2016 from 10.70 percent in the fourth quarter of 2015. As a result, one of the important goals of the development of automotive industry for the Iranian government is to create job opportunities for young and educated HR in order to reduce the unemployment rate in Iran. In this regard, the Iranian car industry covers over half a million employees, and if indirect employment is taken into account, this industry has more than one and half million employments, equivalent to 12% of the total employed population of the country.

### **5.3.2. Political Issues in the Iranian Auto Industry**

After the Islamic Revolution in Iran in 1979, the specific political context of Iran at both national and international levels was one of the most important factors influencing the automotive industry in Iran. In this regard, it is worth mentioning that political instability was a key concern for the whole Iranian economy. The threats were that Iran could be subjected to an international trade embargo over its nuclear program, which would affect importation of parts, future of JVs with the foreign firms and Iran's export market in the Middle East (BMI, 2010, p. 6). Particularly, due to dependence of the Iranian automobile industry on high-tech parts, which were largely provided from abroad, this industry faced a lot of restrictions to continue its activities when the sanctions were tightened on Iran. For example, due to imposition of heavy international sanctions, Iranian automakers have to import parts and required technologies through third party countries and by contracts at less competitive prices and quality. The international sanctions also kept out the



international automakers from exporting technologies and equipment to Iran; therefore, this sector faced many difficulties in technology transfer and R&D projects. Additionally, due to political concerns, there is little chance for Iran's auto industry to attract major foreign MNCs, which would otherwise make Iran a regional production and/or export platform (Razavi & Alaedini, 2018).

At national level, the Iranian automotive industry was under severe political considerations and obligations. In this regard, according to the statements of the interviewees, this industry was mostly managed on the basis of political requirements; economic goals were secondary objective of the government in this industry. For example, the interviewees believed that large companies like IKCO, which includes a population of more than a million, can be central in political protests; therefore, the company's managers' choices are made more on the basis of political considerations than economic and managerial competencies. Additionally, Iranian governments have pursued their political goals of curbing inflation, controlling unemployment and generating revenue by using a strict tariff regime and price control. Furthermore, according to the interviewees, the political relations of the Iranian government and politicians directly affected the company's export and FDI in such a way that the company was forced to establish production lines in countries which have good political relations with the Iranian political officials; the economic viability of foreign investment projects was a second priority for the Iranian government and the company managers.

### **5.3.3. Market Structure in the Iranian Auto Industry**

In Iran, there are 23 automotive manufacturing companies, mostly subsidiaries of the 13 main state- and privately-owned automakers. These automakers produce a wide range of light and heavy vehicles including passenger cars, vans, and trucks in different sizes; medium-sized trucks; minibuses and buses. However, the Iranian auto industry is a monopoly industry that is shaped on the basis of a duopolistic structure by the two companies 'IKCO' and 'SAIPA'. In 2015, IKCO and SAIPA (both acting as groups of companies) assembled close to 90% of Iran's total auto industry production—in both passenger cars and commercial segments (MIMT, 2016). Also, in 2014, 87% of the passenger cars and 30% of the LCVs produced belonged to these two car companies. The other car manufacturers, such as the Bahman Group, Kerman Motors, Kish Khodro, Raniran, Traktorsazi, Shahab Khodro, and others all together sell only 9%. Also only 4% of Iran's car sale volume belongs to import. Figure 21 shows the auto production and car imports

during the Iranian fiscal years 1969/1970 to 2014/2015 (1000 units). Figures on production are based on MIMT (1969/1970 through 2015/2016) and the data on imports are from CAI (1969/1970 through 2015/2016). The table 14 presents the trend of increasing utilisation of IKCO’s capacities.

#### **Utilisation of Capacities in IKCO**

<b>Year</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>IKCO</b>	%49	%53	%54	%51	%49	%47	%48
<b>Other Iranian Automakers</b>	%51	%47	%46	%49	%51	%53	%52

**Table 14. Trend of Increasing Utilisation of Capacities in IKCO**

**Source: The report of IKCO’s Board of Directors to TSE for the Financial Year ended to 1398 (March 2020)**

During the past three decades following the privatisation in Iran, the tariffs have been a key instrument in Iran’s car industry for execution of the Iranian government’s objectives in terms of self-sufficiency, import substitution and localisation policies. In this regard, with approval of the Auto Law in 1993, the Iranian government decided to limit the import of CKDs, aiming to provide a supportive-competitive environment for the local auto industry with an emphasis on development of the local parts manufacturing industry (Manteghi, 2011, 106). The purpose of this law was to gradually reduce the tariff rate of both CBU and parts each year until it fell below 20%, when the domestic auto manufacturers could compete in competitive markets in terms of price and quality (Jahan-e Eghtesad, 2015). According to the Auto Law, car import tariffs initially increased from 35% to 220%—with a lower rate for importation of parts (Manteghi, 2013, p. 225). CBU imports were negligible between 1993 and 2000 as a result of keeping the no-imports formula as the going policy. However, by early 2000s and as a part of the general economic reform program within Iran’s economic plans, MIM replaced all the non-tariff import restrictions with tariffs, and the tariff rate for passenger car imports was set at 170% in 2002. In the following year, the rate was reduced to 147% and in 2004 it was set at 120% (MIMT, 2006). In 2004, the Iranian government planned to drop the percentage of tariffs level for autos in the next 10 years on an annual basis;

however, the start of Ahmadinejad's presidency and his populist agenda for employment creation stopped this plan for the years to follow. In 2007, the government lowered the tariff levels from 120% to 90% for lightweight vehicles, which was not changed during the following 7 years. In 2014, the tariff rate of auto import was reduced to 40%—besides the prohibition placed on import of cars with engine sizes exceeding 2500cc. However, due to imposition of the maximum pressure by the USA sanctions against Iran, the Iranian government decided to accept the no-import formula as the going policy since 2018; therefore, import of CBUs to the Iranian car market was completely banned. In this regard, Iran's secretary of the Association of Automobile Importers claimed, "Two years ago, 680 companies were active in the field of importing automobiles in Iran, 99% of which are now shut down. Currently, only nine companies are active in this field in Iran, which work at their minimum capacities. That is why this year is the time to end the activity of this association." Additionally, in reviewing the approval of the Annual Iranian Budget leading to 1399 (2020–2021), the Guardian Council announced that import of foreign cars is in contradiction with the country's general policies regarding national and protection of Iranian jobs and capital as well as the objectives of the the resistance economy policy in Iran.

Overall, even though the approval of Auto Law aimed to protect the Iranian national automobile industry on the basis of self-sufficiency and localization policies, improved domestic parts industry and encouraged cooperation with global parts producers, it indeed intensified the automotive industry monopoly on the basis of the duopolistic structure. From this perspective, although free imports would endanger the developed capabilities and the employment opportunities created by the auto industry (Iran Vehicle Manufacturers Association, 2014b), the highly protected auto market supported by imposition of high tariffs reduced the competition level and consequently the efficiency purpose as the main goal pursued by the reforms including the privatisation program in the automotive industry. Additionally, there was a lack of FDI in Iran's auto industry and MNCs preferred to enter the Iranian automotive industry with investment in form of JVs. In this regard, by the approval of Auto Law in the early 1990s, the high tariff levels for automotive imports encouraged the foreign automakers to set-up their IJVs with the local automakers in Iran, as locally made vehicles were 90% cheaper than imported cars (Nasirpourosgoei, 2014). As a result, the leading local car companies, namely IKCO and SAIPA, engaged in JVs with several well-known international automakers such as Peugeot (France), Kia (South Korea), Mazda (Japan), Nissan (Japan), Mercedes-Benz (Germany) and Chery (China). For example, the French Peugeot and

South Korean companies became the largest automaker partners for the Iranian automakers through JVs for a range of models. In this respect, the potential benefits of JVs for the Iranian automakers can be explored in various ways in terms of improving the economies of scale, increasing access to complementary assets, sharing costs or risks and increasing the scope and basis of competition (Koh & Venkatraman, 1991). From this point of view, it was expected that the JVs with foreign partners could improve the competitiveness of the Iranian automakers in terms of the quality and cost of their vehicles, leading to a better level of world standards for their products (Azad, 2006). The interviewees argued that if the Iranian auto industry aims to be competitive in international markets, it needs to have a strategic relationship with its international partners. In this respect, with the partial lifting of the international sanctions in 2014, several MNCs such as Renault, Peugeot, Fiat, Mazda, Isuzu, VW, Citroen and Hyundai as well as Chinese companies like Lifan, Dong Feng, Foton Motor and Cherry showed interest in gaining a foothold in Iran's auto market by JVs with IKCO and SAIPA. For example, Razavi & Alaedini (2018) explained that the experience of JV with Renault in Iran demonstrated the importance of foreign partners in terms of upgrading the supply chain and improving the management systems and product quality management. In addition, small assemblers like Kerman Motor Company started assembling new models, e.g., Hyundai models, in 2016, and VW and Mammut (a private Iranian company) made an agreement with to produce light commercial vehicles. However, it is notable that only a limited number of foreign enterprises have agreed to make actual investments whereas others have tried to buy time in order to evaluate the business climate and the risks involved in Iran (Razavi & Alaedini, 2018). Iran's political risks, largely resulting from the UN, USA and EU sanctions, have posed a significant threat to FDI in the Iranian automotive business (Iran Daily, 2010). Currently, during the sanctions peak, almost all global automakers except some Chinese companies have cut all ties with Iran, even for parts shipments, causing problems in production lines in IKCO.

#### **5.3.4. The Iranian Auto Parts Industry**

According to Auto Law, self-sufficiency and localisation policies were regarded as long-term strategic plans in the development of the Iranian national automotive industry, which required that production of all new car models begin with at least 40% of local content—which was to be increased to 70% within the following three years. This requirement was in response to the lack of

interest on the part of the domestic part assemblers and their foreign partners to start with the production of new models in Iran with more than 20% of local content (Razavi & Alaedini, 2018). In this regard, one of the important requirements of the Auto Law was to support the arrangement of centralised parts procurement and management companies for the two monopolies of IKCO and SAIPA. In 1994, therefore, IKCO established the Supplying Automotive Parts Company (SAPCO) and later SazehGostar (affiliated with SAIPA) was established by SAIPA in 1996 (Razavi & Alaedini, 2018). These subsidiaries aimed to serve two major functions: (1) to manage the outsourcing of the manufactured parts by locating either idle or underutilised capacities in the metal-mechanical industry and (2) to encourage investment by the private companies in the auto parts sector. Currently, Iran has developed its local spare parts industry, dominated by three monopoly suppliers of Sapco, Saseh Gostar and Magamotor, which fall into several categories according to their capabilities, with over 1,200 parts suppliers and with a total employment of 190,000 (Vehicle Manufacturers Association, 2015b). Figure 20 shows the trend domestic major spare parts suppliers' sale during period of 1997-2015.

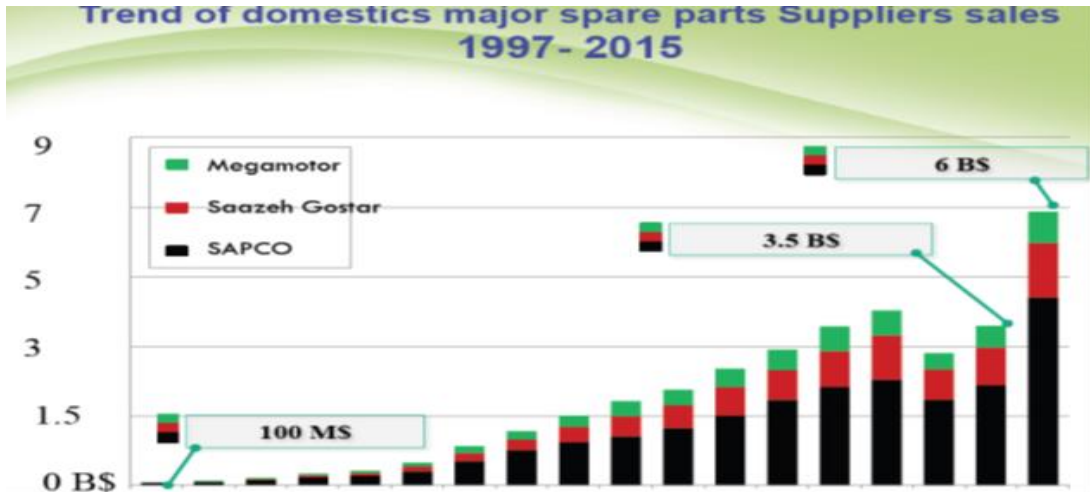


Figure 20. Trend of Domestic Major Spare Part Supplier Sales

Source: Ministry of Foreign affairs, 2016

In 2011, Iran Auto Parts Manufacturers Association (IAPMA) was established as a part of a larger localisation strategy with an emphasis on full support of the Iranian car manufacturers. At the time being, out of 1,200 auto parts manufacturers, more than 900 manufacturers were the members of

this association. The main objectives of this association include protecting the rights of Iranian auto parts manufacturers; developing a system based on supporting this industry in technical, educational, promotional and marketing services in order to enhance the qualitative level of auto parts in accordance with international standards; and to improve the competitiveness of this industry in the global market. Overall, combining the production capacities of parts manufacturing companies with the supply chain of the two Iranian auto monopolies of IKCO and SAIPA significantly increased the production capacity of the automotive industry in Iran in the subsequent years. Currently, the national auto-part manufacturing industry produces some 95% of the components for Peugeot 405 and Samand models, nearly 70% of the parts for Peugeot 206 and 100% of the parts for Pride. Additionally, since 2000, the two-part supplying companies of SAPCO and Sazehe Gostar have developed engineering departments to assist domestic suppliers, developing various standards and systems to improve part-maker's design capabilities, their production plan and quality control management. In addition, development of the auto parts manufacturing industry gave the opportunity to the Iranian local automakers to focus on brand loyalty, shifting from assembly work to car manufacturing by focusing on the design and manufacturing capabilities of the new auto models. In 2001, for example, IKCO took steps for development of a 'national car', where Paykan as the first national car was replaced by Samand—with severe conditions on local content requirement through tax incentives. In this respect, European engineering consultancy firms collaborated with the Iranian part suppliers in the design of these new models of car and helped the Iranian local automakers and their local suppliers to gain access to new technology and a range of design, innovation and development capabilities (Bozorg Mehri, 2015). However, the Iranian auto parts industry is still far behind the globalisation level as the technology used in this industry is 15 years old and newer foreign models assembled in Iran fall into the low-end classes that use basic and standard technologies (Razavi & Alaedini, 2018). Razavi & Alaedini, (2018) argue that this failure is mainly due to the existence of a safe and non-competitive car market in Iran resulting from the application of strict tariff condition, which has set the most important goal for car manufacturers as focusing on productivity rather than keeping up with the tremendous technological changes shaping the industry's future. Moreover, development of the Iranian auto parts industry has been significantly influenced by the general economic and political context of Iran, in which currently the majority of agreements between Iran and foreign spare parts manufacturing associations including Indian, French,

Austrian, Turkish and Bavarian (German) have been ended due to the imposed international sanctions against Iran.

### **5.3.5. Iranian Auto Industry's Export**

Another important area of debate is the issue of export in the Iranian automotive industry. During the last decades, Iran's auto industry has expanded its presence in the international automotive markets, focusing on emerging markets in the Middle East, the Persian Gulf, North of Africa and Central Asia. The leading Iranian automobile makers, IKCO and SAIPA, have established a number of car assembly plants in other countries particularly in neighbouring countries including Iraq, Syria, Russia and Azerbaijan as well as Venezuela and Senegal. However, with the implementation of strict tariff conditions in the Iranian automotive industry, Iranian automakers have put most of their effort on the domestic markets and the industry has not been successful in the field of exports compared to the domestic markets. As a result, the auto industry in Iran is not yet export-oriented, but the rapid growth of auto production in IKCO, in particular during 1995 to 2011, was fueled by the domestic demand market. There are various reasons why the Iranian automotive industry does not have a strong presence in the global automotive markets. The most important reason could be the existence of a strict regulatory system in form of tariff regimes, which has led the largest production capacity of Iranian automotive companies to meet the needs of the domestic markets. In particular, Iran is one of the most populous nations in the world, and therefore a large number of local people now demand personal cars, which is pushing the automakers to keep production levels up to the local market. An increase of old cars (over 20 years old) on Iran's roads is yet another cause for the Iranian automakers to increase production for the local markets. Furthermore, due to Iran's high inflation rate and legal controls on car prices, there is an important gap between legal car prices (determined by the government) and the real market prices, which has made the car in Iran a capital rather than a consumer good which many customers and dealers are looking to buy to earn a profit. Another major reason for the failure of Iranian automakers in exporting activities is related to inability to compete in the global automotive markets in terms of quality, price, innovation, technology and after-sales services. Because of this failure, the MIMT has been pushing foreign firms that have a presence in the Iranian automotive industry to include export performance in their contracts by exporting 30% of the local production to other countries, mostly regional markets. However, the most important problem in this regard

is to attract major foreign MNCs. So far global partners in Iranian automotive industry have not exported a noticeable number of cars or parts from Iran (Razavi & Alaedini, 2018). MNCs are not willing to make Iran a regional production and/or export platform and it would be difficult to hold MNCs accountable to such targets given the highly uncertain political context of Iran.

#### **5.4. The Case Study Company**

Having provided a brief review of the trends associated with the world and the Iranian auto industry, this section aims to present some details of the Case Study Company of IKCO in Iran during three periods: pre-nationalisation, nationalisation and privatisation.

##### **5.4.1. Historical Background of the Case Study Company**

Iran National Company, which was later called Iran Khodro Industrial Group (IKIG), was officially registered on August 18, 1962, as a private family company with the capital of 100 million Rials (40,000 dollars). IKIG was Iran's leading automaker and the largest car manufacturing company in the Middle East, Central Asia and North Africa and the 18th largest automaker and the 20th motor vehicle producers in the world in 2015. This company is a managerial holding company with a chain structure, producing various types of vehicles and spare parts as well as providing after-sales services. IKIG has had a long-term relationship with European international automakers—originally with Talbot of the UK and then with Peugeot (as of 1990), assembling a number of models under licensing agreements. Additionally, IKIG has succeeded in manufacturing and branding its own products such as Samand and Dena. Table 15 shows the direction elements in IKCO, including the mission, vision and landscape, values and principles. The mission refers to the final goal of the company, which includes the responses to requirements of all the stakeholders and why the company exist and what is its domain of activities. The vision refers to the company's comprehensive goals that includes the company's mission and the future images and dreams of leaders. Values refer to beliefs and principles that a company must follow and behave. Values are the foundation of the organisation and values are important components of organisational identity. Principles represents the company's goals as well as the dimensions of performance or the desired characteristics of the overall goals based on the axes emphasised by the mission and vision.



### IKCO's Directional Elements

<b>Mission</b>	To be a value-creating and knowledge-based organisation, based on professional and ethical values, playing an effective role in the industrial development of the country by emphasis on competitive products in accordance with environmental standards in the areas of production, services and commercial activities related to road transportation sector.
<b>Vision</b>	To be the first car manufacturer selected by Iranian customers, offering up-to-date and environmentally friendly products in both domestic and global markets with emphasis on value creating, sustainable profitability and relying on the commitment, knowledge and skills of its employees and partners.
<b>Values</b>	<p>-Belief and commitment to the principle of sustainable development with emphasis on learning, creativity and teamwork.</p> <p>-Focus on adding value to the customer and other stakeholders, including environmental, safety and social issues.</p> <p>_ Compliance with governance requirements and professional ethics by maintain administrative health and fighting corruption.</p>
<b>Principles</b>	Extend domestic construction based on economic logic, improving the quality of design, supply and production of competitive products, maintaining and promoting the leadership position of the country's car market and increasing foreign exchange through export development, increase productivity, revenue and cost management in the product value chain and achieve economies of scale, increase stakeholder satisfaction including customers, employees, shareholders, agencies, suppliers and the community, reform the ownership structure and group businesses, and promoting the image of IKCO as the most popular Iranian brand in the field of the countr's automotive industry.

**Table 15. Directional Elements in IKCO (Mission, Values and Principles)**

The headquarter of Iran Khodro Industrial Group is Iran Khodro Corporation (IKCO), which covers an area of over 3,375,612 square meters, of which, 1,356,000 square meters have been allocated to the built-up sites including field installations and office buildings. IKCO produces passenger cars, accounting for 85 percent of the total production of Iran Khodro Industrial Group's product portfolio, and IKD and IRIKCO produce the rest 15 percent, which include light and heavy commercial vehicles. Furthermore, IKIG established nine local sites within the borders of Iran. The main company's subsidiaries include Iran Khodro Diesel Co, Iran Khodro Khorassan Co, SAPCO (Supplier of Automatic Parts Corporation), Tam (Technology in Automatic and Advanced

Manufacturing), ISACO (IKCO Spare Parts and After-Sale Services Co), IPCO (Iran Khodro Power Train Co.), Iran Khodro Mazandaran Co, ISEIKCO (Industrial Service Engineering of Iran Khodro Co), Samand Investment Co and Iran Khodro Tabriz Co. Figure 21 shows the organisational structure of the Iran Khodro Industrial Group in 2019.

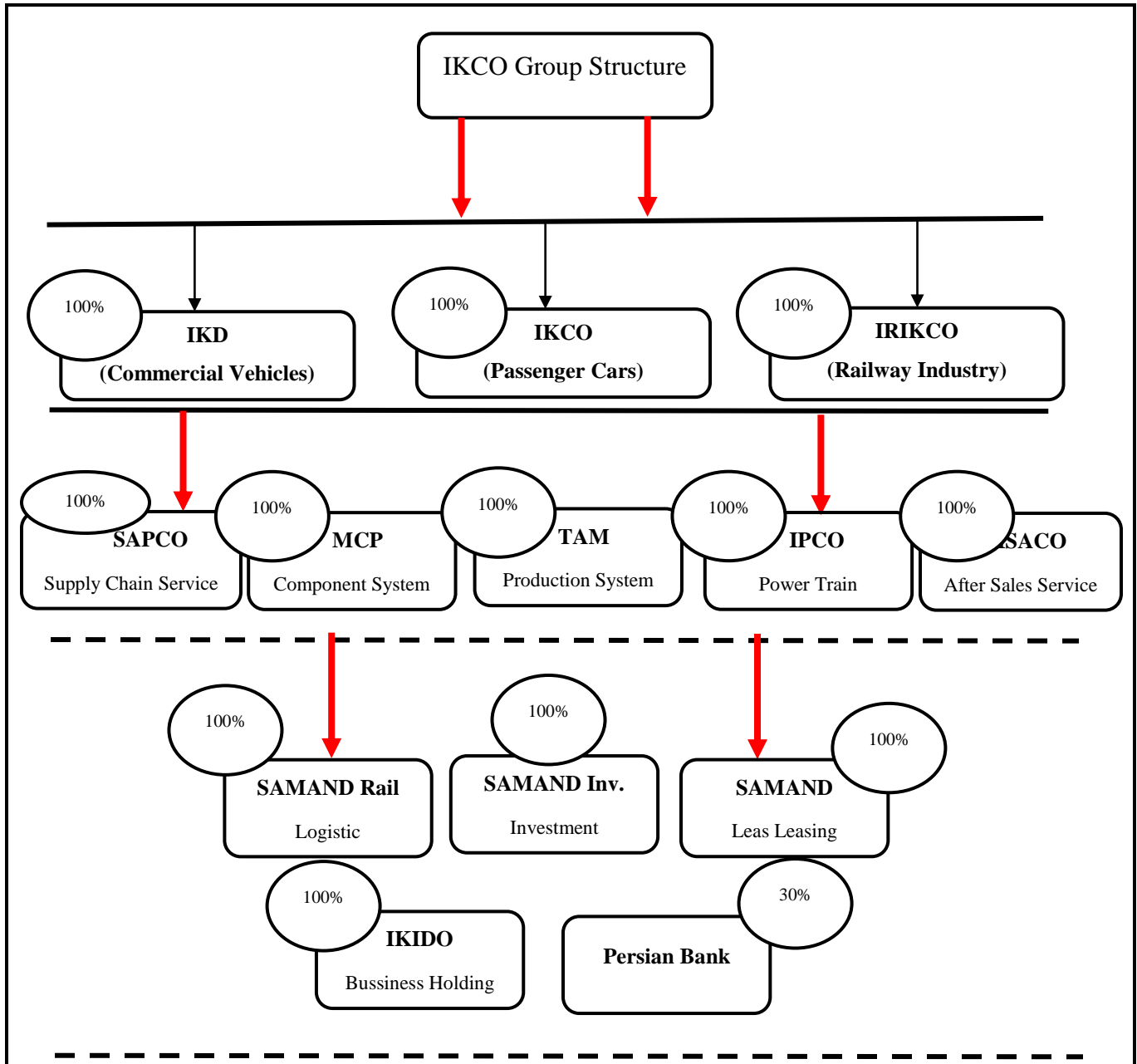


Figure 21. IKIG's Organisational structure

Source: An Introduction to Iran Khodro Group (2013. P. 4)

Table 16 presents the subsidiaries and affiliate companies of Iran Khodro Industrial Group and IKCO.

### Subsidiaries and affiliate companies of Iran Khodro Industrial Group and IKCO

No	Name of firm	%Investment		Activities
		Group	IKCO	
1	SAPCO	100	100	Deal of auto and auto parts
2	ITRAK	81	-	Auto design research activities
3	ACT	100	-	Foreign Trade
4	JETKO	100	-	Foreign Trade
5	Auto Industry Research	100	-	
6	ISACO	100	100	Deal of auto and auto parts
7	E-commerce IKCO	100	-	Software and hardware services
8	Hamgam Kish Co	100	-	Car services
9	ISACO Kish	100	-	Auto parts export
10	After sale service Hamgam Co	100	-	Preparation and distribution of parts
11	Emdad Khodro	100	-	Car services
12	Iran Auto Parts group Co	59	-	Preparation& installation of molds and parts
13	Shargh Electric vehicle Co	60	-	Production of auto parts
14	Khorasan Axial Parts Co	100	-	Production of auto parts
15	Khorasan auto Exhaust Co	100	-	Production of different types of exhaust
16	Sabsevar Auto Cable Co	100	-	Production of auto parts
17	Shargh Green Gas industry	100	-	Production of auto parts
18	Pak Auto Converter Co	100	-	Production of auto parts
19	Safe Mana Ramming Co	96	-	

20	Iran Khodro Diesel Co	54	23	Production of light autos
21	Khavar part production Co	100	-	Design, production and assembly of auto parts
22	APCO	100	-	Transaction/production parts of commercial Auto
23	Govah Co	100	-	Operational, commercial and service activities
24	Top Service Co	100	-	
25	IDEM Co	100	23	Assembling and selling motors
26	Charkheshgar Co	58	-	Production of Girbox
27	Top Khodro	100	-	Production of Cars
28	Khodro Kar development Co	100	-	Management of development of light vehicles
29	IPCO	100	100	Engineering and technical services
30	TAM	100	100	Design and production of equipment and molds
31	IKCO Industrial Molds	100	8	Production of different types of auto models
32	IKCO Machine Tool Industries	100	-	Production of auto parts
33	ISEIKCO	100	100	Technical and service activities
34	Samand Rail Co	100		Transport activities
35	International Freight Samand	58	57	Design and production of auto parts
36	IKCO Aluminum Casting	100	-	Design and production of aluminum casting
37	IKCO Insurance Services	100	-	Insurance Services
38	IKCO Driving Force Co	80	30	Production of auto parts
39	DraKhshanSaz Co	100	-	Production of auto parts
40	IKCO Leasing Co	100	-	Financial activities

41	Khodro Kar Sale Development	100	-	Leasing of commercial vehicles
42	IKCO Axis Makers Co	69	-	Financial and transaction activities
43	Farda Insurance Co	100	-	Insurance activities
44	IKCO HemayatGostar Co	100	20	Business Services, commercial and consultancy
45	Mehr Kam Pars Co	66	-	Production and selling auto parts
46	IKCO Casting Industry	100	-	Design, engineering and production of casting
47	AfarinanNovin Ara Co	100	-	Consultancy services
48	Nasim Sobhe Omid Co	100	-	Insurance services
49	Iran Khodro Khorassan Co	100	100	Production of passenger car and light vehicles
50	SAPCO GHESHM	100		Export and import if auto parts
51	Samand Investment Co	100	70	Production
52	Iran Development information	65	50	Services related to information/commerce acts
53	IKCO Fars Co	51	34	Production of Cars
54	Iran Khodro Mazandaran Co	100	100	Production of Cars
55	Iran Khodro Tabriz Co	51	51	Production of Cars
56	Negar Nasr Saham Co	100	-	Consultancy services in investment activities
58	IKCO Industrial Estates	100	100	Investment in infrastructure
59	Pasaddana Iranian Co	100	100	Investment and participation in industrial sectors
60	AIKAP	50	50	Activities related to all the car value chain
61	Auto Axle Production Co	92	89	Production and import of axle and differential
62	Ghadir Auto Leasing Co	64	64	Car leasing

63	Iran Star Trading Co	100	100	After sales services
64	APCO	100	100	All activities related to ordered cars
65	Iranian Structures & Buildings	100	100	Design, planning, consultancy activities

**Table 16. Subsidiaries and affiliate companies of Iran Khodro Industrial Group and IKCO.**

IKIG is a public joint stock company, 86 percent of whose shares are divested to the public, with a registered capital of 15,300,000 million Rials (over \$117 million) distributed into 15,300 million shares. Table 17 presents the composition of IKCO's shareholders by March 19, 2019-2020. Table 18 compares personnel employed in Iran Khodro Industrial Group between the years of 2018 and 2019.

**IKCO's Shareholder's Composition ending 19th March 2019**

<b>Name of Shareholder</b>	<b>Shares</b>	<b>% 19/3/2019</b>	<b>% 19/3/2018</b>
Tadbir Investment Company	2.330.818.902	15.23	15.23
Iran Industrial Development and Renovation Organisation (IDRO)	2.147.544.499	14.04	14.04
Sepehr Iranian Kish Company	1.626.389.975	10.63	10.63
Samand Investment Company	1.419.078.593	9.28	10.24
Negar Nasr Sahm Company	893,327.959	5.84	5.61
Civil Retirement Fund	762.953.897	4.99	4.99
Iran National Investment Company	662.371.650	4.33	4.33
Civil Retirement Fund Investment	464.736.134	3.04	3.04
Investment and Development of the Raz Co	360.936.870	2.36	0
Investment and Development of the Raz Co	315.443.633	2.06	1.99
Persons and Legal Entities	4.316.397.888	28.2	29.9
Total	15300000000	100%	100%

**Table 17. IKCO's Shareholders Composition**

### Personal Employed in Iran Khodro Industrial Group

Description	Iran Khodro Industrial Group		IKCO	
	19/3/2018	19/3/2019	19/3/2018	19/3/2019
Permanent staff	11472	9981	6546	5950
Contract staff	41524	41864	14223	14712
Service staff	6309	6129	3477	3367
Total	59305	57974	24246	24029

**Table 18. Personal Employed in Iran Khodro Industrial Group**

IKCO has the total capacity of producing one million units per year, assembling different passenger cars including 6 different nationally optimised models of “Peugeot”, 3 models of the Renault and 2 classes of vehicles from the models of Suzuki. Figure 22 presents the top 10 car models of IKCO. Additionally, brand development is one of the most important goals of IKCO. The company has introduced some own brands during the last two decades such as Samand, Runna and DENA as national Iranian cars. Moreover, an important part of the production process of the cars in IKCO, as headquarter, was sub-contracted to numerous small and medium contract firms (sometimes as small as a few people, run by former supervisors of the company), many at the same location as the main plants and some outside the main plants. Furthermore, IKCO owns more than one thousand authorised agents and distribution networks all over the country and also in seven countries across the globe.

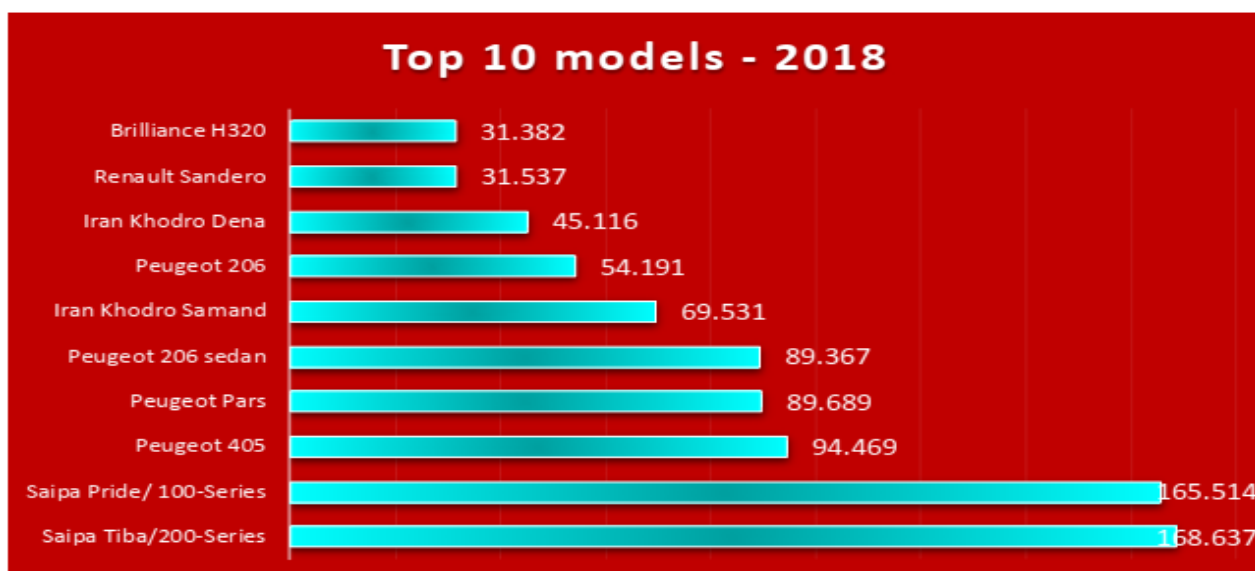


Figure 22. Top Ten Car Models in IKCO

Source: IKCO Internal Reports

The table 19 presents the auto production of the IKCO for the year leading March 20, 2019.

Type Auto	Units
Total of Production	389664
Bus, Mini Bus, Truck	2555
Arisan pickup	5585
Sozoki	2637
Tondar	12559
Haima	13150
Dena	35257
Runa	3880
Dang Fang	19087
Samand	44400
Peugeot Pars	63431
Peugeot 405 GLX	63627
Peugeot 208	7545
Peugeot 207	28226
Peugeot 206 SD	18524
Peugeot 206	69201

Table 19. Auto Production in IKCO

Source: Internal Reports of IKCO

During the last Iranian fiscal year ending March 20, 2019, this company covered over 43% of Iran's car market share, with the sales revenue of the group coming close to 204,241 Billion Rials (US\$1.57 billion), and its assets amounted to 234,485 Million Rials (US\$1.8 billion) (see Table 20). As the table shows, the number of sales at the end of March 2019 sharply decreased from 703,209 units, amounting to 228,546,372 million Rials, to 361,059 units, amounting to 1,400,165 million Rials.



Description	Selling of products in IKCO			
	20/3/2019		20/3/2018	
	Unit	Amount	Unit	Amount
Domestic sales	36076 6	139,854,031	70248 8	228,546,372
Export Sales	293	162529	721	212,179
Spare parts sales (domestic)		62,719,206		85374883
Selling CKD, SKD (export)		1505156		543,662
Total		204,240,922		314,464,917

**Table 20. Sales of Production in IKCO**

**Source: Internal Reports, Amount: Million Rials**

According to Table 21, IKCO's market share is about 47% and SAIPA Khodro is IKCO's most important domestic competitor with about 43% of the market share (see Table 21).

Description	IKCO	SAIPA
Founded	1962	1965
Employees	58000	48000
Type	Public Joint Stock	Public Joint tock
Sales Revenues (million Rials)	139854030	84574336
Net Profit (million Rials)	(840959225)	(55829016)
Turnover (million Rials)	205907	84743912
Unit Cars	387109	317621
Market Share	%47	%43

**Table 21. Two Car Monopolies in Iran**

**Source: Internal reports of IKCO, Million Rials**

Additionally, IKCO exported passenger cars to some countries including the regional markets as well as Northern African and Asian markets. IKIG established six production sites outside the borders of Iran. IKCO exported factories, planning and assembly lines, largely invested in making Samand kits (as its first brand) in some countries like Azerbaijan, Belarus, Senegal, Syria and Venezuela. Additionally, this company established a number of commercial firms in other countries to carry out commercial, marketing, import and export activities of automobiles and auto parts (see Table 22).

### **The Iran Khodro Group Production and Commercial Sites Overseas**

No	Country	Name of Company	%	Activities
1	Emarat	Act	100	Commerce
2	Emarat	Integrated auto-part	100	Shopping and distributing spare parts and marketing
3	Oman	Orkid International Auto	100	Importing the Spare parts
4	Senegal	Seniran Auto	60	Samand Production
5	Germany	IKCO Trading	100	Commerce, finance, import and export activities
6	UK	IKCO Finance	100	Commerce, finance, import and export activities
7	Terkamnestan	Eshgabad IKCO	100	Commerce, finance, import and export activities
8	China	China IKCO	100	Commerce, finance, import and export activities
9	Syria	Syamcko	40	Production and assembly activities
10	Azerbaijan	Azkron	25	Production and assembly activities
11	Armanestan			Production and assembly activities
12	Iraq			Production and assembly activities

**Table 22. IKCO's Group Production and Commercial Sites Overseas**

**Source: Internal Reports of IKCO**

However, IKCO's export sales is still marginal in comparison to the local market: from the total production of 360,766 units of passenger cars produced in the year ending in March 2019, only 293 units were exported, amounting to 162,529 million Rials. The next section reviews the historical development of IKCO in three periods: 1953–1978; 1979–1993; and 1994 to date. This section further discusses the process of privatisation in IKCO and the related issues regarding the change in the company's strategy, as an important factor in the process of MACs in this company.

#### **5.4.1.1. IKCO-Pre-Nationalisation Period (1960-1979)**

By the start of Iran's industrialisation program in the late 1960s and the early 1970s, the government encouraged the private sectors and industries to import or assemble vehicles (CKD) in Iran (Nasirpourosgoei, 2014). In pursuing this policy, Iran National Company (later called Iran Khodro Industrial Group) signed a contract with the British Talbot Company in 1966 to start production of a British car, Hillman Hunter, by which Hunter was assembled inside Iran, with the name of "Paykan". Focusing on maximum profit-making strategy during the time, the company's strategy was becoming a branch of multinational companies, so that all car parts were taken from abroad and then assembled in Iran. At this time, IKCO's total production increased from the initial 98,000 units and the company started to produce automotive spare parts. In 1969–1979, localization of car parts and self-sufficiency were the main strategies of IKCO, according to which several subsidiaries such as Ball Bearing and Tabriz IDEM were built (IKCO's summary of events (2013, p.1)). In 1974, IKCO attempted to assemble Peugeot cars and in the meantime the company's shares were issued in Tehran Stock Exchange (TSE), of which 45% were given to the public at the time. In 1975, the company shifted towards assembling updated cars by replacing Paykan with the then new Peugeot 305. In late 1977, the company held talks with France's Peugeot in order to replace Paykan, which had passed its time, with Peugeot 305.

#### **5.4.1.2. IKCO's Nationalisation period (1979-1992)**

The growing expansion of IKCO was sharply slowed down with Iran's Islamic Revolution in 1979, which coincided with extensive political and ideological changes and at the same time with the start of the war between Iran and Iraq and departure of the global assemblers and key Iranian entrepreneurs from Iran. At this time, IKCO, like other industries, was seized by the new

government and came under the ownership and control of the state agency of IDRO as an affiliation of the Ministry of Heavy Industries. Emphasising on an extensive nationalization program, the new ruling group believed that the capitalist system is against social justice and industrialization program increases dependence on the West. In the meantime, the Iran-Iraq War further caused IKCO face many problems: there was neither a priority for investment nor production of cars, particularly so considering that during this time production in IKCO was largely dependent on imported spare parts. During this period, the biggest challenges faced by IKCO were inefficiency, unproductiveness and corruption as consequences of the fiscal crisis, shortage of and dated technology and machinery as well as shortage of skilled manpower as many car workers and qualified engineers were drafted to war (IKCO's summary of events, 2013, p.1). In 1985, also, there was an instable foreign exchange condition characterised by significant industrial, economic and production crises, putting IKCO at risk of being shut down in early 1986. As a result, with the end of the Iran-Iraq war in 1988, IKCO was working with just 20 percent of its capacity and IKCO's production reduced from 200,000 units in 1979 to fewer than 50,000 units in 1989. Additionally, there was no investment in design and technology of the products until the early 1990s and therefore during this time the main issue for the company was to reduce the risk of being shut down. The company continued its operation, yet with debts and massive government subsidies. In this regard, IKCO's massive losses and reduction of its productivity were related to a number of interrelated reasons, including the war consequences, large share of auto imports, limited capacity, vertical nature of active automakers (demanding massive investment to increase parts and assembly production) and failure to attract global assemblers (Razavi & Alakhani, 2018). For example, after the war the import custom (tax) was repealed for three years; Iran imported 164,000 passenger autos, which caused a dramatic reduction in IKCO's market share. This policy affected job opportunities in the local automotive industry and also ensured the future of the spare parts market for the foreign carmakers.

#### **5.4.1.3. IKCO-After Privatisation (Pre-Sanction Period, 1993-2011)**

With the passage of the Auto Law in 1993, which coincided with the start of the privatisation and reform programs in Iran, MIMT introduced a strategic reorientation of the auto industry with the participation of the two monopoly assemblers, i.e., IKCO and SAIPA. The key objectives of this initiation was localization and self-sufficiency policies, encouraging the two assemblers to move

away from vertical integration and outsourcing the production of parts. This policy aimed to encourage the local automakers to utilize the idle capacity in the metal-mechanical industry and encourage the private sector to participate in the development of the auto industry. In accordance with this general strategy of MIM, IKCO planned its seven-year development program in 1994, seeking four strategic principles: (1) productivity, (2) localisation and self-sufficiency, (3) quality improvement and (4) mandated provision of after-sale services. IKCO moved towards policies of design learning; localisation and self-sufficiency; technical development in terms of development of new production lines with advanced machinery, robots and fixed assets; and access to knowledge of design, manufacturing and product engineering. Therefore, based on the supply chain management, one of the important strategic goals of this plan was wide structural changes. Since then IKCO has undergone widespread organisational restructuring that has led to foundation of design and engineering, supply and manufacturing companies and after-sales services. Figure – presents IKCO Group Structure in 2011. In this period, IKCO moved towards learning design of components, focusing on development of IKCO part supply chain and localisation of automotive parts. To achieve this purpose, IKCO established the Supplying Automotive Parts Company (SAPCO) in 1994 in order to effect qualitative and quantitative improvement in IKCO operational processes, with the idea of supplying national automobiles. A Qualitative and quantitative boost in the production of domestic automotive parts was further achieved when SAPCO was established. Finally, Iran Khodro Research and Development Centre, built with noticeable capital investment, can be counted as another development, enabling the company to produce Samand Sedan. Currently, more than 150,000 employees including 500 automotive part-making companies and more than 100 supplying firms are the members of this multi-level supply chain, which SAPCO acting as the head. SAPCO's mission include the following:

- OEM leadership of automotive parts and engineering services in the Iranian local markets.
- Guaranteeing a continuous and steady flow of supply to the customers.
- Guiding and supporting the chain of supply of auto part producers by effective management.
- Launching an extensive campaign to improve and refine the levels of quality and standards needed for production of reliable automotive parts by its suppliers

- Developing Quality Assurance and Total Quality Management systems for manufacturing auto parts in order to produce parts worthy of global markets and capable of competing in international OEM and OES markets.
- Transferring and enhancing production technologies and production management knowledge to the supply chain members and arranging joint venture for them with the most credible international manufacturers.
- Expanding the horizons to the global market by commissioning new assembly lines in several countries and continents for its manufacturers.
- Maintaining full contact with the most modern developing trends in global automotive part production technologies in order to provide advanced technologies to its chain of supply.

IKCO has promoted its co-operation with its suppliers at the different levels of product design, manufacturing methods, pricing, investment, operating costs and logistics, by which suppliers are now involved in the development of new-generation vehicles at a very early stage. SAPCO and its supply chain initiated different knowledge-oriented systems such as EFQM, JIT and Lean Manufacturing System and gained access to a range of design and development capabilities in corporation with a number of European engineering consultancy companies (Bozorg Mehri, 2015). Additionally, Iran Khodro Research and Innovation Centre (IKRIC) was established in 1994, aiming to work on both research work and product development by focusing on innovation, optimizing the old products, advancing quality of products, searching and verifying the latest production technology and training knowledgeable workforce. Currently (2019), IKRIC has employed more than 700 staff, of whom 12 hold Ph.D. degrees, nearly 100 hold MA degrees and over 300 hold BSc degrees. There are also a number of foreigners working with the centre mainly as advisors. The extension of IKCO's R&D centre included the Product Planning, Vehicle Engineering, Product Planning, and Benchmarking sections, which laid responsibility on all the engineering sides of the design as well as service support, also playing key role in the decision points (gates) in IKCO NDP process. Additionally, IKCO New Product Development Centre (NPD) was founded in 1995 as one of the largest research centres in Iran in order to plan, design, develop and produce new products, which resulted in development of 'national cars' such as Samand (IKCO's summary of events (2013, p.1)). This centre is equipped with advanced technology, laboratories and facilities with assistance of international automotive makers. IKCO's R&D documents outline three business visions for the NPD centre, including the following:

- Achievement of world-class quality in order to increase local competitiveness and to take advantage of the likely liberalisation of the Iranian market and to compete in the global automobile industry.
- Market leadership in the industry and evolution in the size and composition of the manufactured products by focusing on the self-engineered 'IKCO Brand' strategy, based on a high quality local components.
- Development of a new line of world-class automobiles, moving towards export promotion strategy by focusing on neighbouring countries and the whole region.

Moreover, during this period, IKCO pursued technology transfer through different mechanisms including foreign investments in form of JV, purchase of manufacturing license, reverse engineering education and training by cooperation with universities and contractors, use of skilled human resources and recruitment of academics. One of the strategic goals of IKCO's seven-year strategic plan was constant quality improvement by following an ISO 9000 standard project processed in the company, which resulted in different production units in IKCO meeting ISO 9000 requirements since 1998. Additionally, IKCO turned towards joint ventures with European MNCs and Peugeot was the first such foreign company to sign a joint venture agreement with IKCO, starting a three-year strategic alliance within IKCO for production of Peugeot 405 Sedan.

The major objectives of IKCO's technology transfer are as follows:

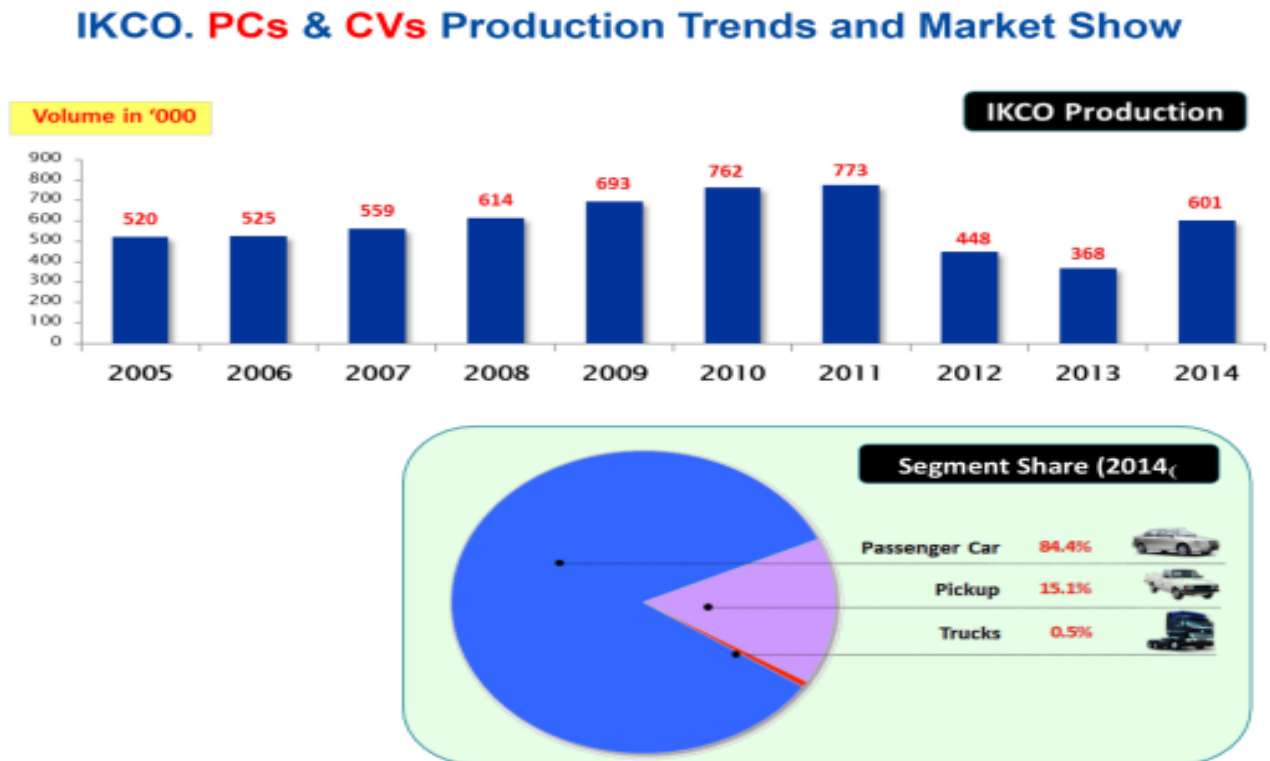
- Equipment of the production lines with advanced machinery and robots.
- Gaining access to specialized and skilled manpower and also knowledge of design, manufacturing, product engineering and technology management.
- Improvement of international cooperation for acquisition of technologies in design and manufacturing auto components and sets, transfer of new technologies in order to enhance the quality of domestically-made auto parts and achieving full self-sufficiency in production of motor vehicles and components
- Development of information technologies to improve coordination, control and decision-making processes.

In 1997, IKCO, as a pioneer and currently the biggest user of industrial robots in Iran, used the technology of robots in its production line in order to upgrade its facilities and utilised this technology extensively throughout the vehicle-assembly process. Transfer of robot technology in

IKCO was under the license of giant car manufacturer 'Peugeot' with an emphasis on the strategy of increasing productivity with high quality standards and acceptable price. In 1997, TAM Company was also established by IKCO, aiming to rely on its own engineering knowledge and to work on robotic and automation of the production lines and processes. In addition, IKCO established its own engine development and test centres in collaboration with European countries including Germany and France as well as some Iranian universities. Furthermore, focusing on supply chain management, this period was characterised with significant changes with foundation of several subsidiaries and plants. IKCO established new sites with a more advanced platform in different Iranian cities (Tabriz, Shiraz, Mashhad, Semnan, Tehran and Babol) and six other sites in different countries around the world (Syria, Belarus, Venezuela, Egypt, Senegal and Azerbaijan). As a result, during 1994–1997, IKCO broke its production record in its 30-year history by a rise in the sale in the domestic market from 30,000 to 111, 111 units. In 2002, IKCO planned a 10-year program, focusing on globalisation and competitiveness in terms of quality improvement, product diversity (especially for Samand models), price consistency, cost reduction, inward technology transfers and strong presence in both domestic and global markets. Focusing on capability improvement based on knowledge processes at the time of the emergence of modular product architecture, IKCO initiated a significant change in the different subsystems, upgrading them in accordance with a higher level of technology. Additionally, in 2002, IKCO started mass production of Samand as a national car. In 2003, Pars and Samand models of the year and Peugeot 206 Sedan were put into production. In 2004, IKCO along with SAIPA participated in a three-way JV with Renault to produce Renault's new low-end passenger Model-L-90 (49% owned by Iranian automakers and 51% by Renault) (MIMT, 2006). Furthermore, in 2004, IKCO started to implement SAP (System Analysis and Program) software as an Enterprise Resource Planning (ERP) aimed to improve productivity and planning to gain a better control over its final operations as a supply chain company. The SAP project has been implemented in the Tondar 90 plant and cut and press salons, IKCO southern factory and Iran Khodro Khorasan. In 2005, the company sought to improve its position in the domestic and global markets by focusing on optimised products in terms of customer satisfaction. To this end, Paykan was phased-out and Peugeot 206 Sedan, Roa Sedan (with an OHV engine) were introduced to the market as optimized products and a CNG-based engine was designed for global markets. In 2006, the new production lines of the national engine and Samand Sedan were commenced in Azerbaijan, Belarus and Syria. The Samand project



in Venezuela was also put into production. In the same year, the production lines in Tabriz, Senegal and Venezuela were launched and the company introduced the new car ‘Samand Soren’ to the market. Meanwhile, Tondar 90 Sedan (Renault Logan) joined the Iran Khodro cars as well; thereby the product portfolio was no longer limited to Peugeot cars. Iran Khodro received the EFQM Award in 2007. In 2008, IKCO designed the Runna and was selected as the Top Exporter and received the Export National Award and Cristal Trophy for Iran’s Best Research and Development Sector (IKCO summary of events (2013, p.1)). Between 2005 and 2008, the company designed a new brand of Soren, which replaced some sub-systems of Samand with new high-tech subsystems. In 2009, IKCO gained a larger share in the global markets, where the company experienced a 40% growth in its car exports network. Additionally, the role of IKCO in increasing the local production level was transparently obvious in 2009, when its production reached to 693,000 units. As Figure 23 shows, after the privatisation, the IKCO production experienced a growing trend in 2005 to 2014. The major part of the IKCO product portfolio belongs to passenger cars with 85%, with the remaining 15% belonging to light and heavy commercial vehicles.



**Figure 23. Market Trend and Car Production in IKCO**

Source: Ministry of Industry, Mine and Trade (2005-2014)

In 2010, the company hit a new record of 755,555 passenger cars in the region, accounting for almost 50% share of the local markets. In this year, Iran's industrial Management Organisation recognized IKCO as the top automobile company in Iran in terms of sale and job creation, as the second ranking company in profitability, as the best industrial group in Iran's car making companies and as the best of all pioneering companies in Iran (IKCO summary of events (2013, p.1)). 2011 was also the year of some developments for IKCO as it experienced a growth in the company's stock value, 40% improvement in the IDRO qualitative figures for IKCO, cash flow management, and better production chain supply by SAPCO. In this year, IKCO focused on export strategies and exported 40 thousand cars in particular to the Islamic countries, accounting for 30% of IKCO cars (national car). In this regard, Dena, as IKCO's latest car brand enjoyed world-class standards regarding technology and design.

Generally, post-privatisation from 1993 to 2011 was a period of big developments as IKCO began to improve its position in areas of productivity, localization, quality improvement, technology transfer and presence in the domestic and global markets. Focusing on the supply chain management, this company experienced a qualitative and quantitative boost in the production of domestic automotive parts by hugely investing in research and development centres, which resulted in creation of new cars. During this period, the company's strategic goals were directed towards globalisation in terms of quality improvement, product diversity, price consistency, competitiveness, inward technology transfer, cost reduction and strong presence in the domestic and international markets. Since 2001, IKCO's corporate planning shifted to development of high-tech lines, high levels of automation, robotic body lines and processes, integration capabilities, global network and international marketing capability. The IKCO's production reached about three million vehicles between the years 2002 and 2007, more than the total production of the company over the preceding 36 years since it was established. Moreover, the diversity of the vehicles produced increased from seven to ten products and from 12 to 50 variants according to the customers' needs (Nasirpourosgoei, 2014). According to Sanat-e Khodro SAPCO (September, 2009), the actual position of IKCO in the world ranking in 2008 was the 21st with production of 566,200 units. By the Iranian fiscal year 2011/2012, the corresponding production figure reached 773,000 units. Additionally, IKCO installed companies outside the country in such countries as Syria, Venezuela and Senegal.

#### 5.4.1.4. IKCO-After Privatisation (Post-Sanction Period, 2012-Present)

Iran's auto industry came under international sanctions in June 2012, which forbade sale of all auto parts and key raw materials to Iranian producers. As Table 23 shows, the sanction resulted in more than a 50% reduction in the number of cars assembled in IKCO—from 773,000 to 365,093 vehicles between Iranian fiscal years 2011/2012 and 2013/2014. During the sanctions peak, Peugeot cut all ties—even parts shipments, causing problems in IKCO's production lines.

**IKCO's PCs &CVs Production Trends (2005-2018)**

Year of production	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of vehicles produced	520000	525000	559000	614000	693000	762000	773000	448000	365093	601393	504420	642823	705307	387109

**Table 23. IKCO. PCs & CVs Production Trends**

**Source: IKCO's internal Reports**

Besides, since 2011, IKCO's total export dropped considerably from 32,069 units in 2010 to 4,608 units in 2011 although it increased to 17,803 units in 2012. According to Table 24, the export figure dropped from 1,488 in 2012 to 868 units in 2013.

**IKCO's CKD & SKD Export Trend (2010-2018)**

Year of Export	2013	2014	2015	2016	2017	2018
The Number of Export of products	2252	5534	1047	2803	2785	3029
Amount (Thousand Euros)	668	1130	2175	2302	3757	4126

**Table 24. IKCO's CKD & SKD Export Trend, Scale (Thousand Tone)**

The sanctions on Iran's auto industry were lifted in January 2014. Later, by the Joint Comprehensive Plan of Action (JCPOA) between Iran and the five powerful countries (P5+1), the international sanctions on Iran were lifted in 2015 (the "Implementation Day" was January 16, 2016). In 2014, with the partial lifting of sanctions and, later, the implementation of JCPOA, IKCO witnessed several new developments that provided new impetus for its growth. With the lifting of the nuclear-related sanctions in the Iranian fiscal year 2014/2015, the production jumped again to 705,000 units in 2017 and came close to the pre-sanctions peak of 773,000 in the Iranian fiscal years 2011/2012. As Figure 24 shows, SKD in IKCO's exported CKD dropped from 10,475 tons in 2014 to 2,803 tons in 2015. According to Figure 24, IKCO's export deteriorated further over the next year, reaching to 2,785. IKCO's export increased in 2017, reaching 2,785 in 2016 but again decreased to 3,029 in 2018. Generally, the figures indicate that IKCO's export figures of the products are not considerable, undergoing fluctuations during the last decade.

In search of regaining its pre-sanctions position in the domestic and regional markets after the partial lifting of the international sanctions in 2014, IKCO turned to improve the diversity of its product portfolio by signing contracts with several MNCs. On other hand, the partial sanctions lift led to an increased optimism and interest by European auto manufacturers such as Peugeot, PSA, VW and Renault to start or renew their ties with IKCO and its parts producers. At this time, IKCO made a number of JV agreements particularly for producing new models with the help of Peugeot and Renault, which emphasised on—at least on the paper—export and transfer of technology. Meanwhile, investment flowed into IKCO, especially from Renault and PSA. In 2016, PSA agreed to build a new plant with a capacity of 200,000 units a year and Renault signed an agreement to spend \$778m on a new 150,000-unit factory. However, the boost in the industry was short-lived; both of these planned factories have now been stopped following the re-imposition of the sanctions. After the withdrawal of USA from the JCPOA agreement in 2017, the pressure of the international sanctions on Iran has been maximised. As Table 25 shows, the output of IKCO slid in 2018 observing a 45% YOY decline in production. The variety of the models has also shrunk over the last year after the US imposed harsh sanctions against Tehran. Moreover, almost all the foreign partners of IKCO pulled out of the country after the US sanctions targeted this company. Even international automakers with decades-old ties with Iran stopped sales to Iranian firms as the US bans threatened their access to the American market and disrupted Iran's global banking relations. As a result, even if a foreign company wanted to work with the Iranian domestic car

companies, payment for the goods and services by Iran could not get through. Additionally, sanctions are restricting the import of critical parts and raw materials needed by the automakers to produce sufficient vehicles. Foreign exchange rates have hit all-time highs and production costs have climbed, forcing car companies to increase prices. Additionally, government-approved prices rose in late 2018, where old factory prices saw a rise of at least 50% and in some cases even 130%. However, fearing negative public reactions to high inflation rates, the government has now reacted by introducing new regulations, which require the car manufacturers to report the production costs, profit margins and final price to the country's Organisation of Protection of Consumers and Producers (OPCP) as well as Competition Council. All these have taken a harsh toll on Iranian automobile makers and their suppliers. As a result, IKCO's total production decreased by approximately 50% in 2018. Additionally, the imposition of tough sanctions against Iran resulted in production of fewer models. In particular, during the last two recent years, the status of IKCO has further deteriorated, where the accumulated losses of IKCO reached 170 trillion Rials (\$1.5 billion) by October, 2018. These pressures have intensified the financial strain on the industry, which has resorted to the government for substantial support in terms of working capital facilities for the supply base. Reportedly, as much as 150 trillion Rials have been requested to allow the suppliers to buy raw materials and components and enable the completion of as many as 150,000 unfinished cars currently in storage. In particular, during the last two years, the status of IKCO has further declined, incurring losses amounting to 50 trillion Rials (\$416.6 million).

Table 25 provides a summary of the company’s profits and losses during the years 2013 to 2018.

**The comparable Profit and Loss Statement of IKCO (2013-2018)**

Title	2013		2014		2015		2016		2017		2018	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Pure Sale	84724	%100	167193	%100	184162	%100	257851	%100	314465	%100	204241	%100
The Cost of the Products was Sold	74951	%88	142294	%85	164721	%89	235425	%91	295804	%94	236178	%116
Gross profit and loss	9773	%12	24899	%15	19441	%11	22426	%9	18661	%6	(31937)	%(16)
Tax	0	0	0		0		0		0		0	
Profit and Loss after Tax	(917)	%1	5978	%4	820	%1	2249	%1	875	%0	(84959)	%(41)

**Table 25. Comparable Profit and Loss Statement of IKCO (Billion Rials)**

**Source: IKCO’s Internal Report**

There are several reasons for IKCO’s general development downturn since 2012. According to the results of the interviews, firstly, the key reason is the effects of international sanctions imposed against Iran, which have had direct and indirect impacts on vehicle production and vehicle export in this company. In particular, during the recent years, the maximised international economic sanctions against Iran have significantly influenced IKCO’s operation, facing this company with numerous challenges. Secondly, despite the partial lifting of the sanctions in 2015/2016, IKCO’s production level dropped due to unmet consumer expectations for lower prices. At this time, a social-media campaign “not to purchase cars at the going prices” was started, which was successful for a few months. Furthermore, although imports never accounted for more than 10% of the market

share of Iran, during this time, auto imports increased to up to 35% of the total market value in some years (Razavi & Alaedini, 2018). In sum, IKCO's strategy and performance was significantly influenced by the impact of the political context of Iran, including the wide-scale international sanctions as well as the government interventions rather than market pressures due to privatisation. Consequently, in contrast to promising objective of privatisation, IKCO's privatisation was formed in accordance the government general political ambitions. While IKCO enjoyed a highly protected and monopoly condition, it has faced big challenges under increased international sanctions against Iran during the recent years, including unprofitability, technology shortages and increasing debts.

## **5.5. Conclusion**

This chapter is a review of the key features and conditions in the automotive industry across the globe and in Iran, in particular in IKCO as the case study in this research. The chapter initially addressed the global automobile industry, explaining the logical and essential steps in the world auto industry and market from both the production and consumption perspectives. The section argued how the changes in the world consumption shifted this industry towards competitive production and marketing strategy based on the economy of scale and profitability. Next, it reviewed the development of the Iranian car industry and explored the background of this industry in Iran in terms of historical, economic, social, political, legal and financial dimensions in order to present the current status of the 'Iranian Auto Industry'. The section evaluated the various aspects of Iran's automotive industry in terms of both opportunities and constraints, which may be important in analysing the changes in MASs in the case under research. This section included the regulatory and institutional structures in Iran's automotive industry including a review of the main policy makers and the main Iranian associations that could exert some kind of influence on the companies' MAPs. In general, it was argued that Iran's car industry is heavily regulated, and government and policy makers have direct and indirect control over the industry performance through different approaches such as tariff measures, price indexes, technology transfer, control of labour market and other financial measures. Additionally, from political perspectives, international sanctions have significantly influenced the development of the automotive industry in terms of its relation with MNCs, global markets and global part suppliers, access to technological advances and transfer, and access to banking and financial markets. This chapter also provided a review of the development of the case study of IKCO during the three periods of

pre-nationalisation, nationalisation and privatisation. In sum, based on the results of this chapter and chapter two, it can be argued that there are several macro-environmental factors that would all affect the behaviour of the case study including the change of its MAPs. However, in line with the research interest, this study aims to examine the impact of privatisation on the change of MAPs in this case study. Therefore, the next chapter contains a discussion on the privatisation and the adoption of the structural reform program in Iran and, in particular, Iran's car industry and the selected case study.



## **CHAPTER SIX: PRIVATISATION & STRUCTURAL ADJUSTMENT PROGRAM IN IRAN**

### **6.1. Introduction**

This chapter presented a discussion on the process of liberalisation and privatisation programs in Iran, particularly in the automobile industry. The chapter continued as follows. First, it provided the readers with a general background about the economy of Iran. Next, it reviewed the process of privatisation and adoption of reform program in terms of “Structural Adjustment Programme” (SAP) in Iran, in general, and in the car industry in particular. After that, the chapter focused on the regulatory and institutional changes in Iran after privatisation. Next section addressed the change of accounting regulation in Iran during the three periods of pre-nationalisation, nationalisation and privatisation. Finally, a conclusion to the chapter presented.

### **6.2. Economy of Iran**

Iran is a major producer of oil and a founding member of OPEC, as an "energy superpower". According to BMI, “Iran has the world’s second largest proven oil reserve after Saudi Arabia and the world’s second largest proven natural gas reserves after Russia” (2014, p.15). Most of the Iran's exports are oil and gas, accounting for 82 percent of government revenue. Besides the oil and gas industry, Iran’s economy consists of agricultural and industrial sectors including the automobile, chemicals, plastics, fruits, ceramic products and metals. In Iran, real GDP increased from 4% in 2013 to 4.3 % in 2014. Between 2010 and 2013, inflation climbed from 10.1% to 39.3%, according to the Iranian Statistical Centre. Unemployment remained high and it rose to 11.7 % in 2015, (www.worldbank, 2015). Historically, since the late 1950s and early 1960s, natural resources- oil in particular have played a major part in Iran’s domestic and foreign affairs, including political, social, and cultural development plans (Azad, 2010). Relying on oil revenue, the capital accumulation process in Iran inevitably moved from private capitalists to “state capitalism”, providing the major role for the government, particularly its economic intervention and regulation as means of controlling the Iran’s economy. As a result, the accumulation of sources of capital (largely from oil revenues) in the government’s hands has made stronger the government interventions and the bureaucracy at the expense of a wealthy private sector (Heradstveit &

Hveem, 2004). As a result, the government in Iran has a central role in the economy, which created the government with economic power and financial independence from the society, which is largely dependent on Oil revenues, rather than to collect and redistribute the tax revenues (Azad, 2010). In particular, after the fall of the Pahlavi regime 1979, with the emergence of the Islamic revolution with ideology based on populist and nationalist, the government involvement in the Iranian economy has become even much greater with nationalisation the majority of economic sectors including banks, insurance companies, and many large manufacturing infrastructures (Keshavarz *et al.*, 2019). Moreover, a unique feature of Iran's economy after the Islamic Revolution is the wide presence of military-political organisations and large revolutionary and religious foundations (Bonyades) as semi-state institutions those operating in different economic sectors in Iran. These religious-political foundations established as the mix of public versus private corporations who direct the non-oil economy in Iran. Currently, these religious-political foundations are accounted for the up to 30% of central government spending belongs to these foundations, and over the process of privatisation in Iran, a large number of the privatised companies have been taken over by these semi-public foundations (Azad, 2010). Consequently, the economy of Iran is characterised by domination of large public sectors in which a considerable proportion of the economic sectors including manufacturing sector are under the exclusive control of government and semi-state institutions (Khodadad. K.F., 2005). In general, the economy of Iran is unstable, largely due to the change of oil price in the world, and because it has also been subject to the international, economic sanctions include U.S. and United Nations against Iran, in particular in case of the oil export. The wide international sanctions and global financial crisis have negatively influenced Iran's economic activities in terms of country's industrial and economic growth, national currency, hyperinflation and decreasing GDP. Additionally, by the late 1980s, direct state intervention in market operations and the politicisation of the economy caused the country's poor economic performance had led to a high-rate of unemployment, inflation, a serious deficit, and major trade gap (Azad, 2010). For example, the average inflation rate was around 18 percent annually, and urban unemployment increased from 4.4 percent in 1977 to 18.9 percent in 1988 (Behdad, 2000). The inefficient economic situation forced the government to announce a comprehensive privatisation plan in 1989 as part of the adoption of the "Structural Adjustment Programme" (SAP). The adoption of reform program in Iran were based on initiatives introduced by the World Bank and the International Monetary Fund (IMF), aimed to change Iran's economy

from a state-controlled economy to a free market-oriented economy through the adoption of a wide range of liberalisation and deregulation policies and a large-scale privatisation program (Dezhbakhsh, 2004).

### **6.3. Political context in Iran**

This section aims to provide historical and political discussion about the Iran since 1979 when Iran transferred from a monarch to a religion-political country. This section is important because this period coincides with significant changes in socio-economic and political context of Iran.

#### **6.3.1. Iran from 1979-1989**

In January 1979, the emergence of the Islamic revolution transformed Iran from a monarchy to an Islamic Republic. In 1980, the Ayatollah Ruhollah Khomeini as a Shi'a cleric introduced the concept of velayat-e faqih as an important new concept in Iran's Shi'ite religion and added into the constitution of the Islamic Republic. Conservative clerical forces led by Ayatollah Khomeini established a theocratic system of government with ultimate political authority vested in a learned religious scholar referred to commonly as the Supreme Leader who, according to the constitution, is accountable only to the Assembly of Experts (AOE) - a popularly elected 88-member body of clerics. Based on the new rulers (professional religious scholars and Shi'ite 'olama), "all civil, penal, financial, economic, administrative, cultural, military, political, and other laws and regulations must be based on Islamic criteria".

At this time, many economic structural changes took place in Iran including wide-scale nationalisation program based on populist ideology. Moreover, with the victory of Islamic revolution, the property and wealth of people who fled the country or who judged by revolutionary court as MofsedefelArz, or counterrevolution, all were confiscated and granted to Islamic foundation, named Islamic Bonyads. These religious-political institutions created after the Islamic Revolution in 1979 to manage the confiscated assets of the Royal family and nationalised entities. These giant foundations are now playing a significant role in Iran's economy and political affairs. Mostazafen Foundation, for example, only own 203 manufacturing and industrial factories, 472 big agricultural fields, 101 major construction firms, 238 trade and services companies and 2,786

big plots of real estates. These foundations have not been subject to government levies and audits or to public scrutiny but are accountable only to the Supreme Leader (Azad, 2010).

Another early incident after the victory of Islamic Revolution was the costly and bloody war with Iraq. Iran was being attacked immediately by Iraqi leader Saddam Hussein on 22 September of 1980 and this war continued for eight years until 1988. During wartime (1980-1988), tens of thousands of Iranian residents and military people were killed, and the Iran's economy was extremely damaged. In Particular, inhibited the Iranian's oil exports in the Persian Gulf led the oil revenues of Iran reduced 40 percent from 1978 to 1989, brought the Iranian economy to the verge of collapse. Furthermore, after the victory of Islamic Revolution the US-Iranian relations was broken and the US cut off diplomatic relations with Iran in April 1980 when a group of Iranian students seized the US Embassy in Tehran in November 1979. After the Islamic Revolution, the economy of Iran adversely influenced by international economic sanctions imposed by the US, UN, and EU because they claim that Iran is a state sponsor of terrorism in the world and because of their concerns over possible military dimensions of Iran's nuclear program. These sanctions targeted Iran's investments, industries, exports, imports and business transactions include banking and insurance dealings (including with the Central Bank of Iran), shipping, web-hosting services for commercial activities, and dominant name registration services.

### **6.3.2. The Iranian Reformists from 1989-2005**

The period of 1989-1997, coincide with the death of Ayatollah Khomeini and post-war circumstances in Iran. During Khomeini's leadership, all political factions had controlled and managed by his rulings, and factional conflict was limited to discussing economic matters in which the government had countless power. With the death of Ayatollah Khomeini in June 1989, Constitutional Reform Council announced President Ali Khamenei as the Supreme Leader. Khamenei leadership led to new path of leadership and the military political landscape in Iran. As an important attempt, the Supreme Leader along with the traditional conservatives initially increasing the security-political role of Sepah-e Pasdaran –e Enqelab-e Islami (the Islamic Revolutionary Guards Gorp, (IRGG)) in order to parallel IRGG to the conventional army and provide the grounds for a yet more comprehensive upgrading of the IRGG's defense capabilities. However, the latter specific objective of IRGG was to protect the clerical regime from domestic

and foreign threats and provide a network of regime's supporters within Iran's armed forces of IRGC and Basij. In particular, IRGG economic penetration grew when former president Akbar Hashemi Rafsanjani encouraged IRGG to help his government to build economy after the end of Iran's war with Iraq. President Akbar Hashemi Rafsanjani allowed the IRGG to expand its economic activities into the oil, housing, agriculture, mining, and transportation sectors, among others. Additionally, after the Khomeini's death and the eight-year war with Iraq in 1988, the government introduced two four-year reform programs, highlighting structural changes and the era of reconstruction' (sazendegi) by focus on liberalisation programs. At this period, the IRGG's reach into the Iranian economy has been growing since the government embarked on liberalization programs. In 1997, Rafsanjani presidency succeeded by the Mohammad Khatami as the second Iran's reformist president and he was re-elected in 2001. Following this election and the emergence of a reformist Majles (legislature) in 2000, a campaign to foster political reform in response to popular dissatisfaction was initiated. However, similar to Rafsanjani's presidency (1989-1997), during Khatami's presidency, the IRGG's roles in Iran's national security and foreign policies as well as economic activities significantly increased, especially with the military attaining and development of Iran's nuclear program (Hen-Tov & Gonzales, 2010). In this period, IRGG was increasingly involved in the country's reconstruction plans and infrastructure industries, playing as one of the biggest contractors (with name of Khatam al-Anbiya) in Iranian industrial and development projects. It is notable due to the IRGC's position as an independent organisation that led and controlled only by the Supreme Leader, he allowed this body to continue its activities outside of the official government system, and this legitimacy provided state with a significant difficult challenge to manage the IRGG's economic activities. In addition, although the state had to rise the annual budget of revolutionary organisations (BBC Persian, July 2004), profits resulting from IRGG's economic activities must be transferred to the chancery to use for purchase and upgrade equipment for this Revolutionary Guards and fund its other activities (Alfoneh, 2007).

The reformist movement struggled by conservative politicians, who supported by the Supreme Leader, unelected institutions of authority like the Council of Guardians, and the security services reversed, causing resistance to reform process while increasing security domination. Starting with national municipal presidency elections and continuing through Majles elections in 2004, conservatives re-established control over Iran's elected government institutions, which resulted in the victory of Mahmood Ahmadinejad as conservative president in the presidency election of 2005.

### **6.3.3. Conservatives in Iran (2005-2013)**

In 2005, Mahmoud Ahmadinejad as the conservative president succeeded Mohammad Khatami- the reformist president and he was re-elected in 2009 until 2013. Ahmadinejad as a populist supporter came to power with idea of redistributing Iran's oil wealth among poor and working-class Iranians and he promised to enlarge economic opportunities in Iran. During Ahmadinejad administration, IRGG achieved the greatest power since the victory of Islamic Revolution, extending its security-political, defense and military capabilities. At this time, due to the IRGG's control over Iran's nuclear program and its strong presence on foreign policy committees, IRGG became as a leading actor in the national defense in Iran's foreign policy, as well as experienced an unprecedented increase in its overseas activities in the region. In 2007, the United Nations Security Council forced sanctions on nuclear material and technology entering Iran, and positioned additional limitations on imports and exports to Iran. In international context, IRGG was one the important suspect, mainly accused for running a program that can strike Israel, and for its supposed involvement in disputed nuclear facilities. The corps' Quds Force was accused to be responsible for Iran's ties with Hizbollah and Bashar al-Assad's government in Syria. Additionally, IRGG was constantly adjusting its position in the balance of power between the Supreme Leader and the government, increasing its political and security involvement. It has helped to regime to narrow or eliminate the competitive political ground, aimed to secure clerical dominance and the removal of cleric' secular-religious rivals. Besides its growing influence over Iran's national security and foreign decision making, under Ahmadinejad presidency, the IRGC enlarged significantly its economic presence. At this time, the IRGG engineering conglomerate named Khatam al-Anbia awarded large number of no-bid contracts. Accordingly, the two foundations of Bonyade-e Ta'avon-e Sepah and Bonyade-e Ta'avon-e Basij established to serve the economic and housing needs of their personnel. Additionally, IRGG and Basij widely participated to accumulate economic dividends through their informal links with other revolutionary and governmental institutions and Bonyads. This trend continued and sped by the privatisation initiative, other revolutionary organisations along with IRGC engineering firms became vast economic enterprises, controlling numerous subsidiaries and companies ranging across the military, industry, Housing, banking, energy, telecommunications, technology and the informal economy (Alfoneh, 2007). For example, the scope of IRGG involvement in the financial market significantly increased following

the state's privatisation initiative. It is notable that this trend gathered pace and eased during Ahmadinejad's administration through the appointment of the IRGG's affiliates to the government cabinet and various local governors' positions. During this time, many personnel from the ranks of the IRGG rose to managerial positions in the state bureaucracy, while many others began to access seats of power in the Majles and administration at the state and local levels. Additionally, IRGC exercised significant power through its informal political ties with state and religious institutions and bureaucracies. This informal political power in turn demand the state allocation of economic benefits includes privatisation of public assets and financial rewards to the IRGG's broad network including its own engineering firm and a plethora of subsidiaries and visible companies manage (Arjomand, 2009, p.112). In sum, the period of the conservatives' governments (2005-2013) was much more characterized with controversy transition in Iran, accomplished by the expansion of social-economic and political uncertainty and intensification of international sanctions against Iran. Ahmadinejad's administration ended with vast victory of the reformist movement in the 2013 presidential election, appeared to demonstrate a political change with social dynamics in Iran.

#### **6.3.4. Iranian Politics from 2013-Present**

In 2013, Iranians elected a centrist cleric Hasan Ruhani to the presidency. President Ruhani made promises of reforming society and Iran's foreign policy. In his election competition, Rouhani claimed and promised to his supporters that he seeks to "save the economy, revive morality, and interact with the world." Therefore, Rouhani's presidential administration focused on its approach to improve Iran's foreign policies. At this case, The UN Security Council passed a number of resolutions calling for Iran to suspend its uranium enrichment and reprocessing activities, and in July 2015 Iran and the five permanent members, plus Germany (P5+1) signed the Joint Comprehensive Plan of Action (JCPOA) under which they accepted to restrictions on Iran's nuclear program in exchange for sanctions relief. The relieving of most nuclear-related sanctions under the JCPOA in January 2016 provided a restoration of Iran's oil production and revenue that drove rapid GDP growth, but economic growth declined in 2017 as oil production plateaued. The economy continues to suffer from low levels of investment and declines in productivity since before the JCPOA, and from high levels of unemployment. Additionally, in national level, president Rohani has faced with many obstacles largely due to the pressure groups of powerful

military and economic sectors those who increasingly intervening in national and international government policies, adjusting the balance of power between the Supreme Leader and the government. President Rohani was re-elected in May 2017 with his promise that the economic benefits of the JCPOA would expand and reach all levels of society. In May 2018, however, the US withdrew from the JCPOA and re-instituted economic sanctions on Iran in November with maximum pressure.

#### **6.4. Privatisation in Iran**

This section reviewed the privatisation program in Iran, in general, and its car industry, in particular. Firstly, the section provided a brief outline on Iran's pre-privatisation program and its main motivations for adoption of liberalisation and privatisation. The section continued to present the adoption of privatisation and reform programs (SAP) in Iran, in general, and in the car industry, in particular. Next section addressed the regulatory system in Iran and its change after privatisation. Finally, the change of accounting regulation in Iran through the three periods of pre-nationalisation, nationalisation and privatisation that the car company was obliged to adopt discussed and presented.

In Iran, the history of the privatisation goes back to the era before the victory of the Islamic Revolution in 1979. In 1945, the government of Iran founded a High Economic Council, which finally led to the establishment of Plan Organisation and the introduction of the First Seven-Year Development Plan in 1949. This plan aimed to channel part of oil revenues towards government investment projects, and therefore the role of government in economic sectors increased at this time. In 1956, the government started the Second Development Seven-Year Plan (1956-62), aimed to provide more systematic support to the private sector (Salehi-Esfahani and Pesaran, 2008). At this time, Iran speeded up its industrialisation. This resulted in significant economic modernisation based on an import-substitution model, as well as foreign aid and technical support from the United States (Salehi *et al.*, 2009) and gradually development of market forces to provide an opportunity for and to remove constraints on private investment in Iran (Khajepour, 2000). However, after the victory of Islamic Revolution in 1979, the wide scale nationalisation program started in Iran in accordance to the article 44 of the Constitution of Islamic Republic of Iran. The automotive industry is an example of the industries that nationalised in 1979 and similar to other state-owned



industries, this industry was made under management of the “National Industries Organization of Iran” (NIOI) and then the Ministry of Heavy Industries in 1982. Accordingly, IDRO as representative of the ministry had all actions of automotive companies and administered car companies includes: 1) taking ownership of actions and capital-owned enterprises, 2) administrating, 3) Controlling and 4) setting the strategies in automotive industry. However, in 1988, the Iranian authorities have adopted a comprehensive strategy encompassing market-based reforms, as reflected in the government’s 20-year vision document and the recently issued sixth five-year development plan for the period between 2016 and 2021. According to this plan, Iran planned for a wide-scale privatisation of public assets and liberalisation programs.

#### **6.4.1. Objectives of Privatisation Program in Iran**

According to the constitution, the privatisation in Iran aimed to enhance the efficiency of economic sectors, reducing the burden of running non-profitable operations (Dezhbakhsh, 2004; Razmi, 2007). However, the privatisation literature identified and discussed different but interrelated motivations for adoption of the reform and privatisation program in Iran. These motivations are the development of a non-dependent economy, the reduction of continual budget deficit by selling un-profitable state-owned organisations and the removal of the subsidies system. Removal of monopolies and the creation of a fair competitive market and the access to international capital and technology markets, the creation of job opportunities and the reduction of unemployment, curbing inflation, boosting national welfare and social justice, and speeding up economic growth (Khajepour, 2000; Rashidi, 2000; Dezhbakhsh, 2004; Razmi, 2007; Azad, 2010). Azad (2010) explained that inefficiency and mismanagement of state-run economic sectors together with the devastating economic consequences of the eight-year war with Iraq convinced Iranian officials that they have to move towards serious reconstruction effort towards free market economy. Similarly, Ansari, *et al.*, (2014) explains that facing persistent budget deficits and balance of payment difficulties, the Iranian government decided in 1988 to adopt structural adjustment policies to correct the structural imbalances in the economy and to bring its economies back to a sustainable growth path. They identified that accelerating the economic growth; removal of subsidy, liberalising the trade regime and exchange system has been at the heart of the economic reform program in Iran. Khajepour, (2000) argues that under central planning economy, the state-owned organisations actually could seldom function without massive government subsidies and

the state turned into a money distributing entity that distributed the oil wealth amongst a number of subcontractors (Khajepour, 2000). Many of previously internationally competitive companies, such as Iran Air or Iran Khodro, corrupted into basic domestic companies that could not easily continue without huge state subsidies - largely came from oil revenues. Therefore, privatisation effort in Iran was largely due to large scale of collapses and failures of state-owned organisations partly resulted from mismanagement and a lack of incentives and controls in these economic sectors (Khajepour, 2000). Additionally, Rashidi, (2000) argues that privatisation in Iran aimed to reduce social and political discrepancies as well as reduce the gap between social classes. In addition to the internal pressure for privatisation, international financial agencies were other drivers for privatisation in Iran (Dezhbakhsh, 2004). Privatisation program in Iran started as part of the adoption of the “Structural Adjustment Programme” (SAP), which was introduced by the World Bank and the International Monetary Fund (IMF).

#### **6.4.2. Privatisation Process in Iran and Automobile Industry**

This section aimed to discuss the success of privatisation and adoption of reform program in Iran, in general, and the car industry, and in particular. The section breaks up into a series of 5-year social and economic plans, which started with the introduction of the first five-year development in 1988.

##### **6.4.2.1. The First/Second Five-Year Economic Development Plan (1988-2000)**

First Five-Year Development Plan (1989-1993) approved by the Islamic Consultative Assembly or so called Magles (Parliament) in 1988. Article 8 of this plan made authorise and responsible the government to take appropriate measures to increase private sector participation in economic activities and promoting competition, aiming to enhance efficiency in economic sectors and reduce the role of the government in those activities (Dezhbakhsh, 2004). Additionally, given the fact that the process of privatisation is a part of adoption of SAP (Structural Adjustment Programme), this plan called for affirmative efforts on putting structural reforms in place to turn the country economy into a market-oriented, investment-driven, and more efficient system. This plan signified a number of economic adjustments program for the growth of economy: trade liberalisation, privatisation of state-owned enterprises, wage-price deregulation, and reform of the country

exchange system. According to the plan, the removal of subsidiary and promotion competition through the elimination of a monopoly market focusing on promotion of freedom of entry and free market prices announced as the main area of structural reforms in the car industry. Sub-article 32 of this plan provided the legal ground to implement the privatisation policy. Moreover, as a main component of the liberalisation program, this plan focused on the development of the TSE, the establishment of capital market institutions and support for financial innovations, aiming to improve investment capital and to encourage greater participation from the private sector (Azad, 2010). The re-launch of Tehran Stock Exchange (TSE) also aimed to create a mechanism for transaction shares of state-owned companies and removing the basis of the constitution (article 44) regarding that core-infrastructure should be state run. However, by the period of the First Five-Year Development Plan, economic reform in Iran failed in terms of both sales of state-owned organisations and adoption of SAP (Razmi, 2007). This plan aimed to reduce the role of the state in economy; privatising some 800 publicly owned enterprises (Ehteshami, 1995). However, during this period, 391 out of the 770 SOEs listed for the initial privatisation program. However, from 122 state-owned organisations accepted in Tehran Stock Exchange (TSE), only 19 firms divested to the private sector. The value of shares ceded to the private sector from the start of privatisation up to 1995 was only about \$950 million of the \$120 billion of the estimated total value of state assets available for sale to the private sector. According to a law passed by the Council of Ministers in 1992, IDRO was responsible to sell 67% of the actions of governmental companies with stock market transactions or by other means. Additionally, during the First Five-Year Development Plan the government and regulatory authorities in Iran did not keep pace to SAP, in which during this plan, the share of government in economic activities increased in the economic activities (Kashi, 2005).

The second Five-Year Development Plan introduced in 1994, pursued a new and vastly different policy, focusing on “tasbite eghtesadi”, or economic stabilisation based on advocated renewed regulation and economic control policies. At the same time, this plan aimed to continue to support the liberalisation and privatisation strategy (Amuzegar, 2004); focusing on the liberalisation policies and the government was required to accelerate the process of privatisation by regulatory reforms (Dezhabakhsh, 2004). The most important step in the stage was to unify the foreign exchange rate by the removal of the official rate of foreign exchange (Salehi-Isfahani, 1999). The government allocated foreign exchange subsidies to particular sectors at an official rate much

lower than market rate of foreign exchange in the country. The unification of the foreign exchange rate could lead to transparency and an increase in the competitiveness of the private sector. However, the second development plan similar to first development plan failed to remove structural shortcomings, including heavy dependency on energy revenues, a weak production sector, uncompetitive markets, and an unstable national budgeting system (Azad, 2010). Additionally, the sale of state assets, which were slow during the first development plan, decelerated further by the second development plan (Dezhbakhsh, 2004) and consequently the reform program completely stopped in 1995. In contrast, although the government adopted the large-scale privatisation policy in terms of development plans since 1989, the number of major state-owned enterprises had increased from less than 270 to more than 560 with less than 300 reportedly making a profit (Azad, 2010).

In the case of automobile industry, during the First Five-Year Development Plan, similar to other industrial sectors, privatisation did not proceed as planned. In car industry, by the end of this plan, small car companies privatised or acquired by two giant carmakers including IKCO and Saipa, and IDRO as a state department continued to have 70% ownership of both IKCO and Saipa. Additionally, privatisation in the car industry started in 1991 with the general national strategy based upon protection policies for local products and self-sufficiency as well as import-substitution policies. In 1991, the approval of Automobile Law led to import –ban of any kind of completely built-up cars into country. Additionally, the automobile law resulted in tax breaks and other financial and non-financial supports for local carmakers in Iran. These protective policies, however, intensified the monopoly power, causing that the Iran’s car industry to be dominated by two monopolies with a 96% market share in Iran. At this time, some popular international automakers entered and invested in Iranian car industry. However, these companies preferred to invest in Iran in the form of JVs with Iran Khodro and Saipa and they "often licensing models for local production to avoid direct investment in Iran and therefore having to answer to Washington" (Ellis, 2006, p.1). Additionally, in 1991, regulations have eased the chance to invest or establish automotive enterprises at low capacity in the private sector and therefore, the Ministry of Industry issued ten “agreements in principle”. However, only four companies Kerman Motor and Khodrosazi-Sina, Kish Khodro and Ran-Iran founded, and only three of these companies survived, but none of them could take significant market share. Azad, (2010) and Gasiorowski, (2000) identified several practical problems in execution of liberalisation and privatisation program in

Iran during these periods including economic, administrative, political opposition in parliament as well as legal barriers—including the diktats of Article 44 of the constitution. Azad, (2010) argued that privatisation in Iran had important politico-economic dimensions because it involved changing ownership patterns, which unavoidably “affect income distribution, employment patterns, and control of crucial economic sectors” (Azad, 2010, p.2). By this time, the Iranian economy was characterized by stagnation, high inflation and unemployment, a poor national currency, and growing socio-economic disparities, which have negatively influenced the reforms programs in Iran. Salehi-Isfahani, (1999) and Khajepour, (2000) also argued that during these periods the adoption of structural reforms in Iran failed mostly due to the lack of coordination and harmony in different policy areas and domestic reaction. Salehi-Isfahani, (1999), argued that at this time, the reform program was criticised in parliament because of their opposition to many aspects of economic restructuring, especially those that aimed at a change of income distribution by raising the price of foreign exchange and credit to their holdings, which would be politically sensitive. In particular, this reform program was criticised by the left as the dominant members of the parliament, and the revolutionary and Islamic foundations and their political connections (Rakel, 2008). Razmi, (2007, p.9), also argued the non-existence of investment security, instability in economic policies, non-existence of a clear legal framework, and nonexistence of a good information system were important obstacles of the implementation the economic reforms in Iran. Danial & Mahdi, (2006), argued that the economic reform policies at these periods, were challenged by collapsing oil prices, constitutional barriers to foreign investment, and in particular these programs were also seen as threat for disorder the subsidies system, and were weighed down by charges of corruption and inefficiency.

#### **6.4.2.2. The Third Five-Year Development Plan (2000-2005)**

The president Khatamy believed that the Iran’s economy was, "chronically ill...and it will continue to be so unless there is fundamental restructuring". He followed the liberal policies that previous reformist presidents had introduced, presented a new five-year plan in late of 1999. As part of the third development plan, it aimed to privatise more than 500 state owned enterprises, by participation of both the foreign and domestic private sectors (Namazi, 2000). By the third development plan, the government announced an ambitious plan to privatise several major industries, including telecommunications, banking and insurance, power generation, and even the

upstream oil and natural gas sector. The main objectives of the third development plan in terms of reform program declared:

- Regulatory reforms including fiscal, monetary, trade and foreign exchange rate restructuring.
- Removal of the practical obstacles related to the both domestic and foreign investments.
- Structural and institutional reforms, breaking up the monopolies (except natural monopolies), promote the market's transparency and competitiveness.
- Increase of the financial transparency aims to improve the trust in the process of privatisation.
- Political reforms aimed to move towards efficiency of economic sectors, promoting domestic and foreign investment.

Some of the important reform efforts in the third development plan included:

- Legal permission for the implementation of the privatisation program \_ the approval of the constitution's article of 44.
- Expansion of the TSE related to selling state-owned assets in the process of privatisation program.
- Liberalisation of foreign trade related to the elimination of a range of non-tariff barriers, ratification of the new law, and the "Foreign Investment Promotion and Protection Act" (FIPPA).
- Removal of the barriers on technology transfers from overseas.
- Foundation the numbers of free trade zones.
- Apply for membership of the World Trade Organisation (WTO).
- The unification of exchange rates to remove subsidies
- Reform programs of Direct Tax Law.
- Reforming of the banking systems related to the licensing of private banks.
- Introduction of the Iran's Code of Corporate Governance.
- Growth of the civil society related to the establishment of entities such as the "Confederation of the Iranian Industry" (Majma-eSan'ate Iran) as well as the "Society of Protectionists".

During implementation of third development plan and in the contemplation of article 15, in 2001, government established the Iranian Privatisation Organisation (IPO) in order to coordinate the plan. In 2004, Iran's Expediency Council reinterpreted Article 44 of the constitution, thus removing the greatest legal barrier to privatisation. This amendment as the legal permission changed the government role as an owner to supervisor of private sector, allowing the government to sale the 80 percent of firms involved in principle policy 44 to private or non-governmental agencies, public ownership be replaced by government supervision. Accordingly, during this period TSE became a member of the World Federation of Exchanges (WFE) and the Federation of Euro-Asian Stock Exchanges (FEAS). According to the TSE, foreign investments include indirect investments (Foreign Portfolio Investment) and direct investments (participation in the management of the company) which are both required to meet the terms with specific regulations in Iran. Additionally, one of the important economic efforts during the third development plan was the foundation of private banks, and foreign banks to operate in free trade zones for the first time since 1979. Furthermore, the corporate governance in Iran introduced in 2000 (Chatterjee *et al.*, 2010), when an internal governance structure was dominant and only a few external control mechanisms were in place (Mashayekhi & Mashayekh, 2008). Furthermore, by this plan, the banking system in Iran partly privatised and the private banks launched aimed to increase the levels of credit and investment in the private sector. In the case of the car industry, the third development plan aimed to open the local car markets gradually to international markets, moving towards a mass export strategy and partnership with international automakers. This resulted in reducing the protection policy for local products by reducing custom duties imposed on imported cars. During this time, the import tariff reduced from 145% to 90%. By 2003, for the first time the import permission issued and five brands of foreign cars imported to Iran. Additionally, emphasis on a mass export policy and partnership with international automakers in the form of JVs to achieve of development of design and engineering in the local car parts industry. In the car industry, however, similar to other industries, the full privatisations of IKCO and Saipa remained behind schedule. One of the main limitations in the privatisation effort at this time was that only local Iranian organisations that are capable of buying the large share blocks are themselves government owned. Despite such reform efforts, by the third development plan, less attention was payed to the economic liberalisation and privatisation program, but the focus of the government was on cultural issues and social liberalisation. By this period, despite the plan of selling a total \$2.5bn by the end

of 2005, less than 30% of SOEs actually sold to the private sector. On other hands, the number of companies in the public sector increased and the economic liberalisation efforts were largely unsuccessful due to the lack of an appropriate political-economic environment. Furthermore, religious and revolutionary foundations were a major obstacle to implementation of liberalisation and privatisation in Iran, simply because they were not prepared to give up their unfair access to many advantages that the private sector lacked (Azad, 2010). These institutions sustained control over a considerable portion of the Iran's economy and they have been excluded from privatisation policies. On other hands, the strong connections of these institutions with the political organisations have made them a powerful lobby to put pressure on the government and policy makers in order to increase their monopoly over the economy during privatisation programs. For example, the parliament's fourth term (1992-1996), for first time gave these institutions a share of the state-owned enterprises those that were listed for the privatisation (Rakel, 2006).

#### **6.4.2.3. The Five-Year Economic Development Plan (2005-2019)**

Liberalisation and privatisation program in Iran continued by the approval of the Fourth Five-Year Development Plan (2005-2010). This development plan called wide reform program according to which could bring about economic and social change including: (1) development of foreign trade and a focus on export policies. (2) Improvement of the social justice by regulating the home market and continuing price controls on basic commodities, (3) Reduction of the public's employment. (4) Improvement of financial systems, including introducing foreign banks, privatising small banks and re-capitalizing large state-owned banks. (5) Accelerating privatisation efforts and aligning customs procedures with WTO standards. At the fourth development plan, privatisation policies also emphasised by administrative order of Supreme leader Ali Khamenei on February 2007, recommending the implementation of the policy mentioned in principle 44. Despite the supreme leader's decree and commitment of president to privatisation program, by the fourth development plan, the privatisation pace was rather slow until 2009. For example, by the 2006 the worth of soled state assets was about \$640 million, accounting for only nine percent of the government's privatisation plans (Radio Farda, April 20, 2007) and about 30 percent of government enterprises privatised by the 2008. During this time, the government focused on the economic liberalisation program rather than for selling off state-owned enterprises. By the fourth five-year development



plan, there were some important steps to resolve the major problems related to privatisation including:

- The gradual removal of state subsidies system, to allow market prices to be adopted in bringing more transparency and further competition in economic activities.
- The removal of the restrictions on the Labour Law (established in 1990), including abolishing the minimum wage and letting private sector employers hire and fire as they please.
- Foundation numbers of small private financial/credit institutions as well as the privatisation of several large state-owned banks.

In late 2007, as important attempts, the government decided to remove gradually several state subsidies and by the amendment of the labor law to remove the restrictions of the Labor Law of 1990, aimed to encourage the participation of the private sector, and force Iranians to face the market realities more than ever (New York Times, December 30, 2008). In 2009, the government accelerated the privatisation program, selling off the assets of 50 companies, which had been worth around \$110 billion (Tabnak.ir, November 29, 2009). According to IPO, the year of 2009-2010 was the “golden year of privatisation,” because of the privatisation of strategic sectors as telecommunications, fuel, electricity, steel, and banking (Boursenews.ir, August 25, 2009). By the end of the fourth development plan, the government expressed his commitment to the privatisation policy as a “national priority”, planned to privatise 80 percent of state-owned industries. This plan includes the transfer of two giant Iranian automakers, Iran Khodro and Saipa (Tabnak.ir, December 2, 2009). By the second term of presidency of Ahmadinejad, under the fifth development plan (2010-2015), his government accelerated the divestment of SOE assets. During this time, it was planned to privatise 47 companies of energy sector worth \$90 billion by 2014 (Masha’i, February 17, 2008). The largest amount of divestment occurred in the oil, chemicals, metals, electricity, and telecommunications sectors. In 2009, 51 percent of the Telecommunications Company of Iran (TCI) transferred to a conglomerate linked to the IRGG Cooperative Foundation, a large investment company and service contractor (Harris, 2013). Harris, (2013) compared the scale of privatisation of state-run enterprises by three presidents in Iran from 1991 to 2011. Table 26 summarises and compare the progress of privatisation in the field of transfer of shares from government to shareholders and the manner of transfer during different presidencies since 1991.

This table shows the privatisation of state assets by the president Ahmadinejad was much more than previous governments. Value, Recipients, and Methods of State-Owned Enterprise Transfers in Iran 1991\_2011 (Constant Billion of Rials with Base Year 2011).

President and Year	Private and non-governmental organisations (NGO) Sector <sup>1</sup>	Cooperative Sector <sup>2</sup>	NGO sector <sup>3</sup>	Share of Total transfer 1991-2011	Companies Transferred <sup>4</sup>
Rafsanjani admin. 1370-6 (1991-97)	54,438	0	0	4.1%	ND <sup>5</sup>
Khatami 1 <sup>st</sup> term 1377-80 (1998-2001)	26,913 <sup>6</sup>	0	0		ND
Khatami 2 <sup>nd</sup> term 1381-4 (2002-05)	63,766	0	664	6.9% <sup>7</sup>	364
Ahmadinejad 1 <sup>st</sup> term 1385-8 (2006-09)	322,819	510,916	182,316		376
Ahmadinejad 2 <sup>nd</sup> term 1389-90 (2010-11)	116,606	0 <sup>8</sup>	50,169	89% <sup>9</sup>	278

**Table 26. Iran Economic Transition Trend (1991-2011)**

**Source: Iranian Privatisation Organisation ([www.ipo.ir](http://www.ipo.ir))**

<sup>1</sup>Stock market, auctions, and negotiated transfers.

<sup>2</sup>Justice shares.

<sup>3</sup>Transfers in lieu of debts owed by government.

<sup>4</sup>Full or partial divestment of shares.

<sup>5</sup>The number of divested companies before 1381 is not available in IPO data.

<sup>6</sup>Because there is a break in Iranian Privatization Organization (IPO) data after 1380, this table uses two separate IPO data files to compare amounts over the entire time period.

<sup>7</sup>Refer to both terms of Khatami's presidency.

<sup>8</sup>Additional justice shares have not been distributed after the first two rounds.

<sup>9</sup>Refer to Ahmadinejad's presidency through 2011.

Figures adjusted for inflation using the Consumer Price Index of the Central Bank of Iran. According to Fuladgar's special parliamentary commission during Ahmadinejad's first term presidency (2005-2010) 70 billion USD in over 300 companies had been transferred, including shares in automakers IKCO and Saipa, Saderat, and Tijarat Banks, Asia Insurance, and the aforementioned TCI. During 2006-2010, only 13.5 percent of Iran's state-owned enterprises sold off to the real private sector. The rest of 86.5 percent worth of privetised assets (about \$70 billion) left to para-governmental organisations (Khurasan, 26 December 2010). As a result, during the fourth and fifth development plans, a great share of state assets transferred to a semi-governmental sector, which was in contrast to purpose of Article 44 (Isna.ir, November 24, 2009). Azad (2010) & Harris (2013) argued that during the first three development plans with reformist presidents, companies affiliated with state banks, social security organisations pension funds, and some revolutionary foundations were the main beneficiaries of the privatisation projects. However, under the left president, Ahmadinejad, security and military organisations, particularly the Islamic Revolutionary Guard Corps (IRGC), and its associated institutions and companies largely benefited from the privatised assets. By the privatisation initiative, therefore, IRGC and their affiliated corporations acquired great opportunity to expand their role in economic activities. Generally, the government of President Ahmadinejad pushed privatisation program in Iran, with its anti-capitalist rhetoric and lack of adequate economic preparations (Azad, 2010), establishing a new non-governmental monopoly with political and military power, threatened to disrupt the economy of country by the corruption and inefficiency of the privatised companies.

Additionally, despite the highest oil income in Iranian history under Ahmadinejad government, he was less successful in fulfilling many of his economic campaigns and the intended reform programs, and the country faced with high inflation rate, high unemployment, and highest budget deficit since the Iranian revolution. During this period (2005-2013), the government in Iran has taken the financial gains from privatisation to finance budget deficits, to rid the state of unprofitable and inefficient state-owned enterprises, to settle its debts to Pension Funds and Social Security Organisation (SSO). This happened also due to lack of a powerful industrial bourgeois class, and therefore there was low participation of private sector to buy public companies. As a result, due to large size and economic power, these semi-public enterprises bought privatised enterprises much easier compared to the private sector (Mohamadi, 2006). In case of the car industry, two monopolies of IKCO and Saipa hold the bulk of the actions of five automotive

companies among the eight privatised automotive companies; and the government currently owns 15.17% and 35.76% of IKCO and SAIPA companies respectively. Although, the government's ownership has reduced, ownership structure is largely replaced by that of other public and / or semi-public enterprises and / or private-law enterprises and therefore it is expected that the government to retain its influence in these companies. During this period, profits came largely from privileged access to foreign exchange at the extremely low official rate. However, since the unification of the exchange rate, significant profit has come from access to bank loans at interest rates below the inflation rate. In addition, Iran's economy remains highly regulated, with much opportunity to protect favored firms (Azad, 2010). For example, with the advent of Ahmadinejad's presidency and his populist agenda for employment generation, the planned tariff cuts were not implemented until the last few months of his administration. In addition, another effort was issuing a directive appointing the Competition Council to control the price of a number of popular models of cars, in which since then the debate over price control has intensified in this industry (Razavi & Alaedini, 2018). Privatisation and liberalisation program in Iran have being continued under Rouhani administration since 2013 to present, as reflected in the six five-year development plans (2015-2020). After President Hassan Rouhani took office in 2013, he expressed dissatisfaction with the status of privatisation in the country, calling for "real" privatisation. He pointed that privatisation was not real during the previous presidency because government's assets were given to bodies that were not private. President Rouhani announced his intention to undertake "structural reforms" in the Iranian economy, focusing on foreign investment, enhancing the banking sector, amending the country's investment legal framework, and increasing fiscal discipline. He said shortly after Iran's recent parliamentary elections about his intention for the privatisation program in particular privatising the car industry.

During the first term of his presidency Rohani (2013-2017) as a reformist president, he focused on foreign policies, when the global community was relatively united in pressuring Iran. At this period, Iran accepted the 2015 multilateral nuclear accord (Joint Comprehensive Plan of Action, JCPOA), which offered Iran broad relief from USA, U.N. and EU sanctions. The sanctions relief provided an opportunity for Iran to increase its oil exports to nearly pre-sanctions levels, regain access to foreign exchange reserve funds and reintegrate into the international financial system, achieve about 7% yearly economic growth (2016-17), and attract foreign investment (Katzman, 2019). The lifting of most nuclear-related sanctions under the Joint Comprehensive Plan of Action

(JCPOA) in January 2016 drove rapid GDP growth, but economic growth declined in 2017 as oil production plateau. The economy continues to suffer from low levels of investment and declines in productivity since before the JCPOA, and from high levels of unemployment. At this time, the president Rohani attempted to implement structural reforms that strengthen the banking sector and improve Iran's business climate to attract foreign investment and encourage the growth of the private sector. Despite important challenge in the process of privatisation, the new parliament was supportive to structural reforms during this time. Additionally, by the partial removal of international sanctions on the Iranian auto industry, encouraging MNCs to renew their past co-operation with this industry in Iran. In May 2017, the re-election of President Ruhani generated common public expectations that the economic benefits of the JCPOA would provide the government to expand structural reforms.

However, in May 2018, the US withdrew from the JCPOA and reinstated economic sanctions on Iran in November with "maximum pressure" on Iran. The "maximum pressure" policy covers wide variety sanctions against Iran including: blocked Iranian property and assets, trade and investment with Iran, Iran's Energy sector, Auto production and minerals sectors, weapon of mass destruction, missiles, and conventional arms transfers, financial, banking sectors. Accordingly, Executive Order 13645 of June 3, 2013, as superseded by 13846 of August 6, 2018 imposed the Iran Sanctions Act (ISA) on firms that supply goods or services to Iran's automotive (cars, trucks, buses, motorcycles, and related parts) sector, and blocks foreign banks from the U.S. market if they finance transactions with Iran's automotive sector. Additionally, at this time, one of the main challenges for the reforms program was due to the opposition from entities linked to the IRGG, and many of the political actors who put pressure on the government and policy makers in order to increase their monopoly over the economy during privatisation programs. According to the development plan, the government was responsible to privatise 27 huge companies, 76 large companies, 31 medium companies, and 31 companies of other sizes in 2014. The privatisation of government-owned assets in Iran has increased by 2.5 times during the Rouhani's first round (May 2013 to May 2017) administration. As of 2016, according to the IPO, 25% of such entities were divested to the Civil Servants Pension Organisation, 15% to the Farmers, Villagers and Nomads' Social Insurance Fund and 25% to the Social Security Organisation and only 5% to the "real private sector".

During this period, economic reform in Iran has slowed down in terms of both sales of state-owned organisations and the development of liberalisation program. At this time, the economic reform policies faced by collapsing oil export, price controls and subsidies, prohibited imports, administrative controls, high unemployment, pervasive corruption. As a result, during this period the nuclear-related sanctions have taken a serious pressure on Iran's economy and people, made Iran more isolated from international communities including the global financial and non-financial markets. In sum, despite the passage of about three decades of privatisation and economic liberalisation policies in Iran, in general, and in car industry in particular, did not carry on with expected scopes and timescales and therefore the state (including revolutionary and religious foundations) has remained the dominant force in the country's economy. Making a comparison between the figures related to state-owned budgets since privatisation began in Iran and those of in 2020 clearly shows the government failure to implement privatisation program in Iran. In 1991, the budget of state-owned companies accounted for about 1206 billion Tomans (equivalent to about 201 thousand billion today), accounting for just over 60 percent of the total budget. Thirty year after the start of privatisation project in Iran, the budget bill amounted to 1484 thousand billion in 2020 for SOE, indicating that an adjusted budget figure for SOE grown by more than 630%. The table 27 compares the budget figures allocated to state-owned companies, which shows the increasing role of the government in economic activities after privatisation in Iran.

<b>Budget Sections</b>	<b>Budget 1991</b>	<b>Budget of 1991-worth December of 2019</b>	<b>Budget bill of 2020</b>	<b>Growth Rate</b>
Total Budget	2.0	336	1989	%492
SOE Budget	1.2	201	1484	%636
Government General Budget	0.9	145	485	%235

**Table 27. Budget's Figures**

**Source: Budget law (1991) and Budget Bill (2020)**

The 1991 budget figures were calculated using the inflation calculator of the Iranian statistic center based on the adjusted inflation and its equivalent Rails (purchasing power) in December 2019. The comparison of the 1991 budget with the 2020 budget bill shows that the budget of SOE has become

approximately seven times over the past three decades since when the privatisation started in Iran (the rate of inflation is considered). As a result, the privatisation project in Iran has not succeeded because not only the government role in economic activities has not declined, but also has increased significantly. There are several reasons for failure of reform program in Iran. As an important reason, the reform and privatisation program in Iran failed due to conflicted ideological constitutional barriers, and the lack of interactions between different policy areas and the proponents and resistance of interest political groups with reform program (Khjepour, 2000). As discussed earlier although the approval of the amendment of article 44 of the constitution was a legal allowance for large-scale privatisation in Iran, the government's access to oil revenue provides a condition for government to have important roles in a variety of economic activities. This right is based on the ideology populist, nationalist and the most of all Iran's Shi'a Islamic ideology based on the concept of velayat-e faqih. According to this ideology all policies and regulations includes the economic activities in Iran required to be ruled and supervised by the leading Islamic jurists who are the political leaders in Iran. Additionally, Iran's economy is characterized by the wide presence of political, revolutionary and religious foundations (Bonyad), those are dependent on government' budgets but function independently from the government's supervision, but supervised and controlled by the supreme political leader. For example, it is one of the main challenges for government to move from political-military economy towards liberalisation policies based on a free and competitive market. Today, Guards' economic interests have become too big and out of control of government. The guards and its associated business constituencies are unwilling to see a widespread influx of foreign investment in Iran, can create different obstacles like bureaucratic complexities, use their security veto, and manipulate market connections to minimise the entry of foreign investors and development private investment. Although the increase the efficiency and economic growth, increase of competition, and improvement of market-oriented business were some of the leading general policies of the principle 44, the economy of Iran can be characterised by a mixture of market distortions. Subsidy payments, price controls, price and market guarantees, commodity procurements, and diverse tariffs and non-tariff barriers are parts of these distortions. Subsidy payments have become a well-known consumer and producer support policy in Iran (Ansari *et al.*, 2014, Dianati Deilami *et al.*, 2016). Moreover, under the nuclear programs in Iran, the economic activities and its business relationships with international communities are still under different international sanctions

imposed by the USA and the UN Security Council. This condition has negatively influenced the process of reform program in Iran, has intensified the role of the government in economic activities. Additionally, the adverse effects of partial implementation of the reform programs on the economy of Iran, particularly the inflationary consequences of this policy, prevented full implementation of the policy of structural reform in Iran (Ansari *et al.*, 2014). Clearly, the adoptions of liberalisation policy increase the unemployment in the country, which can be a great threat for the government under severe international sanctions against Iran. Additionally, removal subsidies demand vast financial and nonfinancial efforts by the government, which is not possible for the government under uncertain condition of Iran's economy. Focusing on the automobile industry, the result of this section reveals that this industry operates in highly political context and therefore the role of market pressures is much less than regulatory and political forces. The next section examined the regulatory and institutional reforms in Iran after privatisation that the case company was obliged to adopt.

### **6.5. IKCO's Ownership Change**

According to a law passed by the Council of Ministers in 1992, IDRO was responsible to sell 67% of the actions of IKCO with stock market transactions or by other means. In addition, the remaining 33% of the ownership planned to sell employees of IKCO. Furthermore, the staged, periodic, and gradual nature of many privatisations indicates that privatisation in IKCO is more of a process than an event: it has opened out over many years. Even though the 1993 auto law had required the government to gradually privatise the IKCO, it took another 12 years before any shares would be transferred and IDRO held shares of IKCO on behalf of the government (Razavi & Alaedini, 2018). In 1998, the government's ownership decreased to less than 50 (46.7) percent, and therefore IKCO officially transformed to a Public Joint Stock company. However, the public ownership in the IKCO replaced by that of other public and / or semi-public enterprises and / or private-law enterprises but controlled by the state. Additionally, the actions reserved for employees eliminated according to the Budget Act of that year (IGI, 1998). During 2000-2009, the IDRO also remained the main IKCO's shareholder, having 40 percent of the ownership of the company's ownership. Since 2014, the government's ownership reduced to 14.04 percent and the group that took over the rest of ownership composed by other organisations including private, public and / or semi-public enterprises and other natural and legal persons. Additionally, according to the results of



interviews, the impact of privatisation in the IKCO's strategy was not significant because the government retained its influence and domination. In this respect, although the privatisation program in IKCO has started from 1993, until 1997 the IKCO was officially a public company, since the government still holds more than 50 percent of company's ownership. In 1997, the government's ownership decreased to less than 50 percent and IKCO officially transformed to a Public Joint Stock company. Currently, however, the government and semi-government organisations are still the main shareholders of IKCO, playing the main role in the company's performance. The table 28 shows the composition of IKCO's shareholders by 19th March 2019-2020.

Name of Shareholder	Number of Shares	Percent	Percent
	19/3/2020	19/3/2020	19/3/2019
Iran Industrial Development & Renovation Organisation (IDRO)	41,760,147,540	13/84	14/04
IKCO's Investment Development CO	32,944,452,443	10/92	0
Civil Retirement Fund	15,042,462,263	4/99	4.99
Civil Retirement Fund Investment	9,162,776,133	3/04	3.04
Samand Investment Company (IKCO)	9,651, 246,759	3/20	9/28
Tadbir Investment Arad Company	45,954,618,640	15/23	15/23
Iranian Trading Sepehr Kish Company	31,962,530,100	10/60	10/63
Iranian National Investment Company	15,114,718,079	5/01	4/33
Persons and Legal entities	100,063,116,043	33/17	38.46
Total	301,656,068,000	100	100

**Table 28. Composition of IKCO's Shareholders**

As a result, during this period, the privatisations in IKCO was involve the transfer of minority share to private sectors and the government and semi-state organisation played the main role in the management and control and strategic policies in IKCO. Previously, IDRO held the shares of IKCO on behalf of the government. After privetisation program with the gradual divestment of government shares over the past three decades, however, a complex situation has emerged in the IKCO's ownership: semi-state entities as well as subsidiaries of IKCO have gained the control the majority of the company's floated shares. In this respect, although today IDRO directly controls only around 14% of IKCO's stocks, majority shares are held either by other semi-governmental funds and institutions or by subsidiary enterprises affiliated with this company. As a result, the company's board executives are still controlled by entities affiliated with the state-while their chief executive officers are appointed through agreements among the state and semi-state representatives on the boards. From this perspective, many interviewees argued that government has continued interference in the company management has forced IKCO to make decisions based on parameters not directly related to the economic rational. Therefore, IKCO can hardly become competitive or act as a private oriented company with all the government interferences.

In this case, the former IKCO' cost director explained: "After the start of gradual privatisation program during 1993-1997, IDRO had more than 50% the ownership of IKCO and therefore it was playing the main role in the administration, control and making decisions in the company. At this time, the company's strategy and administration was same as when the company was state company and therefore there was not change on the manager's perspectives regarding the company's profitability; efficiency, managerial and control models, the issues that had not being important for IKCO by when it was a state-owned company".

Additionally, after privatisation during 1993-1997, there was not improvement in market competition. At this time, car imports were highly restricted and IKCO was benefited from a highly monopoly market condition. As result, similar to before privatisation the IKCO aggressively continued a strict mass production strategy, focusing on productivity, the increased capacity, the creation of assembly capability and supply chain and self-sufficiency policy. Former IKCO's MA manager explained: "This period characterised by technical and engineering dominance, in which the operational features were the only priority in the IKCO. Therefore, financial issues and

profitability, and the use and improvement of control system were not seen priorities for the IKCO's managers.”

The strategy and planning department explained: “During gradual privatisation in IKCO, there was a tendency towards differentiation, technology transfer strategy and supply chain framework, which created significant change in the size and structure of IKCO. However, these transitions were largely production oriented based on technical capabilities. Indeed, the existing safe and uncompetitive domestic market gave an opportunity to the company to invest on these projects as long-term returns investment without adequate attention on marketing, economic, managerial and control perspectives.”

Former MA manager added: “At this time the company benefited from financial prosperity which created a good condition and value for the implementation of privatisation program in IKCO. However, these prosperity and positive cash flow situation did not drive from development of the managerial and control systems focusing on profitability, budgeting, development of cost systems and reducing company's expenditures. But it was largely resulting from the general government's policies, supports and monopoly condition created by MIM.”

According to interviews, the privatisation in IKCO has not been real. Actions of IKCO shaped largely by the political reasons or with ambition to pay the state debt to the public enterprises. Therefore, the reduction of government ownership has not caused significant change in management share of the government and therefore strategies and attempts adopted by IKCO to cope with the well-known preparation for privatisation. The former head of the accounting department explained: “Despite reduction of government's share, the company's managers were still appointed by the IDRO and therefore there was no difference between managerial perspectives of the prior state-owned model and the IKCO's model after privatisation. Before the privatisation, the IKCO's strategy was the productivity and this strategy continued with the same business philosophy and culture in this company”.

Similarly, manager of MA department explains: “Although so far about 86% of the IKCO's shares have been divested gradually to the others, IDRO still plays the main role in the company, appointing four out of five members of Board of Directors in IKCO. For example, the company of Crosse is one of the IKCO's main private shareholder with 20 percent of IKCO' ownership (more

than the share of IDRO), but this company is not still accepted as the Board member, just acting as an observer in IKCO's Board.”

IKCO's management advisor similarly explained: “IKCO is still run by the government and managers are directly or indirectly appointed by the government. The company's Board' Chairman even did not have authority to select his board members and other members who he wants to work with them. The government usually selects IKCO's managers in accordance to their political background who largely are characterised with experience from governmental economic sectors, without having market-oriented knowledge and experience. Therefore, their perspectives, managerial styles and strategies may be not very different from managers who worked in IKCO when it was a public company”.

The results of interviews reveal that IKCO is still a highly political company and there are many political and economic reasons for the government to keep relatively high degree of control over this company. This condition clearly has influenced the trend of ownership change and the IKCO's preparation for adoption of a market-oriented structure, management and control system. They argued that however, by the change of the role of IDRO and the reduction of state ownership to less than 15 percent, IKCO is now more independent compared to the period when it was totally owned by the government. In particular, during the last recent years due to financial crisis and facing with sever international sanctions, IKCO has moved towards the new actions in its management (more details presented in the next chapter).

## **6.6. Regulatory and Institutional Reforms in Iran**

In 1979, after wide-scale nationalisation program, the regulatory framework in Iran reformed in accordance to development of a central planning economy where the government was made responsible for the majority of economic activities in terms of regulating, management and administration. As discussed earlier, after privatisation the Iranian government has continued to play the dominant role in the country's economy, ruling, controlling and allocating resources through institutions that hold the primary control over industrial and mines sectors, the capital and financial markets, the currency markets, labour markets, taxing and reporting regimes, accounting systems, education systems, R&D, innovation systems, subsidies and grants. In case of auto industry, this industry is still highly regulated; government and policy makers are the dominant

and ultimate player, controlling carmakers strategically. As a result, despite the pass of three decades from reform program in Iran, there is a lack of appropriate regulatory and institutional changes moving towards promotion of the liberalisation and privatisation program. On other words, the process of privatisation in Iran did not follow an appropriate order, that is, first, to provide and put into action a regulatory and institutional reform program for growth of competition and domination of private investment and then to conduct privatisation and the sale of car companies. This section continues to review the Iranian regulatory framework that had a significant impact on the formation of MAPs in IKCO after the process of privatisation.

In Iran's regulatory system, there are different critical areas in the parliament involved in affairs related to industrial sectors including the car industry. These include constitutions and various commissions including the Iranian Parliament's Industrial Commission, the Parliament Research Centre, Parliament Deputies (including 290 members elected for four-year terms), Parliament's Education and Research Committee; those are responsible for drafting and approval legislations including the general policies related to the automotive industry. Furthermore, the action of parliament is supervised by different councils include the Supreme Audit Court, the expediency council and the Guardian Council (consisting of clerical members and six lawyers). These councils have responsibility and authority to vet laws and regulations passed by the parliament. The Supreme Leader appoints the head of judiciary and the Council of Guardians as well as the members of the expediency council. Additionally, the Iranian government has been the main player in industrialisation program in Iran including regulating, management, control and support of industrial sectors. In the government structure, the Ministry of Industry and Mines (MIM), Ministry of Science Research and Technology (MSRT), the Ministry of Economy Affairs and Finance (MEF), Ministry of Commerce and the Ministry of Communication and Information Technology (MCIT) are the main players in the drafting national policies and regulating the automotive industry in Iran. The next section continues with a brief review of these institutions.

#### **6.6.1. The Ministry of Industry, Mines and Trade (MIMT)**

MIMT as an Iranian governmental body established in 2011, which is responsible for regulation and implementation of government policies applicable to industrial, mine as well as domestic and foreign trade sectors. In the area of industrial sector, this ministry is responsible for (1) policy

making and planning, (2) regulating, (3) improving their efficiency and productivity, (4) supervision, (5) directing and supporting and (5) the promotion of their export, (6) offering engineering and technical services (7) improvement of management, productivity and entrepreneurship, and (8) their licensing. MIMT exerted control over industries through four organisations, namely, the National Iranian Industries Organisation (NIIO), Institute of Standards and Industrial Research of Iran (SIRI), the Iranian Tobacco Monopoly (ITM), and Industries Development and Renovation Organisation (IDRO).

Additionally, there are also a large number of regulatory entities and associations in the industrial sectors operating as organized bodies under authorities of various deputy of MIMT. The associations of industrial sectors can generally be categorised under two groups conventional and newly emerging forms of unions. The conventional unions are not emerged in accordance a planned way but they created organically with a more natural birth and growth process. They are generally involving with classical lobbying functions; in particular, the greatest role is in times of crisis. Therefore, their level of activity tends to fluctuate according to the external pressures and risks that they may be facing at any particular time. As an alternative, newly emerging forms of unions have also established and promoted by the MIMT. There are “industry houses” in 22 provinces and 144 “homogenous industry associations”, in which each province having one such industry house. A variety of new functions has been approved for these new unions, since the MIMT delegated a part of its industrial support service and capability development functions to them. This reflects the Ministry’s desire to relieve itself of its day-to-day administrative burden and focus more on fundamental policy issues.

#### **6.6.1.1. The Industrial Development and Renovation Organisation (IDRO)**

IDRO as the operational arm of MIM, acting as a holding company for enterprises in a number of industries: (1) automotive (2) oil, gas and energy equipment (3) machinery and equipment (4) agricultural machinery (5) marine and shipbuilding and (6) industrial services. Since 1990, IDRO has made efforts to privatise its affiliated companies. While carrying on its privatisation policies and lessening its role as a holding company, it focused on its main missions and to be turned into an industrial development agency. This state-owned organisation is responsible to engage in partnerships with the private sector, accessing a central role in the country’s industrial

development with emphasis on monitoring the implantation of the MIMT's policies and cooperating with the ministry in terms of improvement of the regulatory system. The following areas are the focus of the IDRO after privatisation:

- Promotion of local and foreign investments with minority holdings owned by IDRO (less than 50% of the shares) with particular emphasis on new, Hi-tech and export-oriented industries.
- The industrial structural reforms, focusing on policies based on technology transfer as well as to enhance the non-oil exports in Iran.
- Promotion the contracting activities by participation of both local private sectors as well as foreign investments.
- Providing consultancy and support services for foreign investors.
- Providing support (technical, financial, managerial and marketing) services to industrial and mining businesses.
- Reforming the management structure and recruiting competent managers for running companies and industrial projects.

A review of the IDRO's history asserts that one of its key responsibilities is to prepare and train of management staff at world-class for industrial units. Therefore, promoting and strengthening a scientific attitude, enhancing the capabilities of current managers and building on new professional skills have been announced as important elements of the IDRO planning program. Additionally, IDRO holds and supports numerous international conferences on management issues to promote the science of management. Additionally, the Industrial Management Organisation (IMO) established as one of the agencies affiliated to IDRO in order to develop management practices in industrial sectors through the following duties:

- Assisting the public and privately-owned organizations, aiming to improve the management systems and procedures.
- Introduction of educational programs aims to efficiency achievements.
- Assistance of managers and policy-makers in processes of decision-making and control practices through consultation and research into management areas.

- Introduction of educational courses on basis of strategic management at undergraduate, graduate and professional doctorate, using open and long-term training courses in collaboration with Nice and Bordeaux Universities.
- Holding of the Organizational Excellence Award.

#### **6.6.1.2. National Standard Organisation of Iran (NSOI)**

The Iranian auto industry is regulated on safety and environmental concerns. In this respect, the National Standard Organisation of Iran (NSOI), revealed that the quality of a large share of domestically produced cars is far below international standards; Light and heavy vehicles are responsible for a significant share of air pollution in major Iranian cities and high levels of road accidents (Mehnews, 2015). Given their crucial role, during the three decades several series of standards have been formulated in Iran in order to upgrade domestic cars. In general, the focus of such standards has been on three areas: improving quality, addressing environmental concerns, and diffusing international safety standards (Razavi & Alaedini, 2018). Auto industry's standards includes different sections: (1) vehicle audit section, (2) vehicle pollution control department, (3) vehicle parts and components inspection department, (4) Department of After-sales Service and Customer Feedback Inspection Engineering, (5) Iranian Centre for Research and Automotive Emission Tests. Specific missions of this organisation were to attain acceptable level in international markets by focus on: (1) designing improvement, consultation and training programs for quality system and business excellence (2) type approval and production conformance of automotive, (3) monitoring and controlling industrial emissions, (4) Inspecting imported/exported goods, (5) Monitoring automotive after-sales service, (6) Dealing with customer complaints.

In IKCO, the adoption of ISQI began along with the introduction of new strategy, focusing on using up-to-date technologies in 1996, assumed the following specialised tasks: 1) Active participation in drawing up national standards, 2) Offering training programs on quality systems, organizational excellence models and inspections, 3) Offering consultation, contributing to the establishment of quality systems and the design of required up-to-date models, 4) Offering consultation, contributing to the establishment of quality systems and the design of required up-to-date models, 5) Conducting safe technical inspections and engineering tasks in industries at the national level, including assessment of automotive vehicles. According to the National Standard



Organisation of Iran (NSOI), (2018), the problem of quality of Iranian automakers not solely related to local parts producers, but it is also dependent on the technologies used in production, adequate training of technicians and the efficiency and performance of company management. These problems have led to the NSOI to expand its mandatory standards from the current 55 to 85 items, as of December 2017 (NSOI, 2018).

### **6.6.1.3. Consumers and Producers Protection Organisation (CPPO)**

The Consumers and Producers Protection Organisation (CPPO) was founded in 1975 under the name of "the price fixing center". This organisation is affiliated to the Ministry of Industry, Mines and Trade (MIMT), aims to protect and promote domestic production; protect consumers against unusual price fluctuations, and control and adjust the price of products and services. The organisation prepares a list of products that their consumers or producers need to be supported, determine, adjust and fix the prices of domestic products and imported goods and services. The main functions of CPPO are:

- Protection of domestic products and increasing them
- Consumer Protection in the face of unusual fluctuations in prices
- Conducting research and presenting some plans necessary to align the prices of imported products
- Encouraging exports through collaboration with relevant organizations
- Inspection and supervision on prices and distribution of manufactured and imported goods and subjected services in all sectors, including the governmental, cooperative, private and institutional sectors
- Monitoring on the implementation of the prices and handling the violations according to Ta'zir law
- Developing and implementing efficient methods of inspection and monitoring and implementation of special regulatory projects
- Monitoring the supply and distribution networks, and fighting against the supply and distribution of smuggled goods as an explorer device

Accordingly, in case of automobile industry, CPPO has played an important and controversial role in pricing system in automobile industry include regulating, determining and controlling the prices

of automobile products. In particular, as economic instability has increased since April 2012, including a steady rise in the exchange rate and inflation, largely due to rising international sanctions against Iran, the CPPO's role in controlling car prices as an essential commodity has increased significantly.

### **6.6.2. The National Competition Council**

In 2007, the competition law was issued as a part of the act of privatisation, inspired by European competition law, and many acts modelled upon European competition provisions. In 2009, the Ministry of Economy and Finance (MEF) as the responsible body for forming the National Competition Council. According to Article 53 of the Act of "Execution of the General Policies of Article 44 of the Constitution" (2007), the National Competition Council was established as the only authority in Iran to assess and address the anti-competitive activities based on its recognition or according to the complaint of any person whether natural or legal applicants. The President of the Competition Council is also president of the National Centre of Competition. The Competition Council Members composed from parliament, the Supreme Court, the Minister of Economic Affairs and Finance, the Minister of Justice, the Minister of Commerce, the Minister of Industries and Mines, Management and Planning organization, the Iranian Chamber of Commerce, and One person selected by the Islamic Republic of Iran Central Chamber of Cooperatives.

According to Article 58 of the Act, the Competition Council is responsible for these duties:

- Identification of instances of anti-competition procedures and exemptions covered by this law and making decisions on exemptions as mentioned in the law;
- Assessment of conditions and specifying boundaries of goods and services markets in connection with articles 44 to 48;
- Providing consultation to the government to draw up necessary bills; and
- Ratification of the guidelines in terms of price adjustments, amounts, and conditions of access to monopolised markets of goods and services, in each case in line with related regulations.

In the case of automobile sector, the Competition Council was responsible to set, control and approve the product's prices of automobile makers so long as the domestic auto industry remains

a monopoly of a few major car companies. As a result, the changes of prices of auto manufactured in Iran do not set by market mechanism, but the prices are set by the approval of the competition council in line with related regulations. According to interviews, for making decision on new price of the products, this organization has its own pricing structures, which is different from automakers formula. However, the automakers' cost accounting office is responsible to provide required cost information and documents in order to meet council requirements regarding to the process of setting and approval of the product's prices of the company.

The manager of MA department argues: "The Competition Council is not an independent body but it is governmental body and its budget is provided by the government. Therefore, decisions in this organisation is not fair technical-oriented but they are largely influenced by the general policies of government based on the priorities related the socio-economic and political condition of country".

In general, at a time when there is relative economic and political stability, the most important indicator for determining the prices is the technical elements including the costs and the usual profits. In contrast, under uncertain socio-economic and political uncertainty, the government plays important role manifest price decision in order to maintain the socio-economic and political considerations. For example, in an effort to help IKCO meet its increasing costs resulting from increasing foreign exchange rate and high inflation caused by the sever sanction against Iran, government allowed this company to increase significantly prices of products. Additionally, the Consumers and Producers Protection Organisation founded in 1975 for evaluating prices. This organisation established a center named "the price fixing center", aimed to determine, adjust and fix the prices of domestic products and imported goods and services and conduct studies and prepare the necessary plans to adjust prices and prevent the inappropriate increase in the prices. The main organisational goals were:

- Adopt protection policies for domestic products.
- Protecting consumer rights when prices rise by unusual fluctuations.
- Conducting research and presenting some plans necessary to align the prices of imported products.
- Encouraging exports through collaboration with relevant organisations

- Controlling and supervising of prices and distribution of manufactured and imported goods and subjected services in all sectors, including the governmental, cooperative, private and institutional sectors.
- Monitoring on the implementation of the prices and handling the violations according to Ta'zir law.
- Developing and implementing efficient methods of inspection and monitoring and implementation of special regulatory projects.
- Monitoring the supply and distribution networks, and fighting against the supply and distribution of smuggled goods as an explorer device.

### **6.6.3. Ministry of Science, Research and Technology (MSRT)**

Under the Iran highly centralised economic structure, the Iranian auto industry is also regulated in areas of R&D, science and technology transfer. In this respect, the government including the Ministry of Science, Research and Technology (MSRT), the Ministry of Industry and Mines (MIM), and Ministry of Communication and Information Technology (MCIT) play the main role in the process of the industry's R&D, science and technological capacities. In this regard, the Automotive Industries Research and Innovation Center was the first automotive design and engineering center in Iran established in 1993 to focus on both regulating and development of R&D projects in automobile industry. This committee includes agents from some related ministries and car and car parts manufacturers with three main tasks. These tasks include policymaking R&D activities by coordination efforts between institutions and automakers in vehicle design, start-up of standard experimental laboratories to test cars and auto parts and finally the monitoring international technological changes. Additionally, after economic reform program and privatisation, a number of new state foundations were established with the aim of development of technological capacities in industrial sectors. A number of these institutions were the Centre for International Scientific Studies and Cooperation (CISSC), "Science and Technology Park", "Association of Industrial Managers" (Anjoman-e Modiran-e Sanayeh Iran), "Confederation of the Iranian Industry" (Majma-e San'ate Iran), "Society of Producers" (Anjoman-e Tolid-Garayan) and the Automotive Industry Policy-making Council. For example, CISSC was founded to support R&D activities and the development of technology and, expand the relationship between local universities and research institutes. It also aims to improve the interactions between Iranian

Scholars and researchers and their international collaborators, provides financial support as well as technical and moral assistance to R&D projects in Iran. However, other actors such as councils and coordination committees between ministries and end-users, business associations, business technological support organizations and consumer groups are very weak or play almost no role in the R&D and technology transfer activities in Iran.

Additionally, in normal circumstances, developing countries generally pursue technology transfer projects through different approaches and mechanisms such as purchasing equipment from abroad, licensing subcontracting, engaging in foreign direct investment, hiring foreign experts, manufacturing original equipment and purchasing foreign enterprises outright, JVs and formation of strategic alliances (Goodarzi & Chazinoori, 2013). The technology transfer has been the basis of the R&D, science and technology advancements in Iran's car industry, has been supported by the government (Javanmardi & Mohannak, 2016), by giving official operating license with financial/non-financial supports to encourage automakers to establish their own R&D and innovation centers. For example, IKCO New Product Development Centre (NPD) as one of the largest research center in Iran founded in 1995 in order to plan, design, develop, and produce new products. Additionally, in 1995, IKCO received an official operating license for founding its own R&D centers (more details provided in chapter eight). Additionally, since the late 1980s, with the steady development of Iran–European relations there was the steady raise in JVs with a number of well-known international carmakers such as PSA Peugeot Citroen, Kia Motors, Nissan Motor and Mazda Motor, which positively influenced the transfer technology to Iran's car industry. However, under existing uncertain political and economic environment in Iran, particularly with putting long history of international sanctions against Iran, many of popular methods of technology transfer are not accessible or are limited of use in this country (Goodarzi & Chazinoori, 2013). As a result, technology transfer has been subject to the Iran political business environment, significantly influenced by the UN, US and EU sanctions, which pose a significant threat to the participation of foreign firms in the Iranian business (Iran Daily, 2010). As a result, over the past 15 years, Iranian auto and parts manufacturers have been relatively isolated from the global industry's technological developments, in which foreign models those assembled in Iran fall into the low-end classes that use basic and standard technologies.

In sum, in case of car industry, the R&D and technology transfer activities are regulated by the domination of the state institutions and there is a lack of private centers in these areas. Additionally, the roles of local domestic centers or institutions, which focused on basic and applied research, are very weak or play almost no role in Iran's car industry. Technology infrastructures are government research institutes (IROST) and Technology Parks. Technology financing agencies are ministry of industry, mines, and technology co-operation office (electronic development supporting fund IDRO & IMIDRO). IPRS and industrial standards provided by Institute of Standards and industrial research. The only institution representing the private sector, has been the publicly run Chamber of Commerce, Industry and Mines, which provides support to R&D program. Additionally, the development of higher education in Iranian universities is the country's most important components of education, science and R&D in Iran. It is notable that there is a unified education curriculum in Iranian's universities in which the curriculum for all universities designed and developed by a government sub-committee. In this context, engineering science is the most popular subject in Iranian universities and less attention paid on managerial knowledge, marketing and business courses. For example, accounting in Iran, is too financially oriented, with a particular emphasis on auditing, government accounting and tax accounting and therefore accounting graduates do not have the necessary business knowledge and understanding related to advanced management accounting practice. The establishment of Islamic Azad University as a not-for-profit institution is a market response to an ever-increasing demand for higher learning in which its development has provided an opportunity for private-sector participation in the higher education system in Iran (Goodarzi & Chazinoori, 2013). However, Islamic Azad University are ruled and administrated under the Ministry of Science and Technology as well. Therefor, the uniqueness of the innovation and research systems in Iran is that still almost majority of the research institutes, large enterprises and universities are state-owned and/or controlled and therefore relatively small proportion of R&D activities located in private sectors.

The figure 24 shows the related institutional structure of the Iranian regulatory system and institutional agents regarding to the automobile industry in Iran. After privatisation, the most important institutions of the regulatory system in Iran's car industry is presented in figure 24. As the figure shows, the Majlis of the Islamic Republic (Parliament) as well as the Iranian president, including the relevant ministries are responsible for legislation in Iran. However, some regulations that are passed in the parliament will be reviewed, amended and approved by the Guardian Council

and in some cases referred to the Regim Expediency Council”, both of which are directly under the leadership of the Supreme Leader. In the case of parliament, the main regulators are parliament and various commissions including the Iranian Parliament’s Industrial Commission, the Parliament Research Centre, and Parliament’s Research Committee. In area of government, the MIMT (Ministry of Industry, Mines and Trade) is the regulatory institution playing the most important role in terms of decision-making process in this industry. In this regard, this industry is responsible for planning, policy making, monitoring, regulating, promotion the policies and regulations adopted in Iranian industrial sectors. In this regard, MIMT exerted control over automotive industry through Industries Development and Renovation Organisation (IDRO). In this regard, IDRO is responsible to monitor and promotion of the MIMT’s policies, playing important role in developing and reviewing policies adopted by the ministry. In addition, other ministries including MSRT, MEF, MIMT, MSRT, work and support this ministry in process of both economic and technical plans and activities. The ministries are responsible for regulating the automotive industry and market in terms of price of product, quality, protection of the citizen’s rights, environmental perspective, development of the national automobile industry in terms of regulating the tariff system, regulating technology transfer system, regulating the automotive part industry in accordance to localisation and self-sufficiency policies. Figure 24 presented institutions in the Iranian regulatory system in the automotive industry.

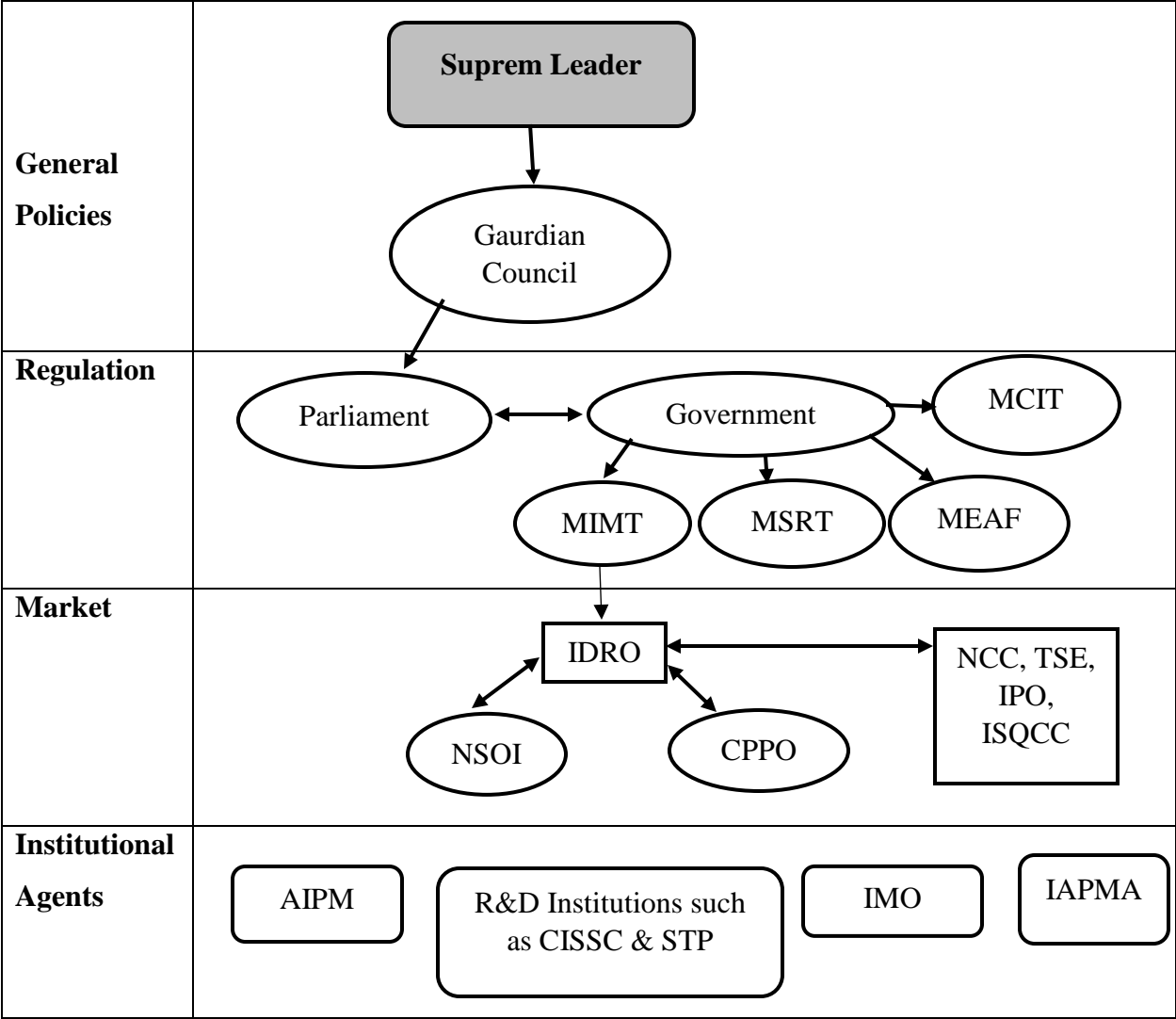


Figure 24. Iranian Regulatory Structure

The next section particularly addressed the accounting regulatory system in Iran during three periods of pre-nationalisation, nationalisation and privatisation that the case company was obliged to adopt.

**6.7. Accounting Regulatory and Institutional Structure in Iran**

In Iran, the modern accounting practice emerged by the start of industrialisation in the late 1960s and early 1970s, within the increasing price of oil and exchange revenues, promotion of foreign investment, and the formation of accounting and auditing institutions. Additionally, during this



time, the economic sectors were legally required keeping their accounting records and that their financial statements need be audited for tax purposes. In addition, the new policies and strategies for growth and development by company's owners resulted in structural and managerial changes led to introduction new systems of control, accounting and management in the late 1960s and 1970s. In Iran, before nationalisation program in 1979, the formal accounting reporting was largely influenced by the Anglo-Saxon accounting disciplines (Mirshekary & Saudagaran, 2005). During this period, the Iran's accounting profession also largely originated and developed by regulatory obligations, including Tax Law, Trade Law, and Corporate Law (Mashayekhi & Mashayekh, 2008, Chatterjee *et al.*, 2010). According to the Tax Law, in 1955, for example, the Iranian enterprises were obligated to calculate income tax by the use of Official Auditors' Professional opinions. In 1961, the Ministry of Finance offered the Bill of Constitution of Auditor Organization (Mokhtar, 1992), and finally, in 1963, 36 accountants were accepted as trustee auditors by the Iran's Finance Ministry (Mohammadrezaei *et al.*, 2012). Additionally, in 1963, the Tax Law permitted the foundation of a number of private professional institutions for development of accounting and auditing activities in Iran. The Certified Public Accountants Association in 1963, the Iran's Official Accountant Society (IOAS), the Iran Chartered Accountants Association (ICAA) in 1970, the Iranian Institute of Certified Accountants (IICA) in 1972, the Auditors' Association in 1974, the Iranian Expert Accountants Association in 1974 were some accounting professional agencies that came into being following the ratification of the Tax Law in 1963. Additionally, by the amendment of the Tax Law in 1967, the jobs of auditors in the assessing of the company tax income was determined- Article 276 of this law determined the eligibility of membership of official accountants, established the Official Accountant Society in Iran. In 1969, a list of eligible professional accountants as prospective inspectors of public companies issued by the Finance Ministry in accordance to the request of Trade Law, explaining the jobs of public company inspectors (Mokhtar, 1992). Additionally, Article 232-242 of Amendment of the Commercial Code in 1969 detailed the regulations related to the preparation of financial statements, acceptable depreciation methods, contingent expenditures and the rules of any changes in accounting methods and disclosures. This code emphasised consistency in methods, obliged joint-stock companies for the mandatory audit of financial statements. However, the code provided limited regulatory base regarding to the corporate financial disclosures, financial measurement and evaluation of methods (Chatterjee *et al.*, 2010).

Before the Islamic Revolution and the adoption of the wide nationalisation program in Iran, during the 1960s and 1970s, both Iranian private audit firms and Big Eight international accounting firms were active in Iran (Mirshekary & Saudagaran, 2005). Additionally, the accountants who had graduated from the UK and the USA had a considerable role in the development of the accounting profession in Iran (Mohammadrezaei *et al.*, 2012). They founded some private accounting institutes such as the Iranian Institute of Advanced Accounting (IIAA) as the first private institute founded in Iran (Khodadoust Foroughi, 1975). Therefore, during this time, the accounting profession in Iran largely influenced by the accounting theories and practices originating from the USA and the UK. Following the Islamic Revolution in 1979 in Iran, the transparency and disclosure, auditing, disciplines including the methods of accountancy were important areas that affected by wide scale nationalisation program in Iran. Clearly, after the wide scale nationalisation program, the demand for a private sector auditing service radically reduced. Additionally, the Islamic Revolution in Iran saddled with broader religious ideological ground-rules for disciplining the Iranian society, in general, and economic organisations, in particular, implied a political uncertainty and a reasonable fear (of new rules) on the part of foreign enterprises that consequently fled Iran. Accordingly, the branches of large international accounting enterprises closed due to the amendment of the direct tax law (Mashayekhi & Mashayekh, 2008). Additionally, with the approval of the Expediency Council in 1979, all local private accounting and auditing firms were nationalised and came under the control of three auditing enterprises, namely, the “Nationalised Industries and Plan Organisation Auditing Firm”, Mostazafan Foundation (Oppressed Foundation) Auditing Firm and “Shahed Auditing Firm”, those had controlled a large number of newly nationalized companies.

After the nationalisation program, when the majority of economic sectors in Iran owned and managed by the government, it is rational to develop more regulated audit, control and accounting system across business activities. At this time, the accounting profession in Iran was largely influenced by the state's disciplines to meet the bureaucratic requirements (Pourjalali & Meek, 1995; Mahdavi & Funnell, 2003). Accounting practice in Iran generally moved to focus on planning, control and disclosure procedures, which mostly derived from financial accountability and governmental administrative controls in accordance with the Budget Settlement Bill and other similar legislation. Additionally, after nationalisation program in Iran, Tax and Trade Laws had a significant role in the format of companies' disclosure and accounting reporting system

(Mohammadrezaei *et al.*, 2012). In this connection, the Iran's General Law of Accounts established in 1979 instituted a large number of requirements relating to accounting and financial reporting in the public sector. By applying Article (93) of this law, the Ministry of Economic Affairs and Finance was made responsible to provide a set of instructions of accounting systems, aiming for uniformity in the budgetary planning and control practices in the state-owned enterprises (SOEs). Additionally, the financial statements were required to be prepared in accordance with different laws including tax law, corporate law, stock exchange laws and the Trade Law (Articles 144–156). However, during this time, there were no official and uniform basics for preparing financial statements, but the Iranian companies were usually applying the US GAAP, accounting standards of the United Kingdom, Australia and Canada (Mirshekary & Saudagaran, 2005; Roudaki, 2008). Using different accounting standards resulted in the lack of uniformity and comparability in financial reporting and auditing reports in terms of methods, forms, policies and results (Mohammadrezaei *et al.*, 2012).

In 1983, in accordance with parliamentary legislation, three auditing firms merged and the Iranian Auditing Organisation (IAO) founded as the only accounting and auditing regulatory entity in Iran (Mirshekary & Saudagaran, 2005; Mashayekhi & Mashayekh, 2008; Roudaki, 2008). This organisation as a public division, affiliated to the Ministry of Economic Affairs and Finance. The governing authorities of the IAO comprise the General meeting, Board of Executives, CEO and the Supreme Supervisory Board. The members of the General meeting comprise the Minister of Economics and Finance as the chairperson, the Strategic and Monitoring Vice President, Head of Iran's Central Bank and two other ministers selected by the Council of Ministers. The General Meeting appoints all the CEO and the other nine members of the executive board. The IAO is responsible to undertake inspecting tasks and managing auditing affairs of all inspected ministries, government and semi-government firms ([www.Audit.org.ir](http://www.Audit.org.ir)).

The IAO is responsible for the following acts:

- Providing the government with basic needs in the field of auditing and specialised financial services for state owned and government supervised entities.
- Setting Accounting and Auditing Standards and Professional Ethics based on Islamic Rules.

- Improving the accounting profession by using scientific and practical methods tailored to the country's practical needs.

In 1992, the Accounting Standards Setting Committee (ASSC) (initially called the Accounting Declaration Setting Committee (ADSC)) was established by the IAO to codify the national accounting standard in Iran. The ASSC has nine members. Five members are from senior management positions and members of the Board of Executive of the IAO, two members are from the Iranian Association of Certified Public Accountants (IACPA) (a professional accountancy body founded in 1997 as an independent professional body), one member is from the Security Exchange Agent Organisation. The ASSC issued 14 accounting declarations and framework for financial statements' preparation and publication between 1994 and 1997, and these declarations become mandatory from 1999 to 2000 (Mashayekhi & Mashayekh, 2008). The committee codified the draft of the first set of accounting standards, and finally in 200, IAO's Governor Board approved and issued the first set of National Accounting Standards (NASs) and since then it has been compulsory for Iranian enterprises to apply them (Roudaki, 2008; Mashayekhi & Mashayekh, 2008). The NASs in Iran has 31 accounting standards based on International Accounting Standards (IAS) as well as a number of NASs, which are different from IAS due to certain social, economic and political considerations.

Accordingly, after privatisation, during 1993–2001, the IAO as a public entity dominated the audit market of listed companies in TSE. However, the Iranian Association of Certified Public Accountants (IACPA) founded in 2001, aimed to promote accounting and auditing professions and professional supervision on private sector audit firms (IACPA's website ([www.iacpa.ir](http://www.iacpa.ir))), and latter a large number of private sector audit firms were founded under supervision of IACPA. Accordingly, the TSE Research and Development Centre in Iran issued the first Code of Corporate Governance (CCGI) in 2004, and later in 2005, it edited to match with the Trade Law and capital market situation. The revised CCGI consists of the basic definitions, CEO, board, ownership structure, the shareholder responsibilities, auditing concepts, accountability and financial disclosure. However, application of the code has not been mandatory, although TSE listed companies has been implemented the code (Mashayekhi & Mashayekh, 2008).

In sum, following privatisation program in Iran in 1989, accounting profession has been subject to some degree of development. As discussed earlier, the introduction of a set of national accounting

and auditing standards for the first time in Iran by IAO, significantly influenced accountancy to move towards transparency, accuracy, uniformity and comparability of financial statements. The IAO also contributed to the development of accounting profession in Iran, it has translated and published many auditing and accounting books (IAO's website ([www.Audit.org.ir](http://www.Audit.org.ir))). Additionally, a large number of private sector audit firms under supervision of the IACPA have contributed to the Iran's audit market to shift from concentrated to competition (Bagherpour *et al.*, 2008). Additionally, the quick growth of the TSE based on privatisation plans, the establishment of the Securities and Exchange Organisation (SEO), the rapid growth of accounting graduates and availability of legal infrastructure in recent years promises a bright future for Iran's accounting (Mohammadrezaei *et al.*, 2012). In addition, financial reporting has achieved greater importance in Iranian companies following international pressures from the World Bank and the IMF (Mirshekary & Saudagaran, 2005).

However, Mojtahedzadeh, (2001) and Mojtahedzadeh *et al.*, (2010) argued that the evaluation of accounting curriculum reflects that no primary transition has been made in respect of recent changes in the economic transition in Iran. Ashori *et al.*, (2013) argued that after privatisation during the last three decades, there had not been an opportunity for private sector to engage in Iran economic especially in big industries. In Iran, accounting is financially oriented, with a particular emphasis on auditing, government accounting and tax accounting (Wijewardena & Roudaki, 1997). Lack of globalisation and the absence of competitive markets, regulatory and institutional limitations, international sanctions and the absence of multinational corporations and international accounting firms, and the limitations of the accounting education system based on outdated textbooks are some of important restrictions for the development accounting profession in Iran. In this respect, Cerne, (2007) argued, although the quality of accounting profession is directly subject to a society's common level of knowledge, it is also influenced by other causes such as the demand for the accounting profession, the level of acceptance of English language, the level of economic development, economic relations with other countries, and etc. In Iran, the government play the main role in economic activities, which significantly influenced the development of accounting and auditing in both micro and macro level. For example, the developments of the quality of accounting practice largely depending on higher education in universities. As earlier discussed, Iran has never been a research site for systematic and detailed accounting research, and the current accounting systems in Iranian firms are largely shaped on basis regulatory requirements as well as

accounting theories and practices originating in the western countries. Additionally, there is a unified education curriculum in Iranian's universities in which accounting curriculum for educational centers are designed by a government subcommittee, and managerial knowledge including management, marketing and business courses were not emphasised as a part of the accounting curriculum (Wijewardena & Roudaki, 1997). As a result, accounting in Iran, is too financially oriented, with a particular emphasis on auditing, government accounting and tax accounting and therefore accounting graduates do not have the necessary business knowledge and understanding related to the advanced MASs.

In case of MA research, there is a lack of knowledge (Ghasemi *et al.*, 2015) and as it discussed earlier, Iran has never been a research site for systematic and detailed accounting research. Zivdar (2003) argued that many of the accounting academics in Iran claim that accounting graduates do not have the necessary knowledge and expertise to satisfy the profession's requirements, in accordance with advances in MA systems (Mojtahedzadeh, 2001), and to response changes made in the economic environment in Iran (Mojtahedzadeh *et al.*, 2010). As a result, accounting in Iran is still too financially oriented, with a particular emphasis on auditing, government accounting and tax accounting and with minimal attention on MA (Wijewardena & Roudaki, 1997). Ghasemi *et al.*, (2015) claimed that the adoption rates of traditional MA techniques are very higher than new-developed methods in Iranian companies. Additionally, they indicate that the advantages resulting from traditional practices are very greater than new-developed practices due to high environmental uncertainty and unstable economy of Iran. However, their findings also show that Iranian companies have acquired acceptable advantage from some new-developed practices indicates that they understand the benefits and are starting to adopt more of these new practices in the upcoming.

## **6.8. Conclusion**

This chapter aimed to investigate the relationship between privatisation and MACs in an automobile company in Iran. Firstly, the chapter is supported by the idea that for assessing the impact of privatisation on MAC as a topic of this research, it is important to consider the general outline of the country economic condition in which the company is embedded. Given this, the chapter initially presented (section 6.2) some background information about the economy of Iran when the Iranian government and policy makers decided to adopt wide-scale privatisation program

in Iran. The section continued with the discussion about privatisation program in Iran, in general, and its car industry, in particular. This section initially provided a brief outline on Iran's pre-privatisation program and its main motivations for adoption of liberalisation and privatisation. Next, the section presented an overview on the history of process of liberalisation and privatisation program in Iran, particularly in the automobile industry in terms of a series of five development plans (1988-2019). It was argued that in general the scope and scale of the privatisation program in Iran and its car industry was very slow, disconnected and inefficient due to a number of different obstacles. These included the lack of a political consensus and conflict on the privatisation and liberalisation program, political influences, domination of political semi-government organisation in Iran's economy, international sanctions, legal and institutional limitations, and macro-economic complexities in Iran (Khajehpour, 2000; Naghshineh-Pour, 2008).

In industrial level, after privatisation, the Iranian government tended to adopt general national policies in relation to the protection of the home industries that intensified the monopoly power in the Iran's car industry. Additionally, after privatisation, the share of private sector was not important and the privatised economic sectors largely seized by particular religious-political and the semi-public enterprises, which has intensified the role of government and political actors. This condition intensified monopoly condition in Iran economy, which is important obstacles in the growth of an independent, competitive, and market-based economy in Iran's car industry. The next section (section 6.4) is about the regulatory and institutional changes after privatisation. It argued that over more than three decades of start of economic liberalisation and privatisation program since 1988, Iran's economy dominated by state-run regulatory and institutional structure. From this perspective it can be said that the privatisation program and reform program in Iran and its car industry did not pursue in an ideal order, and also the lack of appropriate regulatory and institutional systems has delayed the growth of an independent, competitive, and market-based private sector in Iran and in the car industry. The next section included the regulatory and institutional structure in the Iran automotive industry including a review of the main policy makers and the main Iranian associations those that could have some kind of influence on the company's MAPs. This section was discussed because the Iranian automotive industry is strictly controlled and influenced by the regulatory system, and in this regard, it can be said that the regulatory pressure is the most important factor in changing MA systems in IKCO.

At the end of the chapter, there is a summary of the origin and the main institutional actors in the accounting regulatory system in Iran (section 6.5). It argued that the development of the national accounting and auditing standards after privatisation program has been important development in the history of the accounting in Iran (Mahdavi and Funnell, 2003; Mohammadrezaei *et al.*, 2012). Additionally, after privatisation a large number of private sector audit firms were founded under supervision of the IACPA, contributing to the Iran's audit market to shift from concentrated to competition. Furthermore, the quick growth of the TSE based on privatisation plans, the establishment of the Securities and Exchange Organisation (SEO), the rapid growth of accounting graduates and availability of legal infrastructure in recent years promises a bright future for Iran's accounting profession (Mohammadrezaei *et al.*, 2012). However, accounting in Iran is largely financial oriented, and there is a lack of adequate knowledge and attention in the area of MAP.



## **CHAPTER SEVEN: EMPIRICAL FINDINGS**

### **7.1. Introduction**

Previous chapters sought to present a picture of the macroeconomic, social and political contexts of Iran and the Iranian auto industry before and after the reforms and privatisation programs. Chapter 6 focused on the organisational field by discussing the main characteristics of the Iranian auto industry, including its regulatory system and institutional structure and associations. Having discussed the PE and OF levels, this chapter aimed to focus on the intra-organisational level, focusing on empirical findings of MACs in IKCO after the privatisation. To achieve this purpose, the chapter includes three sections. The first section initially discusses the organisational changes in IKCO after the privatisation, including four areas of the new business model based on SCM, SAP system, governance and control systems. The second section presents and discusses both the successful and unsuccessful MACs in IKCO after the privatisation, with the successful changes including the cost accounting system, budgeting, performance measurement system and reporting system and the unsuccessful MACs including the BSC and ABC projects. Summary and conclusion form the final section of this chapter.

### **7.2. Organisational Changes**

Organizational change is a complex process associated with many implications on cultural values (Yassin & El Guindy, 2017). This section deals with the organisational changes, including managerial and cultural changes, which may directly or indirectly influence the MACs process in IKCO after the privatisation. In case of IKCO, according to the interviews, after the privatisation, some of the important organisational changes with managerial and cultural applications concerned introduction of the new business model of the Supply Chain Management (SCM), structural changes, the new information system and introduction of the new internal control systems.

#### **7.2.1. New Business Model of the SCM**

As discussed earlier, after the privatisation program in Iran, the Iranian government decided to start development of the Iranian national automotive industry in the mid-1990s, emphasising on a strategic reorientation policy for not relying on imported CKDs. This policy aimed to contribute

to the growth of the Iranian auto industry by supporting the local carmakers by utilization of the idle capacities and the private sector participation in the auto parts industry operations. In accordance with this general strategy of MIM, IKCO introduced its seven-years development program in 1994 with an emphasis on four strategic principles including (1) productivity, (2) localization and self-sufficiency, (3) quality improvement and (4) mandated provision of after-sale services. In IKCO, this strategy was followed by introduction of the new business model of SCM as the management of flow of product and information as well as finances both within and among the companies, from the supplier to the manufacturer to the wholesaler to the retailer to the consumer. In IKCO, SCM covers different levels of the chain process including planning, sourcing, manufacturing, and delivery and return processes.

In general, the most important objective of the implementation of the new business strategy on the basis of SCM in IKCO was providing technical perspectives by emphasising on productivity, localisation and the self-sufficiency principle. Relying on the new business model of SCM, IKCO's corporate planning shifted towards development of high-tech lines, high levels of automation, robotic bodylines and processes, integration of operational systems and processes, design learning and development of IKCO's parts supply industry. Several new production lines and design systems were established for development of new products and brands besides several subsidiaries and companies with an emphasis on the SCM strategy. In this regard, IKCO established the Supplying Automotive Parts Company (SAPCO) in 1994 in order to move towards the new business strategy based on SCM, holding the localization strategy with an emphasis on the idea of supplying new national automobiles. Currently, SAPCO acts as the head of more than 500 automotive parts-making companies and more than 100 supplying firms, working with its suppliers at the different levels of product design, manufacturing methods, pricing, investment, operating costs and logistics, in which suppliers are now involved in the development of new-generation vehicles at a very early stage. Additionally, since 2000, SAPCO has developed engineering departments to assist the domestic automobile parts industry, developing various standards and systems to improve the parts-makers' design capabilities, their production planning and quality control systems. With the cooperation of the local car parts-makers as well as a number of European engineering consultancy companies, SAPCO initiated different knowledge-oriented systems such as EFQM, JIT, and Lean Manufacturing System, gaining access to a range of design capabilities for development of new products (Bozorg Mehri, 2015). In this case, SCM's business

strategy also significantly influenced MAPs in IKCO regarding the strategic management system, organisational structure, the company's planning, cost pattern, product pricing and the company's supply and logistic activities. In this regard, the company's MA department used to be officially a sub-division of the finance deputy that dealt solely with financial issues. However, the company's activities related to MAPs were expanded and carried out in the entire supply chain by the expansion of the companies under the supply chain structure. As a result, it can be said that MAPs cannot be confined to the finance and MA departments, rather it includes different deputies, including finance, strategy, and economic and operational deputies.

The Manager of MA department pointed out:

“When IKCO was transferred from an assembler to a manufacturer, the growth which was based on the chain structure significantly influenced the nature and function of MA activities in the entire supply chain. With adoption of this strategy, MAP in IKCO has become more complex and specialized in terms of different MAPs, including budgeting, cost patterns and behaviours, logistic and inventory systems and processes, performance measurement systems and reporting system.”

The Deputy Director of Strategy Department commented:

“Following the SCM strategy, design and architectural knowledge and capability have been created and integrated in IKCO, allowing us to develop our new, modular products, meeting a wider range of market requirements formed based on improvement of our coordination with our partners. The adoption of SCM in IKCO led to R&D-related programs and organisational learning, which positively influenced the organisational culture in this company.”

Additionally, the new business model based on SCM influenced the company's quality management systems followed by ISO 9000 standard projects processed in IKCO. Furthermore, relying on the SCM business strategy, IKCO also established ISACO with more than one thousand authorized agents and distribution network all over the country and in seven countries across the globe. According to Cooper & Ellram (1993), SCM is a market-oriented business model the main objectives of which are keeping flexibility in reacting to market requirements and cost reduction associated with improving the quality and shortening the product enhancement cycle, which require strong management and coordinating activities in the entire supply chain. According to the

results of the interviews, however, IKCO's SCM largely focused on the technical aspects including productivity, localisation, product diversity and those aspects relating to the technical and engineering capabilities.

The Market Strategy Manager explained:

“In 1993 to 2001, however, we largely focused on technical learning rather than business-oriented strategies and financial performance. As a result, the main achievement of the SCM strategy in IKCO was technical and engineering capabilities when the company was transferred from an assembly company to a company with a chain structure. This strategy led to the company's investment on development of new products with a significant change in the transactional relationships with the supply chain partners, which was different from our previous experience and the dominant culture based on assembly.”

The Vice-President Advisor of IKCO commented that in IKCO, the business model of SCM was not selected in response to the requirements of a competitive market and a market-oriented context, rather it was pursued in response to the government's overall socio-economic and political policies. The Iranian automotive industry is highly regulated by a tariff regime—car import in Iran was highly restricted (by tariff rates between 90% and 195%), which created a safe market for IKCO to focus on productivity and localization policies in an attempt to be transferred from an assembly to a manufacturing company with a chain structure. In this respect, the local suppliers have also been encouraged and supported by the overall policies of the government to develop their capabilities in terms of design knowledge, product diversity and localization of parts production and to achieve self-sufficiency in the process of the development of national products. Such a safe market encouraged this company to focus on operational performance with an emphasis on productivity and technical capabilities rather than to focus on market-oriented policies and financial performance.

Similarly, the former MA Manager explained,

The SCM in Iran is rather production-oriented. Since the company has started the implementation of SCM, this company has been supported by a strict tariff regime; therefore, less attention has been given to profitability, cost efficiency and financial performance. In contrast, the company's main concern has been to satisfy the increasing market demand in response to the wider socio-economic and political considerations with an emphasis on productivity and technical and localisation purposes. It is notable that the majority of the company's managers were appointed

from among engineers with technical and engineering culture; therefore, they were less familiar with issues related to financial issues, marketing and valuing customers, and profitability activities in the decision-making processes and control activities.

### **7.2.2. New Administrative Controls and IKCO's Restructuring**

Following the privatisation, the company's new administrative control system brought about changes in the company's governance systems, holding organisational actors accountable to the new management system and expectations. In this regard, there are different administrative controls, including organisational structures, governance structures, procedures and policies (Malmi & Brown, 2008). In the case of IKCO, before the privatisation, IDRO, as the company's headquarters, was responsible for the company's governance through a top-down hierarchal process, in which all the strategic decisions were made and directed by this state organisation as the MIMT representative. As a result, the company's board of directors had limited freedom yet was accountable to many organizational hierarchies from IDRO for the company's administrative processes. After the privatisation, however, along with the reduction of the government's ownership to less than 15%, the company's corporate governance was transferred from IDRO, as the headquarters, to the company's management team for decision making processes and control practices.

One of the high-ranking senior executives of IDRO explained:

“After the reduction of the government's ownership in IKCO, the role of the company's managers in conveying their ideas and visions to the ministry and IDRO has significantly increased, as a result of which IKCO's executives have gradually gained more authority to become more responsible and accountable for the company's management.”

The Head of the Economy and Finance Deputy of IKCO, who previously worked in IDRO, pointed out:

“After the privatisation, although IKCO' executive managers are still directly or indirectly appointed by the IDRO's authorities, as the representatives of the Ministry, they now act as quasi-state managers, so more authority has been granted to the company's executives in the company's management and administration.”

According to the result of the interviews, in general, the decline in the direct role of the government after the privatisation induced managerial and cultural changes in IKCO, resulting in the gradual but wide organisational restructuring process. After the privatisation, IKCO adopted a hierarchical strategy and many more managerial positions and levels were introduced or eliminated (see Figure 28) in order to transfer the authority and responsibility from the IDRO officials to the company's management teams. According to the current organisational flowchart, IKCO's structure is divided into four main specialized functions including Production, Economic and Finance, Work and Job Development, and Products and Quality Department. The general manager supervises the four vice-general managers, who in turn supervise the four main functions. Each of these deputies, as an independent deputy, supervises different functional units such as design engineering, manufacturing engineering, process planning, marketing, finance, operations, information systems, materials control, field service, distribution, quality and production planning. Vice-General Manager of Production, for example, is responsible for administration of the four main sub-units of the production departments, including TPS (Total Production System), Passenger Cars, Tondar Production and Removal Power. The deputy of Manager of Economic and Finance includes two separate deputies of Finance and Economy. The Finance Department supervises different departments, including Purchasing Services and Costs Accounting, Fund Accounting and Cash, Finance and Consolidated Accounting, Selling Accounting, and Management Accounting. Additionally, IKCO has five main subsidiaries, structured similar to the main company. However, the group does not operate with a single directive board; almost all the companies of the group are independent, administered by a separate administration. Each company is supervised by policies set up by the headquarters. The amount of productions is determined by the headquarters, and the parts and components are provided by SAPCO. The payment to these plants are made on the basis of a commission. The figure 25, 26, 27 show process of planning, decision making and control practices through different levels of organizational structure in IKCO, including vice-Finance, and Management of Strategic Planning and Studies as important areas of changes of MAPs in IKCO. These figures also show the position of Finance Deputy and Management of MA in the company's organisational chart.

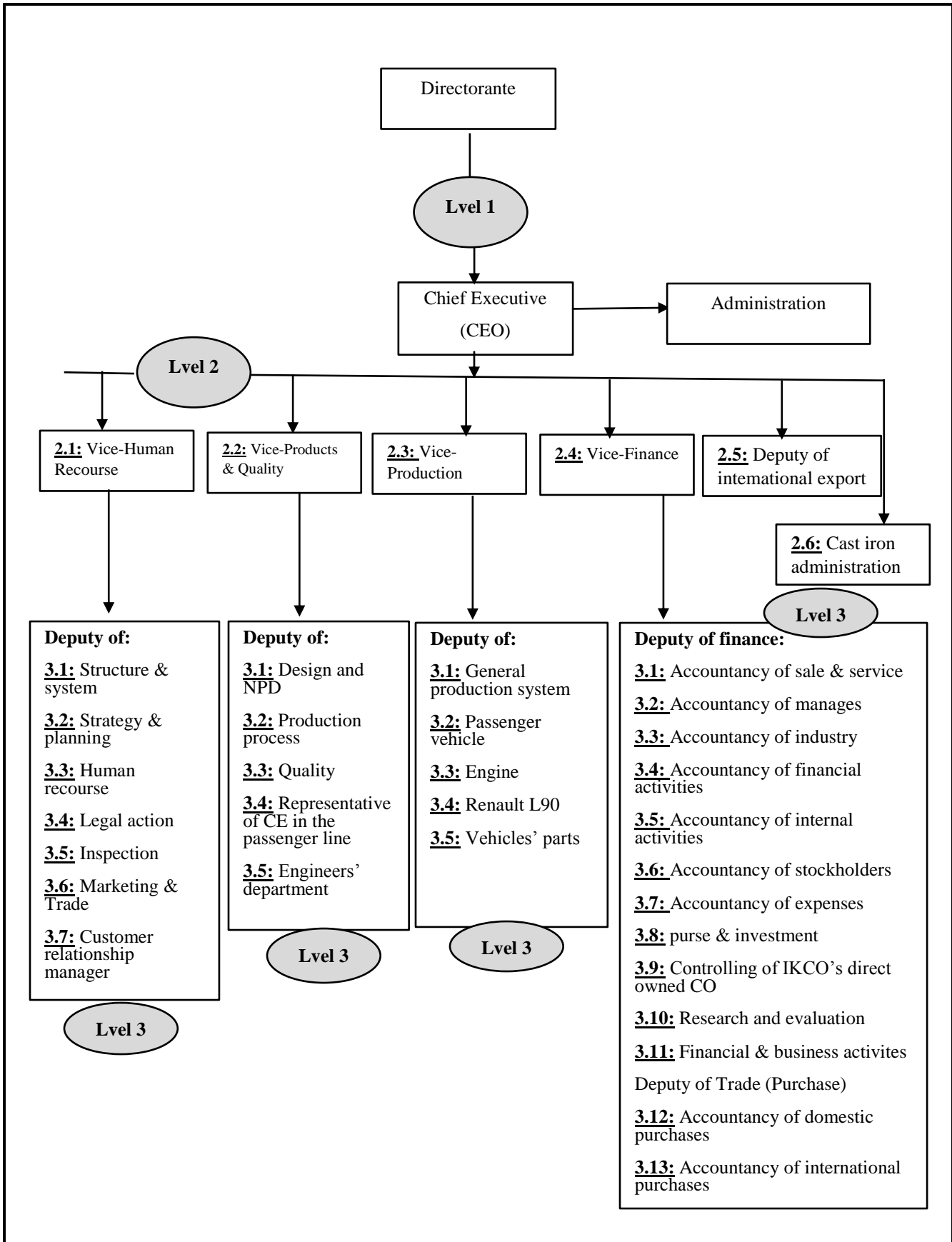


Figure 25. Organisational Levels of IKCO

## Organisational Chart of the Finance Deputy in IKCO

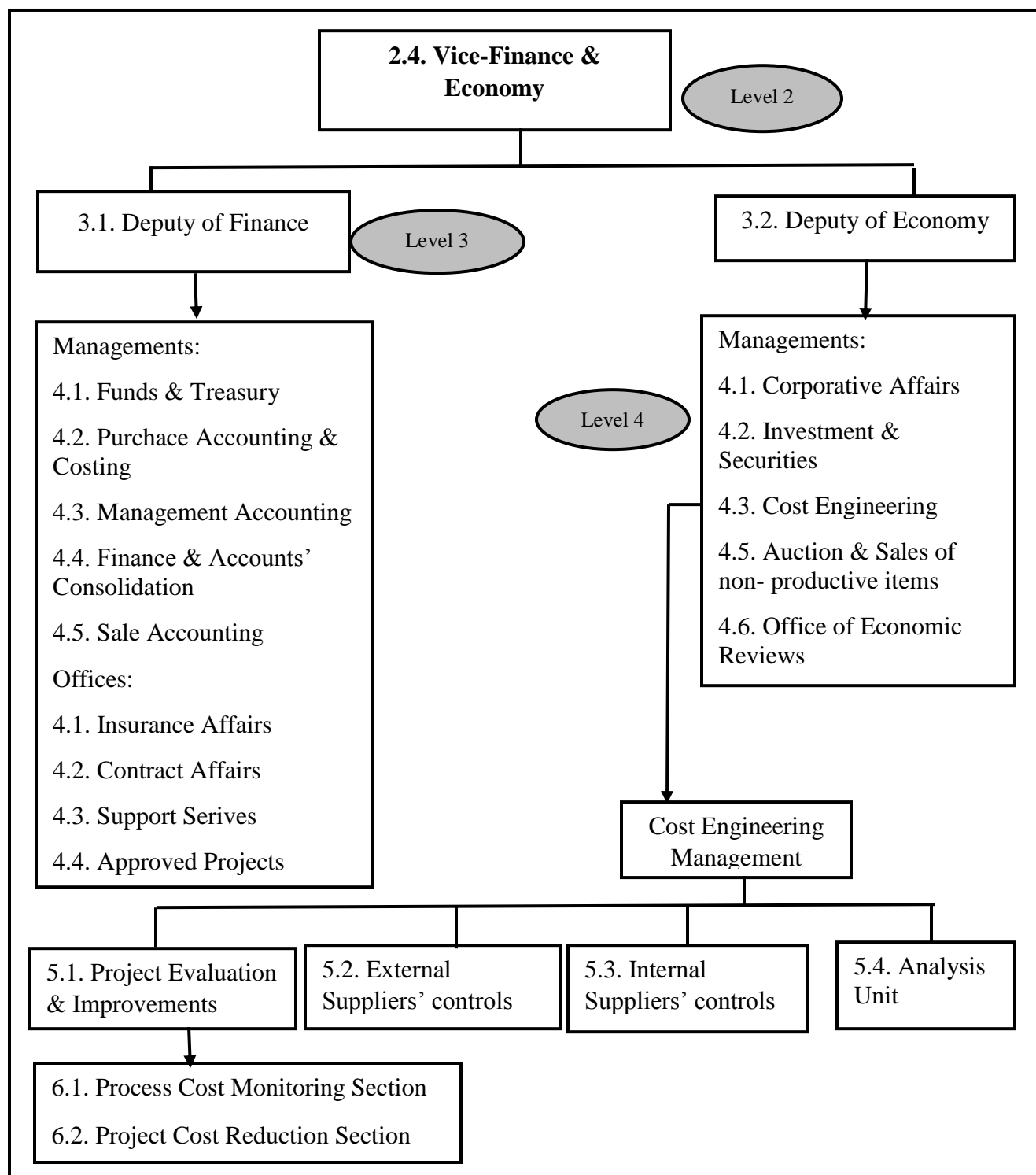
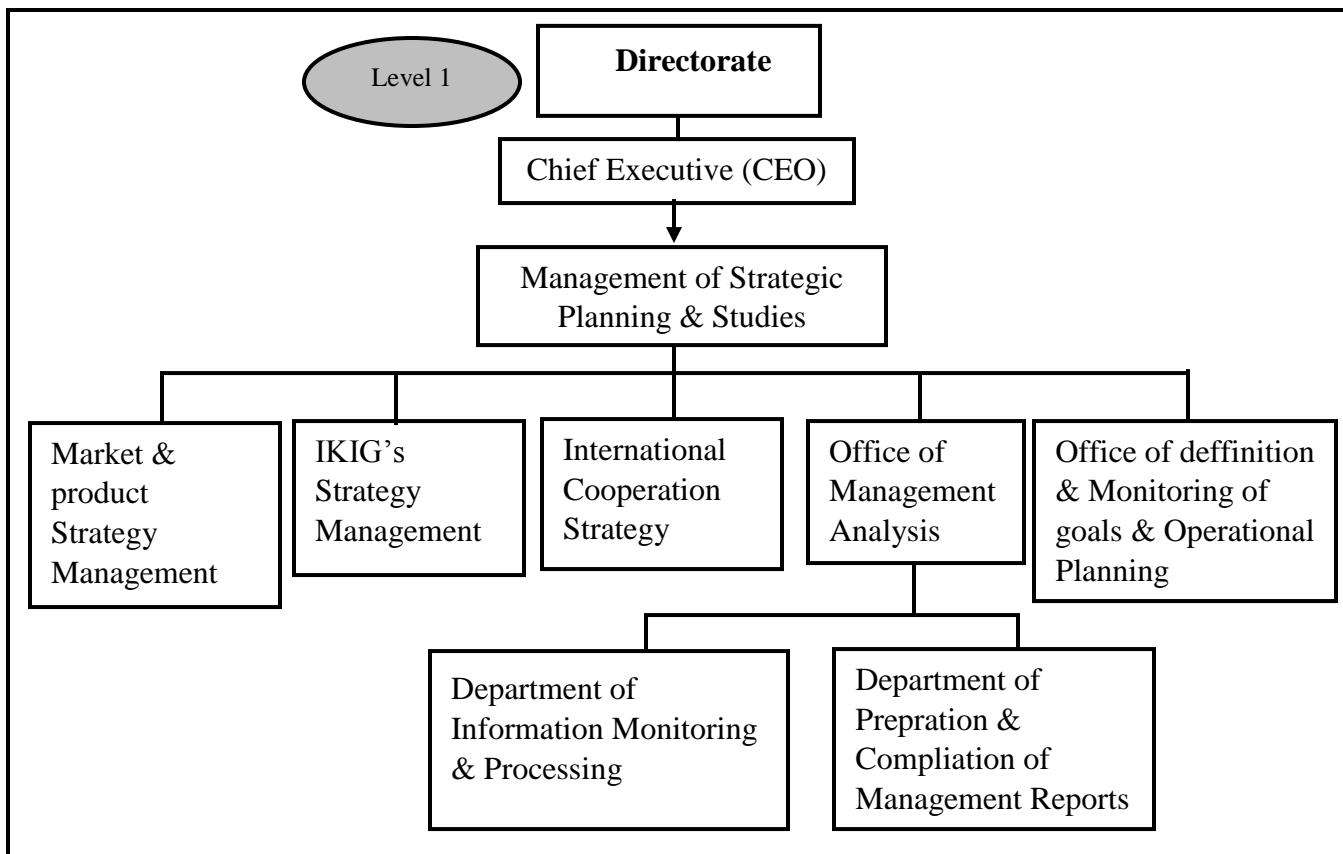


Figure 26. Organisational Chart of the Finance Deputy in IKCO





**Figure 27. Organisational Position of the Strategy and Studies Management in IKCO**

The following table (29) shows the number of IKCO’s employees at the different organisational levels.

<b>Organisational levels</b>	<b>Old</b>	<b>New 2019</b>
Vice-president	6	13
Deputy	20	-
Director	79	-
Manager	237	147
Head	394	303
Administrator	491	783
Foreman	480	1566
Total	1707	2812

**Table 29. IKCO's Organisational Levels**

The results of the interviews, however, confirmed that despite the new role of the company's management since the privatisation, the government still plays a significant role in the company's general corporate governance and administration. For example, with the government's emphasis on developing an Iranian national automotive industry based on productivity, localisation and self-sufficiency policies, macro-level socio-economic and political goals have had a direct impact on the changes in the company's management system, calling for wide structural changes with an emphasis on technical and engineering capabilities. Additionally, following a differentiation strategy based on 'modularity in product architecture' policy, development of new products and new platforms brought about wide structural changes in IKCO. In particular, by introduction of the Samand project (1996–2005), IKCO was structured based on development of design learning of components, focusing on development of a parts supply chain and localisation of automotive parts. During this period, therefore, IKCO's structural reforms were largely production-oriented, and therefore less attention was given to compliance with financial performance as a result of emphasising on market-oriented and privatisation objectives. In this case, for example, the New Product Development Process (PDP) was structured to evaluate the engineering and technical justification of new products rather than to justify the project in terms of marketing feasibility and cost-effectiveness. As a result, the most of the structural reforms were shaped for improvement of the systems in terms of technical upgrading and product capacity enhancement rather than the objectives of efficiency, profitability and financial and marketing structures. Additionally, the interviewees argue that the company's board of directors were still appointed by the IDRO's officials, mostly from among the managers who have political and engineering backgrounds. It is noteworthy that the company's corporate executives are changed by each presidential election; therefore, political influences can be an important element in appointment of each new board of directors in IKCO. Additionally, according to the result of the interviews, despite the widespread restructuring after the privatisation, relying on the dominant structural and cultural systems in IKCO, as a company that was run for years as a state-owned company, the company's organisational structure is still characterized as highly bureaucratic and centralised with top-down communications and decisions mostly made by the top-level managers on basis of formal and command procedures. Such a structure created numerous separate functional departments, standard procedures and individual tasks definitions, which negatively affected the interactive structure based on teams and supportive links and adaptable procedures between the working

departments, groups and individuals. The company's heavily hierarchical structure has also influenced the organisational culture within IKCO, encouraging the departments to become more isolated, as a result of which information is not appropriately and timely shared in the processes of planning and decision making and control practices. The marketing department of IKCO explained that PDP needs to be more consumer-oriented based on both quantitative and qualitative marketing research. However, as usual we (IKCO) do not pay attention to this important issue. In particular, qualitative marketing research in IKCO is scant and clearly some important marketing information and aspects is lost throughout the IKCO's PDP decision making processes. This problem is largely because it is the technical learning that is the key priority not the marketing and profit of the new projects. The third phase of the structural changes in IKCO after the privatization began in 2012, when the widespread international sanctions and financial pressures were imposed on the company. Facing the hard financial condition coupled with reduction of domestic market demands, the company suffered a sharp decline in productivity and profit margins, a severe shortage of liquidity and ultimately losses, which encouraged the company's executives to implement wider structural reforms for improvement of the company's financial performance. A manager in a production site explained that previously, the new product development process (PDP) in IKCO was largely structured based on engineering and technical capabilities. However, currently, PDP includes evaluation of both technical and commercial feasibility of a new project. In particular, the stages of feasibilities include marketing and finance monitoring as important steps to urge PDP restructuring in IKCO.

A manager in the Press Shop explained:

“Under current uncertain economic conditions and financial pressure, everyone needs more financial information to make the best decision. Previously, the financial condition of the company was good and relatively stable in a way that the importance of a project was considered mostly in technical terms and the financial dimensions were of little importance because the company's main goals were productivity and diversity of products. Now there is a cultural change in IKCO's management perspectives because the company's financial condition is not good and the managers understand the importance of financial performance in making decision processes and control practices.”

The former Manager of Systems and Processes explained that the internal control restructuring process and the formation of specialised financial and non-financial committees and working groups can be the most important shift in the process of structural and cultural changes in IKCO after the privatisation. Previously, the company's departments and units worked as single islands, but currently some work groups and specialized committees have been formed by which different units can interact with each other and work as a group, which positively influences the managerial culture in IKCO. The senior managers have set up specialized committees for tracking and collecting financial and non-financial information in the decision making processes and control activities. In some of these committees, even CEO or the vice-presidents play the leading role as head of the committee. The Education and Training Manager added that "For example, during the boycott and wide international sanctions against Iran, and when the company was overshadowed by unstable exchange rates and currency supply problems, a committee was established, entitled 'Special Measures Committee', which is still responsible for decision making on risk assessment when there is an extreme condition."

IKCO's Systems and Processes Manager explained:

"The recent structural changes as well as the development of new integrated formation systems have allowed us to move towards integration, cooperation and sharing information in the whole company. We [the company] are now more willing for group structuring and we have established many committees that encourage the managers and employees to work together as a team. Additionally, due to increased business complexity after the supply chain strategy, IKCO's management have recognised the necessity of the ERP system (Enterprise Resource Planning), which could provide cross-functional integration and data sharing across SCM."

Overall, as a result of the financial and liquidity pressures in the recent years, the company's senior executives have paid more attention to the company's financial indicators, which in turn have led to structural changes aiming at balancing the operational and financial performance in IKCO. In this regard, group structuring and formation of the different committees have improved the cross-functional activities in the company's financial performance. In this regard, management's advisors and various committees were added to support the company's management at different organisational levels. In this respect, for example, formation of Organisational Change Management (OCM) was an important attempt, providing the required organizational structure or

cultural changes within the process of the adoption of new managerial systems in IKCO after the privatisation. For example, one of the important tasks of this committee is to evaluate the technical and economic justifications of implementing new projects and systems and to monitor their timely progress. Furthermore, a number of departments were created with the goal of improving the company's management integration as a whole. For example, a new deputy, entitled the Economic Deputy, is responsible for improving the control systems and creating synergy between the group companies of IKCO. In this deputy, the specialised committees are responsible for formulating policies and plans for short-term courses and then pursuing and controlling these policies to incorporate developments in the groups of the companies of IKCO.

### **7.2.3. Information Technology (IT) & SAP System**

The Information System (IS) similar to Microsoft Outlook was systematically developed over the years in IKCO, allowing all members to access the integrated IS by using their personal username and password, enabling them to send and receive emails and store and share documents and reports. However, the levels of access to IS facilities are different, depending on the member's position in accordance to the organizational hierarchy in IKCO. Additionally, new management systems such as ERP, BSC, ABC, QMS and EMS were introduced in IKCO to standardize the company's management systems and processes. For example, in 2005, IKCO attempted to use especial software in ERP environment, "SAP" (System Analysis and Program), in order to improve IKCO's performance regarding integrity, efficiency and quality. SAP, as an integrated modular software program, was initially introduced in early 1980 in accordance to business processes and based on the overall goals of an organisation (Turban *et al.*, 2002). This system produces and shares the common data and information from a single integrated database, supporting multiple and integrated functions in the business processes. In the ERP environment, the existing processes are replaced with the 'best practice' processes, aiming to represent the industry standards for the most available rational and progressive business processes (Dillard & Yuthas, 2006). After the privatisation, implementation of the SAP system, as a strategic tool, was followed in IKCO in accordance to the company's general corporate strategy of moving towards a new business strategy based on SCM to create an integrated information system. According to IKCO's documents, as presented in Table x, improvement of the stakeholders' values is identified as the main objective of the implication of SAP in IKCO, which could be achieved by an increase in customer

satisfaction, decrease in the NPD cycle times, improvement of an innovative culture, increase in profitability and capital efficiency and increase in employee satisfaction. The SAP system was suitable for IKCO in integrating previously isolated ISs in the different functional departments within the company as could be adopted in stages, module-by-module (Al-Mashari & Zairi, 2000). Therefore, the implementation of this system continued in stages based on process-oriented functions within this company. Figure 28 presents the IKCO's SAP Operations drive Stakeholder Value.

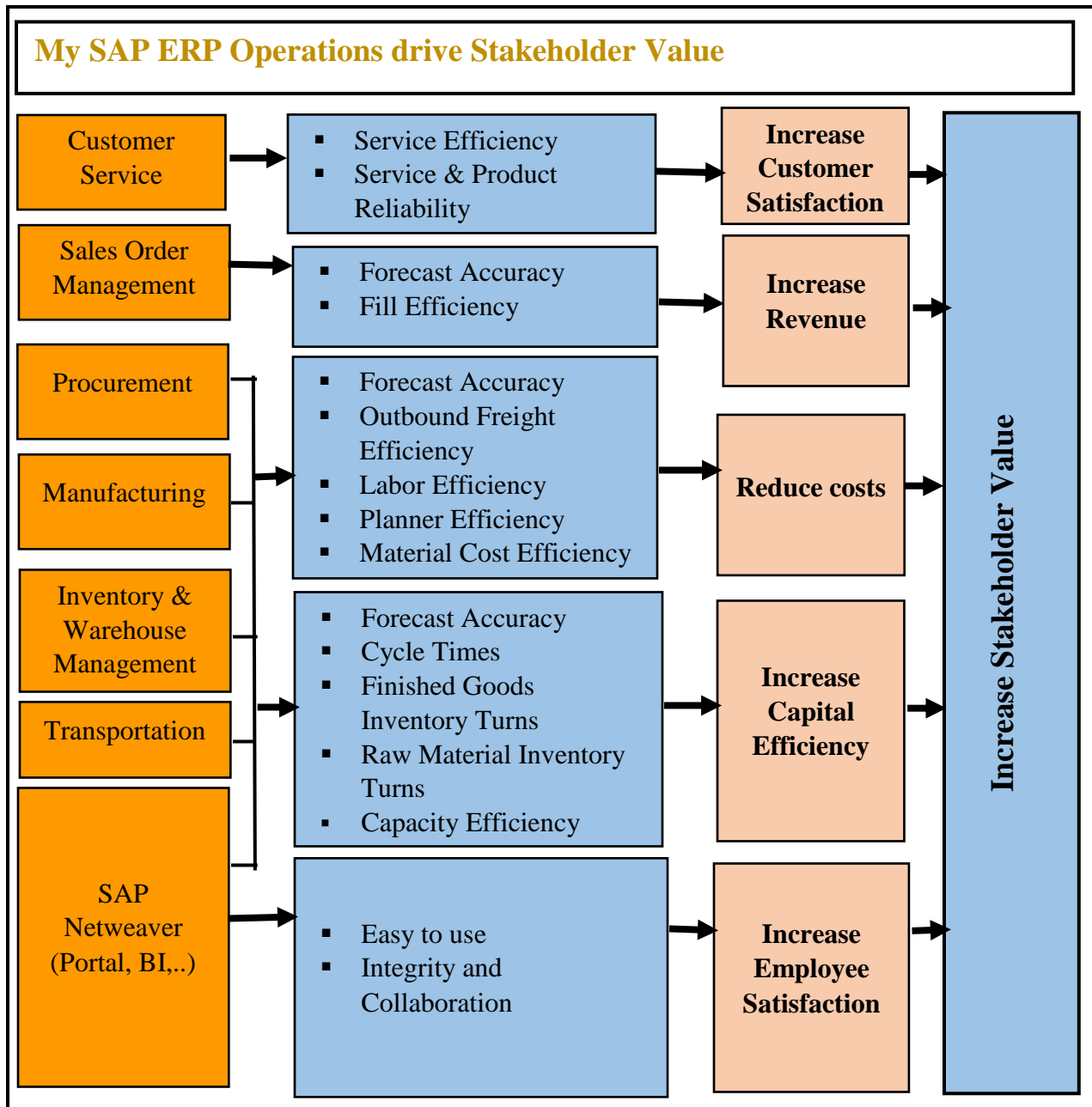
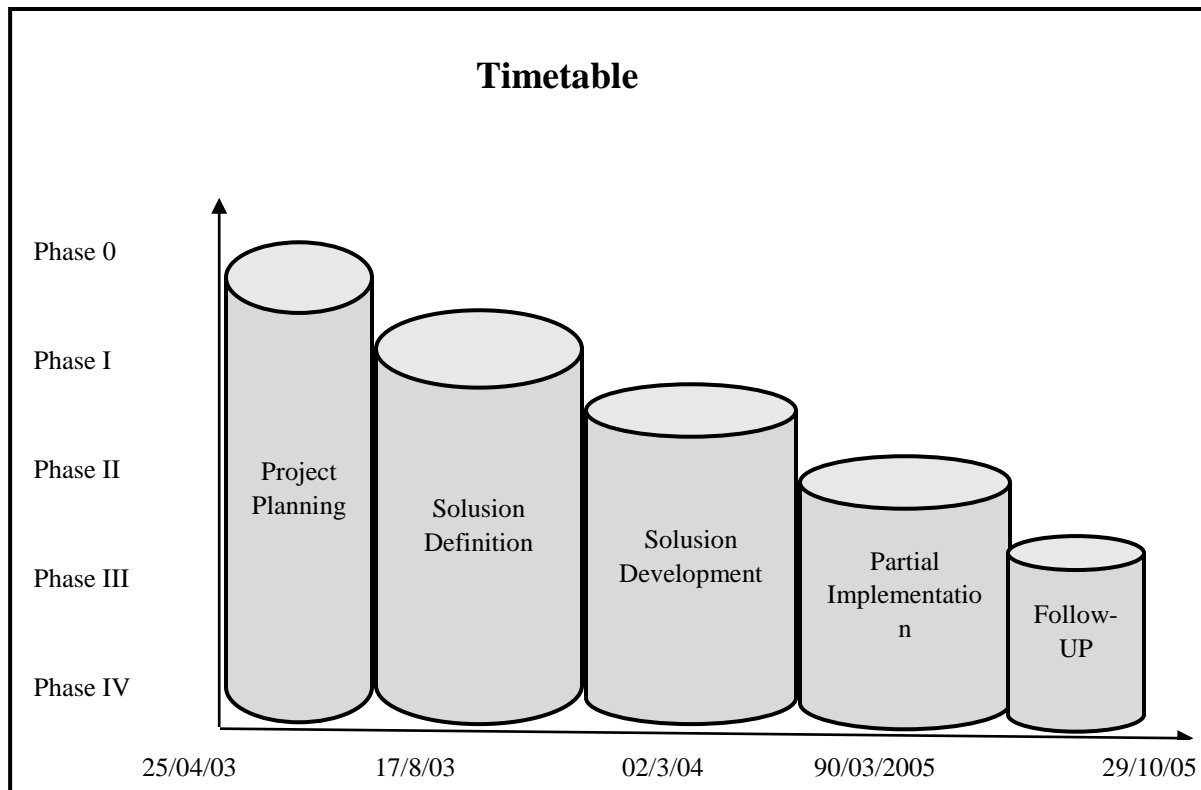


Figure 28. IKCO's Drive's Stakeholder Value based on SAP system

As mentioned above, the SAP system planning in IKCO started in 2003. The implementation of the 'SAP' program dates back to 2005, when this system was implemented in the Northern Factory (Tondar 90 plant) as a pilot project. In the first phase of implementation, the company used German advisors to apply the FI (finance information) and PS (project system) modules. The second phase of the SAP project in the northern factory began in 2009 and ended in 2010, which concerned the production planning systems including purchase, stocks, production and control. Although the company used foreign consultants to continue this phase, the second phase was continued by the Iranian consultant company of Fave due to international sanctions.

In 2011, the implementation of SAP, including the logistics, started with the granted permissions to achieve the business objectives in terms of the best practice model. The scope encompassed implementing SAP for more than 50 warehouses and 13 manufacturing shops and accomplishing SAP's advanced production-planning scenarios for the main company of IKCO. The project includes implementation of the SAP, MM, WM, PP, PM, QM, FI, CO, SD, WF, FM and PPE modules of ERP as well as Demand Planning, Supply Network Planning and Model-Mix Planning modules of SAP SCM APO. The number of the project end-users exceeds 1,800 persons. The scope of the project covers improvement in duties of more than nine IKCO president deputies, including Total Production System, Car Manufacturing, New Product Development, Vehicle Engineering, Process Engineering, Quality, Financials, Economy, Strategy and Projects and finally Organisation Engineering and Systems. In 2013, the first phase of the project was successfully implemented and then IKCO's mainframe-based inventory system was completed with the help of all stakeholders. Now, IKCO benefits SAP ERP in the whole Procure-to-Pay scenarios, including Purchasing, Inventory Management, Warehouse Management and Parts Supply to Customers in parallel with financial activities simultaneously. However, the implementation of SAP in IKCO is behind its time schedule; there is a delay for many of the modules planned and models such as manufacturing and management projects have not yet come into operation. Figure 29 presents the timetable of SAP implementation in IKCO.



**Figure 29. IKCO's Timetable of Implementation of SAP System**  
**Source: IKCO's Internal Reports**

The SAP project in IKCO covers different managerial areas including (1) enterprise asset, (2) life-cycle data, (3) program and project and (4) quality. It encompasses different functional areas, such as financial accounting, management accounting, manufacturing, and order processing and project management. In the first stage, in Northern Company, the SAP system was fully implemented in the FI system and the MA department, heading towards adoption of the SAP system since 2006. According to the interviews, there was little resistance to change in FA and MA systems and participants did not rise tensions and disruptions generally associated with such changes. However, the SAP system has not yet been fully implemented in the budgeting system. The budgeting system in IKCO is a self-developed system but it is connected to the SAP system by an interface system.

IKCO's manager of Systems and Processes commented:

“In the implementation of the SAP system in IKCO, however, the SAP's administrators and advisors faced difficulties in the total implementation of the system, in particular in two areas of marketing and H&R, because these areas were quite contrary with the defined standards of the SAP software regarding the best practice. For example, there is a wide complexity of hiring,



various types of workflow, variety of recruiting methods and various methods of calculation of salaries in IKCO that are not taken into account [by SAP] and are not applicable in the best practice of the SAP system. Accordingly, there are many selling options that are different from the options offered by the SAP system; therefore, the sale function in IKCO is operating separate from the SAP system but with self-developed systems connected to SAP by an interface system.”

As a result, according to the interviewees and documentary evidence, only a part of the SAP system has been implemented in IKCO so far. However, the other systems that operate separately from the SAP system will be eventually connected to the SAP system by an interface system. Additionally, in the Southern plant, which includes 75% of the company’s operation, the first phase of SAP began since 2010 and lasted to 2014 in departments of FI and Logistics. At present, this company has started phase II, which concerns the production, CO, and repair and maintenance systems. The SAP system has already been in operation in the two subsidiaries of Fars and Babol. Moreover, the two subsidiaries of Khorasan and Tabriz are included in phases II, which have not been completed yet. In general, the total implementation of the SAP system in this company is lagging way behind the project schedule. There are several reasons for this failure, including managerial, technical, cultural and structural issues and complexity of IKCO’ operations. Lack of effective and timely management support, operational and structural limitations, lack of access to the original version and foreign consultants due to international sanctions, lack of adequate training programs, irrational exceptions in the implementation of the system due to organisational procedures and inadequate technological infrastructure all have made the customisation of the SAP software difficult, making the system’s progress very slow. In this regard, the manager of the ERP department referred to the impact of the international sanctions against Iran, which have halted IKCO’s access to global consultant companies and the required technological infrastructure. He argued:

“It is not possible for us to work with German companies in the implementation of the SAP system because of the boycott. On the other hand, due to lack of strong presence of consulting companies in Iran, we have to use second-hand consulting companies from developing countries like Turkey. When the sanctions were severe, even Turkish companies were not happy to work with us, and we had to use Pakistani, Indian and Afghan companies. This limitation has significantly influenced the progress of the SAP system in IKCO. Additionally, acquiring the wide and fast changing

software programs and their several upgrades is sometimes inevitable, resulting in some extra expenses and costs for a company that demands significant managerial supports.”

Although the full implementation of SAP in IKCO has had much delay since 2005, the results of the interviews indicate that the implementation of the SAP system in IKCO has had significant effect on the management processes and the culture regarding gaining knowledge as well as the knowledge sharing behaviour. The interviewees argued that implementation of SAP not only has significantly improved the information systems but also triggered structural and cultural changes in all levels. In IKCO, the SAP project has greatly improved and facilitated the integration of the information systems, improved access to timely information and facilitated exchange of information.

#### **7.2.4. Internal Control Systems**

Konrath describes internal control as “the process effected by an entity’s board of directors, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives” (1996, p. 220). Konrath classifies internal controls into three categories: (1) operational controls with an emphasis on optimal resource allocation and further efficiency, (2) preparation of reliable published statements, including financial reporting controls and (3) the necessary controls to comply with laws and regulations. In case of IKCO, in 1984, i.e., before the privatisation, IKCO entered into a contract with Organisation of Planning and Development of Systems, a consulting institution, aiming to improve managerial and internal control systems, in particular related to IKCO’s planning, finance, logistics and costing systems. According to the interviewees, the majority of the members of the Organisation of Planning and Development of Systems were charter accountants graduated from European universities.

The former Manager of MA explained:

“This contract was initially made due to the rejection of the company’s financial statements by IAO regarding that the IKCO’s financial statements were no longer reliable. Therefore, the company had to improve its systems for its financial statements to be approved by IAO. The agreement between IKCO and the consulting firm included development of management and internal control systems, including financial and MA systems and particularly the budgeting and

costing systems. For example, for the first time, the company officially issued its budget, including developing and scheduling a series of methods that had a positive impact on the internal control systems in IKCO.”

The result of the interviews confirmed that before the privatisation, however, IKCO’s internal control system was external-oriented, largely focusing on accountability practices related to compliance with government’s regulations and law requirements. After the privatisation, some important factors contributed to a change in the IKCO’s internal control systems, including development of IT, ownership change, structural and cultural changes, regulatory pressures and the uncertainty and associated risks within Iran’s business environment. For example, according to the new regulatory system, the instructions issued by TSE and IAO in particular, IKCO’s internal control systems improved in terms of transparency and development of operational and financial reporting controls. According to the interviews and documentary evidence, after the privatisation, IKCO provided and disclosed its financial statements and reports with more details, diversity and accuracy and in a timelier manner. Additionally, since 2012, according to the new instruction for internal controls issued by TSE, the company’s board of directors have been required to provide a report entitled “Reports on internal controls” at least once a year to assess the strengths and weaknesses and explain how well the internal control systems are upgraded and why their weaknesses are not yet fixed. This report must be approved by IAO. Additionally, TSE issued the Corporate Governance Guidelines for the company’s board of directors in order to improve the internal control systems in terms of effectiveness of the members’ decision making processes at all the managerial levels with an emphasis on long-term stockholders’ values. These guidelines also present instructions and frameworks regarding appointment of independent members of the board of directors, creation of specialised committees, investor relations management system, internal control systems and internal auditing system. In this regard, after the privatisation in 1996, IKCO established a new department of Internal Auditing Management, aiming to support the company’s internal control systems. Additionally, the company’s risk management activities were extended to different departments of the company. There are specialised departments in IKCO now to evaluate attainment of the regulatory expectations and requirements. Additionally, after the privatisation, introduction of QMS (ISO 9001) was another important change driver in the company’s internal control systems. In 1947, technical committees in Switzerland initially established ISO as an International Organisation for Standards, aiming to

develop intellectual, scientific, technological, and economic cooperation between the member countries. This organisation identifies members' requirements for effective application of internal control systems, focusing on the ability of the entities in meeting customer satisfaction as well as complying with the statutory legal requirements.

ISO 9000 series of standards were firstly issued in 1987, showing tremendous growth and dissemination across the world (Reis *et al.*, 2014). In 2016, a total of 1,643,523 ISO 9000 certificates were issued for 195 countries, which underwent a continuous increase of 8 % in 2015. ISO 9000-2000 includes four major sections: (1) Management Responsibility (2) Resource Management (3) Product/Service Realization and (4) Measurement, Analysis and Improvement. This standard follows some of the concepts suggested by the Total Quality Control (TQM) (Martinez-Costa, et al., 2009). ISO 9001 standard defines eight principles: (1) Customer focus, (2) Leadership, (3) Involvement of people, (4) Process approach, (5) System approach to management, (6) Continual improvement, (7) Factual approach in decision-making processes and (8) Mutually beneficial supplier relationships. Aldowaisan & Youssef (2006) classified the main ISO 9001 requirements into six sections: (1) a set of procedures that cover all key processes in the business, (2) monitoring processes to ensure they are effective, (3) keeping adequate records, (4) checking output for defects with appropriate and corrective actions where necessary, (5) regularly reviewing individual processes and the quality system itself for effectiveness and (6) facilitating continual improvement. In accordance to ISO 9001: 2008, the mandatory procedures are the following six activities: (1) document control procedure, (2) control of records procedure, (3) internal audit procedure, (4) control of non-conformance procedure, (5) corrective action procedure and (6) preventive action procedure. In this regard, ISO 9001 is accounted as the world's most commonly used standard for quality management systems in the world. Institute of Standards and Industrial Research of Iran (ISIRI) joined the international ISO organisation in 1960. ISIRI is the only legally responsible body for the design and developments regarding Iran's official standards. Additionally, the Iranian Standards and Quality Control Company (ISQCC) is responsible for inspecting and controlling product quality, technologies used in the production and training needed to improve the level of performance efficiency in the Iranian entities. Additionally, ISQI established a series of standards for development of quality management controls of the local industrial sectors in Iran; they are obliged to prepare Conformity of Production (COP) with adoption of the ISO 9001 certificate. Accordingly, Iran's Ministry of Industry has established an office to encourage the

adoption of ISO standards by all the industrial companies supervised by this ministry. In case of the Iranian auto industry, product quality controls have been one of the key concerns for the Iranian automakers and their parts suppliers (BMI, 2009, pp.28–29). The ISO 9000 project in IKCO has pursued various goals: improving the company’s position in the global markets, improving the quality management system, meeting customer satisfaction and improving performance efficiency and effectiveness. Following the ISQCC regulations, IKCO was required to improve its internal control systems by application of quality standards, offering training programs, development of organisational excellence models and inspections, monitoring and controlling industrial emissions, monitoring automotive after-sales service and dealing with customer expectations. In this respect, the continuous improvement of product quality management was regarded as one of the important long-term goals of the company, which was intended to be followed by ISO 9000 standards. In 1998, all manufacturing units in IKCO met the ISO 9000 requirements and later in 2000 the company was granted the ISO 9001 certificate. IKCO is now a certified quality inspection company and ISO 9001-2000 quality management is applied to all its departments. IKCO also expanded its management quality system by extending ISO 9001:2008 and ISO/TS16949:2002. Additionally, due to the nature of the automotive industry and its important impact on environmental pollution, the company has also developed a structured environmental management system based on ISO 14001 standards as well as many other health, safety and environment certificates, including OHSAS 18001, since 1997. In 2000, IKCO implemented Environmental Management System (EMS) in the entire company. The company adopted EN ISO 14031: 1999 for implementing Environmental Performance Evaluation (EPE) in 2002–2004, where its most important motivation was to meet the international standard requirements and confirming the effectiveness of EMS in IKCO.

The Director of Strategy and Product Planning explained:

“In the ISO project, the role of the company’s executives is very important because they are responsible for providing the required resources and facilities, including the required structural changes and appropriate training program as well as relevant internal and external communications. For example, IKCO forced and supported its suppliers to implement the requirements of ISO 9001 and ISO/TS 16969. Even the company has imposed a certain condition for accepting only the suppliers that have been granted the standard certification for quality (ISO

9001). Additionally, development of a wide network (ISACO Portal), including intranet and a website, has made it possible to create online communication between the company and all distribution channels inside and outside the country in accordance with the standards of the ISO models.”

IKCO’s Education Manager also stated:

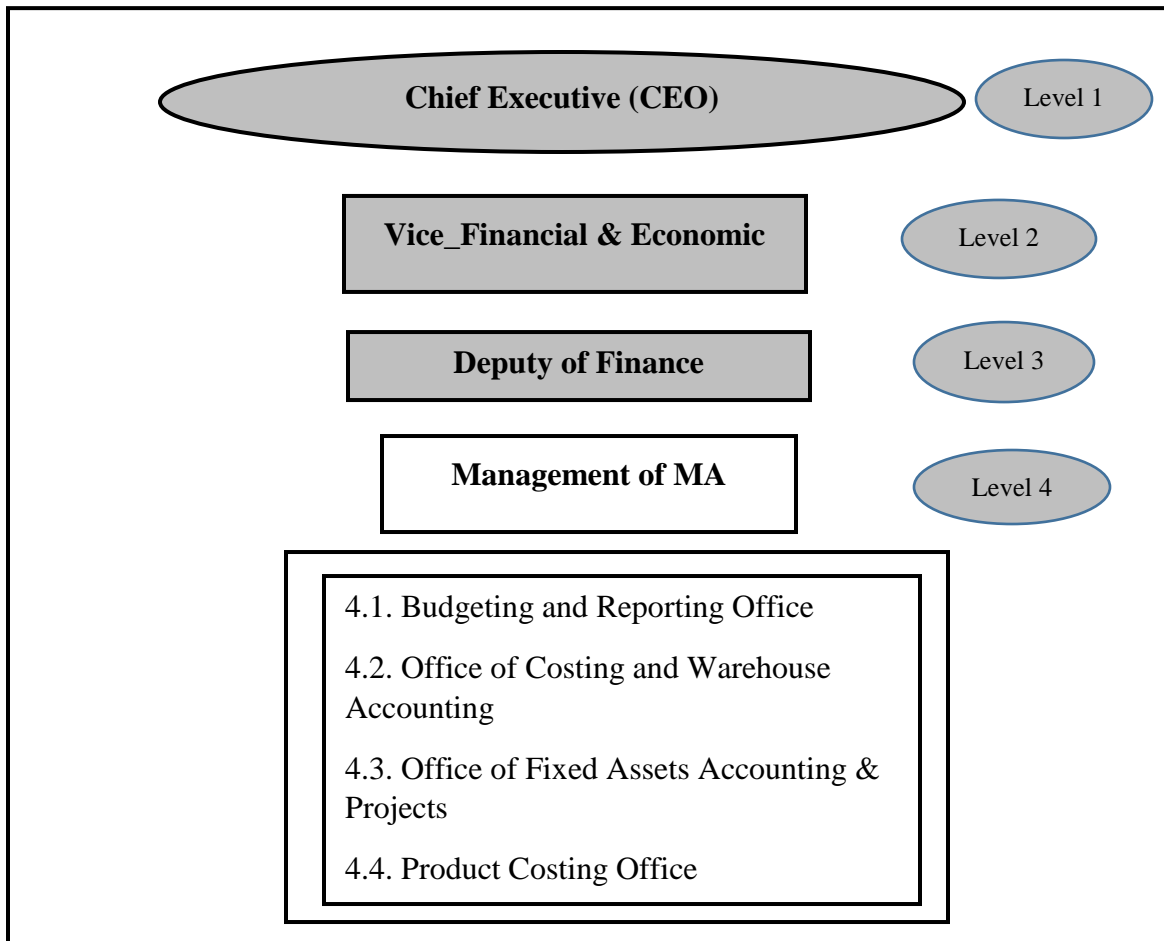
“By the start of the ISO project in this company, our staff was trained in various fields such as quality management system, project management, risk management and cost management and we have gained a good experience of team work. In this regard, many training programs have been provided by the company not only for managers but also for all the others involved, including the operatives and subsidiaries’ employees.”

In sum, the result of the interviews and documentary evidence confirmed that after the privatisation, IKCO’s internal control system was subject to changes pursued by various goals regarding operational controls, financial performance and controls to comply with laws and regulations. For example, a series of internal control routines were progressively expanded by holding group meetings and providing daily, weekly and monthly reports, such as control of budget deviations, cost analysis and risk management, which improved internal control systems in IKCO. Furthermore, ISO 9001 introduced a process-oriented approach, which encouraged IKCO in getting TQM practices. Although IKCO had already a quality department before the application of the ISO system, development of the quality management system based on ISO 9001 instructions provided the company’s internal control system with application of a modern technique in accordance with the international standards and instructions. Previously, the quality reporting system and processes were organised by each department and unit separately, but after the privatisation, this system was changed to become standard with an emphasis on particular standards and requirements, using charts, statistical techniques and new methods in a timely manner, which provided comparable information in the control practices and decision making processes. Another factor that played an important role in changing the internal control systems in IKCO was related to development of the information technology. In particular, adoption of the SAP system increased integrity, by which the company improved its internal control systems in both the operational and non-operational systems by accessing more timely and accurate information. The results of the interviews revealed that the changes in internal control systems in

IKCO were external-oriented, largely motivated by the introduction of the new regulatory system. The interviewees argued that although the new regulatory system brought about important and positive changes in the company's control systems after the privatisation, in practice these changes were not carried out in such way to ensure the values of the shareholders and with an emphasis on financial performance rather they were adopted in a formal way with an emphasis on the new, highly political regulatory system. As a result, the changes of the internal control systems in IKCO were significantly influenced by a path of regulation obligations as well as uncertainty in macro socio-economic and political context of Iran. For example, under a monopoly and highly protected condition, this company focused on meeting the regulatory requirements based on productivity objectives rather than quality improvement of the products based on ISO 9000 standards, emphasizing on providing customer satisfaction. As a result, the ISO certifications in IKCO confirm that formalised ISO processes are being used in IKCO yet in a ceremonious way, and do not guarantee efficiency of the quality management systems for IKCO's products and services. Additionally, the result of the interviews confirm that the company's internal control system is not still logical and efficient, largely due to lack of access to reliable and integrated information system, structural limitations, cultural problems and poor top management's support. The next section aims to present the main changes in the company's MAPs after the privatisation.

### **7.3. MACs after Privatisation**

This section aims to present and discuss the changes that have taken place in MAPs in IKCO after the privatisation. The section assesses IKCO's MACs on six themes: (1) the budgetary system and process; (2) the costing system, (3) the pricing system, (4) the performance measurement system; (5) the MA report system and MA utilisation and (6) the introduction of the advanced MASs of BSC and ABC. Figure 30 presents the structure of Management of MA as a subset of Deputy of Finance.



**Figure 30. IKCO's Organisational Chart of management of MA**

### **7.3.1. Budgeting System**

The budgeting system in IKCO has changed in three stages. The first was in 1975 when the company's budget report was provided by outsources as a tool for planning and controlling the practices. The preparation of this budget was initially requested by the vice-president advisor, who was a graduate of a business university in the UK. This effort coincided with the growing oil price in Iran, when the government's industrialisation program promoted the company's management to invest on the updated car assembling lines, using detailed planning and control systems to achieve the company's strategic objectives. This attempt reflects normative isomorphism, which may be also considered as mimetic isomorphism against international car companies.

By the advent of the Islamic Revolution in 1979, like the majority of industrial sectors, IKCO was nationalised and came under government's ownership, control and administration. Additionally,



the nationalisation period coincided with the war-time and the wide international sanctions when IKCO's operation reached its lowest volume, facing this company with corruption as a consequence of the shortage of components, dated technology, debts and fiscal crisis for a company which was largely subsidized by the government. In this period, the process of implementation of the budgetary system in IKCO was totally stopped because the company's activities were fully in line with the government's general policies as the Iranian government stopped industrial development program completely.

The former manager of MA Department explained:

“During this time, Iranian economic sectors faced lack of managerial and professional forces because many qualified managers left the country after the victory of the revolution. Additionally, many qualified staff and workers were sent to the war. [With this] and lack of resources, the main challenge for the economic sectors like IKCO was to survive. Therefore, expansion, productivity, financial aspects and profitability were not the priorities for IKCO's management during this period.”

The second change in the budgeting system in IKCO started in 1986 during the nationalisation period when the company entered into a contract with an outsourcing consulting company in order to develop its systems. During this stage, the company established some working groups in order to present its first budget for only the seven main production units. After that, IKCO provided its budget booklets for 33 units, including the all operational units, identified a series of profit centres and even forecast the profit and loss of some of these units. At this time, the company prepared the budgets annually in accordance with the formats and instructions introduced by IDRO and the Iranian regulatory bodies. Additionally, the company's budget reports were general, without details about the separation of unites and without descriptions on a monthly basis.

The third change in the company's budgeting system began after the privatisation when the government's ownership reduced to less than 50% and IKCO's board of directors was obliged to draw up the company's budgets in accordance to TSE. Due to coercive, normative and mimetic isomorphism imposed by TSE, the company was required to make changes to its budgetary systems. According to the results of the interviews and documentary evidence, since then the company's budgeting has become an important practice by which the budgeting reports have been set with new instructions and in a timely manner, which have to be audited in accordance with the

principles of scientific standards set by IAO. For example, after the company's transition from a public to a public joint stock company, more attention was paid to budget simplicity, transparency and efficiency; some new cost centres were created; and in some cases some others cost centres were removed or replaced. In addition, previously the budgetary reports included only a number of the operational sections, but after the privatisation they were expanded for both the operational and non-operational sectors, including administrative, distribution, sale and marketing units as well as all of the company's subsidiary companies. In this regard, after the privatisation, IKCO was legally required to provide three types of budgetary reports, including long-term, consolidated and annual. The annual budgets contained more detailed information, including the shareholders' budget and the managerial budget. While the stockholders' budgets were prepared for external purposes with an emphasis on the regulatory requirements, in particular TSE's formats and instructions, the managerial budget reports served internal purposes as a control, incentive and managerial practice. In this regard, the managerial budgets were structured and provided on the basis of the optimistic conditions, while the shareholders' budgets assumed a more pessimistic condition. Additionally, the shareholders' budget reports were prepared for a period of six months and did not generally include details about the separation of the units and months of the year. In contrast, the managerial budgets included more details that were sub-divided into units and were reviewed for a shorter period (a month).

The former head of Budgeting and Reports Office commented:

“Previously, we spent most of our time on the shareholders' budgets for external use. Our role has now changed in such a way that we now spend the most time on internal purposes of the budgetary practices. This change is partly due to the change in the managerial attitudes about the importance and benefits of budgeting, where there is now a demand for more detailed and diverse budgeting reports in the process of making decisions and controlling the activities. In general, all employees in all organisational levels are now much more sensitive and responsive to budgeting and variations, considering budgeting as an important activity in the process of controlling and evaluating their tasks.”

Additionally, the long-term budgeting system has been implemented in IKCO after the privatisation as the main document of the strategic planning. This document was prepared for a period of 5–7 years: the strategic production budgets are normally prepared for 5 years and the

finance and H&R budgets are prepared for a period of 7 years. In 2015, the company was also required by TSE to provide consolidated budgets for Iran Khodro Industrial Group. In this respect, the company's Economic Deputy was established to provide the required budgetary information from the all subsidiaries of Iran Khodro Industrial Group, and the MA Management, as subset of Finance Deputy, is responsible for providing the company's consolidated budgets. In the budgeting system, the MA department also provides the budgetary variance reports, comparing the actual results with the budgeted data.

Another significant change was the transition from a manual to a computerised budgeting system. Due to increasing workload and the high volume of the changes in the accounts and cost centres, the company's manual budgetary system was upgraded to a computerised system, which was developed by the collaboration of the management accountants and the company's computer experts, aiming to record the cost factors in the cost centres. This system has been used since 2009 and operates separately from the company's SAP system. It is notable that the implementation of the SAP system in the company's budgetary system faced some obstacles, partly due to the high volume of the changes in the cost centres and the delay in the total implementation of the SAP system. Despite this delay, the implementation of SAP in the company's costing system indirectly facilitated the company's budgeting processes, by which the required budgetary data are sized from SAP and then uploaded to the company's budgetary system for further necessary processing. In particular, the SAP system facilitated preparation of the costing system and the provision of the detailed variance analysis in the process of budgetary activities. The interviewees claimed that the implementation of the SAP system satisfied 40% of the requirements of the company's budgetary system, especially in the phase of the provision of the cost forecasts.

The Manager of the MA Department commented:

“After the replacement of the mainframe system with the PC system and especially since the SAP system was implemented, the company's budgetary control system was relatively systemized. Currently, a part of the required budgeting information, including cost accounting data, is provided by the SAP system and other systems and then uploaded to the company's budgeting system. Previously, the budgets were provided for periods of six months, the provision of which took relatively much more time. The SAP system helped us to provide the actual initial information of the previous periods and the actual current monthly information. As a result, the development of

IT significantly influenced the development of the company's budgeting systems, by which the accounts are closed on the fifth day of each month, and accordingly the budgets and budget variances are updated monthly. In this regard, one of the most important changes in the company's budgeting is the use and acceptance of budgeting among the management's daily activities, especially among the operational managers."

The head of Budget and Reporting Office also explained:

"Previously, budget utilisation was very low and there was the dominant culture among the employees that the budgets are usually used for bureaucratic purposes and for documentation of the decisions that have already been taken by the company's managers. Currently, the employee's awareness of the benefits and uses of budgets has improved significantly in almost at all levels of company; the staff is eager to use budgets in daily activities concerning planning, control, evaluation, decision-making and incentives."

In sum, according to the interviewees and documentary evidence, after the privatisation and in particular with the reduction of government's share in 2009, IKCO's budgeting system underwent significant changes in terms of importance, utilisation, purposes, contents, formats and types. As a result, after the privatisation, the company's budgeting became an important event in IKCO, was presented more practically and with more details and diversity and was updated at much shorter intervals. The company's budget forecasts, as important documents, were used for strategic planning, control and managerial purposes. Additionally, the results of the interviews show that the changes in IKCO's budgetary control practices were institutionalised, taken for granted in daily activities by the organisational actors.

#### **7.3.1.1. Budgeting Process**

After the privatisation, the budgeting process in IKCO was subject to changes in terms of both preparation and utilisation. In this respect, prior to the privatisation, when IDRO acted as the IKCO's headquarter; this state organisation played a key role in preparation and utilisation of the company's budgeting activities. By coordination between IKCO and IDRO in the budget preparation process, several meetings were held to discuss the proposed budgets with an emphasis

on government's general policies in terms of strategic planning regarding production, marketing, H&R, R&D, and capital expenditures.

Therefore, budget forecasts were formulated, prepared and adjusted according to government's general socio-economic and political policies, in which eventually, after the approval of the budgets by IDRO and the MIM officials, IKCO's managers were notified of the company's budget execution. After the privatisation and reduction of the government's shares to 50%, the company's board of directors was obliged to draw up the company's budgets in accordance to the TSE instructions and regulations. Therefore, in contrast to the past, this time, IDRO's controlling role was replaced by TSE but without any role in policy-making in the company's budgeting process. According to the new budgeting process, the company's budgets were prepared and approved by the company in order to be presented to IAO and then TSE. In this regard, budget preparation was begun by the formation of the Company's Budget Committee, which was directed by TPS (Total Production System). This committee included members from the company's different vice-presidents and deputies as representatives of the different managements including strategy, sale and marketing, H&R, TPS, R&D, economic and finance, including MA management. The budget committee was responsible for drawing up and approving the company's strategic plans and forecasting the production level, revenues, investments and financial resources for the next five or seven financial years. At the next stage, the Budget and Reporting Office, as a subset of MA Department, was responsible for providing the company's budgets in accordance to the company's production strategic plan, which was communicated by the Company's Budget Committee. At this stage, the budget preparation process was started with calculation and estimation of the monetary figures (Iranian Rials) and the estimated production figures (submitted by the budgeting committee) by using the lists of the prices of the material and parts, which were presented by SAPCO. After the submission of the budget reports by the MA management and approval by the company's board of directors, the company's budgets were approved by IAO in order to be sent to TSE. Furthermore, as another important change in the budgeting process after the privatization, the MA management (Budget & Report Office) was made responsible for coordinating the different meetings with the other departments to discuss important undesirable budgeting variances. According to the interviewees, these meetings were helpful regarding the control of activities and assisting the management accountants in modification and improvement of the company's budgeting system. Additionally, Budget Committee was responsible for assessing the

budget variance reports to discuss the causes of budget conflicts and taking appropriate measures, including budget modification. Additionally, the company used the consultancy services presented by independent auditors in order to undertake continuous evaluation of budgetary variances for further assessments and actions.

In terms of the change of the budgeting process in IKCO after the privatisation, another important change concerned increasing the participation of the company's budgeting process. After the privatisation, the different units and departments were involved in the company's budgeting process, so that it can be said that the company's budgets are now drafted by all levels of the company, including the middle and lower-end managers. Previously, budget participation was restricted to connections among IDRO as the company's headquarter, the board of directors and the management accountants. After the privatisation, however, the participation level in the budgeting system covered the middle managers, first-line managers and non-management personnel, improving their role and commitment in the budgeting process. Currently, the different departments have been required to introduce their experts as interface between their unit and MA management in the process of the company's budgeting activities. In this respect, the coordinators, as a network, provided the required budgetary data with an emphasis on the new budgeting system.

One of operational managers commented:

“An important budgeting change that I can mention is that the relationship between the management accountants with the operational sections has significantly improved, which has positively influenced our financial awareness and participation. In many cases, we can suggest them the new approaches to improve their budgeting system. In my view, in IKCO, the greatest benefits of budget participation are achieved at the levels of middle- and line managers, and the non-management staff. This created the culture of control and accountability in this company.”

The head of Budget and Reporting Office explained:

“The level of participation has now grown significantly in the company's budgeting procedure, in which almost all organisational levels of the company are involved in both preparation and implementation. In this connection, our office now arranges several monthly meetings, prepares timetables, and talks with the different groups in a timely manner. In fact, there is now a belief that a budget task is a joint work-book shared by the management accountants and the other sections

involved. In many cases the different sections help us to rectify our accounts and improve our job, which has resulted in improvement of the budgeting system to become more practical, useful and defensible.”

The analysis of the other changes of the company’s budgetary process showed that the higher budget flexibility was another important event after the privatisation. In this regard, facing with the highly unstable economic and political context in Iran (in particular during the last recent years due to an increase in the international sanctions)—such as continuous changes in the exchange and interest rates, rising inflation and other contextual problems related to import of materials and components as well as technology transfer—the company had to present its budgets with significant flexibility in order to adapt with the increasing unstable conditions. As a result, the uncertain conditions extremely influenced the company’s budget flexibility, in particular, during the last recent years under the severe international sanctions; this condition has had negative impact on the company’s budgeting practices as a means of strategic planning, responsibility, accountability, control and performance evaluation because in many cases it is not possible to distinguish between the uncontrollable and controllable factors while analysing budget variations. In this regard, the company’s budgets were set based on short-term performance, focusing on regulatory obligation, liquidity and operational problems rather than the company’s long-term strategic objectives and control practices. Therefore, the value of the budgets in the assessment and control of the company’s financial and non-financial performance reduced, but the budgets were largely used as an instrument to secure the needed funds and resources for the daily operational activities as well as to meet the regulatory obligations.

The head of Budget and Reports Office explained:

“There are endless contextual change factors that would influence the company’s budgetary forecasts. Therefore, according to importance of these factors, we have to constantly upgrade the company’s budgets in order to fix it with the highly unstable circumstances. Therefore, our budgets are now very flexible, set on basis of different scenarios. For example, due to facing the economic crisis in 2012, the company’s budgets were subject to large changes and modifications, and in that year, we provided about 80 different versions of our budgets.”

In sum, in case of IKCO’s budgeting system and budgeting process, the result of the interviews and the documentary analyses indicated that after the privatisation there were changes in different

aspects regarding preparation, approval and utilisation of the budgets, where the new budgeting practices created new rules and routines, which were institutionalised, becoming taken-for-granted assumptions by the employees in their everyday tasks in this company.

### **7.3.2. Cost Accounting System**

In discussing the cost accounting system, it is first necessary to explain that IKCO consists of two main companies: Southern Plant and Northern Plant. The Southern factory does not have a separate management for MAPs, but the cost accounting department operates directly under Finance Deputy. In the North factory, MA Management, as a subset of Finance Deputy, includes the Cost Accounting Office. In IKCO's cost accounting system, the main tasks were related to calculation and analyses of product costs by the cost centres, both total and per unit, according to three costs elements: raw materials, direct labour costs and overhead costs. With regards to the costing systems, due to the nature of the industry, this company uses a mixture of production processes and/or job orders systems.

In Southern Plant, the costing systems include Job Orders Costing System and Production Process Costing Systems, and the costs factors are calculated on the basis of the production salons and departments. Therefore, the costs of production are not calculated based on per unit of the products. In Northern Plant, the cost accounting system includes two subsections, 'Cost Assignment and Stocks Office' and 'Costing Office', executing two stages of cost calculation of the products and components, using a mixture of cost accumulation methods, including back flush, the costing system process and job order costing system. Previously, the company used the account of work in progress and the costs were assigned to production workshops, but the production costs are now directly assigned to the production units on the basis of production orders. After the privatisation and since 2010, the company adopted the back flush costing method to determine the difference between the cost standard and the objects. In the process of cost accumulation in Northern Plant, the Cost Assignment and Stocks Office calculates and assigns the costs of conversion to product and component, including direct labour costs and overhead costs. Overhead costs include all the costs except the direct material and labour costs. In this respect, the company uses estimated allocation rates, calculated at the beginning of each year. This rate is used during the financial year in order to allocate product costs with a share of indirect manufacturing costs. On the other hand,



Costing Office is responsible for determining the material costs of products and spare parts in accordance to BOM's lists for a specific time, calculating the total production cost as well as the production cost of per unit. The costs of the finished products are calculated monthly without any quantity inconsistency; therefore, it is not possible yet to provide the cost for per unit online, rather this is calculated based on an average rate at the end of each month. Costing Office calculates and controls the degree of variance of the product's cost standards, providing the daily control variance report. Additionally, this office is responsible for arranging the required meetings with the related sections in order to discuss the causes of cost variance and the possible corrective measures that should be taken. The analyses of the change process of the cost accounting system showed that IKCO has passed three stages of MACs. The first stage was when the company was established (1962). The second stage started when the company's annual financial statements were rejected by the regulators in 1984. In this stage, during the nationalisation period, the company's cost accounting system was limited to activities, including recording the object's costs in the worksheets, doing stock lacking and preparation of annual financial statements at the end of each financial year. The company's cost accounting system was run manually with no use of cost centres; the cost accounts were recorded in accordance to the account descriptions based on a periodic method.

The former head of Industrial and Costing Office explained the main tasks of the company's cost accounting system when he was appointed in 1983 as follows:

“During the nationalisation period, when I started my job in this company, the company's costing system was so inefficient. We (the company) even did not use cost centres and a coding system. We did not use a permanent record system, but at this time, the periodic approach was the company's inventory appraisal method. The cost accounting system was manual and the use of computer systems was very limited in form of a mainframe. The computer office was a part of Finance Department and only Finance Department used some limited computer services. At this time, the most important task of the company's Costing Office was related to recording the cost objects for preparation of the annual financial statements at the end of the financial year. It is notable that these statements were often provided with delay largely because of the stock –those tasks were so time-consuming.”

In 1985, however, in response to the coercive isomorphism imposed on IKCO by the regulatory bodies due to rejection of the company's annual financial statements, the company entered into a contract with an outsourcing institution for development of the managerial and operational systems. This contract included two phases: the first phase focused on the development of the financial, logistic and costing systems and the second phase concerned development of the company's planning and operational systems. At this time, the company employed many qualified financial and economic experts. As a result, by the new contract and employment of experts there have been many calls for changes in the finance and MA systems since 1985. In this respect, for example, during this period, the cost centres were identified and codified in the company's cost accounting system, and the periodic system was replaced by a perpetual method based on the standard costing system. In 1988, the financial and costing systems were partly computerized by the use of mainframe computer systems; therefore, the new computerised cost accounting system facilitated the calculation of production costs with an emphasis on preparation of annual financial statements. However, the second phase of this contract was stopped in the process of developing the total implementation of the plan and the operational systems largely due to the limitations of infrastructural engineering systems, including the Bill of Materials (BOM), ordering systems and logistic systems. As a result, this failure influenced the development of the cost accounting system during the second change stage of the cost accounting system in IKCO.

The third change stage regarding the company's cost accounting system began by the introduction of IT development in particular, when the company decided to implement the SAP system.

The head of Cost Accounting Office pointed out:

“After the privatisation, the company's cost accounting system was readjusted with systemisation and computerisation of the company's systems. Previously, the main cause of the change of the company's systems was to meet the legal obligations but now the changes are largely technical-oriented with an emphasis on advancement of the information systems. In this regard, there is now a belief among the managers that the use of a systemised costing system would be very helpful, facilitating the control process and decision-makings activities.”

After the privatisation between 1993 and 1999, the company projected the adoption of the full costing methods with an emphasis on the development of the computer systems within the company in general and in the finance and accounting systems in particular. In this period, the

company's mainframe computer system was replaced by the network system (PC), in which at first the company managers and then the staff got access to personal computers at work. As a result, they could enter their data online, make the required modifications and finally provide the required reports.

Additionally, after the privatisation in the late of 2000s, the implementation of the SAP system started in the Northern company, which aimed to replace the old manual costing system by the new integrated cost accounting system on basis of 'best practice'. The SAP project was initially implemented in Finance Deputy, including the MA management, and this management was made responsible for monitoring the execution and training of the new system. According to the interviewees, during the process of implementing the SAP system, the management accountants initially used both the old and new systems but after six months, they worked with the new system of SAP completely. It should be noted that implementation of the SAP project in IKCO was faced with a delay in the Southern Plant, which has not yet been completed. For the Northern Company, the results of the interviews revealed that implementation of the SAP system significantly changed the company's cost accounting systems in different respects.

An expert from Cost Accounting Office added:

"The SAP system has positively influenced the company's cost accounting system to become more practical, automated and integrated in general. Access to cost information with much more details is now much easier and quicker, and the cost information is constantly updated, controlled, compared and reviewed by different applicants, including the operational sections (in accordance with BOM), logistic systems, financial systems and management accountants."

The head of Cost Accounting Office explained:

"Previously, it was not possible for us to calculate the cost per unit during the year. After running the SAP system, the cost accounts are closed at the end of each month, using the backflush system; therefore, cost information and indicators related to inventory, consumption and cost of the finished products are automatically available on-line. Additionally, previously, the cost centres were often broadly defined in accordance to departments and salons and therefore it was not possible to specify the cost of the products more precisely. This is now possible with the implementation of the SAP system. The SAP database provides different facilities for provision of

much more detailed data with the capability of changing the cost classification, helping us to assign the overhead more correctly and trace the costs incurred between the cost of the sold products and the inventories.”

According to the results of the interviews, another important change in the cost accounting system in IKCO is related to the role of the cost accountants.

The MA manager stated:

“Prior to SAP implementation, the main tasks of the company’s cost accountants concerned day-to-day activities, including collecting and recording the cost factors, receiving and pricing the inventories, stock-taking and finally preparing and reporting the financial statements at the end of each year for submission to the General Assembly. Since the SAP system was run in IKCO, however, the book-keeping and data recording, as time-consuming activities, have been carried out online by the financial and logistic staff. This change brought about a significant reduction in the daily duties of the cost accountants; which influenced the management accountant’s behaviour and role. Currently, the most important tasks of the cost accountants include closing the accounts on a monthly basis, preparing the required reports for both the internal and external users, analysing the cost accounts, holding meetings and participation in committees to correct, resolve variances and analyse cost information”

In this respect, cost accountants claimed that they have been successful in improving their role and connections with the different sections and they believed that much diverse cost information is demanded and used in the different managerial levels of the company. Additionally, the relationships between the cost accountants and the other sectors and in particular the operational sectors have been improved in such a way that they need to hold meetings and participate in various committees, which constitute a significant part of the cost accountants’ activities. The results of the interviews and the documentary evidence revealed that the role of the cost accountants moved towards cross-functional groups and team activities, which created new routines in the execution of the costing practices.

The head of Cost Assignment and Stocks explained:

“The enhanced cross-functional communications between the cost accountants and the other operational and non-operational sectors have positively influenced the change in the management

accountant's role, improving the accounting language in the company. With the company's structural changes in 2000, for example, a new unit was established in each operational department in order to bridge the operational sections across the company's Cost Accounting Office. This attempt has significantly improved the connections between the management accountants and the operational sections, positively influencing the company cost accounting systems to become more practical. Additionally, the company organised a series of training courses for the operational sections to improve the connections among the operational and financial sections, cost accounting and control systems. As a result, the financial language was improved and the other sections are now able to understand what we need and even in many cases they can guide us in the right direction.”

In sum, the results of the interviews and the documentary evidence revealed that after the privatisation the change of the company cost accounting system was revolutionary from various aspects. After the privatisation, IKCO's costing systems were changed by the use of new computerised systems, in particular with the adoption of the SAP system, significantly influencing the costing system by introduction of the new costing methods, procedures, contents, reports and new role of the cost accountants. Additionally, these changes have been institutionalised in terms of diffusion of the new rules, routines, and institutions among the organisational members in all levels of the company. As a result, the new rules emerged when the new costing systems were introduced and new routines were institutionalised, becoming taken-for-granted assumptions, creating new ways of doing and thinking among the organisational members (see Burns & Scapens, 2000). It is noteworthy that the results of the interviews regarding to the company's costing system were different in particular among the operational staff, who presented different impressions, expressing that the changes in the company's costing system have been very slow and failed to meet the need for timely and required information in the decision-making processes and control activities. The interviewees argue that the change in the costing systems has largely been external-oriented and due to the importance of the external financial reports, it has spread financial accounting mentality among the company's executives of viewing MAP as a part of financial accounting, whose main task concerns preparation of financial statements and planning practices rather than activities such as value-adding tasks, scenario building and analytical internal reporting. For example, the manager of IKCO's Press Shop argued:

“In my view, the company’s costing system cannot provide adequate information for the managerial purposes. The existing costing system has largely focused on routine reports without adequate attention to analytical aspects of cost information, which can help us focus on the control activities as well as decisions regarding cost-effectiveness and optimal resource allocation. I think the cost accounting system must be expanded to get closer to the operational areas. This can be achieved by putting an emphasis on the analytical aspects of the costing system with an emphasis on the internal managerial use.”

In this regard, some interviewees argue that the failure of adequate change in the cost accounting system is partly due to the existing boundaries in the company’s information systems largely because of the delay in the second phase of the SAP system and the limitations in the engineering systems and production control systems, for instance, the BOM system and the purchase order pricing system have not yet been connected to the SAP system. As a result, these systems are used manually by using worksheets, Excel and self-developed systems; they may be connected to SAP by an interface system.

An expert of cost accounting commented:

“Although the implementation of SAP helped us estimate the product costs during the year, we still cannot access the real cost of the objects online by the new computerized system although it provides use with information on a monthly basis. Additionally, the product costs in IKCO are calculated contradictorily for the lack of accurate and timely information. This limitation is largely due to delay in the full implementation of the SAP system, as an integrated information system, and lack of adequate skilled qualified experts. We need qualified and skilled experts if we wish to effectively use the different capabilities of the SAP system for analytical reports for managerial purposes. Additionally, many SAP system modules related to the managerial reporting systems in particular have not yet been implemented and this system is now used only as a database in IKCO.”

The manager of MA Department noted:

“The costing systems are relatively okay in the company. The main problem is the full implementation of the SAP system, which has been delayed in practice in the operational section, creating some difficulties in the process of developing the company’s costing systems. There are various causes for this failure, mainly including the imposed international sanctions against Iran

regarding using strong presenters and consultants for the SAP implementation process. Additionally, structural limitations and lack of qualified management accountants are other important obstacles in the development of the company's cost accounting systems, which demand strong managerial supports and cooperation of all the departments.”

The head of Cost Accounting Office stated:

“Although the implementation of the SAP system has reduced our daily activities and we have more opportunities for control and analytical activities, the inefficiency in the cost accounting systems is due to scarcity of the number of qualified experienced management accountants. Increasing the number of the cost accountants is impossible at the present time and we have to use the existing unqualified accountants.”

#### **7.3.2.2. Activity Based Costing (ABC)**

The project of implementing the ABC system in IKCO began in Press Shop in 2012 as a pilot case by the suggestion of the MA Department manager. This section of the study presents the motives, objectives and the conditions leading to the ABC project, discussing why this project failed in IKCO in practice. Therefore, the section includes a discussion of the institutional context within the company and with respect to the environmental institutions of the organisational field (Burns & Scapens, 2000). According to a majority of the interviewees, the need for the implementation of the ABC system was the main cause for suggestion of this system in IKCO, and this decision was a response to the accumulated technical inefficiency as the existing cost accounting system was inadequate or unreliable for cost management. The assumption was that implementation of the ABC system could potentially have revolutionary impact on IKCO's cost management systems to become more practical, with an emphasis on cost-efficiency and effectiveness, improving the control and decision making activities regarding cost-efficiency, reduction of unnecessary costs and improvement in allocation of resources.

The head of Cost Accounting explained:

“A majority of the operational managers are not happy with the current cost accounting system. They believe that the current cost accounting system has proved inadequate in meeting the needs as the managers cannot rely on the existing cost accounting information in their activities. As a

result, the company managers demand a more sophisticated costing system such as the ABC system for reduction of non-value-added activities.”

A manager of Spare Part Manufacturing Deputy described the company’s cost management system, discussing the potential benefits of ABC in IKCO as follows:

“We have different offices in Press Shop, such as the repair office, the press office and the production offices with several production lines. We produce different parts in each production line and the templates are moving between different lines. Therefore, each template is applicable in a range of places, for example, three or four zones. However, the current structure of the costing system does not meet the required information for control and optimal resource allocation based on the activity type. The cost centres have been defined functionally with respect to the departments, offices and salons, for which the existing information is not useful, so they cannot determine and analyse the cost of each activity in the production process. I think adoption of a process-oriented system, such as the ABC system, would be very useful, improving the cost management system with an emphasis on cost efficiency and profitability analyses.”

The vice-president director of Spare Part Manufacturing Deputy explained:

“In my view, there are several benefits associated with adopting the ABC system in IKCO. In this regard, one of the most important problems in the company’s current cost accounting system is that the existing costing system cannot determine and analyse the cost of the activities; the cost is calculated by the departments and salons. In a production salon, we have different options: a car component can be produced in different lines and with different costs. The information related to the cost of each activity can be very helpful to make the right choice among the different scenarios, minimizing the production costs and improving our profitability.”

MA Department was made responsible for implementing the ABC project in IKCO. Since the late 2012, the senior management accountants in IKCO began the process of implementing the new ABC system, so the new cost centres were redefined for production parts and repairmen, and the number of the cost centres was reduced from 110 to 85 on the basis of the operation processes. Although the implementation of the ABC system has not been fully completed in IKCO yet, Press Shop is the only department that can partly determine the cost process for each activity.



The manager of Press Shop pointed out:

“In 2013, we had some structural changes in Press Shop for the implementation of the ABC system. Additionally, the MA management appointed some staff in our department as its representatives. We helped the management accountants and system designers to become familiar with the operation processes in our salons, formulating the project plan (setting the objectives) at departmental as well as individual line levels. In this stage, they needed to replace the functional accounting system with an emphasis on a process-oriented system, which demanded widespread structural changes and redefinition of the cost centres based on the activities.”

In IKCO, however, the implementation of the ABC project was not completed due to various influences, including organisational, managerial and environmental factors. For example, the training courses and consulting services were not available or were inadequate and competition was low, and these were some of the difficulties that the company faced during the implementation of the ABC project in Press Shop.

One of the managers of Press Shop explained:

“To run the ABC system in this department, we had several cross-functional meetings with the engineers, operators, designers, cost accountants and functional managers. In this respect, we needed wide structural changes, training programs which demanded top management support, cooperation between the different deputies (including the company’s training centre), external consulting firms and academic space. Adequate and appropriate training programs could reduce resistance, facilitate learning and ease adoption of the new system. Appropriate training programs could also create cultural changes, giving more meaning to the new system, which could improve the members’ commitment to the implementation of the new system. However, due to the lack of strong support of senior executives, such importance was not realized.”

The former manager of Cost Accounting stated:

“One of the most important problems facing the implementation of a new system such as ABC in IKCO is related to lack of adequate infrastructure such as limited capacity in the organizational structures, payroll systems and H&R and information systems. In this regard, for example, ineffectiveness of IKCO’s IS partly resulted from lack of appropriate IT in accordance to departmental requirements. The implementation of the ABC system started in the press shop as a

pilot study; however, this department does not yet run the SAP system. Additionally, another important matter was lack of clear guidelines and instructions regarding the implementation of the ABC in this department.”

The vice-president director of Spare Part Manufacturing Deputy explained:

“We need a process-oriented accounting system to calculate the total cost of each activity. However, one of the main difficulties in implantation of ABC is related to calculation of the wages, which are not the same across the different production lines. The company’s current payroll and H&R systems do not meet such requirements. This is because we need a floating human resource system on a daily basis, but the existing H&R system does not allow for this possibility and we can access only hourly work on the basis of each specific line.”

Additionally, as the most important factor, most interviewees acknowledged that the success of any new system or project in IKCO highly depends on the support of the senior executives of the company. The results of the interviews revealed that IKCO’s context is characterised by a high power distance and a strong power command structure, and adoption of any new system is significantly influenced by such cultural arrangements. According to the existing structure and cultural arrangements in IKCO, power is one of the important influential factors and therefore lack of power could negatively affect the success of a new system. In case of the ABC project in IKCO, according to the interviewees, the role of institutional power was not significant partly because the proposal and implementation of this project was suggested and implemented by an intermediate management (MA department) rather than a top level executive management. Therefore, this project was not significantly supported by the ongoing power; therefore, the implementation of this system faced several limitations regarding access to the required resources, training programs, employment of external consultants, and implementation of the required structural adjustments, in particular formation of OCM in order to secure the desired progress of the ABC implementation.

The Education and Training manager pointed out:

“The Organizational Change Management (OCM) committee plays a very important role in implementation of new systems and projects in IKCO. The OCM committee is responsible for providing the necessary cultural, educational and structural grounds for adoption of the new systems. However, OCM is formed only for those projects and systems that are supported by the

senior executives and top-level managers. OCM was not established for the ABC implementation; therefore, this may be one of the main causes of the failure of the ABC project in Press Shop.”

He added:

“In OCM, firstly the committee members need to provide a report to the top executive management, explaining the missions of the new proposed project and identifying the roles, and ultimately, they are responsible for evaluating and reporting the progress of the new system in order to ensure that the intended goals of the new system and project have been achieved. Clearly, formation of OCM could be an important step to finding the support of the top managers in all stages of approving, planning and implementing the new system, providing the required resources and administrative, structural or cultural adjustments in the development process of the new systems or projects.”

According to the interviewees, in case of ABC, lack of senior management support can be related to absence of OCM, which could have resulted from the fact that the committee had not convinced the top management that this system is suitable for IKCO.

The MA manager pointed out:

“The overhead cost has been too high in IKCO; however, since the overhead costs account for less than 15% of our costs, the ABC’s benefits do not seem to be economically justifiable for some of the company’s managers. Also, due to low market competition for the company’s products in particular for the Press Shop products [this deputy has invested heavily in capital equipment], the company’s top management did not have strong motivation to invest and support this system in IKCO.”

The manager of Cost Engineering pointed out,

When we cannot properly estimate the cost of the material, which account for more than 85% of the finished costs, paying attention to the overhead costs, which account for less than 15%, does not seem to be rational and to be a priority. We must first be able to identify the cost of the materials properly, which helps us find many ways to reduce the costs and access the multiply benefits with optimal resource allocation and material costs management. As a result, although the move towards ABC is not wrong, I think it is not a priority for IKCO.

The vice-president director of Spare Part Manufacturing Deputy pointed out:

“In case of the ABC system, lack of competition was one of the important factors that negatively influenced the ABC implementation in Press Shop. Our products are sold without any problems and there are few other companies in this industry that could compete with us in the press area in Iran because investment in this area is very expensive.”

Another important influential factor in the failure of the ABC project was related to environmental influences, including the low level of market competition, the strategic priorities emphasising on productivity and the politically-oriented regulatory system. For example, the strategic priority seems to reduce the possibility of unsuccessful adoption of ABC in IKCO. Typically, Press Shop produces some strategic components, which are not competitive in the market because investment in this industry is very expensive and it is almost a totally monopoly industry. As a result, due to the existing monopoly market condition, the company can sell almost all its products; therefore, cost reduction is not a priority for the company’s managers.

The former manager of Cost Accounting explained:

“In the case of Press Shop, the subjects of cost, price and sales are not the main concerns for the managers, because most of the time there are enough customers and the sale prices are set and controlled by the regulators. In fact, we do not start with the sale prices and profitability of the products, rather the production level is the most important priority. Therefore, adoption of the new systems such as ABC are not still regarded an important necessity in this shop and the company.”

In case of the ABC project in IKCO, according to the results of the interviews, another form of environmental influence concerned coercive pressure as a source of resistance because the regulatory agencies were not in favour of this change and the company was required to convince the professional and the regulatory bodies for the implementation of ABC. This resistance was due to lack of trust in the new system; the new system did not seem valid for the regulatory agencies, and they did not rely on the information extracted from the new MA system, i.e., ABC. Therefore, the company was not allowed to apply the new system; otherwise, it must have been used in parallel to the existing system. The manager of MA Department said:

“We had some regulatory obstacles to implement new systems such as backflush and ABC, because we had to convince IAO to accept the new systems. If we cannot convince them, there is

a regulatory commitment to implement the old system along with the new system, which can be time consuming and costly for the company. In case of ABC, the same happened in IKCO.”

In sum, according to the results of the interviews, it can be argued that in the case of the adoption of ABC in Press Shop, competitive advantages and contextual factors were not important motivations, rather the main motivation was fads or personal ideas of those who suggested the project. Additionally, the normative pressures concerning the role of professionalisation and networks such as industry associations and educational processes were not important in adoption of the ABC project in IKCO. Mimetic pressure refers to the measures taken by the enterprises to model themselves for other successful organisations. According to the interviews, the decision on adoption of ABC may have roots in managerial fads for managerial competence, legitimating the image of IKCO in the local and international markets. They argued that managerial fad was one of the main external pressures in the adoption of the recently developed managerial systems such as ABC in IKCO.

### **7.3.3. Pricing System**

This section aims to briefly present and discuss the most important features in the pricing system in the automotive industry, explaining the changes in IKCO’s pricing system after the privatisation. Before beginning this discussion, this section reviews the Iranian regulatory context concerning the development of the pricing system in the industrial sectors during the pre-nationalisation, nationalisation and privatisation periods. Before the nationalisation program in 1979, the prices of the industrial products were determined by the rules of the market as well as the regulations imposed by the government and policy makers to support the industrialisation program in Iran. However, after the implementation of Iran’s nationalisation program in 1980, government’s role in setting and controlling the prices became much greater. In particular, with the end of the Iran-Iraq war in the late 1980, with severe gaps between the demand and supply in the auto industry, the role of government increased in the hope of restoring a balance between the market demand and supply in the automotive industry. At this time, the demand for cars was multiplied, which could not be fulfilled by the local automaker’s production capacities. At the same time, foreign exchange in Iran was in short supply and was rationed, making importation of the needed parts for the local automakers difficult. At this time, following the government’s supportive policies, the

automotive industry was subject to using subsidised currency; therefore, this industry was highly regulated regarding how the allocated foreign currency should be rated and how the produced cars should be priced in accordance to the subsidised exchange rates. Therefore, by allocating currency to the automakers at a discounted rate, and consequently due to the large gaps between the discounted rate (state rate) and the market rate, the government attempted to intervene in the price control in the hope of restoring the balance between the consumers and producers. To this end, CPPO, which was affiliated with MIMT, became the main regulatory body in setting the prices for a number of cars produced by the two big assemblers, i.e., where the government had the controlling share.

Similar to the nationalisation period, after the privatisation and between 1993 and 2012, most of the cars produced in Iran were priced only by CPPO either directly or indirectly. During this period, the increasing market demand in Iran's automotive industry resulted in sizable differentials between the company and market prices, long waiting lists, lottery draws and pre-scales. As a result, although the government (CPPO) set and controlled car prices, due to the relative economic stability, the government's supportive policies and the high profitability rate, pricing became less important for the company as well as the politicians and government. In this period, IKCO's profit margin, as the first Iranian automotive monopoly, was high. This company benefited from high profitability partly resulting from the subsidy of the foreign exchange at a discounted rate. Additionally, due to high import tariff, the market demand for local cars was multiplied, resulting in long waiting lists, formation of a black market, and large price differentials between the factory prices and black-market prices for cars. As a result, in this period, although the government was responsible for controlling the car prices on behalf of the customers, the company did not pay sufficient attention to the pricing system, rather its main purpose was to meet the increasing market demand and achieve further profitability.

The former director of Sale and Marketing pointed out:

“In this period, the company's pricing system was legally built on the basis of increasing the production level because of the high import tariff rate. We could always sell all the products and with a significant profit margin. Therefore, we [company] were not much concerned about the cost and price of our products, but the main concern was productivity in response to the increasing market demands.”

However, due to increasing international sanctions against Iran between 2011 and 2012, Iran's economy faced severe problems, including a severe rise of the inflation rate, a large reduction in the value of the national currency and having no access to oil revenues due to the banking and monetary sanctions and the enormous government budget deficit. Faced with these difficulties, the government decided to use multi-rationing for foreign exchange and its allocation according to the priorities, and the automotive industry was one of the priorities in this case. However, at this time, although the Iranian auto industry benefited from foreign exchange at a discounted rate, the price of cars increased significantly with the increasing inflation rates and reduction of the value of Iranian Rial. At this time, there was a wide consumer reaction against the increasing price of cars, which led an increase of governmental intervention by establishment of the National Competition Council to set the price of a number of popular models (valued below 400 million Rials or approximately \$10,000 at the time) on behalf the customers. Since the late 2012, with the intensification of the international sanctions and the high inflation rates, the role of the government in the controlling the car market and estimating, setting and controlling the car prices has increased. As a result, negotiation over car prices has become more intense and sensitive, and CPPO, NCC and the parliament have become increasingly involved in assessment of the market car prices. The car prices are now highly regulated based on complex formulas considering various factors, in particular the wider socio-economic and political considerations, including the rate of inflation, foreign exchange limitation, spare-parts import obstacles, social reactions such as high unemployment rates as well as technical considerations regarding the calculation of car prices.

The head of Cost Accounting said:

“The process of setting, approving and controlling the car prices has become largely regulated and is subject to the wider economic and political considerations rather than logic and technical issues. Although, the government (CPPO and NCC) did introduce specific for pricing in accordance to the company's profitability and the rights of both the producers and customers, the main influential factors in price control policies are related to the macro-level, socio-economic and political concerns.”

According to the interviewees, there is coercive pressure on IKCO's pricing system to provide the price study for the regulators and the political monitoring organisations. As a result, under financial pressures and low profitability margins, in particular with severe increase of the international

sanctions, the development of the pricing system has become much more important for the company's management to convince the regulatory bodies and meet the regulatory obligations for legally increasing the car prices. Additionally, with the increase of the international sanctions and their economic consequences, the company's profitability has significantly dropped. At the present time, due to constant rise in the exchange rate and lack of access to subsidized currency, the company is in a loss-making situation, which has made the discussion of pricing and pricing system much more important than ever. On other hand, in the present condition, the government (CPPO and NCC) controls the rise of car prices more specifically because an increase in car prices would have a direct effect on the rising inflation rates in the country.

The MA manager explained:

“In the process of setting a product price, the company has to obtain the approval of CPPO and NCC after sending a pricing report, including all the cost elements plus the profit margin rate for each product. The parliament also demands various reports related to costs and prices of the cars, playing important role in the pricing system in the automotive industry. As a result, we now spend much more time on the pricing activities [than the past] in order to meet the regulatory obligations. We have to provide much more detailed cost information in order to obtain the permission if we wish to increase the car prices.”

The head of Costing Office stated:

“During the last recent years, we have faced severe liquidity and financial difficulties due to low profitability, which has highlighted the importance of costing and pricing systems in this company. The managers are now much more concerned about the approval of prices by the government and price control authorities, which has positively influenced the financial language regarding the profitability, costing and pricing system in IKCO. For example, in response to the increasing reduction of the profit margin, the company's managers are much more willing to improve sophisticated information systems for costing and pricing, for example, to find out which product is profitable or unprofitable.”

In sum, the results of the interviews and the documentary evidence revealed that the management accountants have now spent more time on analytical reports related to the profitability and pricing system for both the internal and external users. For example, an internal optimal mix model was



developed to determine how many of each product should be held above the best profit estimates with the existing prices in order to provide confidence in production decisions. According to the interviewees, after the privatisation, the changes in the pricing system stabilised new routines and institutionalised practices, taken for granted by the organisational members in IKCO.

#### **7.3.4. Performance Measuring Systems**

The performance measurement system was another important MA activity in IKCO after the privatisation. Before the privatisation, the Annual Board Report was the main documentary evidence from the company's performance measurement system, which was submitted to Annual General Assembly. This report summarized, measured and compared the company's operational and financial performance over the past five years. Additionally, the annual budgets formed another important document for the appraisal of the company's performance, when the company was operating as a state-owned company. According to the interviews and documentary evidence, before the privatisation, however, the company's performance measurement system was largely operational-oriented, focusing on operational indicators in accordance to the requirements by MIM, IDRO and Annual General Assembly as well as the regulatory institutions. According to results of the interviews, after the privatisation, the company's performance measurement system changed according to a top-down approach. Figure 31 shows the Performance Measures Cascading Process in IKCO after the privatization, explaining one of the major changes in the company's performance measurement system regarding corporate, vice-president, deputy, management and individual levels. In IKCO, the cascading process (see Figure 31) begins from the company's board of director's level, setting the company's goals in accordance to the company's strategic objectives.



**Figure 31. IKCO's Cascading Process of Performance measurement system**

The vice-president's targets are set based on the targets introduced for the respective board of directors. At the operational level, the targets are cascaded to the vice-presidents and deputies, which encompasses the set of the targets introduced for each management in the company. Lastly, the individual targets are established, aiming to align the individual practices with the company's corporate objectives. After the privatisation, the company's measurement system changed, focusing on both legitimacy and efficiency purposes. The new performance measurement system is based on 40 KPIs, which is broadly spread across the company in accordance with the strategic results and the major goals of the company. The first and second level of KPI's targets are set in the company's performance measurement system, which are ultimately compared with the actual results obtained (see Tables 30 & 31).

### First Level Performance Measurement Goals in IKCO

Strategic Results	Major Goals	Key Performance Indicators (KPI)	2020	2019		2018
			Target	Perfor m	Target	perform
Localisation policies based on economic logic	Development of in_car manufacturing system	The average currency used by product	1800	2056	2129	2312
		Reducing the currency use by the implementation of projects	151	132	–	–
Improving the competitive advantage	Design quality	Customer Satisfaction	730	698	750	695
	Supply quality	Realisation of after-sale service network	100%	35%	–	39%
		Reduction of the number of suppliers	500	520	–	570
		Production line stop	–	159024	–	232756
	Product quality	PPT Returned	1000	1239	700	1849
		R100 Kilometer (5000)	14	22	8	17.67
		Negative average score	100	114	100	118
Leadership of local automobile market, increase of export revenue	Expansion of local and international markets	Market Share	51%	49%	49%	45%
		Production Scale	600	370.3	240	423
		Export Ratio	1.8%	1.74%	2%	0.09%
		Number of exported Cars	10830	3723	8700	3497
	Product development	Number of new products	2	2	2	1
		R&D Cost/Sale Ratio	1%	0.06%	1%	0.09%
		Average performance Scheduling of product's developments & drivers	100%	81%	100%	71%
		Increase the average performance Scheduling of Industrial projects & production capacity	100%	92%	100%	92%

**Table 30. IKCO's First Level Performance Measurement Goals**

## Second Level of the Performance Measurement Goals

Strategic Results	Major Goals	Key Performance Indicators (KPI)	2020	2019		2018
			Target	Target	Perform	Perform
-Higher efficiency, productivity and profitability -Improve the cost management by focus on SCM _Economic scale of production	Increase Revenue	Increase total production & export's revenue	851	355	220	304,2
		Development of local auto-parts market	50	40	22.8	30.7
		Export value of auto-part	21	7.5	2.43	6.5
	Cost Reduction	Cost to sell ratio	93%	**	114%	116%
		Financial costs to sell ratio	4%	12%	14%	13%
		The ration of cost of materials and parts	(10)%	***	***	***
	Resource Allocation Optimisation	Return of assets	0	(22)	88	(36.2)
		Period of inventory turnover	17	26	28	20
Reform ownership composition & business group	Synergy and effective use of capabilities	Privatisation of subsidiaries	5100	7580	3980	1090
		Reduction of unprofitable units and subsidiaries	0	–	40	30
		Increase the total group profit	6000	–	–	1980
Improvement of the company's image	Improvement of public opinion	IKCO's Society Image	0.72%	0	70.5%	38.5%
Stakeholder's Satisfaction	Sustainable Profitability	Earning per share	0	**	(5225)	(5553)
		Net profit/sales ratio	0	(36%)	**	(21.6%)
	Customer Satisfaction	After-Sale Services	750	765	761	749.5
		Quality	735	730	782	697.5
		Prices	750	750	584	643
		Product's Design	730	750	698	695

	Agency Satisfaction	Agency Satisfaction	71	70	–	68.1
		Network's Part's inventory	>=90%	>=90%	64	*
	Supplier's Satisfaction	Supplier's Demands	15000	25000	22000	–
		Percentage of local supplier group	30%	***	23%	21%
	Employee's Satisfaction	The growth of Employee's Satisfaction	65%	65%	–	–

**Table 31. IKCO's Second Level of the Performance Measurement Goals**

After the privatisation, like in pre-privatisation, the company was responsible for providing the Annual Boards of Directors Report to the Annual General Assembly, but this report was submitted to the General Assembly of Shareholders. This report is provided by MA Management at the end of each fiscal year, providing more comprehensive and detailed information and measures regarding the company's financial and operational performance to describe the success or failure of the company's performance in comparison to the last fiscal year. It compares the key performance indicators related to specific financial and non-financial targets of the company for a period of five years with each measurement indicator having a different level of importance to show the company's performance from both the financial and operational perspectives. After the privatisation, budgeting became a key document of the company's performance measurement system, which was set with more detail and comparable information regarding the company's performance in terms of both financial and non-financial activities for both internal and external use. At the management level, the Budgeting and Reports Office, a subset of MA Management, organizes meetings with the managements dealing with the targets in question. Additionally, this department provides monthly budgeting variation of the corporate objectives of the company to all deputies and managers of the managements. At this stage, the performance of all levels of the company is controlled by Budgeting and Reports Office, consolidating this information in order to disclose the performance of each deputy and management on a monthly basis. Additionally, after the privatisation, along with the development of the budgeting measurement system, Accord

System was founded in 1998 in IKCO as the first company's reward system, in which budgeting was used as an important document in the company's performance assessment at individual level.

The former head of Budgeting and Reports Office explained:

“The idea of creating the Accord System in IKCO was first proposed by our department, after which this office was responsible for implementing the company's reward system for about 14 years. The Accord System was the first step in the process of the development of the company's reward system, controlling and encouraging the employees towards achievement of the company's objectives based on what was targeted in the budgeting documents. This system was designed in such a way to improve the company's productivity; therefore, bonus payment was calculated according to the achievement of the operational objectives, especially in cases where production exceeded the targets.”

Additionally, the company's reward system allocated bonus for different specific groups. For example, when the Annual Board of Directors Report, including the annual financial statements, is issued, the company gives a bonus to all the staff who participated in the preparation of the report, including finance employees. According to the interviewees, however, overall, there is a weak logical manner and basis for bonus payment in IKCO regarding the role of the individuals or groups and achieving the targets of the company, rather the company's reward system largely functions in accordance to individual managers' views and authority and other confidential indicators.

The former manager of Cost Accounting Department commented:

“In my opinion, although the company's performance measurement system has improved by the development of the reward system at individual level, the impact of the rewards on the company's performance is not yet very noticeable. It is because there are no appropriate rules, structure and comprehensive job description for the assessment of individuals' performance and the appraisal of the individuals' jobs is confidential and is largely influenced by the personal and emotional relationships between the individuals and their higher authority. Additionally, there are many

factors, such as belonging to specific political groups and stratum, which significantly influence the salaries and the bonus system in IKCO.”

Additionally, the company’s performance measurement changed after the privatisation by emphasising on internal utilization of MA reports. According to the interviewees, the financial performance assessment was changed partly due to IT development, in particular after the implementation of the SAP system. For example, management accountants are required to provide different analytical reports regarding measurement of the profitability of each production line in assessing which production line is costlier. Additionally, development of the SAP system facilitates the change in the company’s performance measurement system for developing assessment of internal optimal mix model in order to quantify how many of each product must be produced to meet the best estimated profit. According to the interviewees, therefore, the change in the company’s performance measurement system directly influenced the company’s planning process in estimating the optimal production level, including products which could result in higher profitability. Additionally, after the privatisation, formation of different committees for assessment of the company’s financial and non-financial performance was another important change driver in the MACs process in IKCO. In this regard, several committees were formed at different managerial levels in IKCO, aiming to analyse and evaluate the company’s performance, in particular its financial and economic performance.

The manager of MA Department pointed out:

“For example, the senior vice president has established a committee, entitled Financial and Economic Committee, asking for different analytical reports, including performance appraisal report, break-even point report, and reports related to the optimal combination of productions. In this connection, MA Department is now responsible for providing benchmarking reports to evaluate and compare the performance of the company in comparison to the local as well as international automakers.”

In sum, the interviewees and the documentary evidence confirmed that the traditional MACs related to the company’s performance measurement system were institutionalised and widely accepted, becoming taken-for-granted assumptions, among the organisational members.

Additionally, the implementation of the Balanced Scorecard (BSC) was an attempt for evaluation of the company's performance, which is the subject of the next discussion.

### 7.3.4.1. The Balanced Scorecard (BSC)

This section aimed to briefly explain the implementation of the BSC system in IKCO, discussing the failure of BSC's institutionalisation process in company's performance measurement system. In the original model (Kaplan & Norton, 1992), the BSC system was proposed as a control device, characterised by the balance between financial and non-financial measures, under four different business dimensions: financial, customer, internal business processes, and innovation and learning. This system can be used as a road-map, starting from the company's strategy to provide a set of KPIs linked to each other by causal relationship. In the second version of the model (Kaplan & Norton, 1996), as Figure 32 shows, BSC was developed as a managerial tool, emphasising on development of strategic approaches, which introduce a framework for the new strategic management system (Kaplan & Norton, 2001).

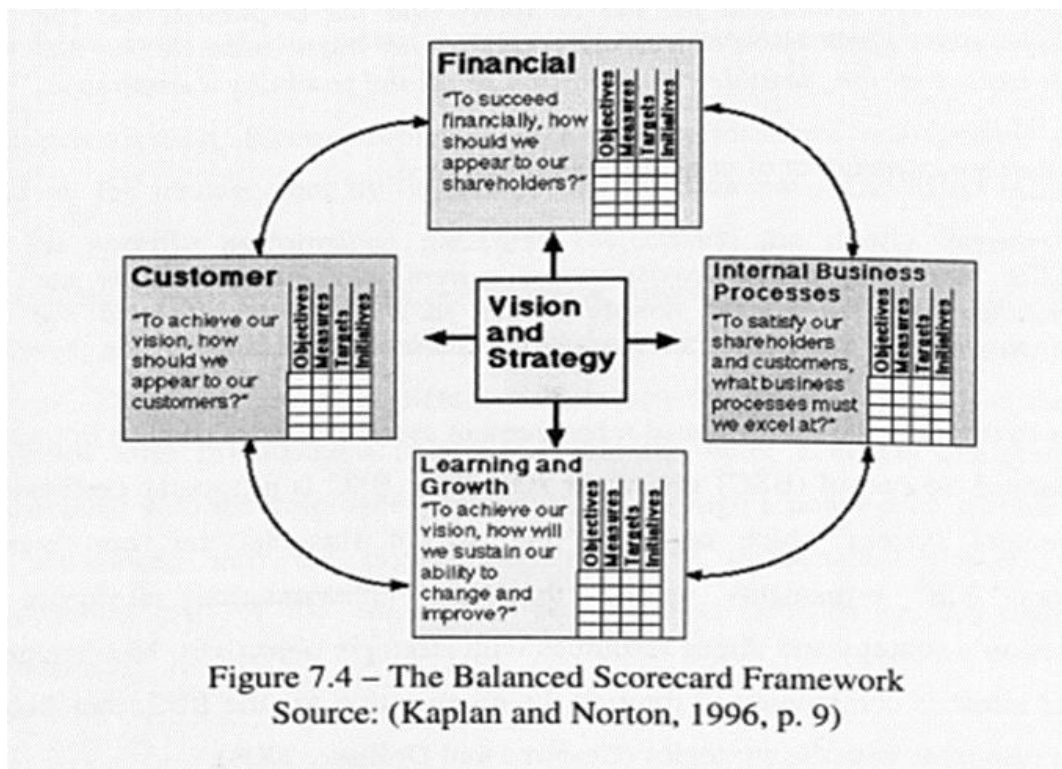


Figure 32. Balanced ScoreCards Framework

Source: Kaplan and Norton, 1996, p.9



The BSC project was initially proposed by the new CEO appointed in IKCO in 2007 and as a control device, focusing on assessment of the company's performance. Later, however, this system was developed to focus on the company's strategic management (see Figure 33). According to Figure 33 IKCO's strategic map is based on the BSC system including the four perspectives of financial, customer, internal business process and learning and growth, aiming to link the company's general strategies to the operational goals. Figure 33 presents the IKCO's strategic map in 2019 in accordance with BSC.

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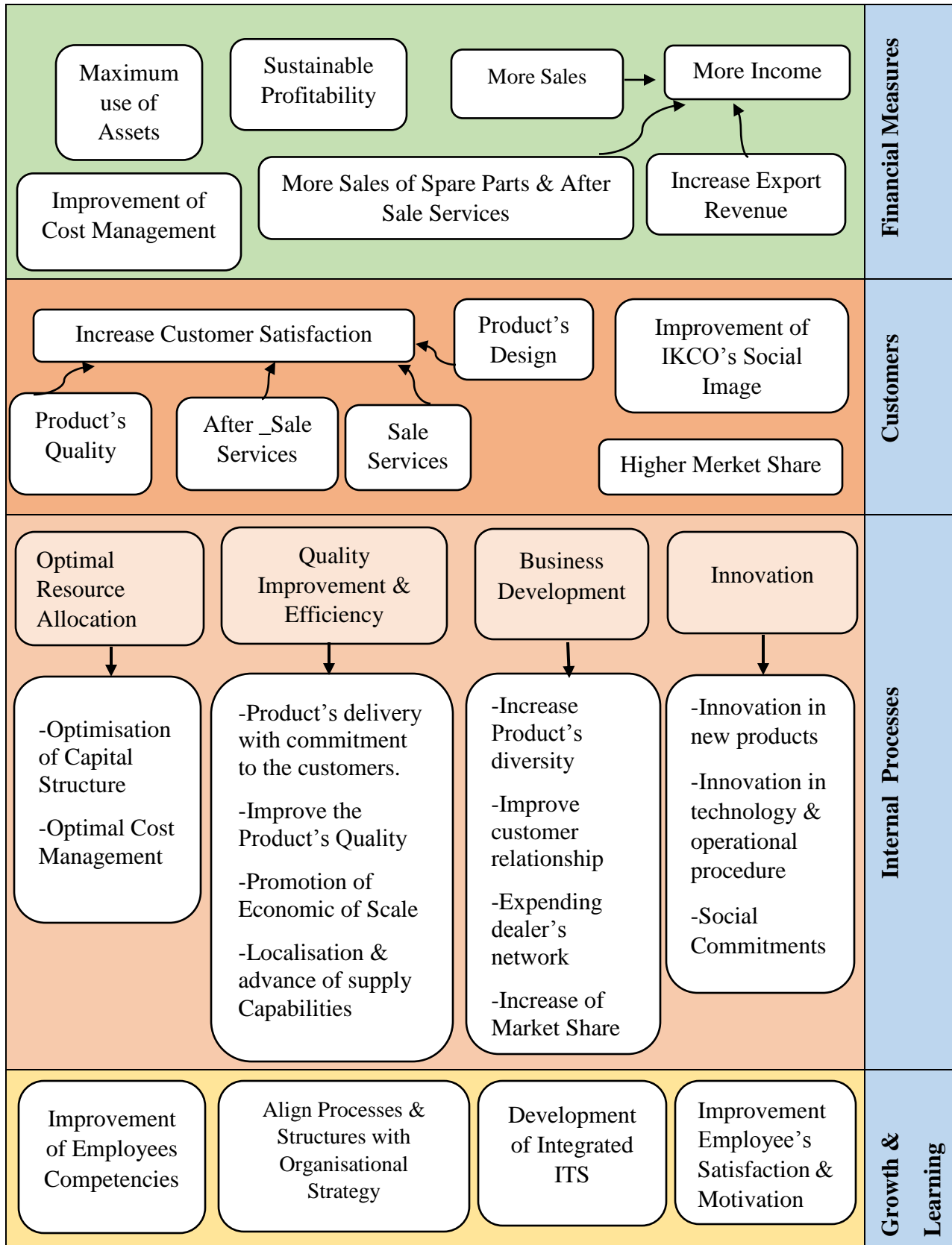


Figure 33. IKCO's Strategy Map (2020)

In the process of implementing the BSC system in IKCO, the sale and marketing deputies were firstly selected as pilot and after that the CEO decided to implement this system all across the company. At this time, the BSC implementation began with formation of the OCM committee, and the general manager of Management of Strategic Planning and Studies is the guardian of the BSC project, coordinated by the individual managers in different operational and non-operational areas. The chief engineers and engineering experts are the most visible members of the BSC coordination team. The BSC's team is invested with preparation of strategic maps, submission of the key performance indicators (KPI) (see Table 32), development of guidelines, providing definitions of roles, exercising decision rights, stating objectives and presenting perspectives.

### IKCO's Key Performance Indicators Based on BSC System

Type	Optimal Trend	Measurement Indicators	Period	Unit	Title
Financial Measures	Ascending	Net Income/number of common shares outstanding	Six Months	Rial	Earning per Share
	Ascending	Net Profit/Net Sale	Six Months	Percentage	Net Profit/Sale
	Ascending	Net Sale Total	Six Months	Rial	Total Sale
	Descending	Total costs of Sold goods/Sales	Six Months	Percentage	Cost of sold goods/Sell
	Descending	Financial Costs/Sales	Six Months	Percentage	Financial Costs/Sell
	Ascending	Net Income/Total Assets	Six Months	Percentage	Return on Assets
	Descending	Net Sales/Average Inventory at selling Price	Six Months	Day	Inventory turnover Period
	Descending	[Cost of Equity *% of Equity]+ Cost of Debt*% of Debt*(1-tax rate)	Annually	Percentage	Weighted average cost of Capital
	Ascending	NOPAT-(WACC*Invested Capital)	Annually	Rial	Economic value added

	Ascending	Total dividend paid out over the period- special dividend/(shares outstanding)	Annually	Rial	Dividend per Share
	Ascending	Current Assets -Inventory/Current Liabilities	Six Months	Number	Quick Ratio
<b>Strategic Planning and Studies</b>	Ascending	Company's Total Production/ Companies Total Production	Three Months	Percentage	Market Share
	Ascending	Number of Exports/ Number of Sales	Three Months	Percentage	Export to Sales Ratio
	Ascending	Total Number of New products	Annually	Number	Number of New Products
	Ascending	Status of compliance with European Standards	Annually	Type	Car Pollution Standard
	Descending	Average number designed products	Annually	Number	Average fuel Novgan Consumption
	Ascending	Average number of designed products	Annually	Number	Average number of products per Platform
<b>Total Production System</b>	Ascending	Total Production	Monthly	Units	Production Circulation
	Ascending	Total outputs during the period in Rial/ Average inventory during the Period in Rial	Annually	Number	ITR Production Store
	Descending	Total products that are not commercialized	Monthly	Days	Non-commercialized vehicle
	Descending	Number of Storage Days	Monthly	Days	Shelf Life in production process
<b>Quality</b>	Ascending	Weighted Average Customer Satisfaction	Annually	Score	Customer Satisfaction
	Descending	Number of Returned Parts* 1000000/Number of Input Parts	Monthly	Number	Returned PPM

	Descending	Number of visits in the specified month based on 2 months after delivery*100/Number of produced cars in the selected month	Monthly	Number	R100
	Descending	Average negative Score of Cars	Monthly	Score	Negative Average Score
Communications & International Affairs	Ascending	The Average Score of Opinion Samples from the Community	Annually	Percentage	The mental Image of Society

**Table 32. IKCO's Key Performance Indicators Based on BSC system**

The BSC system deals with the strategy map, defining the company's strategic goals for a short-term period of three months and a long term period of seven fiscal years. To implement the strategy map, the share of each unit in the achievement of the company's strategic goals is determined in accordance to KPIs. KPIs have been defined in accordance to the strategic map regarding various strategic action plans and targets for the different divisions, aiming to bring the company strategic perspectives close to the operational goals in the lowest levels. There are different versions of BSC with different KPIs. However, in IKCO, there were many modifications to main version of BSC, as suggested by Kaplan & Norton (1996), setting KPIs in accordance to particular contexts and conditions of the company. Table 32 presents IKCO's identification of the key indicators based on the BSC system in 2019.

By the enactment of the BSC system in IKCO, the requested information is collected, monitored in different departments and compared, and subsequently the results are reported and discussed in the management meetings. The BSC variance reports are presented on a monthly basis. The routine reports are prepared each month and discussed in the management board meetings, including senior executives and mid-managers. The BSC department is also responsible for providing un-routine reports to update the company's strategic plan and KPIs to fit the changes with the business environment. According to the interviewees, these formal procedures have been reproduced,

whereby managers have been obliged to follow the formal procedure and rules set by the BSC system. In practice, however, the results of the interviews and the documentary evidence revealed that implementation of the BSC system was unsuccessful, failing to meet the proclaimed intentions for the adoption of this system. As a result, in IKCO, utilisation of the BSC was not significant on a daily basis, rather was restricted to the top level of the company, used in provision of the company's strategic map in the planning process. From this perspective, it can be argued that the BSC system was not institutionalised in IKCO because it was not coupled with the company's day-to-day activities, yet its rules and routines were implemented ceremonially.

According to the results of the interviews, the BSC implementation started in IKCO with technical motives as well as coercive and mimetic motives in conformity to the isomorphic institutional environments. For example, a number of the interviewees acknowledged that the decision on implementation of BSC in IKCO was a response to accumulated inefficiency, resulting from the existing safe market, which significantly weakened the company's strategic position regarding competition in a competitive international automotive business environment. With respect to inefficiency, it can be said that in the BSC implementation in IKCO, there was a degree of conformity in a ceremonial way, which can be considered as passive resistance in its effective implementation on a value-adding driven manner. Potentially, the effective implementation of BSC could have quite revolutionary impact on the company's strategic management to become more strategically competitive in terms of value-adding performance. From this perspective, therefore, accumulated inefficiency may be seen as one of important motives and justifications for the BSC implementation in IKCO.

Furthermore, the interviewees argued that the efficiency purpose of the BSC implementation is more evident when considering that this system was suggested by a CEO who graduated from a UK business university, had a systematic perspective, used consultants and strongly supported the changes of the company's managerial systems during his authority.

The manager of Planning and Control Systems explained:

In my opinion, the most important reason for the introduction and implementation of the BSC system was a personal motivation by the company's new CEO. His management and strategy were based on improving the company's ISs because he believed that optimal management of the company was impossible with the existing information system. In this regard, he strongly

supported the implementation of the BSC system and personally settled meetings with and training courses for the different departments. However, the changes underway were not sustained by the following CEOs, who only formally have continued to use of this system.

Additionally, a number of other interviewees believed that the BSC implementation in IKCO was influenced by legitimacy motives rooted in conformity to coercive isomorphic institutional environments because the company aimed to fulfil the implementation of the TQM system as one of the requirements of ISO-9000.

The manager of Cost Engineering pointed out:

“IKCO has always been criticized by the government, regulators and the public for lack of efficiency and poor competitiveness in international automotive markets. In this regard, modernization of the management system could be a good reason in the search for positive feeling and legitimacy for IKCO in response to public opinion, government and regulators.”

Additionally, a high number of the interviewees confirmed that motives for the use of many advanced management systems including the BSC are strongly connected to the issue of fashion. Fads and fashion could be important to achieve legitimacy, in particular during the process of IKCO's expansion, when IKCO was accounted as the most famous automobile company in the group in Iran regarding age, size, technology, sales and profitability. This statement is supported by the following quote from the Manager of Cost Engineering Department:

“When we look at the company’s history, presentation of fashionable management techniques has become a common activity in this company. You can find the most well-known Western management techniques in IKCO although we have always had problems to successfully implement such systems. Using new developed management systems, the company may be have been trying to convince others regarding the company’s optimal management system. Such image building is important for IKCO since the roles of the public opinion, government and regulators are emphasised in the company’s strategic objectives.”

Additionally, some of the interviewees also pointed to the mimetic isomorphism arguing that this company is the most popular car company in Iran and always welcomes the most modern systems in the world. Several of the interviewees believed that adoption of BSC in IKCO was motivated by fads and fashion along with technical inefficiency, pointing out the process of standardisation

and world-scale efficiency in the process of globalisation and inter-nationalisation. However, it is not possible to determine which motive was stronger.

### **7.3.5. MA Reporting and Utilisation**

In IKCO, the MA reporting system and utilisation of MA information were adopted after the privatisation. Some changes have been imposed by the regulators while the others were internal-oriented changes. For example, the MA reporting system was changed by the requirements of the new regulatory system after the privatisation, imposed by MIM, IDRO, MEAF, MCIT, NSOI, TSE, IAO, CPPO and NCC and those regulatory bodies that directly or indirectly influenced the company's performance. Previously, when IDRO was IKCO's headquarter, MA reports were largely prepared in accordance to IDRO' instructions and in compliance to its specific formats. After the privatisation, by coercive pressure largely imposed by TSE, numerous new reports were requested, demanding changes in the company's reporting system in different aspects, including content, type, structure and process. For example, according to the new regulatory system, IKCO is responsible for providing long-term budgets as well as the shareholders' budget as the short-term budgets, the variance budgeting report as well as the consolidated budget in accordance to the TSE requirements for accounting and auditing standards proposed by the IAO. After the privatisation, the company's reporting system was also changed in response to the coercive pressure on price controls, demanding the new reports with different purposes imposed by the supervisory and regulatory institutions such as CPPO and NCC.

The director of Cost Accounting commented,

Previously, the main task of our unit was provision of financial statements for submission of Annual Board Report to IDRO and Annual General Assembly. Currently we have to present different reports for Annual Assembly of Shareholders with different structures and requirements, by which the shareholders and other interested groups can access and analyse the MA reports on a quarterly basis. All clients, academics and interested groups can now interpret and evaluate our reports and give their comments, which can be very helpful, giving us a new perspective on our reports. Additionally, according to the interviewees and the documentary evidence, an important feature of the reporting system that changed after the privatisation concerned internal utilisation of the MA reports. Before the privatisation, MA information was confined to IKCO's board of



directors and the accounting staff and was largely external-oriented, commanded by IDRO and the regulators. After the privatisation, the MA reporting system and internal MA utilization were expanded, particularly regarding budget, costing and performance measurement system and were spread across the whole company, including different organizational levels, in particular middle management level.

The vice-president of one of the production salons explained,

IKCO is a highly engineering company, dominating by operational and engineering culture. In particular, due to financial prosperity with high profit margins, the main objective of the company used to be increasing the productivity and further profitability. Therefore, the majority of the managers, who are engineers, did not pay attention to financial indicators such as budgets, financial performance measures, profitability and cost. However, nowadays utilisation and dissemination of the economic and financial concepts have increased in this company and managers have to address the company's problems regarding net profit, budgets, income statements, operational costs and liquidity in the daily activities. As a result, internal utilisation of the MA reporting system has improved significantly, seeking to modify the MA reporting system by focusing on the analytical aspects. After the privatisation, IKCO's MA reporting system was changed to provide a range of reports with an emphasis on internal utilisation, including monthly managerial budgetary and budgetary variation reports; monthly costing summaries; periodical cost management reports; and periodical and financial and controlling reports. In this case, for example, the managerial budget, which is more detailed and optimistic in comparison to the shareholders' budgets, is used by the company's managers as an important document in decision making processes and control activities.

The head of Budgeting and Reports explained:

“In the past, shareholding budgets for external utilisation were accounted as the most time-consuming documents in this department. However, currently approximately 45% of the company's budgeting activities is related to the managerial budget, 35% to the consolidated budget and 20% to the shareholding budget. Therefore, we now spend much more time on the managerial budget and its related reports for internal utilisation.”

The MA manager added that the managerial budget has changed in different ways: it has become an important document for the company managers. In the past, the managerial budget was set as a formal and ceremonial document and was a joint job shared by IDRO as the company's headquarter, company's board of directors and the MA department. Currently the managerial budget is drawn up with much higher participation across all the organisational levels and is used by all managers, including middle and lower executives. Additionally, previously, the budget variance reports were prepared every six months while they are now provided monthly at a maximum of 20 per month with the more detailed information at different classifications in terms of the total account, vice-presidents, the level of managements, certain accounts, and the cost centre level. The variance control report is analysed and discussed monthly by the Budget Committees as well as IKCO's board of directors in order to track possible corrective actions and update the budget with respect to recent conditions. Regarding the internal utilization of the budgets, the company's managers now demand more supplementary information and reports regarding planning, decision making, and control activities. With respect to non-routine reports, after the privatisation, IKCO's MA reporting system changed to move towards analytical reports in decision-making processes and control activities.

The MA Department manager pointed out:

“In contrast to the past, we now need to focus on some analytical reports such as cost-volume-profit (CVP) and break-even point analysis, performance appraisal reports, optimal composition of production and product-mix analyses, and analytical reports related to the introduction of new products and cost efficiency. Additionally, profitability report is provided with an emphasis on profit analysis and as a basis for evaluating the sale prices. These types of reports are mainly requested by consolidated committees triggered by the new structural changes in the company.”

The head of Office of Financial and H&R Processes explained,

During the recent years, managers have paid more attention to financial performance measures and the company's CEO has established several financial and economic committees in order to improve financial analyses for decision making processes and control practices. For example, Deputy of Chief Executives directs a committee entitled High-Cost Watching Committee, including the senior executives, continuously provided with analytical financial and economic

information and reports. Such committees significantly increased the number and diversity of analytical MA reports after the privatisation.

The head of Budget and Report Office added,

A number of reports are required from different committees with different purposes, yet what purpose they are used for is not our concern. The managers only ask us to provide the reports with specific formats and details, but we are unaware of the purposes and analytical aspects of the reports. It can be said that the existing top-down relationship, structural limitations and lack of adequate qualified MA experts are some of the main causes for lack of MA analytical reports for managerial utilization.

The head of Cost Accounting Office commented,

In IKCO, there is still no relationship between the executive's management and management accountants, rather the relationship is established by the interface of the executive manager of finance. In some cases, management accountants are invited to meetings and committees by the senior executives but this is not common in IKCO. In most cases, the company's finance vice-president acts as the representative of the MA department. Therefore, with participation of the low level management accountants in the meetings involving the top executives and with the existing hierarchical gaps, it is expected that the management accountants' role and capabilities regarding provision of analytical reports not meet the top managerial expectations.

The former MA Department manager commented,

Control activities in MA Department has improved significantly; in particular, the management accountants' communications primarily rests on the middle management and first-line supervisors and to a lesser extent on toper managerial levels. As a result, in my view still scant attention is paid to reducing the gap between the management accountants and senior managers and applying the ultimate goals of MA reports in using senior management in the processes of making appropriate decision.

The head of Financial and H&R Processes Office explained:

“In IKCO, the weakness of the existing information systems is an important limitation in the process of changing the company's MA reporting system. The SAP modules, including the models

of budgeting, costing and BOM, as well as the profitability module, which is the most important module, have not yet been completely implemented. As a result, our finance system, including the MA system, is rather at the recording stage; the analytical report model has not been run in this company. However, the profit centres are going to be implemented by the second phase of SAP, which would significantly improve the reporting system in MA Department.”

In sum, according to results of the interviews and documentary evidence, in IKCO, the MA reporting system changed after the privatization in terms of both external and internal utilizations. However, the company’s MA reporting changes have largely been the result of coercive pressure, following new rules and routines, based on Burns and Scapens: over time, new MAPs are institutionalized and come to underpin the taken-for-granted “ways of thinking and doing” (2000, p. 5). For example, according to the new regulatory obligation imposed by TSE, the company’s financial statements and the budgeting reports must be provided on a quarterly basis and need to comply with legal and professional necessities. Additionally, the results of the interviews support that there was also an evolutionary change in the company’s MA reporting system in terms of internal utilization. They argue that internal MA reports were changed after the privatisation regarding both preparation and utilisation, in particular with respect to budgeting, costing and measuring performance activities. The MA reporting system for financial performance was changed—emphasising on both internal and external utilisation, carried out in accordance to regulatory necessities and used as important document in the daily activities across the whole of company. Therefore, managers have a basic understanding of MA reports now and financial language has improved regarding what financial information and measures are about and why they are important. According to the interviews and documentary evidence, however, IKCO’s MA reporting system is still financial-oriented, focusing on a series of routine reports, daily affairs and control activities rather than analytical reports to meet the requirements of the managers in the decision-making process. The interviewees argue that although the MA reporting system has now moved towards some analytical perspectives, it is still in its early stage and this change has not yet been institutionalised as a new way of MA reporting system in IKCO.

## 7.4. Conclusion

Following the discussions at political, economic and organisational field levels through the previous chapters, this chapter provided an outline of the changes that took place at intra-organisational level, in particular MAPs, in IKCO after the privatisation. To achieve this purpose, the chapter initially presented the organisational changes in IKCO after the privatisation in terms of adoption of the new business model of SCM, new administrative controls, IKCO's restructuring program, development of the information technology (IT) and changes in the internal control systems in IKCO. This section aimed to address the most important organisational changes that have taken place since the privatisation while emphasising on the idea that infrastructural, cultural, and strategic changes could have a significant impact on the MACs process in IKCO.

The second part, as the main part of this chapter, concerned MACs in IKCO after the privatisation. This section addressed the company's MACs with respect to the four main MAPs in IKCO, including the costing system, budgeting system and performance measurement system as well as the utilisation and reporting system. This section explained that the company's MACs were institutionalised regarding traditional MASs, including budgeting, costing, performance measurement and reporting systems, while the implementation of some modern MASs such as ABC and BSC was not successful in this company. The results of this chapter along with previous chapters set the basis for chapter 8, which aims to address the main purpose of this study, discussing the MACs process in IKCO after the privatisation by using the proposed theoretical framework (see Chapter 3).

## CHAPTER EIGHT: ANALYSIS AND DISCUSSION

### 8.1. Introduction

The discussions presented in the previous chapters focused on the macro institutional levels of analysis, serving as the basis for this chapter. This chapter focuses on the intra-organisational level and discusses why and how MACs in IKCO were shaped by the interplay between inter-institutional pressures, market pressure and intra-institutional factors after privatisation. To this end, using the model by Dillard *et al.*, (2004), the chapter initially focuses on the connections between different levels of social structures, explaining how the process of the company's MACs is connected to the criteria and practices over three levels of institutional environment: (i) economic and political, (ii) organisational field, and (iii) organisational level. In the next section, the study continues with a discussion about the main change drivers of the MACs in IKCO including both intra-organisational and extra-organisational factors. After this section, the study uses the idea of Burns & Scapens (2000) as well as the model presented by Seo & Creed's (2002), to discuss the process of MACs at the intra-organisational level from a dialectical perspective. These sub-sections provide answers to the research questions concerning how MACs were institutionalised, embedded as values and believes in IKCO. Finally, the following sub-section presents a comparison between successful and unsuccessful MACs in IKCO, discussing why some MACs were/are institutionalised and the other were not taken for granted as values by organizational actors in IKCO. The chapter will end with a conclusion.

### 8.2. MACs in IKCO

Based on the theoretical framework proposed by Dillard *et al.*, (2004), this section explains the process of MACs in IKCO, connected over three levels of social structures: economic and political, organisational field, and organisational level. The Dillard *et al.*, (2004)'s model was chosen in this study due to the failure of the Burns & Scapens's model (2000) in identifying and explaining the impacts of institutional factors in the process of MACs (Scapens, 2006), not considering "the significant influence of historical, social and political factors in the institutionalization" (Dillard *et al.*, 2004, pp. 511-512). In contrast, Dillard *et al.*, (2004) incorporate institutional theory with

structuration theory in order to explain the organisational change with emphasis on the impacts of contextual factors associated with creating, adopting and discarding institutional practices. This framework includes both old institutional economic (OIE) and new institutional sociology (NIS) research, taking into consideration different social structures including the organisational level as well as the influences of wider institutional environment in the process of organisational change (Dillard *et al.*, 2004). The Dillard's model is based on the notion of "axes of tension" proposed by Weber (1958; 1961; 1968) on the basis of three dimensions of representation, rationality and power. According to Dillard *et al.*, (2004, p. 517), "the domain content of the institutional analysis can be described, at least partially, using Weber's notions of rationality and power and the social constructionists' conception of representation". These dimensions help researchers to explain how criteria and practice can be linked to different societal structures including economic and political level, organisational field level, and organisational level. Dillard *et al.*, (2004)'s model is developed based on the structuration theory and defines institutions as indicators of jointly reinforcing structures including legitimation (values and norms) and signification (representation), which are shaped and sustained over time by the resource allocation through domination structures. These structures can be analyzed based on Weber's 'axes of tension' in which signification is likened to representation, legitimation represents rationality, and domination is related to the power axis. In this regard, legitimation structure contains of normative rules and ethical commitments of a social system, signification refers to symbolic representations, presenting meanings and assisting communication and lastly domination deals with the ability to control and mobilize resources.

Additionally, structuration theory is developed based on a dialectical perspective with emphasis on a dynamic inter-relationship between structure and agency, suggesting that socially created structures both enable and constrain human agency (Coad & Herbert, 2009). According to a dialectical perspective, as Figure 2 shows during processes of interaction with other persons, actors draw upon stock of knowledge, collectively described as the modalities of structuration. In this regard, modalities of knowledge in the form of interpretive schemes, norms and facilities are regarded as rules and resources, which are mobilised in relations between individuals in order to meet their interests. From structuration perspective, therefore, the modalities may be seen as analytical components of systems of social interaction, focusing on communication of meaning, the use of power and the function of normative approval or sanctions (Coad & Herbert, 2009).

According to the duality of structure in interaction (see Figure 2), there are close interdependences between three social structures of legitimation, signification and domination in which significations may be legitimated in a given practice by means of allocated resources and at the same time resources may be legitimated by means of norms and significations. From this perspective, as the structure of domination (power of resource utilisation) is mobilized, structures of legitimations and significations may arise or may produce in a constant interaction, materialised in a specific social practice. In this regard, “resources (focus on signification and legitimation) are structured properties of social systems, drawn on and reproduced by knowledgeable agents in the course of interaction” (Giddens, 1984, p. 15). Additionally, as the structure of domination leads to the reproduction and legitimation of different rules, in the same way structures of legitimation and signification may affect structures of domination by either reproducing or challenging them, establishing the potential for social change. Drawing on structuration theory, Dillard *et al.*, (2004)’s model presents and discusses the interactions of institutional dynamics in the three levels of social structures, from the macro level which comprises the economic and political set of criteria to the micro level of practices. This study used Dillard *et al.*, (2004)’s model to articulate the relationships between institutional dynamics in the process of MAC in IKCO with emphasis on the inter-relations between the social structures, including three levels of analysis of economic and political level, organisational field level, and intra-organisational level during the period before and after privatisation program.

### **8.2.1. Institutional Interactions in MACs in IKCO-Prior to Privatisation**

This section addresses the interactions between institutional dynamics prior to privatisation in IKCO, including three levels of social structures, from the macro level which comprises the economic and political set of criteria to the micro level of IKCO.

#### **8.2.1.1. PE (Economic and Political) Level**

Between 1979 and 1989, before the start of the privatisation program, important events took place, which paved the way for major institutional changes in Iran. These events included:

- The emergence of the Islamic Revolution in 1979, by coming to power of a religious ideology based on populist and nationalist policies.



- The escape of many private sectors capitalists from the country with the wave of the Islamic Revolution.
- The emergence of war between Iran and Iraq in 1980.
- Imposing massive international sanctions against Iran after the victory of the Islamic Revolution.
- Large-scale nationalisation program, the emergence of the bureaucratic public centralised management system, facing with large budget deficits, soaring levels of inflation and unemployment.

In this vein, the ideological changes resulting from transition from a monarchy to Islamic Republic created wide-scale institutional changes in Iran in 1979. After the victory of Islamic Revolution, the new ideology was shaped by the Islamist Marxists and left-leaning populist clergies (professional religious scholars and Shi 'ite 'olama) who played a significant role in the formation of Islamic governance in Iran. According to the new ideology, all civil, penal, financial, economic, administrative, cultural, military, political, and other laws and regulations must be carried out based on Islamic criteria. In this respect, the legitimation structures were shaped based on the view that the government is responsible to guarantee social justice and widespread economic welfare in Iran. According to Behdad (2005), the new rulers in Iran followed al-Sadr's economic principles based on the risk of wealth accumulation in the hands of investors and highlighted the important role of the state in administration and control the economy. In this regard, Imam Khomeini as the founder and the supreme leader of the Islamic Republic in Iran stated, "We are for Islam, not for capitalism... and Islam will eliminate class differences." This ideology supported wealth redistribution to the masses that eliminates exploitation by the capitalists (Abrahamian, 1993).

Additionally, the strategy of populists and nationalists reinforced the escape of many private-sector capitalists, and as a result the government had to take responsibility for running many abandoned businesses and industries after the victory of the Islamic Revolution in Iran. At the international level, cutting economic dependence on the West and the East became one of the government's most important goals. Additionally, following the victory of the Islamic Revolution, the interruption of relations between Iran and the western countries as well as the pressure of international sanctions. At this time, Iran's government detached its relations with most western countries (Amirahmadi, 1990) and this was other important reason for the Iranian's government

intervention with an emphasis on policies on economic independence. Furthermore, the results of war and large budget deficits, soaring levels of inflation, and unemployment were other important legitimations for the government's intervention in the country's economic activities. The signification structures presented at the political and economic (PE) level prior to privatisation represented the legitimation structures. Therefore, in Iran, populist and nationalist ideology was the main legitimation structure at PE level, supported by the new rulers with this belief that public allocation could guarantee the formation and development of the Islamic governance and social justice. In the legitimation process, values, norms, and criteria were included in the new regulatory system which created a new legitimating ground for the government to exercise its power.

In this regard, according to Article 44 of the Constitution of Islamic Republic of Iran, published in 1979, p.11:

“The economy of the Islamic Republic of Iran is to consist of three sectors: state, cooperative, and private, and is to be based on systematic and sound planning. The state sector is to include all large-scale and mother industries, foreign trade, major minerals, banking, insurance, power generation, dams and large-scale irrigation networks, radio and television, post, telegraph and telephone services, aviation, shipping, roads, railroads and the like; all these will be publicly owned and administered by the state. The cooperative sector is to include co-operative companies and entities concerned with production and distribution, in urban and rural areas, in accordance with Islamic criteria. The private sector consists of those activities concerned with agriculture, animal husbandry, industry, trade, and services that supplement the economic activities of the state and cooperative sectors.”

As a result, the Iran's economy changed towards populist structures based on a mixture of central planning, including the state ownership of oil and other economic enterprises, village agriculture, and small-scale private trading and service ventures. The article identifies the private sector as a marginal that would supplement the major state sectors which is presented mainly in domestic and foreign trade, small industries, and small mining activities. In contrast, this law led to the implementation of the wide-scale nationalisation program in Iran, the government tightened its distributive control policies based on a highly centralised administration, rationing fiscal and monetary controls and direct subsidies for a large number of goods and services (Bozorg Mehri, 2015). In this regard, the new budgetary systems and a performance measurement system were

created, aiming to achieve a fair distribution of wealth and to guarantee social justice in Iran. In the financial market, the government established financial systems through the control of fewer, but bigger banks, controlling credit allocation, setting of interest rates in which the financial resources invested mostly in or directed to the development of large state-owned organisations and monopolies. Moreover, foreign trade in Iran was tightly controlled by the government in terms of the export, import, and the foreign exchange allocation. Another major issue was the Labour Law, issued in 1990, as supportive law for workers in terms of abolishing the minimum wage and hire and fire regulations. Additionally, during the period before privatisation (1979-1989), Iranian economy was characterised by weak participation of private sectors in which for many years after wide nationalisation program in 1979, the stock market trading was either non-existent or minimal (Dezhbakhsh, 2004).

Domination structure refers to authority and power of those institutions that control and mobilise resources for action. In Iran, before privatisation the state and the parliament were the ultimate players in regulating and allocating resources in economic activities. However, there are a number of critical areas in the Iranian constitution that significantly influence the power of the parliament and the state including ministries in controlling and mobilising resources (Khajepour, 2000). In this regard, the supreme leader and the expediency council and the Guardian Council (consisting of clerical members and six lawyers) have been the most influential actors in the use of power related to allocation and control of resources.

#### **8.2.1.2. Organisational Field (OF) Level**

Organisational field (OF) level refers to the network of companies and organisations with different power positions, interacting more often among themselves than with actors from outside the field, and hence creating a recognised area of institutional life (DiMaggio, Powell, 1991). The concept of organisational field is central to institutional theory (Greenwood *et al.*, 2002), and helps in the analysis of the processes of the organisational change with emphasis on the intermediate level of organisation and society including socio-economic configurations such as public organisations, industry groups, professional bodies, and consultancies (Scott, 1995).

Prior to privatisation, the legitimation structures within the OF level in the Iranian automotive industry, was shaped on the basis of the PE criteria, by focusing on the wide intervention of the

government in OF level with emphasis on social and political principles considerations. At this time, based on the PE's social structures as well as the legitimation structure, the signification structure at OF level was shaped based on populist and political language—which were not based on economic criteria including productivity and financial indicators such as profitability and efficiency. At this time, the government did not intend to expand the national automotive industry due to the wide opposition from both left and right political groups, because the modernisation and industrialisation program was regarded as dependency on the West, particularly when considering that auto production in Iran was largely dependent on imported spare parts from the West. Additionally, due to the macro-economic pressures resulting from war, international sanctions, and foreign exchange shortage, the government in Iran adopted a policy to avoid industrialisation and more investment in industries such as the automotive industry. At this time, the automotive industry continued its operation at the lowest level of productivity, faced with inefficiency and poor financial performance (with most of its funding coming from government's subsidies), limitation to access to technology advancement, shortage of skilled manpower because many car workers and qualified engineers were sent to participate in the war (IKCO's summary of events, 2013, p.1). At this time, the Iranian car factories just had simple assembly lines and they had no division for designing autos and no R&D section, (Forouzan & Mirasadallahi, 2008). This failure was due to several reasons including: relying on high-end import strategy, limitations in the Iran's automotive production capacity, the integrated nature of Iran's car industry (requiring huge investment to move towards value chain strategy), and a failure to attract foreign investment (Razavi & Alaedini, 2018) because Iran had detached its relations with most western countries (Amirahmadi, 1990). Additionally, the OF's representation scheme in the Iranian automotive industry was shaped exclusively on populist and nationalist ideology based on subsidized system with emphasis on political concepts, economic independence policies which is something that can be in contrast with the industrialization program, but utilises the country's indigenous capabilities.

Additionally, in the automotive sector, the hierarchies of autonomy and power of resource allocation was dominated by MIM (Ministry of Industry and Mines), worked with the Industrial Development and Renovation Organisation (IDRO) to play the main role in the OF's domination structures. The MIM owns IDRO, and IDRO in turn had owned total shares of Iran's automotive industry. In this regard, in the case of Iran's automobile industry, MIM was responsible in terms of: (1) planning and policy making, (2) regulating, (3) directing, (4) supervision, (5) licensing (6)

improving efficiency and productivity (7) promoting of export capabilities, (6) offering and supporting engineering and technological advancements, and (8) improving management systems. The MIM was responsible for the setting of macro policies regarding industries and mines including the automobile industry, while the IDRO as a subset of MIM played a more operational role in the organisational field level, acting as the holding company of the industrial companies including auto-makers, responsible for planning and setting policies in line with the government and politician's policies. Accordingly, IDRO was central to the operation, structure, and development of Iran's automotive industry, playing the key and direct role in the authority, resource allocation, and controlling activities due to the total stakes that it had in Iran's automotive industry. As a result, before privatisation, the private entities did not play a role as a dominant structure in the OF's automotive industry because this industry was totally nationalised.

### **8.2.1.3. Intra-Organisational Level**

During nationalisation period, the signification structures in intra-organisational level were shaped in accordance to state-owned principles with an emphasis on a system of subsidies. Accordingly, the legitimation structures were formed on the basis of the signification structures—a language that organisational' sectors used to debate and interpret the company's goals are/should be based on fulfilling attributes of a successful state-owned company. As discussed earlier, at the time of pre-privatisation, the government was reluctant to policies related to industrialisation and modernisation program, and therefore it was not keen to develop West-affiliated industries such as the car industry. This policy was due to ideological reasons (lack of dependence on imperialism and Western countries), as well as the economic and political pressures during war and international sanctions. As a result, during this period, the automobile companies were forced to continue to work with the lowest capacity, and discussions associated with productivity, efficiency, and profitability were not important, but they continued to survive with emphasis on subsidy system. In this respect, relying on subsidy system, the organisational actors sought to focus on the government and politicians' requirements rather than the market principles. As a result, during the pre-privatisation period, the state-owned bureaucracy and political language were considered key signification structures, constituting meaning system for actions and interactions in IKCO. Additionally, the signification structures on the basis of a subsidy system increased the level of actor's expectations based on this belief that everyone has the right to benefit from government

facilities, which should not be provided on the basis of the benefits that they arise. As a result, the company culture revolved around external communications with a strong emphasis on political relationships and language. As a consequence, another key signification structure was the political language in order to legitimate the organisational behavior. In this regard, organisational actors believed that a good relationship with politicians and policy makers can guarantee their benefit and career because they were appointed on the basis of their political states rather than technical capabilities.

During nationalisation program, legitimation structures in intra-organisational level were shaped based on a completely centralised hierarchy, with emphasis on the satisfaction of government and politicians in meeting their general political and economic goals. In this regard, the most important legitimation structure was the political principles, surviving based on the centralised subsidy system with emphasis on politicians and government's requirements. During this period, neither the investment nor the productivity occupied a prominent place in the country's development plans in Iran's automobile industry and therefore there were not strong legitimation structures related to efficiency, productivity, financial performance, and profitability. Accordingly, prior to privatisation, focusing on the non-accounting style, the accounting systems and MAS was externally oriented, developed in a ceremonial way, and also used as an interpretative scheme to legitimate managerial own agenda with emphasis on the achievement of social and political obligations.

In terms of domination structures, Giddens (1984, p. 31) assumed that "resources" both allocative and authoritative are the means through which power is exercised in order for objectives to be realized. Prior to privatisation, the domination structure in intra-organisational level was conducted to IDRO as headquarter, commending the allocative and authoritative resources by the appointment of the IKCO's board of directors who was responsible for undertaking the achievement of the government policies. As a result, before privatisation, the allocative and authoritative structures in the intra-organisational level strictly connected to government, and the most strategically managerial decisions concerning production volume, selling price, investment and development were determined by government authorities. In this period, the company's managers were selected and appointed, by the government's authorities, mostly among political figures, who had political backgrounds in ministries and other state-owned companies. As a result,

the relationship between the structures of signification and domination can be seen in the common language between the company's senior executives and the officials of MIM and IDRO, emphasising wider socio-economic and political concepts. Consequently, in this period, the signification structures were tightly bounded to the legitimation structure, and the company's decisions and goals were understood, interpreted, and interconnected by organisational actors same as the language used to describe government's objectives. As a result, the company legitimated itself with the government objectives and interests, and acted in the interest of the wider socio-economic and political purposes.

## **8.2.2. After Privatisation**

Focusing on privatisation period, this section addresses the three structures of signification, legitimation, and domination at the three proposed interrelated social levels consisting of economic and political level, organisational field level, and intra-organisational level.

### **8.2.2.1. PE (Economic and Political) Level**

In Iran, the reform program including privatisation program coincided with two major events: 1) the ending of Iran-Iraq war, and 2) the death of Ayatollah Khomeini in 1989. As an important event, the death of Ayatollah Khomeini in 1989 reduced the power of the left faction with a populist ideology and in contrast increased the power of conservatives to introduce a new ideology relating to economic development programs emphasising modernisation and industrialisation. As another important event, there was a shift in Iran's economic policies by the end of the war, when the legitimation structures were shaped based on the government's commitment to reconstruction of the post-war economy, recalling for further government's interventions in economic activities. War consequences, increasing economic instability, rising unemployment partly due to the return of troops from the war, as well as the pressure resulting from economic sanctions, reinforced this idea in 1989 that the government needs to continue its participation in the country's economic activities. As a result, the years between 1990 and 1992, the industrial nationalists gained power. This group believed that industrialisation, modernisation, localization, and self-sufficiency policies can be a right path for achieving the goals of the economic development program in Iran. The industrial nationalists also supported the relationship with western countries in order to

support the development of technocratic competency in Iranian industries. In this period, also the government in Iran was dominated by reformists who called for economic reforms, restructuring the country's economy towards a market-oriented economy based on liberalisation policies. However, the initial step of market-oriented ideology, liberalisation and privatisation program was faced with opposition of political factions and political groups, in particular the IRGG, who mainly were benefited from a closed market based on public-oriented economy. In the case of the automotive industry, the opposites did not support the liberal trade policies and forced the reformists to adopt strategies to build alliances for protecting their interests. Additionally, at this time the parliament was still dominated by leftists, the vast majority of whom did not preferred industrialisation and in particular reform programs including privatisation programs.

The privatisation program in Iran started by the First Economic, Social, and Cultural Development Plan (March 1990-1995), planning for:

- Selling a total of 80% of major public and state-owned companies to private sectors and cooperatives (US\$130bn).
- Allocating a total of 10% of the sale's amount to foreign investors.
- Changing the role of the government from a direct to an indirect role in regulating and monitoring the country's economic activities.
- Adoption of reform programs in terms of the support and development of the role of private sectors in the country's economic activities.
- Support and development of the relationship between local economic sectors and global trading markets.
- Development and support of the required H&R as well as the necessary knowledge in the process of economic transition.
- The adoption of national standards and quality assessment systems in accordance to the international standards including all necessary areas and fields.
- Promotion of the privatisation program with emphasis on efficiency of economic sectors (The British Iranian Chamber of Commerce).

In Iran, privatisation program was introduced as part of the adoption of the "Structural Adjustment Program" (SAP), suggested by the World Bank and the International Monetary Fund (IMF). The Iranian government started reform programs with different motivations that included the efficiency of economic sectors, reduction of continual budget deficits by selling non-profitable economic sectors, removal of the subsidies system, curbing inflation in particular under the pressure of international sanctions, boosting national welfare and social justice, speeding up economic growth,



and the reduction of unemployment rate (Khajepour, 2000; Rashidi, 2000; Dezhbakhsh, 2004; Razmi, 2007; Azad, 2010). As a result, in Iran, the justification behind privatisation program was not only about the efficiency purpose of economic sectors but it was largely influenced by the country's socio-economic and political context. For example, Rashidi, (2000) argues that privatisation in Iran aimed to reduce social and political discrepancies as well as decreasing the gap between social classes. Khajepour, (2000) argued that privatisation effort in Iran was largely due to the large scale of collapses and failures of state-owned organisations, putting pressure on the subsidy system of the country (Khajepour, 2000). Most importantly, privatisation in Iran was largely driven by the incentive for the government to repay its debts or reduce its budget deficit.

After privatisation, the signification structure in the PE level was associated with two separate and somewhat contradictory structures comprising 1) promotion of the government's extensive intervention in the re-construction of the country's economic condition due to post-war situation, as well as in response to the pressure resulting from international sanctions, and 2) implementation of economic development reforms including privatisation program on the basis of reducing the government's role in economic activities for further efficiency of economic sectors. In this regard, the signification structures were associated with the PE structures, and the legitimation structures, were shaped based on the norms and values of the socio-political and economic context. The signification structures were codified as regulations and expressed the legitimating grounds for the wider government intervention as well as the adoption of the reform program as suggested by the World Bank and the IMF. In the case of automobile industry, the initial idea was to privatise all automobile companies to adopt a/the trade liberalisation program with emphasis on competition and market-oriented reforms. To achieve this purpose, during years between 1990 and 1992, the imports of completely built-up foreign vehicles increased dramatically, from 537 in 1990 to 50,027 in 1992. This policy was in line with the suggestions of the IMF and the World Bank by stressing the development of the market-oriented economy and transforming the automobile industry from a monopoly into a regulated competitive industry. In this respect, the regulatory system was reformed in order to facilitate the private participation in the auto industry, and therefore ten middle-class private auto companies were founded. However, due to the lack of adequate funds in the private sector, only three of these private companies survived, and none of them took significant market share in Iran's auto industry. Additionally, some of the public auto companies

were merged into two main groups: Iran Khodro and Saipa, which resulted in these two large monopolies in the automotive companies holding the majority of the actions of the industry.

After privatisation, another key legitimisation structure was shaped based on the development of the national automobile industry in order to move towards a non-dependency economy. Regarding this, with the rise of industrial nationalists into positions of power, a greater role of the government in economic activities was emphasised. As a result, the main signification and legitimisation structures shifted towards the development of national industries emphasising technical language including productivity, self-sufficiency, and localisation policies. This policy became more important with emphasis on social justice, political issues, and the importance of economic independence, especially in the post-war condition and in the face of international sanctions against Iran. The government intended to develop a modern, technically advanced automobile industry with high local content, which recalled for wide direct and indirect intervention of government in terms of both financial and non-financial supportive policies. This justification was associated with the legitimisation structures. In this regard, in 1992, industrial nationalists established the infant industry protection laws, aiming to support local production and content in which by 2009, yearly production increased to 1.4 million vehicles. The legitimisation was grounded on the new regulatory system with emphasis on tough tariff regime, aimed to support the local auto makers against a highly competitive international market. Additionally, some of the public auto companies were merged into two main groups: Iran Khodro and Saipa, which resulted in two large monopoly automotive companies IKCO and Saipa hold the majority of the actions of the industry. Additionally, the development of the national industry helped to increase employment opportunities for Iran-Iraq war veterans in which the number of employees had risen from 6000 workers in 1989b to 50,000 in 2004, making the company an important source of employment for most of the people with religious and political backgrounds, and strongly committed to the revolution. However, this legitimisation structure was completely in contrast with another legitimisation structure based on the implementation of economic reforms recommended by the IMF and the World Bank emphasising the development of the market-oriented economy.

At the PE level, after privatisation, the government and policy makers continued to be the main players in domination structures in terms of control and allocation of the resources. As a result, a unique feature of the privatisation program in Iran was that government remained the authority in

resource allocation, so the role of the private sector did not increase insignificantly. In this respect, although the automotive industry has been privatised—so far about 85% of the industry's ownership has been transferred to shareholders—after privatisation the government played the main role in domination structures in PE level. This fact was because of different reasons such as the large debts of government to semi-government institutions, political opposition, as well as the low participation of the private sector in the privatisation program. After privatisation, the public ownership in the automotive industry was replaced by that of other public and / or semi-public enterprises, security and military organisations, particularly the IRGG, and its associated institutions.

#### **8.2.2.2. Organisational Field (OF) Level**

As discussed earlier, the Organisational Field Level (OFL) involves “those organisations that, in aggregate, constitute a recognised area of institutional life: key suppliers, consumers, regulatory agencies, and other organisations that produce similar services or products” (DiMaggio and Powell, 1983, p.148). In the automotive industry, apart from a wide range of organisational field actors from supplier, manufacturer, and wholesaler to retailer and consumer, other field members include different associations relating to the design, R&D, technology transfer, financial sourcing, governmental agencies, professional agencies, fuel companies, and environmental agencies. In the case of the Iranian automotive industry, institutional life has been/ was connected to different field members relating regulatory and institutional systems regarding tariff regime, market structure, export policies, auditing, price setting and controls, environment and security, quality assessments, R&D projects, and transfer of technology. In the case of Iran's automotive industry, the government played the main role in institutional life and the IDRO as a state-owned institution played the key linking role between the government/policy makers and the automotive industry in terms of different parts of institutional life. Clearly in such a condition, the OF was shaped by the PE's structures including signification, legitimation, and domination. As discussed above, after privatisation, the government's intervention increased with an emphasis on the development of national automotive industry on the basis of policies such as import substitution and self-sufficiency. As a result, the key legitimation structure in OF moved towards productivity, focusing on localisation, and developing national brand highlighting indigenous technical capacity. Additionally, after privatisation, due to the monopolistic state of the automobile industry, another

legitimation structure was shaped that put emphasis on social justice in terms of the control of prices and quality improvement criteria in compliance with the rights of producers and customers. In this respect, there was a basic legitimating criterion to control prices that the monopolistic auto companies could impose, in which the formula of car prices was regulated and adjusted each year by the government. Additionally, the quality control criteria in terms of compliance with international standards, environmental, and security issues were required to comply with the quality standards and environmental regulations. In particular, this legitimation structure was important due to the society image (legitimation structure), because the government searched for legitimation for its policy in the expansion of the national automobile industry. In this regard, it can be argued that by imposing strict tariff policies or a complete ban on car imports, the governments sought to develop the national car industry, because the assumption was that opening the local car markets to imports could be at the cost of the collapse of the local automobile industry. However, by controlling prices and monitoring the quality of products in the automobile industry, the government sought to legitimate that the current highly protected and monopolistic condition emphasizing a strong tariff regime does not violate the social justice in terms of price and quality.

Despite such legitimation structures, the implementation of the reform program with an emphasis on liberalisation, privatisation, and the development of an open-oriented economy was another impotent legitimation structure at the OF level. After privatisation, the Automobile Committee, composed of 30 executives and other experts, was established in order to construct effective industrial policies through offering feedback by between the government and industrial managers at Iran's largest automobile companies, in particular IKCO. The formulation of policies relating to financial support for the industry, the foundation of parts supplier companies, the elimination of automobile price controls, and the coordination of technology transfer from multinationals to local Iranian companies are among the most important efforts of this committee. However, this legitimation structure was in contrast with the legitimation structures based on strong government's intervention, and the new strictly regulatory system that stressed strict tariff regime and price controls which significantly reduced competition, strengthening the monopolistic condition in the automotive industry in Iran.

Accordingly, at OF level, signification structures formed in accordance with the legitimation structures, organisational actions, as well as the elements of the PE level. After privatisation, the

signification structures in the Iranian automobile industry were emerged based on productivity and technical language. Additionally, Iran's automotive industry became highly regulated, demanding much more information, which was not previously (before privatisation) required. As a result, after privatization, the regulatory language was another important representational scheme at OF level in the automotive industry. Furthermore, with the important role of the government in institutional life and considering the highly uncertain socio-economic and political condition of Iran, socio-political language was another important signification structure at the OF level in which institutional life in the automotive industry was largely subject to wider socio and political contextual factors.

In the case of domination structures at OF level, after privatisation, the government and regulators were accounted as the main actors and the role of private investors and private institutions was very small. As a result, like before privatisation, government and regulators continued to play an important role in terms of the allocation and control of resources. Additionally, TES found an important role at the OF level, demanding diverse information related to the operational and financial performance of the privatised automotive companies. Therefore, after privatisation, the main stakeholders were government and regulators because they had the main authority in the institutional life of the Iran's automotive industry, for example, in terms of market structure, product pricing, quality assessment and controls, resource allocation including allocating low rate exchange and loan, technology transfer, environmental issues, and the regulations regarding social justice.

### **8.2.2.3. Intra-Organisational Level**

After privatisation, the signification structure at the intra-organisational level primarily emerged on basis of the PE structures as well as OF structures. As previously discussed, at PE level, logically, privatisation was seen as tool to improve the efficiency of economic sectors by the replacement of the government domination by the shareholders and regulators. However, as discussed earlier, after privatisation the social structures in PE level in Iran did not change in accordance with the predictions suggested by the World Bank and the IMF. After privatisation, in contrast, the government's intervention increased with an emphasis on the development of the national automotive industry on the basis of self-sufficiency and localisation policies as a path

towards achieving economic independency and growth. Accordingly, the key signification structure at the intra-organisational level was shaped based on productivity and technical measures in accordance with legitimation and domination structures at the OF and PE levels. Additionally, after privatisation, relying on a strict tariff regime that stressed a highly protected monopoly market structure, the car industry was closely monitored and controlled by the government and the regulators, and, therefore, the regulatory language became another key signification structure in intra-organisational level in IKCO. Additionally, after privatisation, the signification structures at the intra-organisational level changed to cope with the overall economic and political condition of the country. In this respect, for example, under a highly regulated car market in Iran, political language was another important signification structure in the intra-organisational level, which emerged in support of the OF and PE structures. For example, with the change of the political party, the company's managers are replaced based on their political inclination. Additionally, in response to the significant financial pressures, in particular, during the time of recession—began at the end of 2011, when the international sanctions against Iran increased sharply, IKCO faced with the slowdown in the market, founding itself on the brink of loss, debts, and bankruptcy. Concerning this, due to the wider socio-economic and political pressures resulting from economic recession, inflation, price controls, increase of the foreign exchange rate as well as financial and non-financial limitations imposed by the international sanctions, the new signification structure emerged in IKCO, shifting the company's managerial view towards the financial measures and MAPs. As a result, after privatisation, the role of management accountants improved, and managers had more requests, demanding financial and accounting information in terms of budgeting, profitability, cost conscious, internal controls and appraisal of performance in which financial language became common as new signification structure in this company.

The legitimation structures include normative rules and obligations of a social system, and are presented in terms of shared values about what is important and what should be done. In this respect, the actor's meanings and attitudes in terms of the company's goals are influenced by the elements of dominant and legitimation structures. After privatisation, the primary legitimation structures in intra-organisational level were shaped in terms of technical/engineering capabilities as well as productivity measures, which were shaped in accordance to the legitimating grounds of PE and OF levels. Moreover, due to a highly regulated car industry in Iran with an emphasis on tariff regime, price and quality control policies, and regulatory language was another key

legitimation discipline in intra-organisational level. Accountability to the new regulators such as CPPO and NCC as well as TSE as representative of shareholders also legitimated the importance of financial measures such as budgeting, profitability and a cost-conscious style after privatisation. Additionally, in terms of legitimation structure, increasing macro-economic pressures largely due to the impact of international sanctions reinforced this attitude in IKCO that the regulatory system and financial performance are both important for the survival and growth of the company. However, in legitimation structure in the intra-organisational level, less attention was given to the accepted return to shareholders by improving the company's financial performance.

In terms of the domination structures, logically, the privatisation seeks to replace the role of government in economic activities by the participation of private sectors for further efficiency of economic sectors. Before privatisation, the IDRO as a subset of the Ministry of Industry and Mines (MIM) acted as the IKCO's headquarter, playing a key role in the executive operation of the Iranian car companies. After privatisation and between 1993 and 2011, IDRO remained as the company's main shareholder, playing the key linking role between the company and the state and regulators in the process of controlling and allocating resources. At this time, there was a close tie between government and company's managers, aimed to improve policy feedback, policy formulation and management systems of the company. In 2011, however, the privatisation law required the government to reduce its share to less than 18%, and in 2014 the government's ownership in the automotive industry reached to about 15%. According to interviewees, however, despite the reduction of government's ownership, the government was the main player, controlling and formulating the policies related to the resource allocation in the automotive companies. In this respect, the company's managers consider themselves quasi-state employees-even though they had the autonomy to behave as private-sector entrepreneurs. They argued that the government directly or indirectly appoints the board and top-level managers in IKCO and influence the direction and corporate governance of the company. As a result, the most high-level managers at IKCO were engineers with political backgrounds, those who worked in key positions in IDRO for many years. This is partly because after privatisation, the other public and / or semi-public enterprises including the revolutionary, military and religious foundations acquired the ownership of the nationalised auto makers and therefore the government remained the main player in the domination structures of the Iranian automotive sector. Additionally, the IDRO as a state organisation is still the only

regulator in this industry, playing the key linking role between the automotive companies and the state and policy makers in the process of regulating, controlling and resource allocating.

The result of the above discussions indicates that the relationship between privatisation and MACs in this case study is a very complex one, and cannot be understood from the logical consequences of privatisation, but there are many interrelated and complex factors that must be considered in the analysis of this relationship. For example, there are significant conflicts between the goals of the government/regulators and shareholders, which in turn create conflicts in intra-organisational level in trying to satisfy the requirements of both. However, in this case, according to the existing domination structures, IKCO's managers seek to first satisfy the government, political parties and regulatory requirements which were based on the socio-economic and political considerations, so the shareholders' objectives are seen as the second priority in this company. With the reduction of government's ownership to fewer than 20% after privatisation, however, the role of the government shifted from direct administration to indirect interferences which increased authority, responsibility, and accountability of IKCO's managers to become more independent in the process of control and decision-making activities. In addition, with the new regulatory system in terms of price and quality controls as well the TSE requirements, the top managers at IKCO became more motivated to satisfy their shareholders and they are more responsible to market expectations, profitability, and financial performance. As a result, it can be argued that although privatisation can be considered as one factor that influenced the process of MACs in IKCO, regulatory systems as well as the impact of wider socio-economic and political factors were the main influential factors in this process. For example, after privatisation, with the reduction of profit margins, company executives paid much more attention to MACs regarding planning, cost management, and profitability.

Table 33 presented the summary of the analysis of the social structures in IKCO based on the structuration theory.



### Political & Economic Level\_Before and After Privatisation

Levels	Periods	
PE Level	Pre_Privatisation	Post-Privatisation
Legitimation	<ul style="list-style-type: none"> <li>-The domination of the new political group with the populist ideology based on social justice and Islamic criteria, resulted in wide nationalisation program and State's intervention.</li> <li>-Opposition to the industrialisation program and modernisation to avoid from dependence on the Western countries.</li> <li>-Under conditions of war time and due to imposed international sanctions, consumption of foreign currency was not a priority for import or investment on unnecessary goods such as cars.</li> </ul>	<ul style="list-style-type: none"> <li>-The government's commitment to reconstruction of the post-war economy including industrialisation and modernisation.</li> <li>-The power of the reformist party with emphasis on liberalisation and privatisation program.</li> <li>- Development of the national automotive industry</li> <li>- Development of the new regulatory system.</li> </ul>
Signification	<ul style="list-style-type: none"> <li>- Wide nationalisation program and State's intervention.</li> <li>-Socio-political priorities</li> <li>-Emphasis on car imports and market mechanism</li> <li>-The lack of emphasis on expansion of the national automotive industry</li> </ul>	<ul style="list-style-type: none"> <li>-Ideological and socio-political priorities</li> <li>-Productivity and technical capacity in line with self-sufficiency and localisation policies</li> </ul>
Domination	<ul style="list-style-type: none"> <li>- Government and policy makers</li> </ul>	<ul style="list-style-type: none"> <li>- Government and policy makers</li> </ul>
OF Level	Pre_Privatisation	Post-Privatisation
Legitimation	<ul style="list-style-type: none"> <li>-Limitation of productivity &amp; operation</li> <li>-Non-universal operation</li> <li>- Socio-political priorities</li> </ul>	<ul style="list-style-type: none"> <li>-Expansion of the national automotive industry</li> <li>-Strong tariff regim</li> <li>-Universal operation</li> </ul>

Signification	<ul style="list-style-type: none"> <li>-Development of a highly centralised public system based on affordable subsidise system</li> <li>-Bureaucracy language</li> <li>- Political language</li> <li>-Idea of Economic independence based on utilisation of country's indigenous capabilities</li> <li>- Cultural changes based on populist ideology</li> </ul>	<ul style="list-style-type: none"> <li>-Political language</li> <li>-Technical language</li> <li>-Regulator language including price control and quality improvement and environmental assessment</li> </ul>
Domination	Government	Government, Regulators and TSE
<b>Organisational Level</b>	<b>Pre_Privatisation</b>	<b>Post-Privatisation</b>
Legitimation	<ul style="list-style-type: none"> <li>-Limited operation in local markets</li> <li>-Non-universal expansion</li> <li>-Socio-political priorities</li> </ul>	<ul style="list-style-type: none"> <li>-Productivity and technical criteria</li> <li>-Universal expansion with emphasis on competence criteria</li> <li>-Meet socio-economic &amp; political and regulatory requirements</li> <li>-Financial performance</li> </ul>
Signification	<ul style="list-style-type: none"> <li>-State-owned bureaucracy language</li> <li>-Political Language</li> <li>-Subsidiary system based on non-accounting style</li> <li>-Broachracy language of state-owned companies</li> </ul>	<ul style="list-style-type: none"> <li>-Technical language</li> <li>-Regulatory &amp; political language</li> <li>-Financial language</li> </ul>
Domination	Government	-Government, TSE, -Managers (Engineers) and -Regulators

**Table 33. Political and Economic Level during Pre and Post Privatisation**

### 8.3. Analyse of Process of MACs in IKCO

According to model proposed by Dillard *et al.*, (2004), it was argued that after privatisation, the legitimating ground at the PE level was shaped based on the idea of nationalism, focusing on the development of the national automotive industry in Iran based on self-sufficiency and localisation policies. This legitimation structure made the most important goal for local car producers to focus on productivity, brand development and technical capabilities. The criterion and practices at the PE level were mirrored at the OF level, creating the context for the new criteria and practices in the OF level. As discussed earlier, however, after privatisation the social structures at the OF level did not change based on the neo-liberal patterns, but they moved towards the development a strict regulatory system stressing a closed and monopoly automotive market based on a strict tariff régime. Accordingly, the action at the intra-organisational level was influenced by the wider socio-economic and political context including practices and criteria at the PE and OF levels. In regard to this, the legitimation structures at intra-organisational level moved towards operational, technical and regulatory values and prenciples in accordance to general policies of the government and politicians. In this respect, signification structures at the intra-organisational level reflected technical language emphasising political and regulatory reflections. Additionally, after privatisation, at the intra-organisational level, the importance of financial norms and values increased for various reasons, including the emergence of a new regulatory system as well as financial and liquidity pressures. At the intra-organisational level, after privatisation, the domination structures were represented by the government and political parties, regulators and managers (engineers).

Figure 34 summarises the MAC process in IKCO after privatisation with an emphasis on inter-connections between the different social structures: the PE level, the OF level, and the intra-organisational level. Based on the model presented by Dillard *et al.*, (2004), the process of institutionalisation or dis-institutionalisation is normally a top-down process, which begins at the PE level and the PE's criteria and practices shape the context of the OF and the intra-organisational levels. According to this model, thus, understanding the process of MACs at the IKCO requires the understanding of the wider social structures including both PE and OF levels. As figure 32 shows, at the international level, the reform program in Iran started as part of the adoption of the "Structural Adjustment Program" (SAP), which was introduced by the World Bank and the IMF.

In Iran, the reform program including the wide scale privatisation program started in 1990 as an integral part of the five-year economic and social development plans. As discussed earlier, at the national level, there were different but interrelated motivations for the adoption of the reform and privatisation program in Iran including the development of a non-dependent economy, the increase of efficiency of economic sectors, the reduction of continual budget deficit by selling un-profitable state-owned organisations, the removal of the subsidies system, removal of monopolies and the creation of a fair competitive market, the reduction of unemployment, increasing foreign investments and the access to international capital and technology markets, curbing inflation, boosting national welfare and social justice, and speeding up the economic growth. In the case of Iran's automotive industry, liberalisation and privatisation aimed at the increase of competition, efficiency, improvement of management system, less corruption, and higher productivity. However, as discussed earlier, the privatisation program in Iran and the Iranian automotive industry did not continue in accordance to the general ideas and principles (CPE) of the neo-liberal pattern, as suggested by the international financial organisations, such as the World Bank and the IMF. After privatisation, at the PE level the emphasis on economic self-sufficiency based on anti-Western policies and imperialism influenced the economic reform programs in Iran. In the case of the Iranian automobile industry, the development of the national automotive industry became the main goal at the PE level, demanding wide involvement of the government and a highly regulated system. After privatisation, therefore, this industry became highly regulated and the new set of criteria (CPE) emerged at PE level with emphasis on political and ideological language which imposed coercively at the OF level. At OF level, the automotive industry was/became engaged with those demands from the new regulatory system in order to establish criteria (COF) and practices (POF). In this regard, therefore, at the national level in PE level, the lack of appropriate criteria for reform program caused the lack of appropriate regulatory framework and the criteria at the OF level were consistent with the neo-liberal ideology. At the intra-organisational level, the new set of demands of the regulator, politicians and the government as well as new management expectations translated into a set of practices that' coercively was resulted in the change of management systems and company's culture, that shifted towards regulatory/political as well as technical languages. In this respect, after privatisation the accounting and MASs in IKCO were largely changed in accordance to the government's priorities and regulator's' demands, and to cope with increasing uncertain economic conditions with an emphasis on financial measures. For

example, there were coercive pressures in company's culture through implementing new management and information systems, imposed by regulatory bodies like TSE, IAO, CPPO and OPCP. Additionally, after privatisation, the financial and MA languages became culturally more common, mainly due to financial and non-financial pressures, and declining profitability in particular during the recession and increasing pressure of international sanctions against Iran since 2011. Additionally, information technology such as the SAP system facilitated change of management systems in accordance with Supply Chain Management (SCM) in terms of operational and financial performance. Changes in management's systems and the company's culture led to changes in MASs, which were discussed in Chapter Seven.

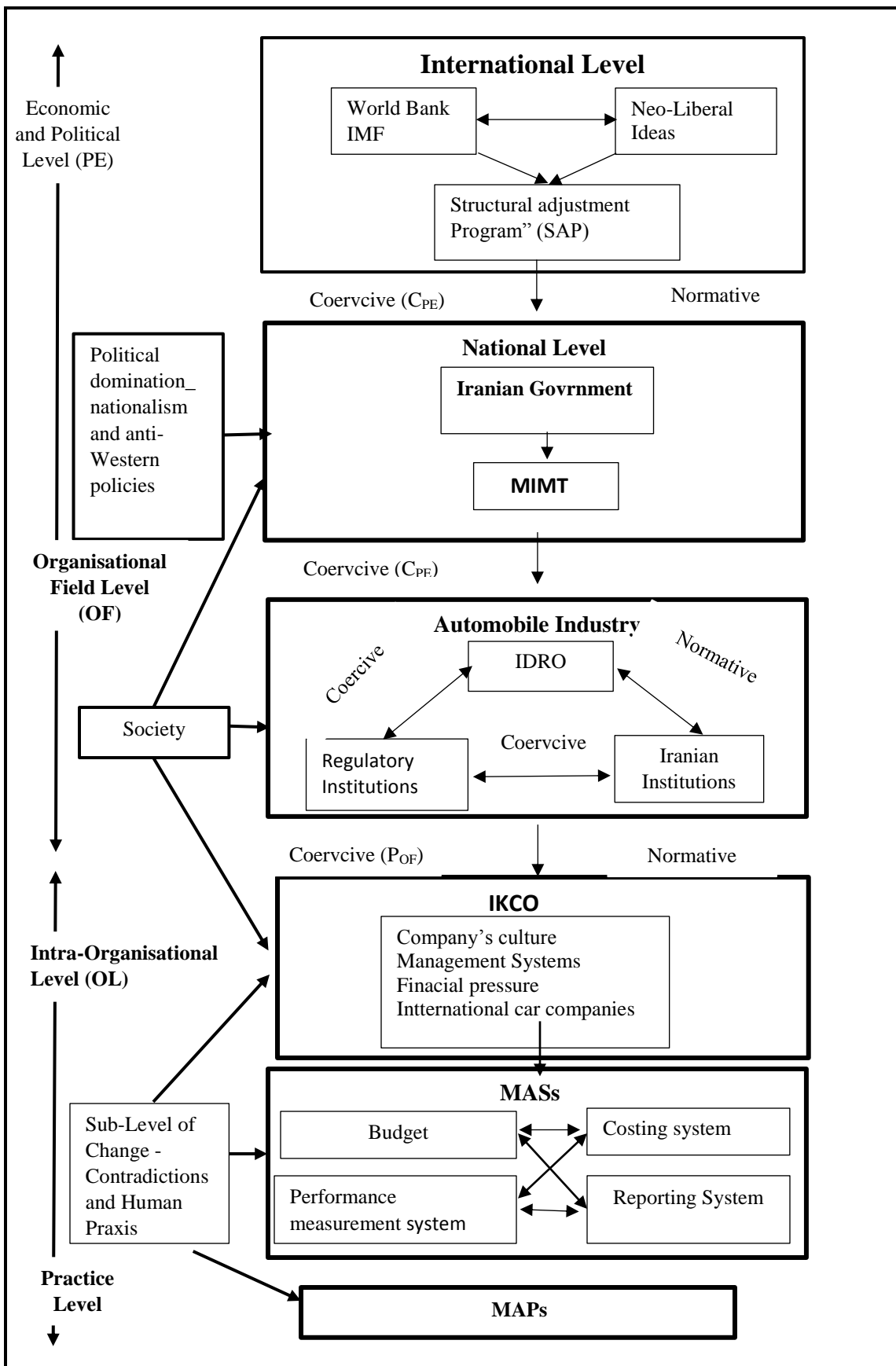


Figure 34. Social Structure of the IKCO's MAC

Having debated the interrelated dynamics between different levels of social structures based on Dillard *et al.*, (2004)'s model, the next section will focus on the important influential factors, suggesting that after privatisation the MACs in IKCO were shaped by the complex set of factors involving a range of entities.

### **8.3.1. Key Factors in the MAC process**

This sub-section aims to present and discuss the main drivers of MACs in IKCO. In this regard, there were many intra and extra organisational factors that influenced organisational changes in this case study, consisting of (1) regulatory pressure, (2) political influences, (3) the managerial support; (4) new strategies based on SCM, (5) the advancement of technology, (6) structural changes, (7) privatisation, (8) the change of the nature of operations, (9) the cultural changes, (10) the financial pressures, (11) the government's new fuel project, (12) market pressure, (13) international trade sanctions, (14) the Iranian associations, (15) fashion, and (16) public opinion. This section aims to analyze why the key change drivers influenced and interacted in the process of MACs in IKCO.

#### **8.3.1.1. The Regulatory Pressure and Political Influences**

As previously discussed, with the start of wide nationalisation program in Iran in 1979, the process of industrialisation program including the development of the Iranian automotive industry was almost totally stopped or considerably limited. In 1989, along with ideological changes as well as the end of the war between Iran and Iraq, however, the new policy of the Iranian government shifted towards industrialisation program and wide scale economic reform programs in line with a series of the five-year socio-economic development plans. After privatisation in 1991, for example, the development of the national automotive industry became one important path towards industrialisation in Iran emphasising self-sufficiency and localisation policies. Therefore, the automotive industry in Iran became highly regulated, and this change was an important factor in changing the management systems including MASs in IKCO.

By taking into account this discussion, this section first provides some explanation on the regulatory system in Iran's automotive industry. This section also aims to discuss the regulatory oriented MACs, explaining how the new regulatory system, along with other factors, contributed

to the formation of new MAPs in IKCO after privatisation. In Iran's automotive industry, the main regulators are parliament and various commissions comprising the Iranian Parliament on Industrial Commission, the Islamic Parliament Research Centre, the Islamic Parliament Research Committee, the government and ministries of Industry, Mines and Trade (MIMT), the Industrial Development and Renovation Organisation (IDRO), National Standard Organisation of Iran (NSOI), Consumers and Producers Protection Organisation (CPPO), and Ministry of Science, Research and Technology (MSRT). IDRO is one of the main shareholders and the main regulator, playing a central role in the country's industrial sectors including the automobile industry. As a result, regulatory bodies and related institutions in the automotive industry were all dominated by the government institutions, and the role of the private sector was very small.

Additionally, it should be noted that due to Iran's political economy, the distribution of power in society determined the ability of various political groups to receive special benefits. In this respect, the strong connection with the political parties was an important element to powerfully lobby with the ability to put pressure on the regulatory bodies to pay more advantages and benefits to certain groups. As a result, the success of reforms in Iran was negatively influenced by the wide presence of political, revolutionary, and religious foundations (Bonyads), who had a significant power and influence on the regulatory system. In particular, after privatisation, the IRGG enlarged significantly its economic presence in which the economy of Iran changed from a political economy to a political military economy. As a result, in Iran, the regulatory system could not be separated from the political motivations which help to understand why after privatisation, the regulatory system in the automotive industry did not change in a manner that strengthen the market mechanism in order to limit the role of government and political parties.

In Iran's automotive industry, after privatisation, one of the important effects of the new regulatory system was the increase in demand for both operational and financial measures as necessary source of information regarding tariff regime, foreign trade, technology transfer, price and quality evaluation and controls, and shareholders' requirements. For example, after privatisation, the TSE as a public joint stock company was the only legal representative of the shareholders, which created an important regulatory impetus in changing the IKCO's MASs. In this connection, after privatisation, IKCO was subject to article 35 of listing requirements as well as the law of protecting investors and stakeholders, which were introduced by TSE. This article issued a draft of the



corporate governance and the financial reporting in accordance to the international standards as well as the national rules and regulations, focusing on four principles: fairness, transparency, accountability, and responsibility. Following TSE regulation, after privatisation the internal control systems improved in IKCO; it focused on the capital return measurements, stock price crashes and the financial controls. In 2008, when the government's ownership fell to 18% in IKCO, the company's board of directors was made responsible to prepare the company's budgets in accordance to TSE standards and instructions. Since then, therefore, the IKCO's budget system and budgetary process were subject to important changes in terms of the types of budgets, preparation process of budgets, budget's contents, utilisation of budgets as well as the role of management accountants. Additionally, after privatisation, in the highly monopolistic conditions in the Iranian car industry, the regulatory system shifted towards controlling the price and quality of products in order to protect the rights of producers and customers. Under the new regulatory system, a number of government agencies were established to be responsible for evaluating and approving car prices on the basis of different indicators including the cost elements, profit margin rate, competition level, and socio-economic and political parameters. Table 34 shows the key characteristics of pricing system in the automobile industry since 1980s.

According to Table 34, after privatisation, the pricing system in the automotive industry did not develop in a logical manner of market mechanism, but it was regulatory-driven based on the rules of a highly political monopolistic condition. Therefore, the price-control regulation in the Iranian automotive industry was an important reason of MAC in IKCO. In this respect, MA department in IKCO was obliged to prepare and submit the necessary and timely information for the government control authorities in order to get approval for the new prices of products. Additionally, the company accepted the SCM system based on self-sufficiency and localisation policies and the company was required for the development of the quality management system with an emphasis on compliance with the ISO standards, meeting environmental regulatory requirements (see Chapter 7). The ISO 9000 project in IKCO persuaded various goals: improving the company's position in the global market, improving its quality management system, meeting customer satisfaction, and improving its performance efficiency and effectiveness (See Chapter 7).

### Key Characteristics of Government's Role in Pricing of Cars

Year	Pricing Authority	Pricing Methods	Context
1995-2010	MIM: Consumers and Producers Protection organisation (CPPO), Auto committee	Set price according to market demand	Declaration of price differential and paying the differential to CPPO
2011	Approved by Council on Auto policy-making and executed by CPPO	Stopped setting prices for commercial vehicles and for autos more than \$26,000	The automakers asked for 20% price increase for the remaining products: 6% was approved
April 2012	Presidential order appointing the National Competition Council (NCC)	More price liberalisation based on the allocation of discounted foreign exchange	Allocating foreign exchange based on Mobadeleh (discounted) rate, leading to both price hikes and windfall profits for the importers of CBUs and CKDs
2013	CPPO and NCC (only for cars below \$10,000)	Based on a complex formula with a base price of 12% under market price while considering inflation considering inflation, foreign exchange needs, and other factors	Liberalisation leads to pressure for price controls again: pricing unsatisfactory to the two monopoly automakers: Periodic controversy in media about the rational for government pricing intervention
2020 to present	the National Competition Council (NCC)	Cost plus, calculated based on official price of dollar, inflation rate and quality standards	No car import, high market demand and low car production level, giving rise to sizable price differential between factory and market prices, long waiting lists, lottery draws, and pre-scales

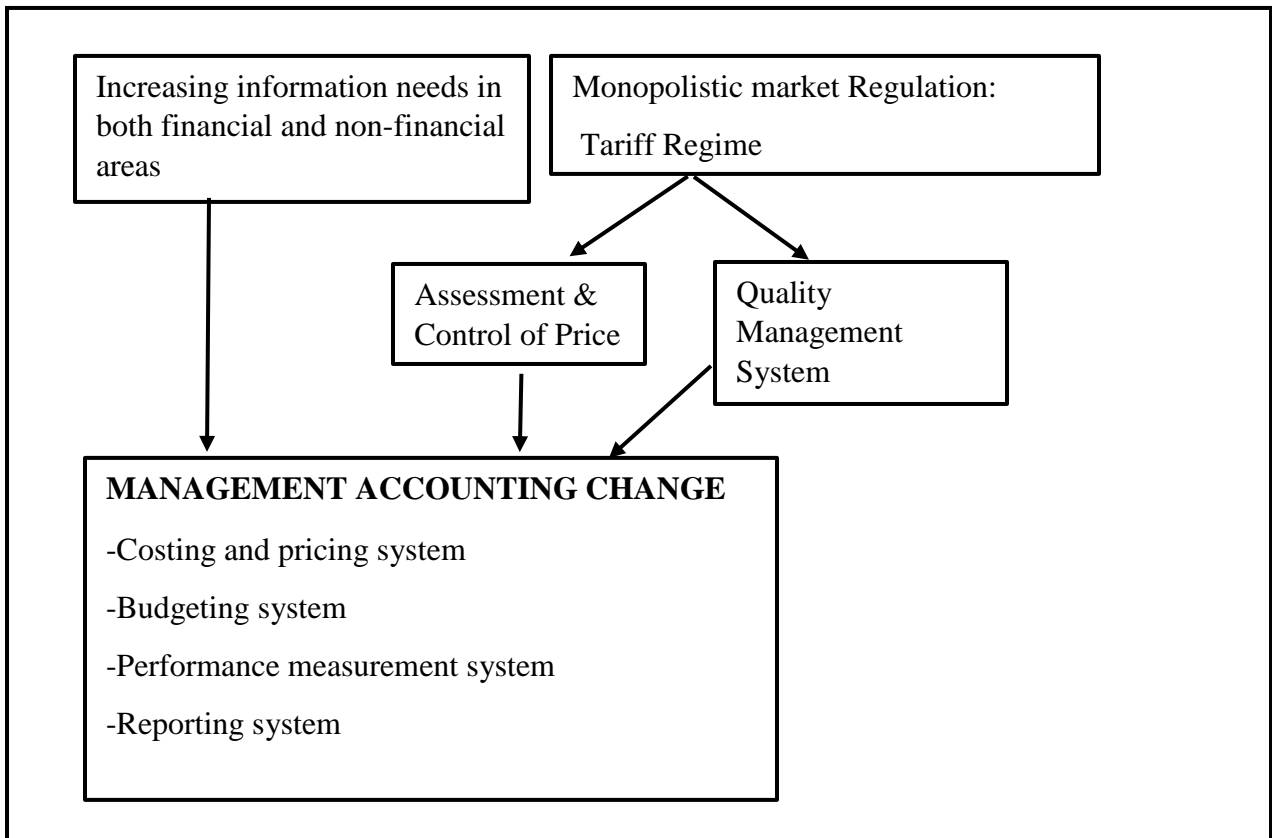
**Table 34. Key Characteristics of Government's Role in Pricing of Cars**

**Source: Iran Vehicle Manufacturers Association (2019)**

According to the interviewees, many of the changes that were rooted in legal requirements were implemented mostly in the ceremonial way, the main purpose of which was to convince the

government, politicians and regulators and not to meet the needs of the company. To illustrate, where the market is monopolised by two domestic automakers without the least competition, customer satisfaction and quality upgrades are not important. In this situation where the demand is increasing, the most important goal is to increase production level in order to meet market demands. It is notable, in the inflationary conditions of Iran, in many cases the demand for cars is met by the customers for the purpose of investment. According to the above discussion the politically oriented regulation system can be seen the main change driver in case of IKCO. Figure 35 summarises the main regulatory oriented change drivers in the process of MAC in IKCO.

### Regulatory Drivers of MAC in IKCO



**Figure 35. Regulatory Drivers of MAC in IKCO**

According to the DiMaggio & Powell, (1983), three types of external pressures (coercive, mimetic, and normative) shape the organisational changes including the changes of MAS. As discussed above, in the case of IKCO, the regulatory pressure was intensified after privatisation with an emphasis on accountability and greater levels of control and disclosure. After privatisation, the scope of the company's management and control systems including the accounting system was

influenced by the new tighter regulatory system in which management accountants spent a significant portion of their time to meet regulators' requirements. Consequently, after privatisation, the regulatory pressure can be regarded as one of the main drivers for the change in accounting and MASs in IKCO. In other words, MAPs in IKCO was largely shaped in accordance to regulatory requirements which is seen as a source of coercive isomorphism (DiMaggio & Powell., 1983; 1991). In this connection, the Iranian Auditing Organisation (IAO) as a state-owned company played an important role in the Iranian regulatory system in the field of accounting systems. Before privatisation, the main role of this organisation was the appraisal of the annual financial statements aimed to demonstrate the financial health of the state-owned organisations in a highly centralized economy. After privatisation, due to the role of TSE as representative of shareholders, the role of the IAO increased (see Chapter Seven) in terms of introduction of the accounting standards and demand for varied and broad financial and operational information. Clearly, this change was the result a regulatory and normative pressure to change company's accounting system in order to cope with the isomorphism concept (DiMaggio & Powell, 1983; 1991).

### **8.3.1.2. Top Management Support**

According to the results of the interviews, top management support was one of the key change drivers in the organisational changes including MACs in IKCO. In IKCO, the functional, bureaucratic structure, where decisions were mostly prioritized on the basis of formal, and command-giving procedures, and the role of senior management in bringing about organisational changes were very vital. In this regard, some important motivations behind the top management support in the process of MACs in IKCO were: (1) cultural changes due to the introduction of the new business model of the SCM system, the advancement of technology; as well as the introduction of the new internal control and management systems, (2) the change of ownership and the emergence of the new governance system, (3) financial pressures and unstable macro-economic condition, and (4) political factors. Although these factors were previously discussed in previous chapters, this section aims to analyze the importance of the role of top management, explaining how this change driver, along with other factors, contributed to the formation of new MAPs in IKCO after privatisation. In this regard, for example, the introduction of SCM after privatisation was an important driver in the IKCO's organisational changes from cultural,

structural, and managerial perspectives. According to the new business model of SCM, company's top management team needed to make extensive changes in the company's structure and management systems in order to move from assembly nature to becoming a carmaker at the international level. With regard to this, the introduction of new business model of SCM stimulated the company's management team to support MACs in IKCO, because the company had to transform from an assembly company to a manufacturing company, redesign its MASs including costing system, budgeting system, and performance-measuring system as well as reporting system. Consequently, after privatisation, MASs in IKCO moved towards a new direction to focus on the entire supply chain—providing information for both within and among supply chain companies. Additionally, since 2005, the particular implementation of the software of SAP (System of Analysis and Program) in ERP environment was aimed to fully integrate different functions in the process of SCM. In IKCO, the application of the SAP system in ERP environment significantly influenced MACs in particular costing system, when the costs of products and spare parts were identified, measured, recorded, and reported regularly and routinely through definite rules and procedures. Another important impetus of the IKCO's top managers for supporting MACs was the changes in the company's ownership and governance after privatisation. Prior to privatisation, IDRO as headquarter and the only shareholder played a key role in the company's governance and administration. After privatisation, with the reduction of the IDRO's share in IKCO, the company's managers found more authority, responsibility, and accountability in the process of company's management and governance. As a result, the change of ownership was an important source of motivation for the top management in support of the process of MACs in IKCO after privatisation, aimed to improve the company's management system in terms of decision making and control practices. As a result, after privatisation, the company's top management team was more willing to support MACs with purposes of development of the new management system in accordance with both efficiency and regulatory requirements. Additionally, Iran's macro-economic and political context was characterised by high uncertainty, political instability and widespread international sanctions, which significantly influenced the economic activities in Iran. For example, since 2011, the IKCO's profit margin and liquidity significantly reduced for different macro organisational factors that follow: the enormous impact of international sanctions, imposed price controls, the sharp devaluation of the Iranian currency exchange rate, severe inflation and reduction of customers' purchasing power, which all squeezed potential earnings for IKCO and

other group companies. Additionally, in IKCO, the importation of car parts, the future of joint ventures and export policies as well as foreign financial transactions were all adversely influenced by the pressure of international sanctions against Iran. The macro-contextual pressures directly and indirectly affected the company's long-term and short-term strategies, operations, management's behaviour, and therefore the management systems in IKCO. In this regard, according to interviewees, the macro environmental factors can be seen as one of the important reasons for the top management support in the process of MACs in IKCO, especially information related to planning, costing, controlling and measuring performance, aimed to improve risk management. Additionally, at this time, the change of the management system in IKCO was along with organisational restructuring emphasising group structuring in the process of decision-making and controlling activities. In particular, since 2011, further structural changes materialised in order to promote team working and to integrate financial and non-financial information in the company's management control system. Interviewees believed that the high uncertain macroeconomic context during the last decade was an important reason in cultural changes in the company's management system to move from highly an engineering-oriented perspective towards a balance between technical and financial sides of operations, resulting in the top-management support in the process of MACs in IKCO. In this connection, the wide structural adjustments, development of information systems and the formation of different committees and groups were some important managerial efforts to create a balance between operational and financial performance. As a result, the financial language, such as costs and profit, and revenue became more common among the company management, asking for much more various MA reports in the process of decision making, cost management, risk management and controls. In this regard, Seo & Creed (2002) believe that a rigid and sudden disruption within present social order through institutional crisis is a usual way to create an institutional contradiction which would facilitate the actors' collective consciousness. If it happens, institutional crisis can cause highly instability and hence the change of institutional embedding. In the case of IKCO, although MAPs rooted in the existing company's values and traditions, MACs were supported by the top management level to become more fitting with the organizational and broader extra-organisational conditions. Figure 36 summarises Managerial Drivers in the process of MACs in IKCO.

### Managerial Drivers of MAC in IKCO

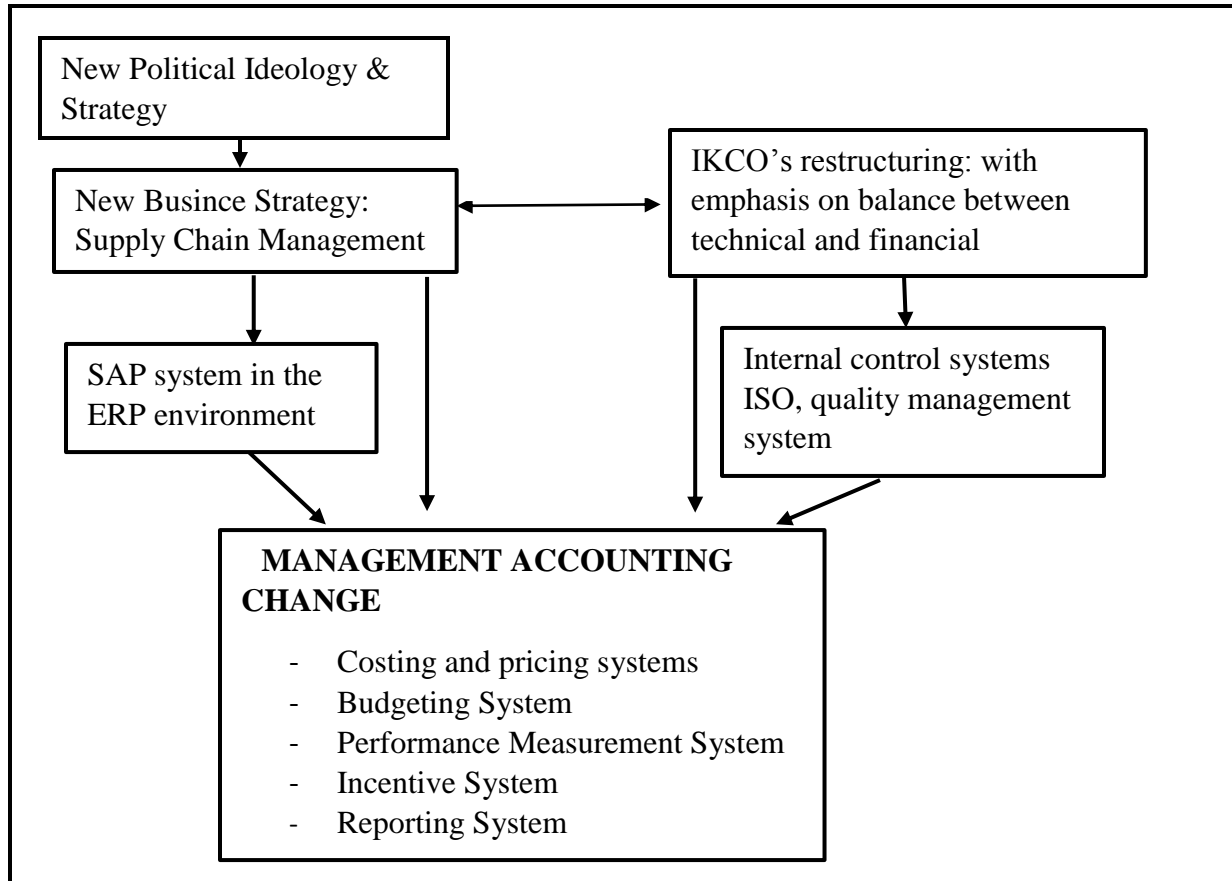


Figure 36. Managerial Drivers of MAC in IKCO

#### 8.3.1.3. Technology Advancement

Technology advancement is a key competitive advantage in the automobile industry in terms of introducing numerous software programmers for innovation solutions in areas of efficiency, design, quality improvement, safety, management and control systems, and communication and social standards. For example, E-Commerce and digital technology have speeded up the level of the transactions, helping to collect online information regarding the purchase decisions, financing, and insurance and after-sale services. From a managerial perspective, the main concern of automakers is not now only to predict strong sales growth, but also to compete in a highly competitive market for having a perpetual advantage and appreciable market share in the global market. In response to such environmental changes, different strategic and managerial initiatives

have been taken by automakers in terms of planning, control, costing, innovation, retraining, and consolidation. In this connection, the new MASs have been introduced to play an important role in the achievement of competitive advantage as important integral parts of management and control systems. As a result, technology advancements have significantly influenced MASs to focus on both financial and non-financial perspectives in analysing customer values and at the same time non-value-added activities. Responding to this necessity, automakers have now invested enormous funds on advanced MASs such as Total Quality Management (TQM), Just in Time (JIT), Flexible Manufacturing (FM), Activity-Based Management (ABM), Blanc Scrod Card (BSC), Benchmarking, Reengineering, and Enterprise Resource Planning (ERP). After privatisation, IKCO was the subject to major transitions in terms of technology advancement, shifting from a small family assembling company to a vertically integrated mass production industry including companies with the capacity to design and develop spare parts. In this period, the company focused on the product-mix strategy based on innovation, modification, and diversification of the product portfolio, branding strategy, advancement of the manufacturing process and automobile retail activities. In the case of operational systems, IKCO made considerable investments on advanced manufacturing technology such as computer-aided manufacturing and robots. Additionally, in terms of information technology IKCO significantly invested on computer technology including both hardware and software services. As previously discussed, in IKCO a significant change in the MASs was related to the transition from manual systems to the computing systems. The use of technology advancement in both operational and non-operational areas within the company influenced the company's MASs and the role of management accountants in all organisational levels particularly at the level of middle management. In particular, the introduction of corporative computational system of SAP was an important attempt, aimed to integrate information systems throughout the company including the most functional areas such as FA including MAS, manufacturing, order processing, and project management. The SAP system had an important influence on the process of IKCO's MACs including the costing, budgeting, reporting, and performance measurement systems. Additionally, SAP and other ISs such as the "e-procurement system" reduced the level of bureaucracy and official paperwork, improving the reliability, information flows, coordination, integrity, and availability of information in all organisational levels of the company. For example, by the automated procurement process, the level of inventory was controlled more accurately and the procurement cycle and the finance process were shortened



after privatisation. This system also facilitated and improved suppliers' performance evaluation because nearly all the required information was accessible by the adoption of the new system. Additionally, the SAP project positively influenced the IKCO's costing system in terms of the adoption of the full costing methodology that enabled management accountants to provide more reliable cost information. However, it is noticeable that the technology transitions in IKCO were largely engineering-oriented and there was a big gap between the company's technical advancements and the managerial developments. As a result, less attention was given to the management and control systems including accounting and MAPs and these systems were largely used to meet external requirements rather than to fulfill the managerial needs in their actual daily practices (Angonese & Lavarda, 2014). According to interviewees, the lack of attention to management and control systems was due to several reasons such as lack of competition, highly regulated automobile industry with wide government's intervention, and the isolation of IKCO from the global auto market. Interviewees argued that IKCO do operate in a monopoly market where it is characterized with increasing local market demand, and therefore the main concern of this company is productivity in order to satisfy increasing market demand; the company does not need to compete for having appreciable market share in a competitive market. Although the role of technology advancement was important, regulatory pressures had the greatest impact on the process of MACs in IKCO after privatisation. This was because the Iranian automotive industry was a highly protected monopoly industry in such a way that the main priority of the local automakers was to meet requirements of a highly politically regulated system, and the efficiency purposes were considered as the second priority.

#### **8.3.1.4. Effects of Globalisation and International Relationships**

IKCO had a long-term history in relationship with European international automakers—originally with Talbot of the UK and then with Peugeot (started from 1990). After privatisation from 1994 onwards, under agreed licenses and JVs, IKCO moved to expand its operations in the fields of parts production and brand products, emphasising self-sufficiency and localisation as well as globalisation policies. In this regard, for example, between 2001 and 2006, under agreed licenses and JVs, IKCO took steps towards wide expansion and development plans in terms of high-tech lines, automation, robotic bodylines, press, painting, design and complementary collection of vehicle production, integration capabilities, and a global network and international marketing

capabilities. However, as repeatedly mentioned by many of the interviewees, socio-economic and political instability in Iran and especially political factors as well as cultural issues were important reasons for the failure of IKCO in terms of transferring managerial knowledge and systems through agreed international licenses and JV's. They argued that due to the particular context of Iran it was difficult for IKCO to attract the major and famous foreign MNCs, which considered Iran as a regional production and/ or export platform. As a result, international carmakers in their JV' agreements did not consider IKCO as their strategic partner in particular in terms of knowledge and management transfers. In practice, the main objective of the agreement/partnership between IKCO and its international partners in the form of JVs was cooperation in technical fields in terms of production of products that were mainly produced to meet the needs of Iran's domestic markets. In particular, the strict tariff implementation of the tariff regime encouraged foreign automakers to partner with domestic automakers in form of JVs because cars produced in Iran were much cheaper than imported cars with a 90% tariff. Nevertheless, the interviewees argued that the partnerships with international carmakers in the form of JVs led to the expansion and development of IKCO in line with SCM, which in turn led to major changes in the organisational structure as well as the company's management systems, including MASs. Additionally, one of the main goals of the IKCO is to become a world-class car manufacturer, competing in global car markets. To achieve this purpose, DiMaggio and Powell, (1983) refer to a type of external pressures in terms of mimetic isomorphism, identifying two types of organisations: innovator or late adopter. An innovator company plays the role of pioneer to facilitate the process of mimetic isomorphism (Dillard *et al.*, 2004), and a late adopter imitates certain practices of innovators, because it perceives that they are more successful than others. In global automotive international level, IKCO was a later adopter (PLA) that seeks to copy innovators' practices although this is sometimes done ceremonially. In this respect, it can be argued that the mimetic isomorphism was a change driver in the process of MACs in IKCO, seeking to imitate and welcome the adoption of the new management systems around the world's automotive industry, frequently of Western origin such as e-procurement, Manufacturing Requirement Planning (MRP), JIT (just in time), BSC (Balance Score Card) , ABC (Activity Based Costing), Total Quality Management (TQM), CATIA (computer aided three-dimensional interactive application), the concept of ISO 9000, and Enterprise Resource Planning (ERP). Finally, it is necessary to say that although the role of foreign partners and communication with the global car markets was one of the important impetuses,

influencing the changes of MASs in IKCO, this factor was less effective in comparison with other factors such as the impacts of the new regulatory system, technology advancement and the macro economic and political factors. It was so because after privatisation the Iranian automotive industry was characterised with a highly regulated and monopolised condition in which with the ever-increasing domestic market demand, operating in globally competitive markets become much less important and was not the first priority for this company. In particular, international sanctions against Iran, imposed by USA and most European countries since 1980s, are effectively separating the company from the rest of the global markets. For example, the sanctions prevented IKCO from joining global institutions such as the World Trade Organisation (WTO) as well as from integrating its parts industry into the global automobile parts supply chain. Additionally, although IKCO had partnerships/ agreements with leading countries in automotive industry such as France, UK, Germany, and Korea, the unfriendly political relationships between the Iranian government and USA and European countries directly influenced the effectiveness of their partnership in particular in terms of management and strategic systems. As a result, a possible contributing factor to IKCO's failure in the adoption of the advanced MASs such as BSC may be its lack of integration in global markets. As a consequence, after privatisation, the changes of MAS in IKCO were shaped in a traditional way in order to meet the requirements of the new politically-oriented regulatory system.

#### **8.3.1.5. Public Opinion**

IKCO is the largest automaker in Iran, holding over 50% of the local market in terms of unit and value, and playing very important role in the industrialisation program and labor market supply in Iran. However, the important sources of the public concerns about this company are: (a) the extensive government involvement, changing to a politically-oriented rather than economic company, (b) the company's monopoly status, which led to some decline in the rights of customers in terms of both the poor quality and uncompetitive prices compared to foreign products, (d) the increase of air pollution and related concerns about environmental issues, and (e) high percentage of road accidents due to poor safety of domestic auto products. For example, the social media continually report that Iranian people are killed as a result of the use of local vehicle's problems, creating wide controversial debate in public opinion regarding the poor quality, safety and security of domestic automobiles. Additionally, the pressure on the local car makers including IKCO is high due to the environmental issues, especially in urban areas, highlighting the problem of high

domestic vehicle emissions, and industrial effluents that have contributed to poor air quality in Iran. For example, it was reported that 80% of air pollution in Tehran is due to cars, the remaining 20% is due to factories and industry emissions. These problems are attributed to highly protected auto monopoly status, which would be a gross disregard of their immense domestic capabilities, problems of local parts producers, the poor technologies used in production as well as the inefficiency and company's miss-management. Resulting from social and public opinion pressures, the government and local carmakers seek to show a better image to society in terms of the protection of customer's rights. In this regard, after privatisation, the Ministry of Industry and Mines was obliged to investigate three main objectives in automotive industry consisting of: 1) customer satisfaction, 2) environmental investigation for reducing vehicle emissions, contributing to environmental protection, and 3) improvement of final part quality check-up to enhance vehicle quality. In this connection, the regulatory system was introduced for the improvement of the internal control system of domestic automakers with an emphasis on the development of product quality management. The aim was quality inspection with stressing internal-control systems and quality management systems in order to guarantee customer satisfaction and environmental investigation considering international and national standards. Additionally, this emphasis influenced the information and management systems at intra-organisational level, aiming to show a better image of the company in society in terms of the use of a modern business model. For example, in the process of the adoption of SAP system in IKCO, the necessity for reengineering the processes in accordance to best practices also stressed by ISO and EFQM auditor's visits, aimed to improve quality reporting and management, information integration, employee empowerment, job satisfaction, and performance efficiency. Additionally, after privatisation, the Competition Council as a state-controlled institution was established with the aims of identifying and controlling examples of anti-competition activities, assessment of conditions and specifying boundaries of markets, as well as the approval of guidelines on regulating of price adjustments, and conditions of access to monopolised markets of goods and services. The foundation of this institution was an attempt to improve public opinion in defending the customer's rights in the monopoly condition of the Iran automotive industry. This institution is responsible for regulating and controlling prices in the automotive industry as long as the market is monopolised by a limited number of automakers including IKCO and SAIPA. In the new regulatory system, prices of cars are set on the basis of a fair price for both producers and customers. In this regard, the price-control

regulation was an important reason of MACs in IKCO, and the costing department is responsible for the preparation of pricing estimates, providing cost information routinely extracted from the company's costing system. However, the index of prices is provided and approved by the competition council, considering different indicators including the cost elements, profit margin rate, competition level, and socio-economic factors and in particular political interests. Interviewees believed that changes in the management system including MASs are largely regulatory-oriented and such changes may not be based on efficiency and the company's requirements but for a variety of reasons, including political, social and economic justifications, or an emphasis on legitimacy in the public opinion. Also, according to the interviewees, one of the important reasons for the company's managers in using recently developed systems is to demonstrate the company's success to community, even in a ceremonial way. In other words, the company's management tried to show that it is being managed better, as they are adopting a range of management tools, such as BSC and ABC. The figure 37 presents the summary of the drivers of changes in IKCO's management accounting systems, they are 1) the new politically regulation, 2) Managerial drivers, 3) Automobile associations and 4) public opinion. The arrows from the politically oriented regulation and managerial driver boxes are thicker than the arrows from the automobile associations, and public opinion boxes to demonstrate that the changes in the politically oriented regulation system combined with the managerial drivers were the main drivers of MACs in IKCO. As a result, the findings of this study indicate that in IKCO, the most important change drivers of MASs were external oriented factors, in particular, the new regulatory system was the most important factor in changing MASs in IKCO after privatisation. Additionally, the change in the company's strategy with emphasis on new business strategy of SCM was another important factor affecting the MASs in IKCO after privatisation. However, it is necessary to state that the adoption of the new business strategy of SCM, was shaped based on the government's general socio-economic and political policies, emphasising on comprehensive government's intervention in terms of the development of the Iran's national industry, relying on the policies of implementation of the implementation of strict tariff regime, self-sufficiency and localisation of the automotive industry in Iran. Also financial and liquidity pressure, especially after increasing the financial and non-financial pressures caused by international widespread sanctions, was another important factor in the change of MASs in IKCO after privatisation.

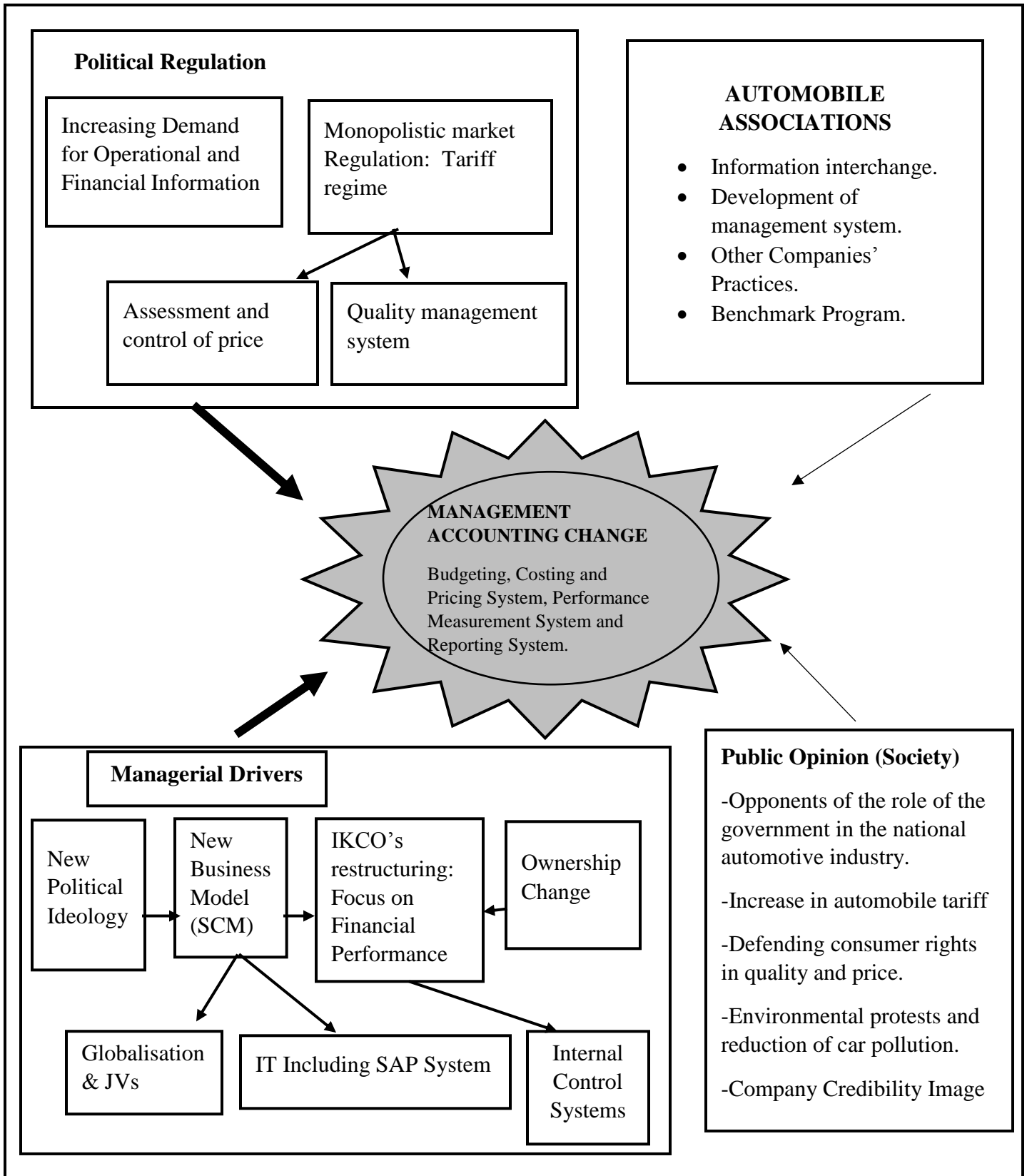


Figure 37. Key Drivers in the IKCO's MAC

## **8. 4. Process of MAC**

In previous discussions, emphasising the sources and influences of inter and intra institutional pressures, this research analysed how the MACs shaped by the interplay between inter-institutional pressures and intra-institutional factors in IKCO after privatisation. This section, however, aims to focus on the intra-organisational level explaining: (1) When, why and how did organisational actors in IKCO decide to enact the MACs? (2) Were changes in MAP embedded as values and beliefs in IKCO? To this end, the next sub-section used the theoretical model suggested by Seo & Creed (2002), explaining why and how organisational actors decided to enact the MACs in IKCO. After that, according to the model proposed by Burns & Scapens (2000), the process of institutionalisation of IKCO's MACs after privatisation was analyzed in the following four stages: (1) encoding, (2) enactment, (3) reproduction, and (4) institutionalisation. In this analysis, the IKCO's MACs included: (1) the budgeting system, (2) costing and pricing systems, (3) the performance measuring and control system, (4) reporting and utilisations of MA information, and (5) the role of management accountants. Additionally, this section argues that MACs did not succeed because they did not institutionalise such systems as BSC and ABC.

### **8. 4.1. Dialectical Nature of MAC**

In the MAC research, the dynamic and dialectical nature of institutional changes has been one of the most controversial issues confronting institutional theories, explaining how actors enact institutional changes through which they are already constrained. In response to this debate, Seo & Creed (2002) presented their institutional model with an emphasis on the dialectical nature of the agency and institution, explaining how actors change institutions and even their actions, interests and their interpretations are all constrained by their institutional environment. The Seo & Creed (2002)'s framework presents an actual mechanism for understanding institutional change as an outcome of dynamic interactions between two institutional by-products: historical development of institutional contradictions and human praxis. From this perspective, the accumulation of the contradictions both within and between institutions provide the seeds of institutional changes, which may motivate actors to create organisational changes. In this respect, Seo & Creed (2002) identified four sources of contradictions through the processes of institutionalisation of organisational change: (1) technical inefficiency, (2) non-adaptability, (3) institutional

incompatibilities, and (4) misaligned interests. According to this model, however, the institutional contradictions do not certainly cause institutional change, but human praxis can influence and secure the institutional change—mediating between institutional contradictions and institutional change (Seo & Creed, 2002). In this model, Seo & Creed (2002: 225) define praxis as “a particular type of collective human action, situated in a given socio historical context but driven by the inevitable by-products of that context—social contradictions” (Seo & Creed, 2002: 225). According to this definition, three component parts for praxis are: (1) actors’ self-awareness, (2) actors’ mobilisation, and (3) actors’ multilateral or collective action. In this respect, Seo & Creed (2002) disclose several predictable ways and conceptually important relationships among particular types of institutional contradictions and particular components of praxis, in which institutional contradictions may trigger, enable, or limit praxis for institutional change. The four propositions are: (1) misaligned interests and potential change agents, (2) institutional contradictions and the reflective shift in collective consciousness, (3) revolutionary disruption from outside, (4) institutional contradictions and mobilisation for reconstruction.

Seo & Creed (2002)’s framework as part of the theoretical framework of this thesis provides useful explanation in the analysis of the dialectical nature of MAC, explaining when, why and how organisational actors decided to enact changes in MAPs in IKCO after privatisation. To this end, this section, firstly, provided a summary of the IKCO’s institutional environment before privatisation and then the section continued with a discussion of IKCO’s MACs after privatisation as the outcome of dynamic interactions between historical development of institutional contradictions and human praxis.

#### **8.4.1.1. IKCO’s MACs—A Dialectical Perspective**

Prior to privatisation in 1979, Iran’s industrial programs were stopped or significantly limited for various reasons, including ideological beliefs regarding independence from the East and the West, and an ideology based on social justice, as well as the results of the war between Iran and Iraq and finally due to the pressure of international sanctions against Iran. During nationalisation, the intra-organisation institutional arrangements in IKCO were shaped on the basis of a bureaucratic state-controlled management style emphasising public principles and priorities. As a result, the main strategy of IKCO was defined with an emphasis on the general government priorities which was



not industrialisation, but in such a way that this company as an assembly company continued its activities with the lowest capacity and on the basis of the import of spare parts to assemble its only product called Peykan. In the case of MASs, prior to privatisation between 1980 and 1985, the company's income and expenses were recorded periodically, submitting the annual financial statements including balance sheets and profit and loss statements at the end of the year. Prior to privatisation, between 1985 and 1991, however, the IKCO was required by the regulators to provide the new required information, which led to the conclusion of a contract between IKCO and a private consulting company in systems and methods, that developed new systems and methods in IKCO, especially in the field of accounting. In this attempt, the regulatory obligation and technology advancement were the main driving forces, creating new systems including logistic and financial systems. During this period, however, IKCO's MASs were restricted to the board of directors and the staff of the accounting and finance department which relied extensively on financial information with an emphasis on the public principles as well as the regulatory obligations.

After privatisation since 1993, the process of changes of MASs in IKCO continued due to sources of contradictions at both PE and OF levels. For example, emphasising the industrialisation program, the expansion and development of the national auto industry became a priority for the Iranian government which challenged the previous social structures based on anti-industrialisation, creating institutional contradictions of technical inefficiency. At intra-organisational level, focusing on a new business management strategy based on SCM, IKCO was converted from an assembling company to a car producer, focusing on the management of flows of products, information and finances both within and among companies, from supplier to manufacturer to wholesaler to retailer to consumer. This shift created a revolutionary disruption in intra-organisational level, which challenged the previous social structures, forcing modification of the company's institutional arrangements in a relative short period. In terms of MACs in IKCO, institutional contradictions evidenced during this period, creating dissatisfaction and a gap between the levels of operation from conformity to existing institutional prescriptions and the alternative ethos as a manufacturing company based on SCM. According to Seo & Creed (2002, p. 226), this gap refers to "technical inefficiency contradiction" that promoted actors' collective consciousness to change the company's MAPs in a formal and systematic manner. In this period, along with structural changes in IKCO, MA department was founded as a separate entity, and its

activities and communications were extended to many departments based on SCM, moving towards strategic management, the company's planning, cost pattern, product pricing, and the company's supply and logistic activities. However, in practice, MACs in IKCO was significantly influenced by the new legitimation, signification and domination structures in PE and OF levels, which relied extensively on the public principles and government's socio-economic and political priorities. In this regard, after privatisation from 2011 onwards, the process of MACs in IKCO accelerated, due to different sources of contradictions in particular the new regulatory system as well as macro-economic and political pressures. As previously discussed, after privatisation, therefore, the new regulatory system was one of the most important change drivers in the process of MACs in IKCO, challenging the previous institutions in order to cope with the new legitimation, signification and domination structures of both PE and OF levels. As a result, new MA routines and institutions in IKCO were shaped as an instrument for securing the needs of a politically oriented regulatory system with an emphasis on self-sufficiency and localisation on the basis of technical capabilities and large-scale mass production commands.

Furthermore, after privatisation, when government's ownership in IKCO fell to a low level (15%), the mix of business and financial norms created contradictions between shareholders, related agencies, and the company's management. In the analysis of the impact of external pressures in the process of IKCO's MAC, however, the interviews results indicated that the impact of ownership change after privatisation was not significant in comparison to other factors in particular regulatory, political, and financial pressures. As previously discussed, the less influential impact of ownership change was because the privatisation in Iran was not real, and therefore the role of private shareholders did not increase but the public ownership was replaced by that of other public and / or semi-public enterprises and / or private-law enterprises. According to interviewees, although the government has formally transferred the total authority to the company's management team, the government still play an important role in the administration and strategic direction of the company, for example, by the appointment of the company's board of directors. Additionally, after privatisation, not only the market mechanism, including increasing competition, did not improve, but the car market in Iran moved towards highly regulated and monopoly condition with an emphasis on the government's role in this industry. As a result, the contradiction resulting from ownership change did not strongly influence IKCO's MASs in line with predetermined expectations of the impacts of privatisation in MAR. However, one of the important impacts of

privatisation on the change of MASs was the result of membership in the TSE. After privatisation, the company was required to follow the TSE's rules and instructions, which was a source of contradiction in the process of changing the MASs in IKCO, moving towards the efficiency of systems in terms of transparency, diversity, and accuracy of information, and compliance with the standards and principles of accounting. Additionally, according to interviewees, due to the increased role of the level of authority, responsibility, and accountability after the reduction of government's ownership, company's managers felt a stronger need for and became motivated to improve their management systems. From this perspective, after privatisation this contradiction encouraged company's managers to make a balance between the company's efficiency and the legitimacy in order to achieve their required resources and interests.

Additionally, previously, the high profit margin of IKCO, mainly due to the monopoly condition of the Iran automotive market, caused to conceal technical inefficiencies in IKCO. During this period, various projects and systems were appraised and used regardless of the evaluation of their efficiency. However, during the last decade, the financial pressures resulting from recession and inflation, in particular the effects of the international sanctions, created new sources of contradiction, by conflicts of interest between different groups and stockholders. By the early 2014, for example, with the increase of the sanctions on Iranian nuclear activity, nearly all western companies withdrew from the country's market, and many small assemblers and OEMs were forced out of the Iranian business markets. Under new business environment, therefore, the company's sales and profitability decreased significantly, in which this company survived only with the help of official financial aid and supports. During this period, therefore, it was critical for IKCO to achieve both legitimacy and technical efficiency, when the environmental uncertainty significantly hit the company's revenue and profitability on the other hand the company became more dependent on the government's support to survive. Therefore, during the last recent years, some weakness accumulated and it became apparent that future business margins were under serious threat, an inconsistency appeared between: (1) the dominant organisational arrangements that, for many years, had prioritised engineering and technical aspects; and (2) the pressure of the intense reduction of profitability and liquidity with bankruptcy risk for reasons of the expansion of economic and political conditions of the country. In this respect, the contradiction between engineering-oriented operations as dominant norms and the business and financial-related operational norms forming ongoing tensions, encouraged the IKCO's agents to move from a totally

dominated technical language towards a balance between technical institutions and business-related concepts. The results of the above discussion indicate that external pressure was one of the main sources of contradiction in the process of MAC in IKCO after privatisation. In this respect, Seo & Creed (2002, p. 236) argue that a sudden disruption of current social orders resulting from revolutionary disruptions from outside is the most widespread approach, which can promote praxis, increasing the likelihood of institutional change.

The third proposition of Seo & Creed (2002, p. 236) declares: “Under conditions of strong non-adaptability, efficiency gaps and inter-institutional incompatibility, mediated by institutional crisis, promote praxis for institutional change by creating the conditions for the- revolutionary breakdown of institutional inertia.”

As a result, this proposition seems to be the main case of the IKCO’s MAC because, contrary to other propositions, it emphasises the impacts of external forces related to revolutionary interruptions from outside in the process of institutional change. The proposition enables this study to explain how sudden changes in macro contexts including regulatory pressures and economic and political crises in Iran, all were sources of institutional contradictions, which broke down the institutional embeddedness, causing actors’ collective consciousness (Seo & Creed, 2002). In IKCO, MACs largely appeared to be ‘intentional’ and formal, starting from finance department, but incentives for the adoption of new MAPs largely came from powerful individuals inside the company. The board of directors headed the new desired institutional principles, and the heads of business units and management accountants were instrumental in the process of IKCO’s MACs, and designed the new routines on basis of the new institutional principles. For example, under tough financial pressures largely resulting from the imposed international sanctions, the underlying contradictions between new business conditions incited serious questioning of technical inefficiency. This consciousness spread across the company, especially at the level of senior and middle managers, who came to the conclusion that they need to change management systems if they wish to have adequate information for their jobs. To achieve this purpose, groups of company’s executives were engaged in a brief period of reflection, attempting to establish different committees of senior executives including the manager of Finance Deputy to discuss business and financial problems, which highlighted the role of management accountants in terms of demanding for diverse reports and information in the area of MASs. In this respect, structural changes began

with the shift from a highly bureaucratic organisational structure to the relatively streamline, horizontal, and process-oriented one by founding or removal of departments, establishing different steering committees as well as the use of management consultants. Top-level management team, the steering committees, and certain individuals in the accountancy department acted as institutional entrepreneurs that actively exploited the perceived contradictions in the human praxis. This, in turn, provided greater legitimacy for other departments and individuals within the company to promote and support the new MAPs in IKCO, who accepted that changes were unavoidable and there was no possibility of resistance. As a result, previously taken-for-granted assumptions had been brought to the fore of consciousness, subsequently compared to alternative logics, and changes put into motion (Seo & Creed, 2002).

Based on the model presented by Seo & Creed (2002), institutional contradiction is also related to intra-institutional conformity that creates inter-institutional incompatibilities, when actors conform to particular embedded institutional arrangements in comparison to other institutional settings. In the case of IKCO, institutional incompatibilities arose from the differences between the dominant public principles, state-owned management style based on subsidies ethos against the new corporate governance introduced by privatisation with an emphasis on higher authority, responsibility, and accountability. By this transition, the company's management needed to make a balance between legitimacy and efficiency, demanding the change of management style from state-owned and subsidies ethos to the new management system which is expected to cause MAC to cope with new corporate governance. In this respect, it should be noted again that, MAP as a social behaviour is coherent with taken-for-granted assumptions, which comprise institutional principles, through their installation in existing meanings, values, and power. In this regard, according to the model proposed by Burns & Scapens (2000)'s model, the institutionalisation process of the new rules or routines begins from the institutional realm, that is, the top hierarchy, or the realm of action, that is, OF. In the case of IKCO, OF level was highly regulated by the dominant state-controlled institutions, playing a prehistoric role in the encoding of the new principles in the process of MACs at intra-organisational level. As a result, the new MA rules in IKCO embedded in the existing public institutional principles led to supporting more legitimacy rather than the efficiency principles emphasising value-added activities. Additionally, an important element in the encoding process at IKCO was related to the importance of hierarchical position and the role of top managers in the process of organisational changes. As described above, the

institutional contradictions promoted reactions of group executive and senior management level, questioning fundamental (institutional) business logics. This suggests that the breakdown of institutional inertia and embeddedness involves the participation and role of very highest level of authority in this case study. From this perspective, therefore, in IKCO, the needs for change was a top-down process, identified by the executive board of the company and the team of project design, which codified the new routines driven by the new emerging principles. That being the case, the nature of the MAC in IKCO was greatly influenced by top managers' missions, who were mostly appointed from engineers with strong political connections. A manager explained: "We have to think about profitability, quality and efficiency, but we get largely involved in the wider socio-economic and political context of the country based on overall policies of the government and politicians."

Another manager at IKCO said:

"IKCO is more a political rather than an economic company. Here we always have political obligations which strongly influence manager's decisions. Therefore, in the process of organisational changes, the role of government, regulators and politicians is much more important than managerial ones. So if the political agents do not agree to any change, it is much less likely to be implemented. Additionally, in such conditions, satisfaction of government officials and politicians is the most important priority for the company's executives."

Figure 38 presents the process of MAC in IKCO as outcome of the interaction between institutional contradictions and praxis. According to the third proposition of Seo & Creed (2002)'s framework, the strong non-adoptability can be a significant contradiction in creating institutional crisis that will motivate praxis to introduce change. They declare that "strong non-adaptability renders institutional arrangements increasingly vulnerable to external shocks by insulating the participants from critical information that exists beyond the institutional boundary or by making them less motivated to actively respond to it". According to Figure 38, in the case of IKCO, a strong non-adaptability to the external environment was observed after the process of privatisation. Before privatisation, the intra-institutional arrangements in IKCO were based on the general policies of politicians. As a result, during nationalisation period, the government had a non-industrialisation policy and therefore, it did not show enthusiasm for both operational and financial issues in the development of the national automotive industry.

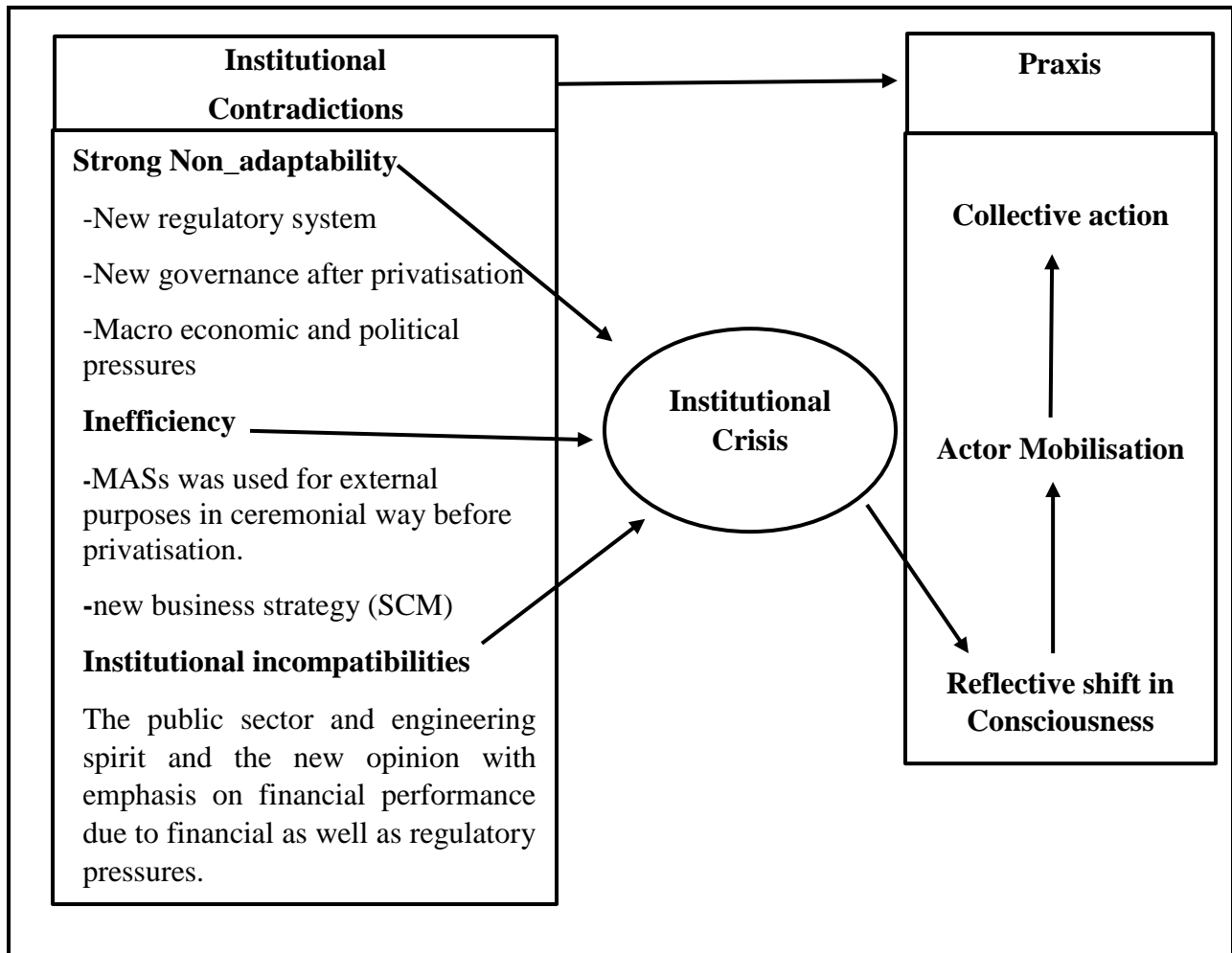


Figure 38. Institutional Contradictions & Praxis in IKCO

After privatisation, the change in government policy based on the emphasis on the development of the national automobile industry, the development of a new regulatory system, financial pressures due to political and economic instability as well as ownership change challenged the earlier institutions that existed before privatisation. It was because the new environmental context promoted changes in MASs in order to meet new contextual requirements including government, and the new regulatory system to cope with the new legitimation, signification, and domination structures based on a highly regulated industry with wide involvement of the government and politicians. Additionally, shareholders' requirements in terms of the adoption of new rules and instructions of TSE as well as financial and liquidity pressures resulting from increasing economic and political instability in Iran demanded important changes in the MASs to cope with the new

legitimation, signification, and domination structures based on a balance between operational and financial performances. As a result, in this case study, the non-adoptability was strong because the company's management style was strongly bureaucratic based on the public principle of management. Besides, the membership in the TSE, the new regulatory system and the emergence of new public principle of management based on the important role of the government with an emphasis on the development of the national car industry, as well as with financial and political pressures due to macro-economic and political context of Iran, all demanded a new business-oriented measurement system in IKCO after privatisation. Although all of these factors led to a strong non-adaptability, the impacts of the new regulatory system and the financial and political pressures far outweighed the impact of privatisation and ownership change in the process of MACs in IKCO. Under strong conditions of non-adaptability with the external environment, the employees and managers of the company came to the conclusion that resistance to change is not possible, so in this case system change did not face resistance.

The inefficiency contradictions were another source of change in MASs in IKCO after privatisation. Seo and Creed (2002, p. 235) state that "the accumulated efficiency gap stemming from conformity to suboptimal arrangements may create institutional crisis." Seo and Creed (2002, p. 235) add that institutional crisis is more possible to occur when the accumulation of intuitionally rooted inefficiencies decoupling the technical core from institutional practices, becomes an insufficient or impractical response. This is true of this case study, especially when the company moved towards its new business strategy based on SCM, and also when the company was forced to provide the required information under the regulatory system. In this regard, after privatisation, the company was obliged to join the TSE and observe the requirements and rules of this organization and the IAO. As previously discussed, pre-privatisation management accounting was largely limited to providing information to external users and IDRO as the company's headquarter, which was limited to a joint work between accountants and senior management. After the privatisation, the requested MA information by the company's management increased significantly, which was largely the result of the reduction of the role IDRO as well as financial pressure resulting from macro-economic factors. Furthermore, due to the pressures from the new regulatory system including TSE and IAO, ISQCC, CPPO, and NCC, previous MA information was not adequate to meet and support social structures, signification, legitimation, and domination at the intra-organisational level after privatisation with an emphasis on advancing both financial



and non-financial performance. Additionally, institutional contradiction may be the result of institutional conformity at the intra-organisational level, which lead to institutional incompatibilities at the inter-organisational level (Seo & Creed, 2002). From this perspective, agents who have become conformed to particular embedded institutional arrangements may not be as interested in change of those institutions. However, conformity to institutional arrangements may conflict with technical efficiency, creating inefficiency contradictions, and prompting the embedded agents to take collective action for institutional changes. From this perspective, institutional change can be the outcome of multiple and complex effects of different institutional contradictions at different levels of a society within an organisation or outside the organisation as a part of a society (Bums & Baldvinsdottir, 2005). In the case of IKCO, after privatisation, under the conditions of a strong institutional crisis, one important cause of institutional contradiction was related to the inefficiency contradiction produced by conforming to institutional arrangements in the long run, unproductivity, bureaucratic, non-business oriented, and state-controlled management style. In this regard, although after privatisation, contrary to SAP and liberalisation program, the role of the government in the development of the national automobile increased sharply, the new highly-regulated car industry along with increasingly changing socio-economic and political conditions of Iran created institutional incompatibilities at the inter-organisational level, prompting the embedded agents to take a collective action for changes of MASs in IKCO. Indeed, the institutional arrangements that were once credited under a highly state-controlled management style for legitimacy, created a web of weaknesses and contradictions since those arrangements became suboptimal and new optimal solutions did not continually pursue and adopt with the changes of the business environment.

In sum, according to Seo & Creed, (2002), the MACs in IKCO were a systematic consequence of institutional contradictions rather than an idiosyncratic event. After privatisation, IKCO's conditions of strong non-adaptability, efficiency gaps and inter-institutional incompatibility, intervened by institutional crisis, have promoted actors' collective consciousness to change MAPs in IKCO. From this perspective, the existing contradictions demand new MASs move towards a balance between operational and financial performance, having multi-faceted roles to respond to management requirements in the new uncertain business environment. IKCO's MACs were largely the result of revolutionary disruptions from outside, which happened in a relative short period by challenging the previous institutions that existed in IKCO before privatisation.

Additionally, the process of MACs was relatively smooth in the sense that a top-down process comprised minimal overt resistance or conflict.

As for the unsuccessful changes of MAPs in IKCO, this study supports the idea of institutional theory that success in MAC is not only technically-focused, but also it depends on the struggles among various interests and unequal power where it is unlikely to satisfy the divergent interests of all the participants, but the interests of the more powerful (Seo & Creed, 2002). From this perspective, in the case of Iran's automobile industry, the highly politically-regulated system is the most powerful change driver, playing the most important role in terms of setting institutional arrangements over the control of automakers' strategy and performance. After privatisation, IKCO as a highly political company was strictly regulated with an emphasis on political objectives over the years, and these policies were imposed by the powerful institutional arrangements. Under a highly political monopoly condition with a strict tariff regime, for example, the company performance almost entirely depended on the general policies of the government and regulators emphasising the development of the national automobile industry, self-sufficiency, and localisation policies. As a result, due to the existence of monopoly market demands, and where the selling price is/was regulated by the political considerations, a condition existed that is not considered by the BSC principles as suggested by Kaplan & Norton (1996). As a result, the implementation of this system became decoupled from the company's day-to-day operations and was used in a ceremonial manner.

This statement is supported by the following quote from the manager of the Planning and Control Department:

“In my opinion, this system is suitable for those companies operating in a free and competitive market, helping to achieve a competitive advantage to follow the process of standardisation and world-scale efficiency. In contrast, in IKCO as a monopoly and a strictly-regulated company, the government plays the main role and therefore the company's strategy, revenue, and profitability are highly dependent on political issues rather than economic factors. Consequently, the role of the government and political actors are much more important than the role of the customers and suppliers in the company's survival and development. It is clear that these conditions have had a great negative effect in welcoming of systems like BSC and the company's managers are not optimistic about such systems because they think they do not fit with IKCO's condition.”

In the case of the failure of BSC and ABC in IKCO, interviewees argued that due to the highly instable socio-economic and political context of Iran, in IKCO the short-term operational perspectives were the predominant management style that created the dominance of a short-term profit-oriented culture in this company. In IKCO, managers spend most of their time making decisions and managing daily activities in view of short-term targets such as meeting cash liquidity and supplying the required parts to continue production lines. This institutional logic, which connected to broader macro socio-economic and political context, cultural beliefs, rules as well as the organizational structure, and power distribution shape and guide the decision-making process in IKCO. Many interviewees argued that the political uncertainty partly resulting from international sanctions against Iran caused this problem, in particular when the country's currency suffered a major devaluation. In the highly uncertain economic and political context of Iran, the main challenge facing the company's managers is how to adapt to the new condition. Although, company's strategies are defined and formulated in accordance to long-term value-added strategies based on the BSC system, the IKCO's management style and its strategic language firmly anchors in short term targets to resolve the facing day-to-day concerns. As a result, in IKCO the BSC application can be seen as a symbol that legitimise the persistence of the new management style that although decoupled from day-to-day management activities, it was institutionalised in a ceremonial or instrumental way. Burns & Scapens, (2000) suggest that the power and interests of organisational actors can be an influential factor in recognising that accounting changes are ceremonial or instrumental. Ceremonially institutionalised routines are organisational rituals, which are used to preserve the status quo and the power or interests of specific groups or individuals, rather than to aid efficiency purposes. In IKCO, the BSC system decoupled from day-to-day activities in order to maintain stability in terms of existing production orientation in its monopoly condition. This resistance also relates to the impact of power, when powerful participants are able to resist change that is incompatible with their interest in accordance to existing institutions (Nor-Aziah & Scapens, 2007).

As a result, it seems that the use of advanced MASs, such as ABC and BSC in IKCO were, in part, the outcome of fashion rather than a systematic consequence of institutional contradictions, and did not promote actors' collective action in the institutionalisation process of change. According to Burns & Scapens, (2000), the institutionalisation of a change occurs when the new routine is so widely accepted that they become an unquestionable form of management control (Burns &

Scapens, 2000). However, a personal choice of the new CEO probably based on the idea of using the fashion in the world with the ambition of legitimacy, was the main motivation in the implementation of advanced MASs in IKCO. In the case of BSC, organisational actors knew that they had to accept this system, whether they liked it or not, since it was a directive given by the company's CEO. Therefore, despite the acceptance of the legitimacy of the policies and procedures by organisational members, the new system was not taken for granted as a value but was treated in a ceremonial way.

#### **8. 4.2. Institutionalisation process of MACs in IKCO**

This sub-section aims to present and discuss the process of institutionalisation of MACs in IKCO, which includes changes in the budgetary system, costing system, performance measurement system, reporting and utilisation of MA information, and the role of management accountants. In this section, the study used the model proposed by Burns & Scapens (2000a, b), explaining MACs as a process which may evolve, stabilise and re-evolve over time, become "institutionalised" when they become accepted, and are taken for granted by collective action (Guerreiro *et al.*, 2006). From this perspective, an institution is seen as a social and cultural system, giving meaning to the integrated aspirations of a group of people in which habits and routines are both regarded as important components of the institution. As a result, the reproduction of habits and routines over time can potentially and gradually lead to institutionalisation, in which specific patterns of thought and action become common and taken-for-granted as the way that things are done (Scapens, 2006). In this regard, Burns & Scapens (2000, p. 5) explain that "by institutionalised, we mean that management accounting can, over time, come to underpin the 'taken-for-granted' ways of thinking and doing in a particular organisation." In this connection, Guerreiro *et al.*, (2006, pp. 217-218) refer to a series of principles related to the institutionalisation of a MAP including:

- Assumed nature: they are taken-for-granted habits and routines.
- Stability: they are stable; that is, they prevail and continue.
- A collective nature: they are realised in forms of thinking and acting that are held in common by a group of persons.
- Provision of meaning to behaviour: they give social meaning to persons and allow for their integration in the group.

- Standards of behaviour: they are the natural products of social structures and pressures, and define standards of behaviour.
- Artifacts and rules: they are realized in the form of organisations' actual artefacts and rules.

These principles helped to understand and analyse the institutionalisation process of MACs in IKCO after privatisation. In accordance to the model of Bums & Scapens (2000), the next subsection explains the institutionalisation process of the IKCO's MACs, structured in the following four stages: encoding, enactment, reproduction, and institutionalisation.

#### **8.4.2.1. Encoding**

The first stage of the institutionalisation process contains encoding desired institutional principles, concepts, and meanings into new routines and rules—which have the potential to be taken-for-granted and become institutionalised. The encoding process is started and directed by internal factors—predominated values, meanings, organisational culture, as well as external pressures such as new legislation, privatisation, and the impact of wider socio-economic and political context. According to institutional theory, however, the proper understanding and description of the encoding process of MAC in IKCO depends on the appropriate analysis of the environmental context, because the new principles and meanings in the encoding process are typically influenced by dominated rules and routines, which are manifested by both internal and external institutional contexts (Orlikowski & Scott 2008). To achieve this purpose, this section first provides a summary of institutional context in order to explain the encoding process of the MACs in IKCO after privatisation.

As mentioned earlier, during the nationalisation period in IKCO, the MAPs were shaped based on the requirements of the state-controlled management style on the basis of the relationships between the IDRO's officials as the company's headquarter, regulators and the company's management team, and management accountants. During this period, IDRO played a key role in planning and running the company, and as a result, the company's performance was planned and implemented based on the overall goals of the government. However, before privatisation, the industrialisation program in Iran including the development of the national automotive industry was not a priority for the government's economic policies, and IKCO as a state-owned industrial company relied

heavily on the subsidy system, and its operation was limited to producing one type of product (Peykan) with a minimal production capacity. At that time, thus, the company's MA rules and routines were shaped on the basis of a regulatory system, focusing on the preparation the annual financial statements as well as the information required by the IDRO. However, before privatisation, due to the rejection of the annual financial statements of the company by official accounting and auditing institutions, the company was legally required to provide the financial statements based on the new regulation. This change coincided with the development of information systems and changing the accounting systems from manual to computer systems. These events forced the company's CEO to encode new principle and concepts, moving from manual towards computerised accounting systems. From this point of view, it can be concluded that in the process of MACs in IKCO prior to privatisation, the most important elements in the encoding process of new concepts were regulatory oriented and the information technology advancement was also an important change driver in the company's accounting system.

After privatisation, the process of encoding new values and principles in the IKCO's MASs continued consciously and unconsciously, along with new social structures at three PE, OF, and the intra-organisational levels. At PE and OF levels, after privatisation, in particular, the encoding process—mainly followed the new general socio-economic and political principles and values with an emphasis on the industrialisation program, as well as the reform program including the privatisation program. In this period, following the diffusion of the government's industrialisation program, the government decided on the development of national automotive industry emphasizing self-sufficiency and localisation policies in order to reduce economic dependency on foreign countries. At the same time, the government introduced its economic reform program based on the suggestions of the WTO and the IMF highlighting the reduction of the role of the government in the country's economic activities in the form of the liberalisation and privatisation program. Accordingly, the PE new values and principles were encoded in the OF's social structure, emphasizing the broad role of the government in the development of Iran's national automobile industry. However, after privatisation, the general economic values and principles at PE level regarding the reform and liberalisation program were in conflict with the dominated policy of the government in terms of direct intervention in the development of the national automobile industry in Iran. As a result, the values, meanings, and principles encoded at OF level were in line with the extensive government's interventions and controls, rather than the development of reform and

liberalisation program. At intra-organisational level, after privatisation, the new principles, meanings, and values were encoded in accordance to PE and OF social structures based on the attainment of the government's satisfaction with an emphasis on productivity, technical objectives, and self-sufficiency and localisation policies. From the result of the interviews and documentary evidence it was evident that the introduction of this change was an important step towards undergoing various changes by encoding new principles and concepts into MAPs because IKCO has been transformed to a managerial holding company based on SCM emphasising operational goals based on self-sufficiency and localisation policies. In this connection, in early 2008, the board of directors decided to implement “SAP” (System Analysis and Program) system as one of the most significant conscious decisions that encodes new principles into MAPs based on the integration of information system. This decision was because IKCO planned to become a managerial holding company based on SCM and therefore it was a priority for the company to have an integrated information system to comply with new business environment requirements.

As a result, as discussed earlier with the extension of the role of the government after privatisation, the new regulatory system became the key change driver, encoding the new principles and concepts into IKCO’s MASs in terms of quality management systems, costing and pricing, planning and budgeting, performance measurement system, reward and incentive system, and the use of MA information. Also, the encoding of new principles and concepts of MAPs into IKCO was the outcome of conformity to financial pressures in which the MA information constitute macro-economic and political environmental changes. In this regard, increasing financial pressure, along with increasing financial loss of the company, especially with the increase of international sanctions in recent years, resulted in a change in the attitude and insights of the company’s managers, so that financial issues became more important than before. Increasing financial pressures along with increasing wide losses, especially under severe economic and political pressures of widespread international sanctions, led to a change in the company’s management perceptions, perspectives and values, which caused the encoding of new values and principles into the MASs with an emphasis on financial performance. In this regard, Seo & Creed (2002) believe that the common way in which an institutional contradiction can lead to a shift in actors’ collective consciousness is related to institutional crises that cause a rigid disruption to existing social orders and a change of institutional embeddedness. In this respect, pressures from the difficult economic and political conditions of Iran, along with a significant reduction in the company’s profitability

in particular since the company faced massive losses to continue to survive, caused institutional crises and a shift in actors' collective consciousness, encoding new values, meanings, and principles with an emphasis on a balance between operational and financial performance. According to interviewees, the financial language became much more common and therefore the institutional logic of profitability, and cost efficiency became prevalent at different organisational levels particularly among the directors and the business area and unit managers. As a result, in IKCO, the new harsh financial condition challenged the prior embedded principles and beliefs based on norms of technical and engineering excellence with alternative judgments and concepts. This was an unintended recognition of the new principles in IKCO's MASs which encoded new principles, emphasising on the necessity to comply with the company's legitimation structures including both technical and financial performance.

In general, it can be said that after privatisation, external factors, in particular, the socio-economic and political context as well as the new regulatory system were the main change drivers in the encoding process of MACs in IKCO. In this regard, according to the majority of interviewees, in comparison with other external factors, however, the impact of privatisation was not significant. By the encoding process of MACs in IKCO, as previously mentioned, the post-privatisation's meanings and values did not greatly challenge existing MA principles, rules, and routines in IKCO to focus on competitive advantages in a highly competitive market and the impact of market mechanism on the company's financial and non-financial performances. In contrast, after privatization, IKCO's operations was strongly monopolised on the basis a strict tariff regime and strong government's interferences and controls. As a result, after privatisation the monopoly and uncompetitive market intensified, creating a relatively safe and uncompetitive domestic market, reducing the impact of privatisation in encoding the new market driven concepts and meanings into the institutionalization process in MACs in IKCO.

At intra-organisational level, the executives played the most important role, using their authority and power to encode new values, norms, the new ways of thinking, and principles into the process of MACs in IKCO. However, it is notable that after privatisation, the majority of company's executives were appointed by the government and therefore, it is obvious that political and national factors as well as regulatory pressures could significantly influence managers' perceptions and interests in the process of MACs in IKCO. In this respect, thus, legitimacy was an important source



of MACs in IKCO, demanding the change of expectations, attitudes, and values both inside and outside the company. However, it is noteworthy that although all executive managers were selected and appointed by the government from among political figures, different personalities of the company's CEOs were an important element, affecting the encoding process of MACs in IKCO. For example, in some cases, the appointed CEOs were younger and intelligent, had a business background, and were educated in Western universities. They tried to run the company systematically, and were much eager to create a balance between technical and business purposes.

Conforming to the framework presented by Burns & Scapens (2000), when new principles are encoded into the institutional rules and routines, which then may be institutionalised through the processes of enactment, reproduction, and institutionalisation which started from the institutional realm and moved into the action. In IKCO, the MACs started on the basis of encoding a set of new principles and concepts, involving the budgetary system, costing and pricing systems, the performance measurement system, the reward system as well as reporting and utilisation of MA information (see section 7.4). The next section deals with the enactment process of MAC in IKCO, how the actors enacted the new concepts, principles and, meanings that were encoded by the desired institutional rules and routines after privatisation.

#### **8.4.2.2. Enactment**

This section aims to empirically investigate and explain how institutional actors went about enacting the new principles and concepts in the MAPs in IKCO after privatisation. To this end, the first section addresses the most important sources of resistance to changes in MAPs and then the next section will focus on the key players and factors in making the enactment process and the change from one form of routinized MAP to another possible.

##### **8.4.2.2.1. Sources of Resistance**

Burns & Scapens, (2000) believe that the enactment process may be accompanied with resistance, particularly when the long-held established principles and meanings are challenged, and in particular when the organisational actors have adequate power to interfere in the process of change. As a result, although the change might involve conscious choice with an emphasis on particular interests, it eventually becomes a more reflexive application of simulated knowledge of actors

(Alsharari, 2017). In this respect, resistance to change may be derived from conflicts of interests as well as the previous ways of thinking, habits, and performing duties by organisational actors (Bogt & Scapens, 2014). In this respect, Angonese & Lavarda (2014) identified seven important reasons for resistance to MAC: (1) institutional power, (2) ontological insecurity, (3) trust, (4) inertia, (5) lack of knowledge, (6) acceptance of routines, and finally (7) decoupling or loose coupling.

For example, institutional power is related to divergence of institutions within an organisation, which is shaped by power distribution and organisational culture both within and outside the organisation. From this perspective, institutions offer social meaning to individuals, allowing for their integration in the particular groups (Scott, 2001). However, institutional power may not be grounded in MA discipline, and therefore may simultaneously provide a source of contradiction and resistance to MACs in an organisation. From this perspective, therefore, resistance to the enactment of new rules and routines may be due to the power of prevailing institutions, failure to secure the legitimacy of a new system, and an inability to find a common language between varied institutions (Scapens & Roberts, 1993).

In the case of IKCO, the results of the interviews revealed that although organisational actors accepted the legitimacy of the new rules and routines, there was some sources of resistance in the process of MACs after privatisation. Although the enactment of new rules and routines were initiated or supported by top level and senior executives and therefore the change actors were required to obey them, the values underlying the new system conflicted with embedded institutions in IKCO. In IKCO as a highly functionally structured company, institutional distribution directly relates to the company's hierarchy and bureaucracy in which the greater degree of functionality and power delegation shifts power to separate departments, groups and individuals. As a result, powerful organisational actors are able to directly communicate their interests and expectations, which can be said that the likelihood of a change significantly depends on the support of the company's senior executives. In is because they are able to intervene, mobilize resources in support or resist if it is incompatible with privileged institutions and their interests (Nor-Aziah & Scapens, 2007). In the case of IKCO, the technical and political institutions made the basis of the institutional power, provided the sources of contradictions and resistance to MAC, both within and outside the company. In this respect, the company's board of directors and most of company's top

executives were appointed from people with political backgrounds, mostly engineers who had previously worked in governmental agencies such as the MIM and IDRO. As a result, there was a decoupling deriving from a divergence between production and political concepts and commercial business logics in which the former was only about the technical/political logics and the latter related to commercial logics with an emphasis on efficiency based on both financial and non-financial measures. Consequently, institutional power in IKCO is dominated by technical/political concepts that can be regarded as an important source of resistance to the enactment of MAC after privatization emphasising competitive advantages, higher efficiency, cost consciousness, and the main concepts of the privatised idealised system based on profitability, and business and market driven concepts.

It is notable that the reform program in Iran's automobile industry including the privatisation program in IKCO did not have a significant impact on the institutional power based on the new business-oriented management system. As discussed earlier, after privatisation, the institutional power was characterised with a highly technical/political and regulatory principles as the results of increasing the role of the government in relation to the development of the Iran's national industry by using a strong tariff regime and the implementation of strict regulatory and control systems, a policy that led to a monopoly and non-competitive automobile market based on price controls. Since 2011, however, the financial pressures resulting from the increasing instable economic and political conditions of Iran, especially along with the imposed international sanctions, moderated the institutional power based on technical justification, and emphasising financial and business measurement systems. At this time, increasing economic and political instabilities along with increasing inflation and declining market demand, were facing the company's managers with large financial losses and a significant shortage in liquidity, which made MA information much more important than before. Additionally, the wide structural changes after ownership change and privatisation along with the change of actors' expectations and perceptions based on new authority, responsibility and accountability, created a new common language between organisational actors, demanding more sophisticated financial and MA information in their daily activities.

Additionally, insecurity may constitute a source of resistance to change when the change breaks the atmosphere of security (Granlund, 2001). From this perspective, although a change may be a

conscious choice, people seek some level of psychological security based on their daily mental schemes over time (Schein, 1992). Busco et al., (2006) argue that when managers get used to routine behaviours, a security atmosphere is indicated. Insecurity was also as a source of resistance to MAC in IKCO, in particular when the company attempted to implement a new system of SAP. According to the results of the interviews, the implementation of this system was initially accompanied with insecurity and anxiety partly due to the fear that the new system of SAP could lead to increasing workloads and the accumulation of new tasks, which require new skills and capability (It was difficult largely since the employees were used to using Excel and did not want to use the SAP system). Additionally, there was initial resistance, because it forced the employees to leave the security of old routines at the cost of the new, different, and unknown routines. However, in this respect, it is noteworthy that according to the Iranian labour law the company could not dismiss employees, and therefore during the enactment process, there was a sense of job security and therefore the resistance to enactment of the new systems was not related to stressing that the new system might eventually lead to dismissal of employees. In this case of SAP system, the psychological safety reduced the level of resistance because the new system was a directive effort of the CEO and the organisational actors knew that they had to accept new systems whether they liked it or not. Additionally, in the implementation of the new system, employees were allowed to run the old system in parallel with the new system, which increased the level of the psychological safety among the system users. Additionally, management accountants considered the implementation and use of the SAP system as an opportunity for better jobs in other companies, which was an important reason in the reduction of the resistance to the implementation of the SAP system in IKCO. As a result, in the case of SAP system, the least resistance was observed and the results of the interviews show that individuals participated in the adoption of this system sufficiently.

Additionally, the lack of trust was accounted as one of the most important sources for resistance to MACs in IKCO. In this regard, one of the main reasons for the low level of trust was the company managers' doubts about the reliability and accuracy of the financial information in the process of management and control activities, which had become a common culture in this company. Also, a numbers of interviewees argued that because of unstable economic and political conditions of Iran, accounting information cannot be very reliable because nothing can be predicted and everything is changing continually. In this respect, they pointed out the importance

of budgeting, and believed that in the condition of economic and political stability, budgets could be used as a useful tool in the process of planning, control, accountability, and the performance measurement activities. However, in the highly unstable economic and political context of Iran, this tool is not very reliable because it must be constantly adjusted and it is difficult to separate controllable and un-controllable factors in these adjustments. Additionally, the lack of adequate knowledge, the poor role played by experts (internal specialists whose participation contributes to the use and implementation of new MASs), and the insufficient use or access to consulting services (who give meaning to new management practices) were other important reasons for the low level of trust to MASs as a source of resistance to MAC in IKCO. According to interviewees, these failures have to do with several reasons such as the legal limitation in recruitment of new skilled staff, poor condition of the consultancy services in Iran, and the lack of access to international consultancy companies due to imposed wide international sanctions against Iran.

The institutional inertia seems to be another source of resistance during the enactment process of MACs in IKCO, because MA routines were unable to suitably react to continuous environmental changes and requirements. In this regard, Steen, (2009) holds that this type of resistance can be understood from two types of rigidity of resource and routine. Resource rigidity results from external obligation, when resources are delivered by an internal management action (Steen, 2009), and routine rigidity arises when routines tend to be ill-suited to address discontinuity. Institutional inertia also indicates an underlying logic that permeates the mode of thinking of the organisation (Steen, 2009). In this respect, IKCO was characterized by the state-controlled culture and the company's organisational structure was highly functional and bureaucratic on the basis of rule-bound procedures and top-down commanding management system. Additionally, the existing culture of laziness, indolence, and idleness was another important characteristic for inertial resistance in the process of the enactment of MAC in IKCO. Clearly, when existing MA routines and rules are questioned by increasing environmental changes, the inertia resistance is likely to be manifested through limited or incomprehensible reactions.

Additionally, the results of the interviews revealed that the lack of adequate knowledge was an important source of resistance in the process of MAC in IKCO largely due to the lack of adequate training program and the lack of consultancy services in particular relating to the accounting field. It is clear that the use of appropriate training programs and the consulting services can increase

actor's knowledge of what may lead to the spread of a positive attitude to change, reducing resistance to change (Ponzo & Zarone, 2012).

In IKCO, it was observed from the field research that the training action was a very important part of the company's institutional power based on technical and engineering concepts. The company had an organisation-wide obligatory training program, but largely included technical and engineering courses. However, in the field of accounting and MAS, the training program was largely limited to the projects that yielded Organisational Change Management (OCM) by the company's top management. Therefore, the lack of knowledge in the accounting field can be considered as an important source of resistance to MACs in IKCO especially among the company's managers, people who were mainly selected from engineers and operational individuals.

The manager of Processes, Systems, and Procedures pointed out that:

“In this company, resistance to change was largely due to the lack of employees' knowledge and lack of their confidence and trust in the proposed outcomes by the new systems. This type of resistance is usually seen at all the levels in IKCO, but clearly in the managerial level it is much more influential. In my opinion, in IKCO, there is now a cultural change in the actors' opinions and attitudes related to the importance of accounting information and therefore the resistance to accounting changes is now getting lower and people are welcome the adoption of new accounting and MA systems more. This change has happened largely due to the financial pressure during the last decade in which managers now feel the need for more sophisticated financial and accounting information in doing their daily activities.”

#### **8.4.2.2.2. Key Players in the IKCO's MACs**

In IKCO, the company's board of directors, in particular the CEO, had the main role and authority in implementing and supporting organisational changes including changing MASs. For example, the CEO was the main player in the enactment process of SAP and BSC systems, which facilitated MACs in IKCO. After privatisation, the decision of the company's management to change the MASs was largely influenced by the decisions and policies made at PE and OF levels. As previously discussed, after the start of privatisation in Iran, the government's policy to fully

intervene and control Iran's automobile industry was developed, which led to the introduction of a strict regulatory system based on a tariff regime in this industry. Because of the importance of this factor, the MASs in IKCO were shaped with an emphasis on new measures based on technical, engineering, self-sufficiency, and localisation criteria. On the other hand, the adoption of liberalisation and privatisation policies in the PE level, led to the membership of the IKCO in TSE and consequently obliged it to observe the legal requirements of this organisation. This event significantly influenced the process of MACs in IKCO to provide more accurate, comprehensive, and transparent accounting information in accordance with accounting and auditing standards. As a result, it can be said that MASs at the intra-organisational level were largely formed to meet the requirements of the new regulatory system. In this respect, the company changed its MASs along with ownership change and the new role of the TSE, along with the introduction of new regulatory system on the basis of increasing the role of the government in the development of the National Automotive Industry with an emphasis on self-sufficiency, strict tariff regime, and localisation policies.

Additionally, as previously discussed, other factors such as financial pressures, economic and political instabilities, fusions, and the change of the company's governance on the basis of further authority, responsibility, and accountability concepts after privatisation were other important motivations for changing the company's MASs in IKCO. In these cases, after privatisation, institutional entrepreneurs in IKCO sought to redefine and create a balance between technical and business values, meanings, and norms based on commercial business routines.

The manager of ERP project explained this in the following way,

The company's CEO was the most important institutional entrepreneur in the implementation of SAP system in IKCO, as a desire system based on the new business strategy of SCM. Additionally, this system was selected due to a priority to transform from a functional to process-based structure as well as the necessity for reengineering the processes in accordance to the best practices which was apparent according to the requirements of ISO and EFQM auditors' visits.

It is clear that justification of and trust in the necessity and usefulness of the new system had an important impact on the success of the enactment of the new systems, when the role of consultants was very important. For example, the roles of advisors and consultants were important in the case

of SAP enactment. The consultants firstly drove the changes to MASs at the request of the CEO and assisted the management accountants to direct changes towards new MA rules and routines.

In this regard, a management accountant pointed out that:

“In the case of SAP system, we had several meetings with external and internal consultants, computer and IT experts and training experts in order to become familiar and implement the new system and to observe our job. These meetings helped us to realise the potentials of the new system in comparison with the old one, and the problems we may face in the implementation process.”

Additionally, the enactments of MACs after privatisation were facilitated by the company's organisational changes such as the development of IT, internal control systems, reward system, as well as structural changes. In particular, IKCO has undergone widespread organisational restructuring that took place with an extensive level of recruitment and the new appointments in the enactment process of MACs after privatisation. In this respect, the head of departments, and the computer and IT departments were also important instrumental entrepreneurs in terms of the recruitment, training, and co-operation with management accountants who came to act as institutional entrepreneurs, enacting from one form of routinised MAS to another.

The head of the department of systems and processes of IKCO stated,

For example, in the case of SAP enactment, there were many important challenges, in particular related to structural changes, as some processes and jobs must have been removed and some new jobs were to be created. The implementation of the SAP system started from the finance, accounting, and logistic systems with less resistance because this system was fully supported by the board of directors in particular the CEO in terms of resource allocation, structural changes, and the use of external and internal consultants and the required training program.

In particular, after privatisation between 1993 and 2011, the company was characterised by a more extensive restructuring program in designing, supplying, manufacturing, and after-sales services. The company also adopted a highly hierarchical structure, many managerial positions and levels were created or removed with wide recruitments or appointments, resulting in managerial and cultural changes in IKCO. In this period, the MA department was established as a separate department, and then it was legitimised when it effectively transformed into a planning and cost control of the finance deputy. After privatisation, the missions of MASs initially changed to focus



on technical and external oriented requirements, but later MACs were in line with of the improvement of control systems, reduction or relaxation of bureaucratic controls, and improving the reporting system. In particular, with the increase of financial pressure during the last decade, largely resulting from the impact of international sanctions against Iran, the further structural changes helped improve the position of MA department based on an emphasis on cross-functional and integrated cooperation. For example, a new organisational position was introduced in the company's highest hierarchical level, aiming to link environmental, financial and costing issues in order to cope with the external environmental uncertainties. Additionally, organisational restructuring in IKCO facilitated decentralisation of MASs, and therefore the scope of MASs was extended into other deputies. In this respect, the heads of operational units and management accountants were instrumental entrepreneurs in the formation of cross-functional meetings. Although there was not a clear concept of integration, responsibility, and cooperation between these different deputies, these areas were responsible for the enactment process of the new set of MA rules and routines that were previously encoded by the company's top managers.

Additionally, the enactment process of MACs in IKCO was significantly influenced by the development of IT and the internet, facilitating the change of manual MASs with the new systems based on the computerised systems. Technology advancements in both operational and IT non-operational sectors were one of the key factor in the enactment process of MACs in IKCO. The advancement of operational activities by using new technology led to important changes in the company's activities, organisational structure, and strategy and management systems including MASs. The interviewees argued that during the past two decades, the company had extensive technological changes in its operational activities, which led to wide changes in the organisational structures and types of company management system including MASs. Also, the development of technology in IT significantly improved the conditions for changing MASs in IKCO in such a way that they are more quickly applied in and focused on cross-functional and integrated corporations.

IKCO's manager of Systems, Processes, and Procedures pointed out that,

Currently more processes are organised automatically and by electronic systems, employees can communicate automatically and access their required information. All communication within IKCO and its subsidiaries are automated, while the correspondents with suppliers are still largely handled manually, face-to-face meeting, or by use of telephone.

The process of enactment of MACs in IKCO was also influenced by the training program. In the process of the enactment of new systems and projects in IKCO, the OCM committee was responsible to meet the required structural and cultural changes. The role of this committee was very influential in the enactment process of a change, because it was responsible to control and direct: (1) the progress of the processes, (2) the provision of the required structural changes, and (3) the required cultural changes on the basis of the necessary training program. As previously discussed, however, IKCO was dominated by engineering and technical culture, focusing on productivity, technical issues, localisation, and self-sufficiency policies and therefore in this company less attention was paid to changes related to finance, and business systems. According to the result of the interviews, the OCMs were formed only for projects that were approved by the senior management level. However, in comparison to engineering and technical projects, this committee was less common in the enactment process of MACs in IKCO.

The IKCO's vice-president of education and training pointed out that,

However, in IKCO, the formation of an OCM depends on power and authorities of top executives who have the power to define and approve the new projects or systems. If the project is accepted by one of the company's senior executives and vice-presidents, then the committee of OCM can be formed, and this committee is responsible to follow-up the implementation of the new system, creating required resources, cultural grounds based on the necessary training program and structural changes.

The head of cost accounting said:

“In my opinion, we showed the least resistance when we started the new FI system and MASs as the first module of the SAP system. It was largely because of the formation of OCM, using external consultants and access to varied training courses for different organisational levels, creating security, trust, and confidence about the enactment of the new system.”

Additionally, in IKCO, another influential factor in the enactment process of MACs after privatisation was related to the new reward system, linked with the company's performance measurement system. According to the new system, the company's employees had to translate their activities into specific performance measures and criteria, which could be collected, evaluated, monitored, and ultimately reported for the calculation of reward payments in IKCO.

This system was based on an intended recognition of the new principle which encoded and enacted in IKCO's MASs after privatisation, emphasising the performance evaluation, controls, as well as accountability systems. In this respect, one of the purposes of the reward system was to enable the preparation of a results-based budget linked to the performance measurement system, to monitor programs and to coordinate the organisation's strategic objectives in the company. Relying on the model suggested by Burns & Scapens (2000), the next section provides more details regarding the reproduction process as the third stage of the institutionalisation process of MACs in IKCO.

#### **8. 4.2.3. Reproduction**

An institution is seen as “a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of a people” (Hamilton, 1932, p. 84). According to Burns & Scapens (2000), the third stage of the institutionalisation process of change involves the actor's gradual reproducing of the enacted institutional principles, holding in common by a group of persons which can form their way of thinking and acting (Burns & Scapens, 2000). In this respect, the inherent stability and continuity of an institution is one of the main elements of the institutional model, suggesting that a recursive process of enacting and reproduction process, results in values of the organisational culture to be shared across time and space. As a result, the reproduction stage of change is realised with the constant repetition of enacted behavioral patterns over a period of time, leading to social values in the form of routinised activities. From an institutional perspective, therefore, in the analysis of the institutionalisation process of MAC “one key question in evaluating the changes revolves around the issue of reproduction. Do the changes become really incorporated into new routines and rules or are they simply “one-shot” interventions?” (Soin *et al.*, 2002, p. 255).

Drawing on Burns & Scapens, (2000), this section aimed to investigate the third stage of institutionalisation of MACs in IKCO: whether the enactment of MACs in IKCO was reproduced over a period of time or it was only enacted at a point in time. The result of this case study demonstrated that the new MA rules and routines were utilised over several years, emphasising financial managerial and control indicators, especially in terms of budgetary controls, cost management, and reward systems. After privatisation, new MAPs in IKCO were gradually and jointly used by different sections at all levels of the company, and the reproduction of the MACs

led to new rules and routines of the costing, budgeting, performance, measuring, and reporting systems. The new MA rules and routines were gradually used to become the new way of thinking and acting, in a way that they were widely accepted, presenting the collective nature of new attitudes and practices that were held in common by a group of actors. In this regard, a change was made from a purely technical and engineering thought to create a balance between technical/operational and financial performance with an emphasis on financial and control-oriented concepts and activities. Company's difficulties gradually came to be discussed as financial matters and cost accounting and budgeting phrases entered the common language at all levels of management, recasting financial debate into a language of the bottom line. As a result, the company managers realized the importance of accounting information and they accepted that their understanding and use of accounting and performance indicators generated by the MASs is an essential component in doing their jobs better. As a result, they reproduced the new rules and routines of MASs, tending towards new thinking and acting in doing their activities putting an emphasis on financial measures. In particular, the implementation of SAP system created new rules and routines to offer a better understanding of why there is a need to do the work in a specific way, creating a clear understanding of the most relevant possible information and the new MAPs.

An executive manager in IKCO noted:

“The operational managers now have accepted that accounting and financial performance is very important in doing their jobs better. We welcome financial insight into our decisions. We need to translate our activities into performance measures that are generated by the accountants. In this regard, each operational unit in this company has access to an accounting advisor who arranges the relationship with us and with the finance deputy, providing ongoing information and advice on required financial and accounting matters. There are meetings and committees, and in these communications, the role of financial managers and accountants has become much better than before, which has improved the attitude of other managers in their decision making and control activities.”

In the reproduction process of MACs in IKCO, thus, financial institutional logic was shared and repeated amongst the unit's managers and directors, reproducing the new collective behavior in terms of thinking and acting. In this respect, the company's directors and managers who were mostly engineers, meetings and committees, which facilitated the reproduction process of new

rules and routines in IKCO's MASs. For example, several economic committees and workgroups were established in order to work on planning, cost efficiency, and profitability purposes with an emphasis on practices of budgeting, cost management, control and measurement of the company's performance. As a result, the diffusion of new MAPs created a new culture, which spread new social meaning among organisational actors, tending towards the new logic based on a balance between technical and business performance. In this attempt, organisational changes also facilitated the reproduction process of new MA rules and routines, creating new culture of control mechanisms based on financial indicators. In this regard, Burns *et al.*, (2003, p. 37) state that "as the new systems were being implemented they were perceived as being part of, and essential support to, the process of cultural change."

Burns & Scapens (2000) separated the reproduction process of MAC into conscious and/or unconscious. Conscious reproduction occurs when the change actors are able to have the necessary logics and resources to collectively question the existing rules and routines. In contrast, unconscious reproduction of change may arise in condition of the lack of an appropriate system, cannot determine when the existing rules and routines do not sufficiently understand and or accepted in practice (Burns & Scapens, 2000). In the case of IKCO, the MAC reproduction was conscious as well as unconscious, because the new rules and routines were not always put in practice as they initially intended. For example, the conscious reproduction of change in MASs, inspired by the SAP system, which took place with repeated patterns over six months, led to the collective reproduction of the new rules in the form of routinised activities. In IKCO, there was also unconscious reproduction of MSCs, because, in many cases, changing systems was not always in the form of a formal order and based on the organisational hierarchy, but made in order to improve the MASs with an emphasis on both internal and external requirements. The next subsection presents the final process of institutionalisation of MACs in IKCO after privatisation.

#### **8.4.2.4. Institutionalisation**

The institutionalisation stage occurs when new a rule or routine is repeated gradually over a long period of time, so that it becomes taken-for-granted by organisational actors (Burns & Scapens, 2000, p. 8). Guerreiro *et al.*, (2006) state that understanding the concept of institutionalisation involves interpretation of certain features: nature, stability, meaning and standards of a behaviour,

artefacts, and rules. Drawing on OIE (Tool, 1993; Dugger, 1990), the institutionalisation stage of a change can occur in two ceremonial or instrumental ways. While a ceremonial way aims to preserve the status quo, power or specific interests, an instrumentally institutionalised change refers to cases that support the efficiency process. However, both ways of institutionalisation depend on the wider institutional setting within a particular context, which is influenced, to some extent, by wider institutional environment (Siti-Nabiha & Scapens, 2005; Wolfram, 2012). In this respect, if new rules and routines are more in harmony with the prevailing institutional environment, they will be more likely to succeed than when they challenge an/the existing institutional context. Barley & Tolbert (1997, p. 96) argue that the new institutions that have not long histories and are not exposed to the extent of a universal acceptance are more exposed to criticism and therefore are more subject to resistance and risk of failure.

This section aims to investigate the institutionalisation stage, explaining how MACs in IKCO were institutionalised after privatisation. Following Burns & Vaivio (2001)'s perspective, in this thesis, MAC is seen as both an empirical phenomenon and non-phenomenon such as beliefs, meanings, and behavior which are dynamic and subject to an ongoing process of change. In this regard, interviewee's responses revealed that after privatisation, MACs in IKCO were institutionalised in terms of a set of concrete artefacts: budgeting, costing, pricing, control activities, rewarding and incentive system, measuring performance, reporting, and the utilisation of MA information. The interviewees acknowledged that there was improved utilisation of budgeting that called for new ways of thinking, behaving and acting, connected to management and control practices as well as remuneration and reward systems. Additionally, after privatisation, the demand for financial information related to costing, pricing, and controlling and quality management increased significantly, which in turn changed and diversified MA reporting system in IKCO. They argued that previously the company's performance measurement system was largely technical- and engineering-oriented, while now the attention has moved towards a balance between technical and financial performance. Through this link, thus, the collective identity is attached to the financial indicators such as profitability and cost efficiency as important indicators in order to undertake both sides of the benefits—operational and financial performance. As a result, financial and MA information was considered at all organisational levels, especially by the senior management of the company, and the financial language and financial performance was more closely involved with the technical language and operational performance. Additionally, there was a significant

increase in the employees' participation in the implementation of MASs after privatisation, leading to the recasting of MA debates into a language of the different organisational lines. After privatisation, the relationships between operational managers and management accountants improved significantly, in which the MASs shifted from a separate block towards a common language at all levels of the company. Additionally, the formation of different economic committees and meetings increased relaxation of bureaucratic controls, restructuring the management style in IKCO from a highly separated functional structure on the basis of individual task-oriented view on the new management style based on team-working which positively influenced the importance and the sharing of MA information across the company.

In sum, although the interviewee's responses were not the same across the whole company, largely due to the different nature of the job of groups including operational and non-operational individuals, the results of the interviews along with documentary evidences confirm that MACs in IKCO were already accounted as unquestionable habits and routines, prevailing during a certain long period, in which stability exists. As a result, after privatisation, the new MA principles and concepts were converted to the rules and routines—indicating that they were successfully institutionalised into new values, habits, and routines in a relatively long period of time. Guerreiro *et al.*, (2006) believe that the institutions are realised in the form of organisation's actual artefacts and normative rules. In general, the process of MACs in IKCO had the most relevant concepts of the institutional dimension – habits, routines, and institutions presented by Guerreiro *et al.*, (2006), largely because of the support of top management level of the company. As a result, the new routines directed by the rules including the introduction of new techniques, methods and procedures, insights and meanings, were converted to habits to become “taken-for-granted” of doing things. The next sub-section aims to compare the successful and unsuccessful MACs in IKCO, discussing why some MACs in IKCO were institutionalised and others were not.

### **8.5. Successful MACs in IKCO after Privatisation**

In the light of a dialectical perspective, this sub-section focused on the successful MACs in IKCO after privatisation. In this regard, Seo & Creed (2002) view the institutional contradictions as seeds of institutional changes, creating the conditions for institutional change by the consciousness of groups or individuals. For example, institutional change can be seen a consequence of political

involvement of groups or individuals who have divergent interests and unequal power, and may become conscious and take action for changing the existing institutional arrangements. As previously discussed, in the case of IKCO, after privatisation there were different sources of institutional contradictions including non-adaptability, efficiency gaps and inter-institutional incompatibilities, mediated by institutional crisis, which created conditions for the change of MAPs in IKCO. For example, after privatisation, the change of MAPs in IKCO was connected to criteria and practices at PE and OF levels with an emphasis on policies of productivity, localisation, and self-sufficiency, resulting in wide ranges of institutional changes in the company's management system including MASs emphasising a new business strategy on the basis of SCM.

In this respect, the former Manager of Finance pointed out that,

In my idea the change of the accounting system largely depends on the extent of the operational activities of a company. This means during the last three decades after privatisation, the expansion of the operation of IKCO from the assembly of one type of product to the level of the production of multiple products on the basis of the business strategy of SCM, has clearly brought about widespread organisational changes including structural and managerial changes in this company. In IKCO, the change of the accounting system started when the engineering and operational areas were expanded with an emphasis on productivity: the company established its research center and SAPCO, making agreements with more 600 suppliers, and designed new products in accordance to the development of its technical and engineering system. We have now different infrastructures in terms of costs and material including the BOM and engineering change systems, resulting in the change of the accounting system during the last three decades after privatisation.

The Executive Manager explained that,

I started my job in IKCO in 1996 and I can say with confidence that during the last 25 years we had considerable progress in technical and engineering aspects and capabilities in the areas of designing, producing, and localisation of new products. Therefore, with the expansion of the extent of company's operations, the company has had widespread structural changes, but they are largely technical-oriented ones. There is the fact that the management and financial systems have not been developed in comparison with the engineering and technical system. This gap has been due to the existence of a non-competitive and secure market for the sale of the company's products, so that



the most important goal of the company is to focus on productivity in order to satisfy the increasing local market demands.

The result of the interviews indicates that after privatisation in IKCO, the company's most important strategy was developed based on operational performance in terms of productivity, branding and localisation of productions. This strategy was shaped on the basis of general government policies and plans highlighting the development of Iran's national automobile industry, cutting dependence on the global market and reducing the unemployment rate. The implementation of this strategy was carried out and supported by applying an extensive regulatory system based on the strict tariff regime, the extensive role of the government in development programs and technology transfer policies, direct government controls over prices and quality of products and financial and non-financial government supports in developing the automobile parts industry. This factors caused the Iran's automotive industry to become a completely regulated monopoly industry creating a safe and non-competitive market for local automakers. Consequently, after privatisation, the IKCO's management system was shaped focusing on operational performance, productivity and technical dominations rather than financial performance, profitability, cost efficiency and market-oriented issues. As a result, it can be said that after privatisation the new regulatory system was the most important change driver in the process of MACs in IKCO, which was formulated according to the particular political and socio-economic conditions of Iran. Obviously, changes in MASs in IKCO were successfully made to be consistent with this new regulatory system. As previously discussed, after privatisation changes in MASs were influenced by other-mainly-from-outside factors, including financial and non-financial pressures largely due to international sanctions and the instability of Iran's economic and political conditions. For example, the sharp decline in profitability and liquidity, lack of access to required parts and technology, a sharp rising inflation and a severe rise in exchange rates in all these factors improved the importance of financial performance, moving towards creating a balance between operational and financial performance.

The following quote from the former manager of the Planning and Control Department can help understand the situation better:

“In particular, during the last recent years the company has faced with dramatic financial and liquidity difficulties largely resulting from sharp reduction of profit margin, largely due to the

increase of pressure of sever international sanctions against Iran, and the wider macro-economic and political pressures. As a result, the company's managers are now more concerned about liquidity and financial performance, demanding more financial and MA information in their doing their jobs.”

As discussed in Chapter Seven, however, in IKCO the impact of privatisation on the process of MACs was not significant, because privatisation did not create important institutional contradictions in terms of competition and the pressure market mechanism. In this respect, privatisation not only did not lead to competition but also after privatisation the Iran's car industry was highly monopolized with an emphasis on ideological, political, and social considerations. Consequently, under a new severely politically-regulated automobile market, after privatisation, the company's strategy was not shaped on the basis of competitive advantage criteria emphasizing shareholders and customer's values but it sought to make advantage a legitimacy by becoming isomorphic with its wider socio-economic and political institutional environments.

The head of the Accounting Office stated that,

Privatisation has had less impact on the process of MACs in IKCO because privatisation in Iran was not done in the right direction in accordance with its predetermined goals. After privatisation, the monopoly in this industry intensified, car market competition was limited to the two monopolies of IKCO and SAIPA. Therefore, the company's revenues and interests largely depended on the general policies of the government and regulators rather than on market mechanism and pressures based on efficiency advantages.

Similarly, the head of Budgeting and Reports said,

Iranian local carmakers are not facing with competitive market pressure, and the market mechanism in this industry is controlled by the government and regulators on the basis of wider socio-economic and political factors. Consequently, they have no difficulty to sell their products because the demand for cars is always increasing with a higher market demand. With a very high inflation rate, the car in Iran is an investment rather than a consumer product and therefore the demand for this product is increasing where people are willing to pay for their cars one year in advance of its delivery.

The Planning and Control Senior Advisor declared,

Of course, after privatisation between the years 2011 to 2015, when the government decided to adopt a tariff regime and the tariff rate on imported cars fell, the level of competition and consequently the level of customer expectations increased that encouraged the company's managers to move towards finance and accounting information. However, with the increase of international sanctions and socio-economic and political pressures, car imports were totally banned, which led to limited competition in the car industry between the two monopolies of IKCO and SAIPA. As a result, the policy of setting tariffs on automotive industry largely depends on the wider socio economic conditions, and especially the political condition of the country.

Nonetheless, the results of interviews confirm that after privatisation by reducing the share of government ownership to approximately 14%, and the reduction of the role of IDRO in the company's management, more authority was given to the company's managers in terms of activities of controls, decision-making, responsibility, and accountability. As a result, it can be discussed that although the process of MACs in IKCO after privatisation was largely regulatory-driven on the basis of the general policies at PE and OF levels, privatisation increased the levels of authority, responsibility, and accountability in the intra-organisational level, which was an influential factor in the process of MACs in IKCO. In this respect, the interviewees argued that after privatisation, although the role of government significantly increased in both industry and organisational levels, the authority and role of the company's corporate executives increased, because they were more motivated, responsible, and accountable to stockholders.

The Head of Cost Accounting Office noted:

“After privatisation the company's management is more responsible and accountable regarding the company's performance. In particular, with the reduction of the ownership of government, some new state-owned institutions such as TSE as the representative of shareholders, Consumer Protection Organisation and Competition Council emerged, demanding new MA information for different purposes such as price and quality controls.”

In IKCO, another important effect of privatisation on MACs was related to when the company became a member of TSE, it was required to meet TSE's rules and instructions to comply with the shareholder's rights and interests. According to the results of the interviews, after the privatisation

the TSE played an important role in the process of MACs in IKCO, so that the company's MA information must be provided in accordance with the international accounting standards and must be approved by the IAO.

In general, in IKCO, after privatisation there were different institutional contradictions, resulting in new structural prerequisites, practices, procedures, meanings and insights—all of which originated from multiple and contradictory, but interconnected, factors of seeking for stability, rationality, and legitimacy. In this respect, after privatisation, the new institutional arrangements were shaped both within the company and in extra-organisational relations, expressing the ideas and goals of unequal power and interests of those who had the most important role in formulating new structures and practices to achieve the most benefits. As discussed above, however, the extra-organisational factors were the main change drivers after privatisation in the process of MACs of IKCO, expressing the ideas, goals, and interests of wider socio-economic and political institutional arrangements in the process of MACs of IKCO. In this respect, for example, the strong non-adaptability after the adoption of the new strategy based on SCM, creating an evolutionary break on the previous institutions, changing the previous institutions with an emphasis on operational and engineering spirit. As discussed by Seo & Creed (2002), although organisations can gain legitimacy and needed resources by becoming isomorphic with their institutional environments, that conformity to institutional arrangements may conflict with efficiency purposes. Additionally, in IKCO, after privatisation, the contradiction between efficiency and legitimacy increased with environmental uncertainty due to dramatic financial and non-financial pressures during the last two decades. In this respect, it was vital to achieving both the legitimacy and the technical fitness of company, in particular when the company faced with extensive uncertainty and financial difficulties, provision of spare parts, and currency crisis resulting from extensive international sanctions. In such a condition, the gap between efficiency and institutional arrangements became widen and inter-institutional incompatibilities, mediated by institutional crisis, and changes in the company happened subject to resistance and therefore changes eventually were institutionalised in the company.

Additionally, it can be concluded that although privatisation can be seen as an influential external organisational factor in the process of MAC, in the case of IKCO, due to monopoly, safe and non-competitive market as well as the lack of an important role given to private shareholders after

privatisation, this factor was not as effective as expected in MA literature. In contrast, the results of this study confirm that after privatisation the changes in MASs were more largely political and regulatory-oriented, emphasising legitimacy in the achievements of the wider socio-economic and political arrangements.

### **8.5.1. IKCO's Unsuccessful MACs after Privatisation**

In terms of institutional theory, the change of MAPs can be faced with various sources of resistance. In this respect, Intakhan, (2014) suggested that MACs are subject to resistance and the sustainable success of MACs depends on technical as well as institutional factors. Additionally, Choungruksut & Brook (2005) found that the successful adoption of MAC in the context of Thailand depended on non-accounting ownership, particularly in a special context with a high-power distance. Besides, Shield (1995) also identified different variables affecting the acceptance of MACs such as top management support, training of the new system, the proper performance evaluation, and the quality of initiatives. Greenwood (1984) listed three necessities for acceptance a MAC: (1) the approval of managerial sequence at the top of the organisation, (2) the collective awareness of a crisis in company performance, and (3) the replacement of a 'better' accounting system for an inferior system current in use. Additionally, Bredmar & Magnusson (2014), stated that for the implementation of new MAS, there is a need to understand: how new projects can be defined, designed and how they are conducted and used formally and informally. These requirements include technical and/or mechanical aspects of the new device as well as organisation and behavioural factors appearing in the institutionalised rules and routines.

In the analysis of MACs at the intra-organizational level, this research adopted the Seo & Creed (2002)'s model, explaining why and how the implementation of BSC in IKCO decoupled from daily activities, and was not taken for granted by the group of participants. As predicted by Seo & Creed (2002), in the process of change, the surrounded institutions are influenced by the accumulation of institutional contradictions which may activate and cause human praxis to introduce changes in a collective action. From this perspective, therefore, different sources of institutional contradictions may be encoded into new concepts and principles which may potentially be enacted, reproduced, and finally institutionalized. In the analysis of the implementation of BSC in IKCO, however, the reasons for choosing the new system of BSC is not

exactly clear. Based on the results of the analysis of the interviews and the available documents, however, it was argued that this decision could be the result of the institutional contradiction of efficiency gap, legitimacy, or the result of following the fads and fashion concepts.

The manager of Cost Engineering explained that:

“A lot of the new advanced systems have been launched in IKCO and you can rarely find a popular system that the company does not take action to implement it. This fact may have various reasons: to some extent, it may be focused on the issue of fashion and fads, and or efficiency purposes, for legitimacy purposes to improve the public opinion and public institutions about the company performance as well as to improve the company’s reputation as an international automotive company.”

Based on the analysis of this statement, it is possible that the decision to implement the new system of BSC was driven from fashion thinking which is connected to the concept of mimetic isomorphism on the diffusion of MAPs (Ax & Bjornenak, 2007; Perera, 2003). "Fashion, in adoption of innovation, occurs when an organisation mimics the 'best practice' technologies of another organisation or organization sector with the objective of signaling to stakeholders its consistency with those practices" (Perera, *et al.*, 2003, p. 149). Abrahamson (1996, p. 257) also describes fashion-setting processes including the process by which management fashion leaders constantly redefine which lead to a rational MA systems and practices. In the context of IKCO, the issue of fad and fashion on the diffusion of management accounting practices can be seen in the comment provided by the former IKCO's manager of MA department who said:

“IKCO, as the largest car manufacturer in Iran, has always been a leader among Iranian companies in using new advanced systems such as BSC. In terms of the adoption of new advanced systems, it can be said that at the national level, this company is one of the few companies, and in particular in the automotive industry, it is the first. At the international level, however, the company seeks to follow the new advanced systems used by successful international companies. However, in my view in many cases the selection of the new advanced system may be not in accordance to the company’s needs but resulting from search for reputation based on fads”.

Additionally, the decision on the implementation of BSC may have been made based on efficiency and technical justifications, in particular when the company seeks to adopt a new business strategy

based on SCM and moving towards global competition. Therefore, the CEO may have come to the conclusion that the new system of BSC can be useful to meet the company's requirements of the growing complexity of business and business environment.

The head of the Strategy Office declared:

“The new system of BSC was launched in 2006—when the company's new CEO was appointed. He was a graduate of a European university and had worked in international companies. He was a person with a systematic perspective and believed that the existing systems can not satisfy the requirements of the company's new strategic goals. Therefore, the most important priority for the company is the development of the company's management systems.”

As a result, focusing on the new strategy of SCM and the strategy of the development of company activities in global markets, it can be said that the decision to implement BSC was partly driven by the efficiency gaps. The assumption was that value-added performance measurement systems including both financial and non-financial indicators are essential in the process of strategic planning and control activities. In this respect, the existing budgetary control system largely focuses on short-term objectives of productivity and short-term financial targets, while the new system of BSC contributes to the formulation of long-term strategic objectives of the company. As a result, the process of the encoding of BSC's concepts and values started as a performance evaluation devise, aiming to become a replacement for the company's budgetary control system.

Additionally, the results of the interviews also revealed that although there are reasons to suggest that the system of BSC is selected based on technical justifications, the choice of BSC in IKCO may somehow be connected to the concept of legitimacy for the purpose of manager's satisfaction and public opinion, and governmental institutions. Additionally, the adoption of the BSC system in IKCO was simultaneously connected to the introduction of some other internal control systems to comply with the ISO requirements, which was another motive for continuing the implementation of BSC.

The Manager of BSC stated that:

“A positive sense of satisfaction with the adoption of the modern systems could have greatly influenced the company's new CEO decision and support in the case of the selection of the BSC system. Apart from the positive feeling, the implementation of the new system of BSC could have

created a better image of the company for the stockholders and public opinion as well as at the level of the international market, improving the image of the modernity of the company's management system. However, in my view, internal forces were stronger and search for external legitimacy was a second priority in the choice of BSC in IKCO.”

In general, the results of the interviews revealed that in IKCO, the decision on the adoption of the BSC system at a specific time could have intertwined the motives including fashion, efficiency, and legitimacy which were not easy to separate. Furthermore, the second proposition presented by Seo & Creed (2002) was used in order to analyze the intertwined relationship between contradiction and human praxis. As predicted by Seo & Creed (2002), however, despite different motives, even if institutionalised organisations make decisions to improve legitimacy and technical efficiency, those decisions easily become suboptimal if new optimal solutions are not continually adopted by the group of individuals in the long run. As a result, the new concepts and values could be accepted and reproduced, or their enactment and reproduction could be resisted and eventually decoupled from daily activities of individuals (Burns & Scapens, 2000). In the case of the adoption of BSC in IKCO, however, the institutionalisation of this change did not occur because the new rules and routines were not widely accepted and reproduced to become an unquestionable form of performance measurement and control device. In this regard, it can be argued that due to the lack of effective involvement of participation, the change was not similarly regarded as legitimate by those who used this system and those who initially proposed and supported the BSC system in IKCO. As a result, the lack of effective participation of different areas in the process of enactment and reproduction of new rules and routines was an important reason, which led to resistance in accepting the BSC system across this company. It was because there was not any recognition of a need to change existing institutional arrangements by the group of participants. With regard to finance, for example, the only co-ordination between two deputies of Strategy as the BSC project executing deputy, and Finance was limited to the preparation of budgeting in compatibility with the company's strategy plan.

The manager of the Management Accounting Department pointed out that:

“In my opinion, a major mistake in implementing the BSC system in IKCO was related to the lack of proper communication between the related areas of this project, causing the resistance to the adoption of new rules and routines of the BSC system. This problem was similar in all units, but



with different intensity; in all divisions the lack of appropriate communication in the process of the adoption of BSC was evident.”

The interviewees argued that this problem can be partly related to the existing centralised structure of the company, which is characterised with a highly functionally structure without interrelations and adaptable procedures in which the interactions between different divisions are highly hierarchical, bureaucratic, and difficult to make. The domination of a functional and bureaucratic structure with a top-down communication was the consequence of the state-owned nature of the company’s structure, size, and the absence of an integrated information system. As a result, the BSC’s diffusion was concentrated in the strategic department and the participation of other divisions was mostly prioritized on the basis of formal communications, and command procedures. Therefore, face-to-face dialogues and meetings, involving participation of both senior managers and lower levels were less common, which resulted in a low level of acceptance in the process of BSC implementation. Additionally, the lack of trust was an important factor contributing to the increase of resistance which was influenced by the dominated institutional environment, lack of knowledge, lack of adequate training, lack of an important role for consultants and professionals.

The former manager of MA Department pointed out that:

“In IKCO, the failure of BSC was largely due to inadequate knowledge, the absence of use of consultants and the lack of adequate training programs. The company’s managers are almost totally among engineers who rarely have knowledge and experience in both financial and non-financial areas in the process of added value management. In IKCO, the Deputy of Strategy is responsible for the administration of the BSC system—while their staffs have very limited knowledge and skills about different aspects of the BSC project in particular related to finance and business.”

The BSC administrator commented:

“The main difficulty of the adoption of BSC is to convince participants to accept that we don’t want to appraise their performance but we aim to help them in doing their jobs in accordance to the company's corporate governance. Additionally, appropriate definition of BSC criteria, their measurement in practice, as well as difficulties related to IT processing of the BSC data are other main difficult parts of our job in the implementation of BSC. For example, the limitation of the

existing information system is an important obstacle. The BSC data is collected by Microsoft Excel and Power Point, and then is transferred to other systems by interface.”

Additionally, despite rationality and legitimacy aspects of the adoption of the BSC system in IKCO, the existing institutional arrangements indicate that two institutional logics of environmental management issues and long-term strategic objectives based on BSC perspectives are in conflict. In this respect, it was argued that the existing institutional arrangements focusing on short-term operational objectives based on short-term profit-oriented culture was a source of resistance in the adoption of the BSC system in IKCO with an emphasis on long-term value-added management system. As a result of the conflict between institutional environment and BSC's criteria, participants did not feel that this system could provide useful information to do their jobs and therefore they did not accept it. They believed that the implementation of BSC did not create a significant change, as it did not take root as a particular socio-economic and political condition of this company. According to the interviewees, this system is suitable for those companies that operate in a relatively stable and competitive market and where the company's performance is more influenced by the market mechanism rather than by the political context. However, IKCO operates in a highly regulated system where the level of competition is very low and the main concern for the company's managers is to cope with the regulated and highly uncertain environment. In this respect, it is notable that privatisation did not appear to have an important impact on the market mechanism because it did not make changes in the existing dominant institutional arrangements based on a monopolistic condition. This condition contrasted with the general BSC measures, which aimed to change the way in which decision-making is undertaken, and to help other changes, including the way managers think about their actions and decisions. As a result, the adoption of the BSC system was faced with resistance because the values underlying the new system conflicted with the existing norms and values, and environmental criteria, it was not taken for granted by the group of participants on a day-to-day basis. This argument suggests that although legitimacy and efficiency can be seen as two influential factors in the selection of BSC in IKCO, institutionalization of this change was an adaptive process; institutions were likely to be psychologically, environmentally, and economically locked in.

However, it is important to continue the discussion that a number of interviewees believed that financial pressure during the last recent years forced the company to move towards both financial

and non-financial indicators in the process of performance measurements. According to the interviewees, in the case of the BSC system, for example, the financial criteria have also become more important than before and the role of management accountants increased in the process of setting criteria and the implantation of the BSC agenda. As a result, this pressure positively influenced the communication between BSC administrators and management accountants in the process of the definition of the BSC criteria and their measurement in practice and calculation, and in the balanced assessment of consolidated goals and value-added reports. However, according to the interviewees this change is in early stage in IKCO which cannot be regarded as a change of values and concepts of the new performance measurement system based on BSC. As stated by the interviews, IKCO tends to use the same set of performance measures that are similar to prior to privatisation, and therefore operational targets based on the budgetary system is regarded as the main performance measurement indicator in this company.

In the case of the adoption of ABC in IKCO, institutional contradictions similar to the BSC system including efficiency, legitimacy, and fads were practically present. Consequently, ABC project started and the concepts were encoded, but it was not completely enacted and reproduced by the group of change agents on a day-to-day basis. In this case, the empirical results of this study is consistent with Seo & Creed (2002), who state that the accumulation of institutional contradictions is the seed of changes. However, due to the lack of powerful top management support, lack of trust, lack of communication throughout the company, failure of IT, lack of important roles for consultants, as well as the lack of adequate training program, this system failed in the initial steps of its implementation.

## **8.6. Conclusion**

This chapter presented the main purpose of this study, discussing how the process of MACs was shaped in an Iranian automotive manufacturing company after privatisation. To this end, the study was based on the institutional theory (NIS & OIE), as well as structuration theory, using three theoretical frameworks, namely; Dillard *et al.*, (2004); Bums & Scapens (2000); and Seo, & Creed (2002). The first part of this chapter was analyzed based on the model offered by Dillard *et al.*, (2004) paralleled with the concepts of structuration theory on the basis of legitimation, signification, and domination, comparing the social structures before and after privatisation. This

section discussed how the criteria and practice in the process of MACs in IKCO connected over different levels of social structures: economic and political (PE), organisational field (OF), and intra-organisation. The results revealed the strong interactions between three levels of social structures of institutions, explaining the significant influence of historical, socio-economic, and political factors in the process of the institutionalisation of MACs in IKCO after privatisation (Dillard *et al.*, 2004, pp. 511-512). In that section, it was argued that after privatisation, the automotive industry in Iran was highly regulated in accordance with the new set of criteria (CPE) at PE level which was not consistent with the neo-liberal ideology, but emphasized political and ideological concepts which were imposed coercively at the OF level. At the intra-organisational level, accordingly, the new set of criteria in PE and OF with an emphasis on ideological and socio-economic and political considerations were translated into a set of practices that coercively resulted in the new arrangements in IKCO's performance with an emphasis on technical and regulatory systems. Also, in the analysis of the interactions between different levels of social structures, it can be said that the impact of financial pressures on the company was largely due to the impact of international sanctions as well as Iran's unstable socio-economic and political contexts at the PE and OF levels, which itself played an important role in changing the MASs in IKCO after privatisation. In addition, the impact of the reform program including the privatisation program at the PE and OF levels was one of the factors effective in changing the MASs in Iran after privatisation. As previously discussed, the implementation of reforms and privatisation in Iran and the automobile industry was not carried out in accordance with the rules and instructions suggested by the WTO and the IMF. As a result, after the privatisation, not only did the role of the government not decrease, but with the increase of government intervention that highlighted the development of the national automobile industry, this industry became completely monopolized and highly regulated in accordance with socio-economic and political considerations. Meanwhile, the privatization program was not implemented in a timely manner based on pre-determined goals, and therefore the government is still one of the company's main shareholders. It is noteworthy that after privatisation a significant percentage of the government's share was transferred to semi-state organisations, and the private sector gained a much smaller share in the privatisation process. As a result, the impact of the unsuccessful implementation of PE- and OF-level reform and privatisation programs had an impact on the intra-organisational level, making privatisation less effective than other external factors such as the new regulatory system and financial pressures in

the process of MACs in IKCO. However, with the transfer of government shares in the TSE after privatisation, two factors led to a change in the company relations and arrangements, which in turn were effective in changing the accounting systems. One of these factor was the transfer of authority in administration from IDRO to the company management after privatisation. In this regard, although the government retained control of the company by strongly influencing the appointment of the company's board of directors, in practice, more authority and consequently responsibility and accountability was delegated to the company's management, which helped change MASs after privatisation. Prior to privatisation, IDRO as the company's headquarter played a key role in governance and accountability activities, which changed to indirect role after privatisation, for example in the appointment of the company's managers. Also, with the membership in TSE, IKCO was required to implement new rules and instructions that resulted in changes in MASs.

The next two subsections were related to the change drivers and the process of MACs in IKCO. In the first part, the chapter focused on the research question of what the sources and influences of inter and intra institutional pressures were in the process of MACs in IKCO. There it was argued that there are several change drivers in the process of MACs in IKCO, but some important drivers included regulatory and political pressures, top management support, technology advancements, and public opinion. In this regard, it was argued that the automotive industry in Iran was highly regulated in terms of the tariff regime, technology transfer, and price control, and investment policies. Additionally, the new regulatory system in this industry was highly politically-oriented in which the regulatory bodies and related institutions in the automotive industry were all governed by the public sector, and the role of the private sector was very marginal. Additionally, it was noted that due to the domination of a political economy in Iran, the distribution of power in society determines the ability of various political groups to receive special regulatory benefits. As a result, the strong connections with the political parties was a key element to make a powerful lobby with the ability to put pressure on the regulatory bodies to pay more advantages and benefits to particular groups. As a result, in Iran, the regulatory system cannot be separated from the political motivations which help to understand why after privatisation, the regulatory system in the automotive industry was not directed in a way that can limit the role of the government and political parties and strengthen the market mechanism. This issue is more important to consider that the top management support was one of the key change drivers, but it is important to mention

that the company's senior executives were always appointed by the government taking political considerations into serious account.

The next section of the chapter continued with a focus on the process of change at intra-organisational level based on the ideas of Seo & Creed (2002) and the theoretical framework presented by Burns & Scapens (2000). This section focused on another research question, which asked, when, why, and how organisational actors decided to enact changes in MAPs? And if changes in MAP were embedded as values and beliefs in the case of this company. This section included both successful and unsuccessful MACs in IKCO after privatisation. As mentioned earlier, the MACs in IKCO included changes in: (1) budgetary system; (2) costing system, (3) reporting system and MA application, and (4) the introduction of BSC and ABC. At first, the analysis of MACs in IKCO was based on the model offered by Seo & Creed (2002), suggesting institutional contradictions as the seeds of changes that allow human praxis to create MACs in this company. In this regard, the third proposition presented by Seo & Creed (2002) was applied to theorise the relationship between contradictions and human praxis in the analysis of MACs in IKCO. Additionally, based on the model presented by Burns & Scapens (2000), the process of institutionalisation of the MACs in IKCO was also detailed through four stages: encoding, enactment, reproduction, and institutionalisation.

The following section addressed two unsuccessful cases of MACs, BSC, and ABC in IKCO. It was argued that the BSC implementation failed in IKCO because it was not taken for granted in the company's day-to-day activities. Rather, it was used in a ceremonial way. Furthermore, the ABC implementation failed at an early stage, due to the lack of appropriate mechanism—human praxis—mediating between institutional contradictions and institutional changes. Therefore, although accumulated efficiency gaps and non-adaptability within the company were the driving forces for human praxis in the process of ABC implementation, these institutional contradictions did not mobilize both the other actors and the resources required to bring about institutionalisation of this change. The failure of implementation of this system can be related to several reasons such as lack of competitive market, lack of top management support, and lack of consultancy services, technological supports and training programs that have intervened through the changes.

## **CHAPTER NINE: SUMMARY AND CONCLUSION**

### **9.1. Introduction**

Having discussed the research outcomes, this chapter summarises this research, including the research findings, research contribution, research limitations and future potential studies on the subject of MAC. To this end, the chapter first provides an overview on research findings and then it presents the research contribution related to theoretical knowledge; methodological as well as practical aspects. The research limitations and further suggestions are presented in the final section of this chapter.

### **9.2. Research Findings**

This section summarises the research findings with emphasis on the general research question: “how the company’s MASs was shaped by the interactions between intra and inter organisational factors, after the privatisation”? To answer this question, the study deals with following three research questions, 1) How did privatisation occur in Iran in particular in the Iran’s automotive industry? 2) What MACs have taken place in IKCO after privatisation? and 3. How were the changes in MAP shaped by the interplay between inter-institutional pressures and intra-institutional factors in the car manufacturing company that was privatised? To do this research, the study adopted alternative research approach, which is supported by interpretive perspectives including old institutional economics (OIE), new institutional sociology (NIS) as well as structuration theory as a dialectical perspective. The study used a theoretical triangulation approach including three different models of organisational change, namely: Dillard *et al.*'s (2004) framework, Burns & Scapens’s (2000) framework, and Seo & Creed's (2002) framework.

#### ***1. How did privatisation occur in Iran?***

This research aims to focus on the impact of privatisation on the process of MAC in an Iranian automotive manufacturing company. In this regard, a common theme in normative MA research suggests that there is a simple cause and effect relationship between MAC and privatisation as an instance of a major environmental change (Craig & Amernic, 2006, p.84). According to agency theory, privatisation provides a room for property rights, encourage private owners to pursue their

values and interests based on profit maximisation and efficiency purposes. As a result, privatisation should stimulate the design of superior managerial systems (Redda, 2007), creating formal, revolutionary and progressive change in MASs (Macias, 2002). Despite such justifications, so far, only a small number of empirical studies have examined the consequences of privatisation on organisational changes (Tsamenyi *et al.*, 2008). Particularly, there has been much controversy debate in MA literature, as to investigate whether the privatisation impact on MACs can have the same results for both advanced capitalist countries and LDCs (Tsamenyi *et al.*, 2010), raising doubts on the claim of conventional studies that ‘privatisation will automatically result in MAC’ (see Uddin & Hopper, 2003; Wickramasinghe & Hopper, 2005; Redda, 2007). The result of these studies suggest that for the most LDCs, the impacts of privatisation are much more complicated than developed nations due to the effects of contextual factors such as the lack of competition, weak mechanism of the market structure, weak regulatory system and the failure of financial markets (Tsamanyi *et al.*, 2010; Uddin & Hopper, 2003, Chen *et al.*, 2008; Wang, 2005; Garcia & Anson, 2007; Limi, 2003, Wickramasinghe, *et al.*, 2004). From this perspective, therefore, the relationship between MAC and privatisation in LDCs should not be taken for granted merely from ownership change perspective, but there are numerous factors that influence the expected results of privatisation on the process of MAC (see Hoque & Hopper, 1997; Hoque & Alam, 1999; Burns & Scapens, 2000; Xu & Uddin, 2008). Accordingly, chapter seven of this thesis was formed on the basis of these discussions to investigate how privatisation and reform program occurred in Iran in general, and the car industry, in particular. The chapter proceeds with the idea that in assessing the effects of privatisation and reform program on MACs in IKCO, it is important to provide a general outline of socio-economic and political business environment of Iran, which could influence the impacts of privatisation on the process of MAC in the selected case study. In this respect, this chapter provides a brief overview of the political economic context of Iran, explaining that the most of the economic activities in Iran are dominated and controlled by the state and semi-state organisations and, therefore, the private sector is typically accounted for small-scale - shops, agriculture, and services. Particularly, a unique feature of Iran’s economy is the wide presence of semi-government organisations, military-political organisations and large revolutionary and religious foundations (Bonyades) operating in different economic activities in Iran, which created monopolies in various economic sectors in Iran. In addition, one of the main characteristics of the Iran’s economy is facing with intense international sanctions including U.S. and United Nations,



over its uranium enrichment program. This condition has stimulated the Iranian government's involvement in economic activities, which in turn has harmed the private sector development and participation of direct foreign investments in Iran. As previously discussed, the Iranian reform programs including privatisation program have started since 1991 within different motivations: increasing efficiency of economic sectors, removal of monopolies and the creation of a fair competitive market, access to international capital markets and development of foreign investment, reduction of unemployment, curbing inflation, boosting national welfare and social justice, and in general speeding up economic growth. Other important justifications for reform program in Iran were based on the ideology of development of a independent economy, the reduction of continual budget deficit by selling un-profitable state-owned organisations and the removal of the subsidies system (Khajepour, 2000; Rashidi, 2000; Dezhbakhsh, 2004; Razmi, 2007; Azad, 2010). Furthermore, privatisation program in Iran started as part of the adoption of the "Structural Adjustment Programme" (SAP), introduced and supported by the World Bank and the International Monetary Fund (IMF) in order to transfer from a state-controlled economy to a free market- economy (Dezhbakhsh, 2004). In this respect, according to the First Five-Year Development Plan, discontinuation of subsidies, increase of competition level by eliminating the monopoly activities and development of direct foreign investment were among the priorities of structural reforms in Iran's car industry. However, as previously discussed, the liberalisation and privatisation program in Iran in general and in the Iranian automotive industry in particular did not proceed successfully in terms of both scopes and time scales. This failure was largely resulting from the political opposition with domination of populist and nationalist ideology, political instability, legal barriers, and the investment insecurity, lack of a powerful industrial bourgeois class and low participation of private sectors. For example, the economic restructuring including privatisation program in Iran aimed at a change of income distribution, which was highly politically sensitive and therefore it was criticized by different political groups including parliament, the left, the revolutionary and Islamic foundations, entities which linked to the IRGC and their political connections. In this respect, religious and Guards' economic interests and their associated business communities have significantly benefited from privatisation, getting too big and out of government control. As a result, it was one of the main challenges for government to move from political-military dominated economy towards liberalisation policies based on a free market mechanism. These political and military foundations could create different obstacles like

bureaucratic complexities, using their security veto, and manipulating market connections to minimise the entry of foreign investors and private sector participation in the process of privatisation in Iran. Additionally, as the budget deficit widened, especially when international sanctions against Iran were intensified, the Iranian governments used privatisation as means to finance and offset their budget deficits, to get rid of the unprofitable and inefficient state-owned enterprises, and to settle their debts to Pension Funds and Social Security Organisation (SSO).

In the case of automotive industry, the reform program including privatisation program has begun with the government's general policy based on development of the national automotive industry with emphasis on localisation and self-sufficiency policies. In this respect, privatisation in Iran's automotive industry has been accompanied by comprehensive government intervention, following its general national policies in relation to the protection of the home industries and the expansion of monopoly activities. As a result, after privatisation, the car industry was highly regulated in terms of the tariff regime, controlling the selling price, quality controls, labour market, technology transfer mechanism and localisation and self-sufficiency policies. These policies, however, were contrary to the main goals and elements of privatisation of Iran's car industry which led to reducing market competition and creating a monopoly market for two domestic automakers IKCO and SAIPA. Also, with the gradual divestment of shares over the past three decades, a complex situation has emerged in the IKCO's ownership: semi-state entities as well as subsidiaries of IKCO have gained the control of the majority of the company's floated shares. In this respect, although today IDRO directly controls only around 14% of IKCO's stocks, majority shares are either held by other semi-governmental funds and institutions, military or religious institutions or by subsidiary enterprises affiliated with this company. From this perspective, many interviewees believed that after privatisation, the government has continued its previous role and interferences as the company's board of directors were still appointed and controlled by the state. According to the results of interviews, in case of MACs in IKCO, the role of privatisation was less important than other external factors, especially the role of political factors, the new regulatory system and the economic pressures caused by the economic instability and the results of international sanctions. In this regard, it can be said that the reforms in the Iranian automotive industry did not lead to strengthening the competitiveness and role of the private sector. As a result, the predicted results regarding the relationship between privatisation and changes and development of MASs in IKCO did not materialised. Despite the above discussions, the results of the interviews and the

available documentary evidence confirmed that privatisation has indirectly influenced the process of MACs in IKCO. In this regard, it was argued that although after the privatisation the company's board of directors was indirectly appointed by the government, their authority, responsibility and accountability in the process of running the company are much greater than time when the company was owned totally by the government. As a result, the change of corporate management after privatisation resulted in the change of MASs in this company as well. Additionally, according to interviewees, the formal reduction of the state ownership as well as the reduction of subsidies and financial supports helped for more self-governing, compared to the period when the company was a nationalised one. Especially with the increase of financial pressures and the sharp decrease in the company's liquidity, mainly due to the increase of international sanctions, company managers were forced to have more sophisticated MA information in order to cope with the harsh conditions of economic instability. Furthermore, by joining the TSE after privatisation, IKCO was formally obliged to follow the TSE's instructions and rules, which was an important factor in changing the MASs in this company. In this respect, the requested information by the TSE which have to be approved by the accounting and auditing institution, created a space for interactions with the professional accounting institutions, which positively influenced the MAC process in IKCO. Additionally, since the monopoly condition in the automotive industry was intensified after privatisation, the Iranian government established a number of institutions such as the competition commission and the consumer protection organisation, which enacted a number of regulations in order to monitor and control the monopoly condition of the automotive market, especially in terms of controls of prices, quality and environmental conditions. Therefore, the new regulatory system forced the company to present new MA information in terms of costing and pricing systems as well as performance measurement systems.

## ***2. What MACs have taken place in IKCO after privatisation?***

This question intends to evaluate MACs after privatisation. This key question focused on the object of change, explaining what and who were subject to change in MASs in IKCO. However, due to some prevailing ambiguities in the epistemological and ontological nature of MAC, the object of change can be complex and difficult to theorise, depending on what the observer anticipates (Busco *et al.*, 2007). In this regard, drawing on institutional theory, this study seek to understand MAC "as an evidenced empirical phenomenon" (Burns & Vaivio, 2001, p.393), including a set of formal

rules as well as routines which “enable organisations to reproduce and legitimate behaviour, and to achieve organisational cohesion” (Scapens, 1994, p.301). According to this definition, rules are seen as the ways in which “things should be done”, referring to formalised and predetermined statements of procedures in the attainment of organisational objectives (Burns & Scapens, 2000, p.6). MACs also include routines as “things are actually done” in terms of both formal and informal procedures: as they are enacted and reproduced through time, and are ultimately institutionalised (Burns & Scapens, 2000, p.6). This study assessed MACs in IKCO on six themes (see chapter eight): (1) the budgetary practice: (2) the costing system, (3) the pricing system, (4) the performance measurement system; (5) reporting and MA utilization, and (6) the introduction of the BSC and ABC. In case of the budgetary practices, the findings of this study confirm that the budgeting system and reports changed after privatisation in terms of introduction of new rules and routines. According to interviews and documentary evidence, before privatisation, the budgetary practice in IKCO was limited to participation of officials from IDRO as the company’s headquarter, the company’s top executives and accountants with emphasis on external utilisations. After privatisation, however, the company’s budgetary practice and procedures were extended to become more common, to be used as an important document with wider scale of participation and internal and external utilisations. Additionally, after privatisation the company’s budgeting changed in response to requirements of the new regulatory system in terms of the coercive isomorphism, introducing new rules and routines in the process preparation, improvement and utilisation of budgets. After privatisation, for example, the TSE became a key institutional controller, so that the replacement of IDRO by TSE created many changes in the company’s budgeting and reporting in IKCO. After privatisation, the company’s budgets were broken into different units and cost centers, prepared more timely with more details, variety and accuracy. In case of internal applications, the budgetary practice was subject to important changes in terms of the budget’s types, content, participation, utilisation, and accountability. As a result, after privatisation, the budgetary system in IKCO changed to become an important part of the management, control and incentive systems. This change caused cultural changes, in terms of a budgeting language as one of the important tools of measuring and controlling activities in IKCO. Clearly, these changes increased the role of management accountants in IKCO, and therefore management accountants became much more involved in managerial in particular control activities. According to the results of interviews and the documentary analysis, after privatisation,

the changes in budgeting practices were institutionalised in IKCO, were taken for granted by the organisational members in their daily activities. The second topic of MACs was related to changes of costing system in IKCO. The findings of the study revealed that the IKCO's costing systems changed after privatisation in terms of contents, methods, procedures, and the role of cost accountants including their working tasks, skills and behaviours. The findings also confirm that there are cultural changes in utilisation of cost information and managers were much more concerned about the cost consciousness and cost efficiency issues after privatisation. The results of interviews as well as documentary evidence revealed that the changes of the company's costing system in IKCO were institutionalised after privatisation as they were accepted across the company, creating new ways of thinking and behaving among organisational members. Additionally, the results of this study reveal that prior to the privatisation, the company's performance evaluation activities were largely external oriented with emphasis on financial indicators, while after the privatisation, it changed to create a balance between internal and external utilisation of performance measurement system with emphasis on both financial and non-financial measures. In relation to the external utilisation, the introduction of the new regulatory system after privatisation, especially after joining to the TSE and the follow-up of its instructions, the company's performance evaluation system was subject to wide range of changes. Additionally, the company's performance evaluation system was developed in different organisational levels, departmental, units and individual levels with emphasis on measuring performance for internal applications in terms of control, management and incentive systems. In this respect, development of the reporting system and reward system as well as wide structural changes in terms of formation of different committees for assessment of financial and non-financial performances were some important changes of performance measurement system at IKCO after privatisation. However, the change of performance measurement system was largely control –oriented in IKCO. In this regard, for example, the adoption of new system of BSC was initially started as a control system and then this company attempted to use BSC system as a strategic oriented performance appraisal system. However, as previously mentioned this system did not institutionalise as new principle in the company's performance measurement system but it was adopted in a ceremony way, something different from the original goals of its implementation.

Another important area that was studied in relation to MACs in IKCO was the product pricing system. After privatisation, the product pricing system in IKCO underwent general changes in the

automotive market in Iran. After privatisation, with the intensification of monopolies in the automotive industry, the IKCO's pricing system became highly regulated in accordance with the formula introduced by the state-owned institutions of the CPPO and the NCC. In particular, facing with increasing economic instability, high inflation and widely imposed international sanction against Iran, negotiation over car prices became more politically intense, and the organisations of CPPO and NCC and parliament increasingly played important roles in regulating the price mechanism in IKCO as the first and largest monopoly in the Iran's automotive industry. As a result, the company pricing system was highly regulated and the company was obliged to provide different pricing information in accordance with the new rules and the new routines were they were stabilised, enacted, reproduced and institutionalised, and finally taken for granted as values in practice. Additionally, after privatisation, the reporting system and utilisation of MA information changed; some changes imposed by regulators while others were internal oriented. In case of external utilisation, the new regulators in particular TSE, IAO and those state-owned organisations related to pricing mechanism stimulated the development of the budgeting and internal control systems and costing system. In particular, emphasising the importance of verifying the MASs by the IAO, these changes were more focused on modifying the MASs on a technical and scientific basis. Additionally, IKCO's MA reporting system changed to become more internally oriented with emphasis on control and management activities, which these changes were accepted, reproduced and spread routinely and un-routinely across the whole company in their daily activities. In unsuccessful cases of MACs in IKCO, however, the adoption of ABC failed in initial stage of its institutionalisation. Additionally, the implementation of BSC was not institutionalised as taken-for-granted assumptions and values but it was adopted in a ceremonial way. After privatisation, thus, MACs in IKCO institutionalised in four themes, including (1) budgetary system; (2) costing system, (3) performance measurement system, (4) reporting system and MA utilisation was institutionalised. However, as earlier discussed, the institutionalisation of the new systems of BSC and ABC were not successful after privatisation due to several reasons. According to Burns & Vaivio, (2001) MAC can be progressive as well as regressive which proceed in an evolutionary way, and it can happen as an externally driven or a fundamentally local effort. In case of IKCO, the results of this study confirm that MACs were both formal and informal, progressive, and largely externally oriented.

### ***3. How were the changes in MAP shaped by the interplay between inter-institutional pressures and intra-institutional factors in the Iranian car manufacturing company that was privatised?***

Focusing on a dialectical perspective, this general research question deals with the institutionalisation process of the MACs in IKCO after privatisation, considering the impacts of institutional environment including both inter and intra institutional drivers. As a result, the research question initially focused on the main institutional change drivers and then it discussed and analysed the role of change agents, explaining when, why and how change actors came to the collective recognition that the changes of MAPs are essential. Additionally, at the next stage, this section focused on the process of institutionalisation of MACs in IKCO, explaining how MACs were taken for granted became as embedded values and believes of organisational members. Therefore, this general question divided into three following sub-questions:

#### ***3.1. What were sources and influences of inter and intra institutional pressures in the process of MACs in IKCO?***

This question is based on the idea that the process of MACs cannot be understood in isolation from the society, but MAC is a natural product of its contact; influences and influenced by the institutional environment including both inter and intra-organisational factors. Based on this belief, the findings of this research identified the key change contextual drivers in the process of MACs in IKCO after privatisation (presented and discussed in chapter 9, section 9.4.1). The assumption is that although this study aims to focus on the impact of privatisation on the MACs in IKCO, there many other factors that can influence the process of the change process in the company's MASs in this company. The results of this study found these factors as: (1) The regulatory system and political pressures as source of coercive isomorphism, (2) Top management support, (3) Technology advancement including both operational and information processing technologies, (5) Effects of international licensing agreements and JVs in terms of mimetic isomorphism, and (6) Public opinion. Among these, the most important change drivers were the regulatory and political pressures, technology advancements as well as the top management support. In particular, as discussed earlier, Iran's auto industry is highly politically regulated and therefore the political restrictions and regulators played key role in the process of MACs in IKCO. As a result, the findings of this study suggest that the pressure from the outside had significant impact on the process of MACs in IKCO, and therefore the change of MASs in this company was largely external

rather than internally oriented. In this respect, according to the view of DiMaggio & Powell, (1983), there are three types of external change drivers (coercive, mimetic and normative) in the process of organisational changes. In case of IKCO after privatisation, the politically regulatory system as coercive pressure created tighter pressure which altered company's management practices and control systems in terms of: (1) increasing demand for financial and operational information, (2) exercising control over product's prices by creating legal constraints, (3) exercising control over product's quality by creating internal control systems and introducing legal constraints. In case of normative pressure after privatisation, the IAO as a state-owned limited organisation was the sole legal accounting institution in Iran, responsible for regulating, supervising and developing auditing and financial accounting profession in Iran. This institution was an important change driver in IKCO's MAPs after privatisation in terms of promotion of scientific and practical methods of accountancy, setting national accounting and auditing standards and in conformity Professional Ethics in compliance with Islamic Rules. However, accounting profession in IKCO is still too financially oriented, with a particular emphasis on traditional and tax accounting systems and with minimal attention on new advanced accounting and MASs. In terms of mimetic isomorphism, however, it is notable that, IKCO as a large international company became familiar with the new advanced accounting systems and frequently started to apply some fashionable management techniques of Western origin such as e-procurement, JIT (just in time), BSC (Balance Score Card), ABC (Activity Based Costing), Business Process Reengineering (BPR), and Total Quality Management (TQM). In this respect, Dillard, *et al.*, (2004) discussed that in the mimetic process, there are two types of organisations including the innovators and late adopters. IKCO as a pioneer in Iran's car industry facilitated the process of mimetic isomorphism (DiMaggio & Powell, 1983; 1991) and played the role of innovator which imitates certain practices of other international automotive makers which perceives to be more successful. Additionally, the results of this study found that the top management support was another important driver in the process of MAC in IKCO. As discussed earlier some important drivers behind the support of the top management were: (1) introduction of the new business strategic management model based on the SCM; (2) Ownership change and the emergence of the new company's governance, and (3) High macro-economic instability and socio-economic and political pressures as well as financial and liquidity pressures. For example, the change of the nature of operations, and introduction of the new business strategy based on SCM was an important motivation for managers to accept new



management systems of flows of product, information and finances both within and among companies. In this regard, Yazdifar (2003) argues that the emergence of the new business environment with particular characteristics can be seen as greater dynamism, uncertainty and continuous radical change, which would affect not only manufacturing companies, but also all other sectors including production processes and post-production activities as well as organisational structures, business strategies and managerial philosophies (Yazdifar, 2003). In this regard, the technology advancements in particular the introduction of software of SAP (System Analysis & Program) in ERP environment significantly influenced the process of MAC in IKCO to become more integrated into company's managerial philosophies in accordance to requirements of SCM strategy. Additionally, the company's structural changes including formation of a number of managerial committees extended the company's MAPs after privatisation, emphasising on control, measurement, incentive and decision-making activities. Additionally, the change in ownership was another important motivation for change of the company's MASs, because the change of ownership increased the authority, accountability and responsibility of the company's management, demanding new governance and therefore new MASs with emphasis on control, planning and decision making activities. Furthermore, after privatization, another motivation for the company's management in adopting the new MASs was the company's poor profitability and facing with financial difficulties, largely related to pressures from international sanctions and high inflation rate. As a result, the company's top managers were trying to cope with increasing uncertain conditions, build balances between development of operational and financial conditions with emphasis on control and decision-making activities. It should be noted that when the company benefited from high profitability and good liquidity, financial and MA information were the least important in the process of decision making and control of the activities, and the most important goals for the company's managers were to achieve the company's engineering and operational strategies.

### ***3.2. When, why and how did organisational actors decide to enact changes in MAPs after privatisation?***

This particular question aimed to focus on the dialectical relations between institution and agency in the process of MACs in IKCO after privatisation. Battilana, *et al.*, (2009) argue that understanding the role of agency in the process of MAC is one of the most important challenges,

explaining how organisational actors accept and enact institutional changes through which they are constrained by their existing institutional context. In this regard, this study used Seo & Creed's (2002) view, suggesting institutional change as the outcome of the dynamic interactions between institutional contradictions and human praxis. The assumption is that, institutional contradictions transform the embedded social actors into the potential change agents of the very institutional arrangements, which those contradictions further, enable and foster the subsequent change processes (Seo & Creed, 2002). In this regard, the actors' interests, perceptions and interpretations about institutional contradictions or external critical events would facilitate the institutional changes resulting in their collective actions to change existing institutional arrangements (Matamoros *et al.*, 2014).

Regarding this question, it was argued that after privatisation, the change of MASs in IKCO happened due to some reasons including regulatory pressures, introduction of the new business strategies based on SCM with emphasis on localisation and self-sufficiency policies, technology advancements, ownership change, and financial pressures largely due to Iran's economic and political instability as well as imposed international sanctions against Iran. Therefore, as discussed earlier, the changes of MAP in IKCO were largely externally driven in accordance to the imposed coercive pressures with emphasis on requirements of government and regulators as well as political pressures. According to these findings, it was concluded that the third proposition of the Seo & Creed (2002, p. 236) framework is appropriate for this study, explaining the main motivations for making collective actions of actors in the process of MACs in IKCO after privatisation.

The third proposition of the Seo & Creed (2002, p. 236) study suggests that:

“Under conditions of strong non adaptability, efficiency gaps and inter institutional incompatibility, mediated by institutional crisis, promote praxis for institutional change by creating the conditions for the- revolutionary breakdown of institutional inertia.”

After privatisation, with the end of the war, government's policy shifted towards economic restructuring agenda on basis of new ideology of industrialisation programs with emphasis on economic independence, localisation and self-sufficiency policies. As a result, with strong non-adaptability based on introduction of new business strategy of SCM, the company's new MASs including budgeting, costing, incentive system and control and performance measuring system were introduced in response to new strategy with emphasis on engineering and productivity

criteria. In terms of external pressures, the introduction of the new regulatory system, increasing financial pressures, as well as the reduction of the government's ownership to less 15% after privatisation, all of these factors facilitated the process of MACs, creating a more balance between importance of operational and financial criteria and performance in this company.

On the analysis of the impact of privatisation with revolutionary institutional consequences, the most important goals of privatisation in Iran were announced as promotion of further economic efficiency, reduction of the burden of running non-profitable operations and reduction of the role of government in economic activities (Dezhbakhsh, 2004; Razmi, 2007). In the case of the car industry in Iran, privatisation program aimed at increasing efficiency by increasing competition and opening the local car markets, as well as reducing the role of the government, which was expected to cause a fundamental change in the governance and management of state-owned automotive companies. Before privatisation, for example, when IKCO being government-owned, its governance and management style were shaped totally in line with the requirements of the government and regulators in accordance to the wider political and economic goals of the country. Accordingly, before privatisation, MAS in IKCO was developed in a ceremonial way and the accountants largely presented reports for external applicants. In analysing the impact of privatisation on MACs in IKCO, however, the findings of this study reveal that privatisation did not fundamentally change the management's style of the company including its MAS. In this regard, the majority of interviewees argued that privatisation did not happen in the real sense in the IKCO, and still after privatisation the wider general policies of government are the determinant of the behavior of senior executives on executing the company strategic policies. They believed that the board of directors of the company was all political, and after privatisation the government played the main role in the appointment of the company top managers. Also, after privatisation, the role of private shareholders was not significant as the majority of the company's ownership was assigned to semi-state organizations. Despite these debates, the majority of interviewees believed that the authority, responsibility and accountability of the company's management increased, which can be attributed to the reduction of government shares after privatisation. As a result, it can be concluded that after privatisation, the role of the company's managers as change agents increased because they had more authority, responsibility, and accountability than when IDRO served as the company's headquarter.

The case of implementation of BSC and ABC in IKCO the findings revealed more detail to understand when, why and how organisational actors decided to enact the new systems. As previously discussed, in IKCO implementation of the new system of BSC started in 2006 with efficiency purpose, emphasising on a more strategically driven practices. At that time, the company's CEO was a manager who had graduated from one of the universities of UK and he had managerial experience from some popular international companies in Europe. When he was appointed as company's CEO, he decided to put the BSC in IKCO into action with the support of the strategy department. Similarly, the implementation of ABC started with technical justification, when senior executive of Press shop in IKCO decided to improve costing system of this deputy with corporation with MA department. These two cases reveal that MACs were initiated or supported by the top managers and executives in this company. Additionally, according to the results of the interviews and by looking at the company's history, however, it can be argued that the introduction of "fashionable" management techniques has become a common action in IKCO, largely due to fad and gain legitimacy from inside as well as wider environment. For example, by applying fashionable management systems, the company's managers seek to present an image of being an internationally modern and well-managed company. In this regard, it is important to note that interviewees confirmed that although securing legitimacy, fad, legitimacy as well as alliances with multinational and international business were important justifications for adoption of fashion management systems in IKCO; this is not to reject that there may also be instrumental reasons for the introduction of such techniques on the company's search for efficiency purpose. According to Seo & Creed (2002)'s perspective, however, although the implementation of the new systems like BSC and ABC in IKCO started by the accumulation of contradictions such as non-adaptability or efficiency gaps, they did not enable human praxis to introduce and implement changes. Seo & Creed (2002) argue that the implementation process of these "fashionable" management techniques is possible when they become institutionalised, taken for granted in daily activities in the company. To this end, it needs to overcome the problems of embedded agency in facing to the accumulation of institutional contradictions, which enables human praxis to introduce proposed changes. In other words, although the implementation of systems of BSC and ABC in IKCO were technical or fashion motivated, their implementation was unsuccessful, because these changes were not enabled by the accumulation of institutional contradictions to motivate change agents in

a collective action for change. Therefore, the BSC could not replace the previous performance measurement system that was introduced after privatisation.

### ***3.3. Were Changes in MAP Embedded as Values in the Case Company?***

In MA research, change frequently has not understood as process, but as a transition from one well-defined point (stage A) to another point (stage B) (Andon, *et al.*, 2006). However, a quite extensive and growing literature has turned toward new approaches to see the nature of change as a process (Busco *et al.*, 2007). In this regard, Burns & Scapens (2000) asked for more research focusing on the process of change, "... why and how it becomes what it is, or is not, over time, i.e. management accounting change as a process" (Burns & Scapens, 2000, p.4). Burns & Scapens (2000) developed a processual institutional model, seeking to conceptualise how process of change of MA can move the institutional equilibrium from one state to another through four sub-processes, namely, encoding, enacting, reproduction and institutionalisation. According to Burns & Scapens (2000)'s model, in the process of change the new rules and routines are initially encoded in the actor's stock of practical knowledge while at the next stage they are enacted by actors through their communication and power relations when they determine what behaviours to sanction and what rewards are available. At the reproduction stage, the actions foster the reapplications of new rules and routines, and finally the new rules and routines are institutionalised at the last stage of process of change when they are taken-for-granted, became collectively acceptable values, habits, and routines in organisations (Burns & Scapens, 2000). As previously discussed, MACs have taken place in IKCO after privatisation in different themes including changes in the budgetary system, costing system, performance measurement system, reporting and utilisation of MAPs as well as the role of management accountants. However, the implementation of systems of BSC and ABC failed in this company after privatisation. In analysing the process of MACs in IKCO, this study used the model presented by Burns & Scapens (2000) in which chapter nine provided the details of the change process in four stages encoding, enactment, reproduction and institutionalisation. According to Burns & Scapens (2000), MACs in IKCO took place through different stages: when new rules and routines are encoded, enacted, reproduced and institutionalised; taken-for-granted as values at the collective action level. However, BSC and ABC did not go through these stages, and failed during the process of institutionalisation; became decoupled from the day-today activities. The first process of institutionalisation of a MAC involves the encoding of new

institutional principles into rules and routines. The prevailing institutional principles draws on the taken-for-granted assumptions, define the relationships, power distributions and actions of actors, which encoded and submitted to the actors for assessment and new action depending on the degree of compulsoriness of the new rule. In case of IKCO, the encoding phase drew on new prevailing institutional principles, which were shaped by the emergence of new policies of government, new regulatory system, as well as the new MAPs in response to the new conditions, which was introduced after privatisation. As previously discussed, the process of MAC is likely shaped under conditions of strong non-adaptability, efficiency gaps and inter-institutional incompatibilities, mediated by institutional crisis (Seo & Creed, 2002). As mentioned earlier, this prediction applies for the case of IKCO in the way that these institutional contradictions created the conditions that forced the company's management to accept that they need the new MASs. In particular, considering coercive pressure, IKCO was in a situation as if it does not accept the change, it could be held accountable to those who play an important role in the company's survival and growth. In this regard, therefore, government, regulators, TSE and IAO played special role in changing MASs in IKCO. Additionally, under hard conditions of financial and non-financial pressures largely resulting from imposed international sanctions against Iran, the company had to accept the change of MASs in order to cope with the increasing crises.

In the stage of enactment, the leading institutions were defined by the top-level managers who decided to enact the new principles in the process of change of existing rules and routines. Therefore, the enactment stage in IKCO was largely a top-down process, because this process usually started with the IKCO's board of directors, in particular CEO. The interviewees believed that even in cases where the proposal to change came from the lower levels, the successful implementation of this proposal depends on confirmation and support of the company's senior executives. As a result, the company's top management team supported the process of enactment in the institutionalisation of MACs in IKCO and CEO, and the board of directors was instrumental in enacting and routinising new rules and routines of MASs. In the process of enactment, similar to findings of Siti-Nabiha & Scapens (2005), MACs in IKCO were resisted due to prevailing production-based institutions, which conflicted with the importance of financial and MA criteria, but organisational members knew they had to accept it, whether they liked them or not, since they were directive of the board of directors. In this respect, the company had compulsory training programs for all executives and managers, which include commercial awareness courses in finance

and MA courses. In this respect, some factors significantly influenced the process of enactment of MACs in IKCO including: (1) structural changes in terms of foundation and expansion of function of MAPs in other areas; (2) introducing new formula, concepts and rules in the activities related to MAPs; (3) the integration of MASs into IKCO's information systems; (4) development of control activities by creating offices as representatives of MA department in operational areas; (5) introduction of the reward system named Accord, for the improvement of the systems of planning and evaluation of performance; (6) the diffusion of MAPs and MA concepts through formation of meetings as well as training program; and (7) The use of consultants with financial background at the top levels of the company, which all resulted in the creation of various committees, enhanced the role of management accountants in company management. The third stage, reproduction, took place when the new MA rules and routines came into practice as repeated behaviours. The reproduction stage of MACs in IKCO was largely involved conscious rather than unconscious actions. The final process of MACs in IKCO took place when the new rules and routines were institutionalised; they became taken-for-granted as the unquestionable way of doing MAPs.

By answering the above specific questions, it seems possible to answer the general question of this research: “what, why and how the company’s MACs were shaped by the interactions between intra and inter organisational factors, after privatisation”? Relying on a case study approach, this study aimed to understand and discuss the relationship between MACs and privatisation, explaining how MAPs were shaped by the interplay between inter and intra organisational contexts. The result of this research acknowledge a positive relation between privatisation and MACs in IKCO which the emergence of new regulatory system, and new governance after privatisation, as moderator variables, enhanced this relation. However, the results of this study revealed that the changes of MAPs in IKCO after privatisation was largely influenced by the general policies of government and regulators, as well as the wider unstable economic and political context of Iran, and therefore the impact of privatisation was less important and indirectly imposed on the process of MACs in this company. As already discussed, IKCO operate in a highly regulated and political context, where the pressure of institutions which emanate from outside is significantly important. In this regard, although this study used the Burns & Scapens (2000) and Seo & Creed (2002) frameworks to understand the processes of change within IKCO in the intra-institutional level, it largely focused on the external influences to which IKCO was exposed and their wider effects on change processes within the company’s MASs. For this purpose, the study used the

Dillard *et al.*, (2004) view that the process of institutionalisation is normally a top-down approach from the economic and political level as well as the organisational field level because the findings confirm that MACs in IKCO have much more external roots than internal ones. Based on the Dillard *et al.*, (2004) model, this study discussed that the process of MAC in IKCO was shaped by the set of criteria of the economic and political level, which was the basis for the introduction of new set of criteria and practices at organisational level as well as organisational level. The new set of criteria and practices in organisational level, in turn, was incorporated by the company as the new regulatory framework, which pushed the company to change its information systems including MASs. In this regard, the changes at the inter-organisational level caused the changes in intra-organisational level. At the intra-organisational level the changes of MAPs occurred by the accumulation of institutional contradictions, promoted praxis for institutional change in MAPs including the changes of budgetary system, costing system, performance measurement and control system, reporting system, MA utilization as well as the role of management accountants in IKCO. The MACs took place through the four stages of the process of institutionalisation including: encoding, enactment, reproduction, and institutionalisation. The next section of this chapter presents and discusses the research contribution of this research from both a theoretical and practical perspectives.

### **9.3. Research Contributions**

This section discusses the research contributions in both practical and theoretical aspects.

#### **9.3.1. Theoretical and Methodological Contributions**

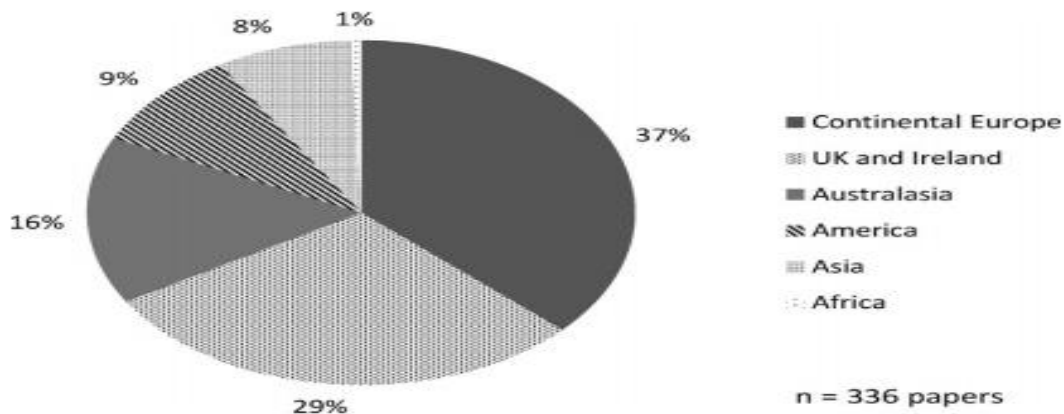
This study addressed empirical evidence related to changing the MAPs in a privatised automobile company in Iran. Although this research focused on micro-level of analysis of the institutional environment, it acknowledged that the change of MAPs in organisational level was tightly linked to wider socio-economic and political context at the macro institutional level. In this regard, therefore, the study used an appropriate theoretical framework to explore the complex mish-mash of inter-related interactions at different institutional levels, explaining how MAS, in this case company, was shaped after privatisation. As predicted by Scapens, (2006), however, the Burns & Scapens (2000) model and the institutional theory in general have some limitations; it cannot



satisfy the study's goal to explain the interplay between internal and external institutions as well as to clarify the role of agency in the process of institutional change. For this reason, this study used theoretical triangulation approach to extend the theoretical domain of accounting research into different institutional of societal, organisational field and organisational levels (Alsharari & Abougamos, 2017). The research draws on three theoretical models for organisational change including Dillard *et al.*, (2004) for external process of change; Seo & Creed (2002) for understanding the role of agency in the process of change, and Bums & Scapens (2000) for understanding and explaining the internal process of MACs in IKCO. Clearly, the combination of theoretical models provides a good explanation on the complex "mixture" of interactions of change drivers that would shape MAS at multi-institutional levels: ranging from the broadest, global perspective to the level of sub-unit of organisation (Scott, 1995, Alsharari, 2017). Accordingly, the theoretical triangulation approach helped this research to understand and explain the multiple levels of the institutionalisation process of MACs in this case study, which moved in a recursively cascading manner by hierarchically linking the wider institutional influences of global level, political and economic level (PE) and factors at the organisational level through the organisational field level (OF). Additionally, focusing on a dialectical perspective, the proposed theoretical framework considers the role of both institutions and change agents, explaining the process of change related to the interplay between the institutional forces, market pressures and the role of change agency. As a result, the study contributed to development of theoretical dimension in MA research, by integrating different theories in order to complete single theory without ontological and epistemological incompatibilities. In particular, this theoretical triangulation is appropriate approach in context of Iran, where in the process of organisational change external factors including political and regulatory constraints and macroeconomic condition are much more important than internal factors. Additionally, this model is applicable to different other contexts with the particular political, economic and socio-cultural variations, by adding new factors in both intra and inter-organisational levels in the process of organisational changes.

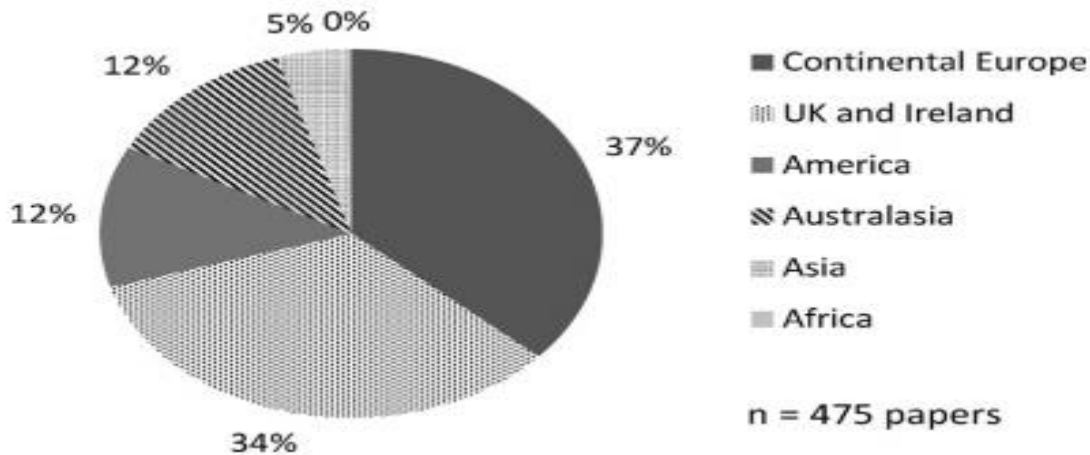
Another contribution of this study is related to methodological issues. A review of the MAC literature revealed that there is a gap in MA research related to the methodologies adopted with emphasis on qualitative approach. In this regard, this study used a case study approach based on a mixed method approach, using triangulation in data collection, including interviews, observations and documentary evidence. The combination of different methods enabled researcher to provide

an in-depth understanding and broader perspectives about the subject of thesis, contributing to fill the gap in qualitative MA research. In particular, the methodology approach of this study has implications for the case of research in LDCs and developing countries, where such approach is not common. In Iran, for example, this study is the first study of MAC that used a case study strategy based on a qualitative approach. Additionally, despite increasing interest for studying the subject of MAC (Innes & Mitchell, 1990; Libby & Waterhouse, 1996; Burns & Scapens, 2000; Alkizza, 2006; Yazdifar *et al.*, 2008, Jansen, 2011; Zoubi, 2011; Alsharari *et al.*, 2015, Alsharari & Abougamos, 2017), there is a gap in this area of research. In particular, there are few number of MAC studies that deal with alternative approaches in the context of developing countries (Alawattage, *et al.*, 2007; Collier, 2001; Hopper, *et al.*, 2003; Luther & Longden, 2001). Additionally, the majority of existing studies have been written in western literature, and therefore in this area of research, relatively little studies have been conducted by local writers in context of developing countries (Sulaiman & Mitchell, 2005, Lasyoud *et al.*, 2018). Figures 39 and 40 show the distribution of papers and authors by reign, suggesting that the papers are largely from developed nations.



**Figure 39. Distribution of Papers by Region of Site**

**Source: Hopper and Bui, 2016, p.5**



**Figure 40. Rgion of Authors**

**Source: Hopper and Bui, 2016, p.5**

In particular, by reviewing the literature on subject of MAC in case of Iran as LDC, this study identified MAC as a neglected area, in which there is very little research which takes in to account the change of accounting in context of Iran (see for example Dianati Deilami *et al.*, 2016). Additionally, Iranian accounting research is dominated by the rational approaches, which represents the conventional wisdom, and there are very few studies in the accounting field that developed a “conceptual contextual framework” drawing on qualitative approach. In this regard, this study is the first study used qualitative approach in MA research- using a multilevel institutional analysis of the change dynamics, to analyze different interrelated institutional factors and pressures that affected the emergence and diffusion of changes in MAPs through three levels of social structures in processes of MAC in IKCO after privatisation. As a result, the findings of this study filled a gap in the MA literature, provided a more holistic understanding of MACs in an Iranian automotive manufacturing company within its particular socio-economic and political context of Iran. The findings of this study contribute to diffusion of a different insight and perspective for the future of MA research in Iran and similar countries to adopt a critical view rather than a just conventional view. Additionally, in terms of analysis of the impact of privatisation in international level, the majority of studies in the area of privatisation focused on financial-macro-level, investigating the impact of privatisation on the performance of those privatised companies with emphasis on the improvement, or not, of services offered to consumers

(Hopper, *et al.*, 2009; Tsamenyi, *et al.*, 2008). In the field of MA studies, the research on MAC and privatisation has mainly focused on large, usually multinational companies, but this research aimed to broaden the MA research to study MAC in state-owned company that is under gradual process of being partly privatised. Clearly, this type of study would provide different aspects for the theoretical insights in comparison with those previous studies. In particular, this study has important implication for institutional research on MAC and privatisation in responding to recent calls to bridge the gap between inter-and intra-organisational levels of analysis of MAC.

Additionally, in case of privatisation in Iran, previous literature has already investigated the impact of privatisation from macro level of analysis while there are very few empirical attempts to study the impact of privatisation on the process of organisational change (specifically MAC). Additionally, in organisational level, the majority of studies are related to the impacts of privatisation on performance of organisation in terms of profitability, output, operating efficiency, and capital investment spending (see Dewenter & Malatesta, 2001; Omran, 2001; Sun & Tong, 2002; Viani, 2004). In particular, our understanding on the impact of privatisation on the MAPs outside the developed world is limited. In this respect, within the existing literature, this study is the first study on the relationship between the MAC and privatisation in the case for a large, state-controlled Iranian automotive company in context of Iran. As a result, this study contributes to the literature on the impact of privatisation as it adds to a new analysis about Iran, questioning if privatisation programs have helped to change the MASs of the privatised case study in Iran. The study could reduce the gap in LDCs including Iranian accounting literature relating to the effects of privatisation on MACs, encouraging researchers to study this issue in other economic sectors in the future research.

### **9.3.2. Practical Contributions**

For decades, the field of MA has been criticised for being separated from the practice, and critics argue that MA theories contribute little value to the practice (Inanga & Schneider, 2005; Parker *et al.*, 2011, Merchant & Van der Stede, 2006). For example, Malmi & Granlund (2009) argue that MA academics do not address practical issues and they usually provide their research for other researchers rather than for practitioners. Similarly, Baldvinsdottir *et al.*, 2010 argue that although MA research has moved to become more practical, it is apparent that the wider research community

has little interest in influencing MA practice and has not captured the practitioner as the main audience for their research. This concern has highlighted the subject of MAC as one of central topics in the field of MA (Burns *et al.*, 1999; Burns & Vaivio, 2001; Hassan, 2005; Lukka, 2007; Yazdifar *et al.*, 2008; Jansen, 2011; Lasyoud *et al.*, 2018) which seeks to understand how MAPs are shaped by the impacts of its contextual factors. As a result, the questions about how academic research needs to engage with practice have become particularly serious for many MA researchers (Bogt & van Helden, 2011, Tucker & Schaltegger, 2016), encouraging academics to understand MA in practice in order to fill the gap between MA theory and practice (Jansen, 2018; Guthrie & Parker, 2017; Malmi & Granlund, 2009; Guerreiro *et al.*, 2006).

In response to this request, the positivist literature relies on “normative” theories, persuading practitioners to adopt new tools or techniques to deal with specific needs of practitioners. In this regard, however, the evidence for the effectiveness and relevance of these initiatives has been generally poor (Jansen, 2018), encouraging researchers towards alternative approaches, by focusing on practical aspects of MA research. Alternative approach aims to develop or refine existing theories (Jansen, 2018), using a more “pragmatist, practice-based approach” that enables researchers to make sense of the observed phenomena in practice (Granlund & Lukka, 2017). Accordingly, this study as an interpretive study in the accounting literature aimed to contribute MA in practice, analysing the practical issues that an Iranian automotive manufacturing company faced when changing its MAPs after privatisation. In this regard, this study used the case study strategy in order to provide in-depth practical understanding of the processes of MACs.

The results of this study suggested that the success of implementation of the new MASs in IKCO depends on the interactions between levels of social structures at the political and economic level, the organisational field level and intra-organisational level. In this regard, the study also presented and discussed the factors that lead to success of MASs such as budgeting systems or the failure of MACs such as BSC in this case study. Taking the important impacts of inter-organisational factors into consideration, however, the uniqueness of this thesis lays in studying the impacts of regulatory system and macro policies such as privatisation on the MAPs in organisational level. Indeed, by macro level of analysis the study addressed the micro level of analysis of the relationship between political pressures as well as regulation and the process of MACs in IKCO. It is notable that the majority of existing regulatory accounting literature are based on the macro level analysis, which

does not allow to provide detailed analysis in case of a single case study. Therefore, the result of this research contributes to politicians and regulators to take the importance of micro level of analysis into account.

In this regard, this research contributed to practical understanding about the relationship between privatisation and some identified behavioral implications of organisational changes in particular MACs in Iran's automotive company. In Iran, privatisation strategy aimed to transfer public sector to the private sector, promoting the efficiency of economic sectors by influencing their internal control processes (Safarzade Parizi, 2002). However, as it was earlier discussed, the process of reforms in Iran and the Iranian automotive industry was not successful in practice in terms of privatisation's initial goals, scopes and time scales. From this perspective, it was argued that the Iranian governments set reform program based on the neo – liberal policies of the capitalist classes and some European governments, without accepting the vast structural reforms needed to succeed in this transition in areas of socio-economic and especially political perspectives in the country. As a result, in Iran, the reform program including privatisation has undergone its political and socio-economic restrictions and therefore this plan deviated from its main goals and ambitions with emphasis on the role of private sectors and the increase competition for further economic efficiency purposes. As a result, privatisation program in the automobile industry took place without adequate reform programs in terms of improvement of market structure, institutional and regulatory infrastructures and participation of private shareholders. In contrast, after privatisation, the IKCO's organisational changes including change of MASs were largely regulatory oriented with emphasis on meeting the political and regulatory requirements. As a result, the practical findings of this study are in contrast with the general contingent proposed by Baines & Langfield-Smith (2003) indicating that privatisation ultimately improves efficiency, market structure, and organisational reactions, which is expected to cause the development of MASs. However, the study identified some of the suggested behavioral assumption of the process of organisational change in IKCO due to the impact of privatisation. In this regard, the study confirms that after privatisation although the Iranian government continued to directly or indirectly control the automobile industry, for example by appointing the company's board of directors, with the reduction of government ownership, the company's corporate governance changed by the increase of manager's authority, responsibility and accountability. Consequently, privatisation in IKCO

increased delegating control and decision-making process from IDRO to IKCO, which in turn created big changes in the MASs in this company.

Additionally, at the intra-organisational level, the study confirms that financial and operational measures such as the planning, profitability, the performance efficiency, and costing became more important after privatisation. This change was partly due to the escalation of international sanctions against Iran in which under severe financial pressures the company's managers had no choice but to accept organisational changes including MASs. At this period, IKCO had to operate more productively as managers were subject to the pressures of the financial and liquidity pressures and they had to control discipline of profit-oriented activities to maximize efficiency and profitability. However, the isolation enforced by the international sanctions as well as liquidity problems resulted in a lack of access to international markets, technological developments and advances in managerial issues, which negatively influenced the change of MASs in this case study. Additionally, as earlier mentioned, unstable and political-oriented regulations significantly influenced the IKCO's operation in general and the MASs in particular.

Additionally, this study provided a practical example of the theories being used in the literature related to the process of implementation of the organisational changes. Focusing on institutional perspectives, the results of this study confirm Alsharari & Youssef's (2017) conclusions that the implementation of MAC cannot be a static phenomenon but it is a "path-dependent" and evolutionary process in response to diverse contextual pressures, which was carried out in the "from-top-to-bottom" level of institutional analysis. In this regard, this dissertation identified and discussed the coercive isomorphism as the main influential factor to shape economic activities and relations in intra-organisational level in IKCO. After privatisation under a political monopoly condition, the company's main stakeholders included the government and regulators and therefore the signification and legitimating structures entail the needs of these two entities. In such context, the success of MACs largely depended on the extent to which they can meet the needs of dominated political parties because the company income relied heavily on regulatory system and government rather than market drivers based on competition and customer oriented objectives. From this perspective, it seems reasonable to conclude that the change in MAPs in IKCO were largely based on legitimacy criteria, but this is not to denying the fact that there were also some instrumental reasons for the introduction of MACs in IKCO which can be linked to the company's

search for efficiency as a consequence of financial pressures or the impact of privatisation. Additionally, the results of this study help practitioners to become more familiar with the importance, nature, divers and barriers of implementation of organisational changes in the intra-organisational level. According to Phadoongsitti, (2003) view, the utilisation of superior MAS guarantees the success of the company, assisting managers when company is facing uncertain events. According to the literature (Hopper *et al.*, 2009; Thrane & Balslev, 2017) a successful implementation of a new system depends on identifying and understanding the diverse dynamics which can emerge on the basis of interaction with both internal and external factors; in terms of either impetus or obstacle generating with unintended, politicized and dysfunctional outcomes. In terms of the endogenous component, management support, the development of IT, structural changes and training actions were important influential indicators between action and institution regarding the successful implementation of the process of MACs in this company. In this study top management support was the most important factor for the success of adoption of change implementation. However, as long as managers leave the company in the short term, it is difficult to support long-term implication of a system in this company due to lack of support of the next coming managers. For example, in case of BSC, although this system was strongly supported by CEO, this support was not continued strongly by the subsequent CEOs in IKCO.

#### **9.4. Research Limitations**

This section aims to present the research limitations. First, the research was restricted to one case study, making generalisation of the findings restricted to the single automotive company in Iran. Regarding this limitation, it is notable that the automotive industry in Iran is dominated by two large monopolies: IKCO and SAIPA; the companies that have almost total automobile production in Iran. Initially, the research was to be conducted with both monopolies as case studies, but lately the second case study did not accept to cooperate with this research. It is noteworthy that due to political issues Iranian companies are very careful about the strangers who investigate their business practices (Nasirpourosgoei, 2014). In particular, in case of the automotive industry in Iran, due to highly sensitive political condition, there are always more restrictions for researchers, especially for overseas students. Additionally, due to the confidentiality and sensitivity of information, the automotive companies were not keen on cooperation in the field of finance and accounting. For these reasons, if we make a comparison between numbers of articles in the



automotive industries in other countries, it is obvious that research in Iran in particular in the field of accounting is so much smaller or limited. Therefore, despite this fact that this study provided deep investigated issues related to the process of organisational changes and MACs within IKCO as an international automotive company, the results of this study cannot be generalised to other cases. However, it is notable that the main purpose of this study as an interpretive case study was to provide an empirical example of the MA theories in order to offer theoretical generalisation rather than providing statistical generalisations (Scapens, 2004). Consequently, although the findings of this dissertation referred to unique context of IKCO, it contributed to further theoretical understanding, extending the theoretical generalisations relating to the field of MACs.

Another limitation of this study relates to the research approach as an interpretive case study in order to explain MAP as a dynamic and socially constructed institution (Wickramasinghe & Alawattage, 2007). In this regard, although pre-specified theoretical framework-institutional theories- provided this study with strong insight on the inter-related elements at both inter and intra organizational levels, the findings of this thesis may be influenced by the subjective analysis and the researcher's interpretation in some ways that some of the cases are ignored and some exaggerated. As a result, the results of this research cannot be immune from the researcher's bias and background perspectives. Another limitation in this study was related to the lack of trust among interviewees in which due to some reasons in several cases they did not feel comfortable during the interviews. In this regard, in some cases people either refused to accept the interview or refuse to comment and did not allow recording the interviews and insisted that the talks and interviews should not be quoted in the other departments of the company. Fourth, due to the aforementioned issues and the access limitations to both the organisational and state data, this research largely adopted in-depth interviews. Additionally, due to access limitations, this study did not fully explore a dialectical approach based on Giddens, (1979)'s view. Giddens, (1979) believes that although institutions are the background for action, they may recursively have modified by action of human agents. This study, however, did not address the impacts of the intra-organisational behaviours on the macro institutional level including the organisational field and economic and political levels. Therefore, this research did not utilize its theoretical framework completely, which is one of the limitations of this research. Additionally, it was also not possible for this study to interview foreign partners (Peugeot's employees working in IKCO); this limited the study to incorporate the foreign partners' views to improve and meet the research objectives.

Another limitation is the lack of adequate research on the relationship between privatisation and MAC in LDCs in particular in case of Iran. The majority of studies in this field came from developed countries. It is obvious that due to particular context of Iran, it is expected that the results of research in other countries be very different from the findings of this research. Clearly, it would be better to include another case study that is privately owned, with both companies' views on the impact of privatisation on the process of MACs. Finally, this research faced with another research limitation related to the time length of the analysis, that is, 1993 to 2020 when privatisation program started in IKCO. Although the privatisation of the IKCO started from 1993, the company shares were gradually transferred so that by the end of the year of 2010, the government remained as the main shareholder of the company (the government still holds 15% of the IKCO's ownership). In this regard, however, the long length of the privatisation period was one of research limitation for this study. Although in IKCO the processes of MACs after privatisation about thirty years ago, there was the problem of attributing the changes to privatisation or to other factors. Additionally, this research had to examine the changes during the long length of period that were made largely through interviews due to lack of access to documents. However, the number of people who could participate in the interviews for analysis of change over 30 years was small as many of them had either retired or left the company. In particular, many interviewees pointed out that people in this company do not continue to work for a long time because they do not enjoy adequate benefits including increased salaries and other promotions and therefore they left the company for having a better job opportunity. As a result, in order to enhance reliability of such data, researcher had to contact people who had left the company, which in most cases failed. Additionally, due to small number of people who could follow up on this research from many years ago, researcher spent more time to discuss events that happened a long time ago, asked for detailed elaboration with examples, whenever required. The researcher even asked questions about the past from people who were relatively new as they might have been more aware of the past, which could help the researcher to find more information about the missed important events during the process of MACs in IKCO. However, it cannot be ignored that there may be important events that may have gone beyond the researcher's views and perspectives.

## 9.5. Further Research and Recommendations

In the last section, this point is necessary that due to a number of research limitations, this research recommend further research. In this regard, it should be noted that one of important purposes of an interpretive research is about its contribution to the development of a theory to facilitate future research. As a result, applying the theoretical framework of this thesis for other case studies in the field of MAC would improve generalization of the findings of this study. Application and evaluation of the proposed theoretical framework of this study in other cases shows how much it can be useful in understanding the concept of change in MAPs in subsequent studies. Clearly, the use of the theoretical model of this study by other researchers in examining organisational change and MAC would increase the validity of this research. Especially given that the context of Iran is specific, where economic activities are heavily overshadowed by political and regulatory restrictions, so far no attention has been paid to the field of MAC in Iran from institutional perspectives. Additionally, in Iran there is a need to study the change of MAPs of organisations of other industries similar to the automobile industry; those operating under a heavy political and regulated condition. The results of these studies can be an opportunity to compare the results of understanding MAP as dynamic and political practice, focusing on different perspectives in the process of MACs, including merely institutional or both efficiency and legitimacy's perspectives.

Additionally, as mentioned in the last section, for some reasons it was not possible for this study to fully cover all aspects of the thesis theoretical model and therefore future research is required in order to complete the findings of this research. In this case, one of the research limitation was related to the importance of the role of human agency in the process of MAC, because the changes in this case study were largely external oriented. As a result, the proposed theoretical model in this study was not fully applied as the role of human agency and internal factors were not significant in case of MACs in IKCO. Therefore, further research with emphasis on role of human praxis as well as the impacts of internal institutions can fully theorize the interactions between the external and internal institutions in better understanding the process of organisational change including MACs. Another research limitation to fully apply the thesis theoretical model was related to the lack of analysis of the recursive model, supported by the Dillard *et al.*, (2004) view that the criteria and practices at the intra-organisational level influence the criteria and practices at the external environment including the organisational field level, as well as the economic and political level.

This limitation was due to time and financial constraints as well as access limitations to adequate information at the macro level. As a result, further research on the relation and influence of the criteria and practices at the intra-organisational level on the organisational field level and economic and political level is recommended.

Another suggestion for further research is related to studying the important impacts of political and religious institutional environment from a macro level of analysis, which has not been adequately addressed in the existing research. This study aimed to analyse the relationship between macro institutional environment and organisational changes in terms of MACs from a micro level of analysis, explaining how the process of MACs in an automobile company was influenced by the wider socio-economic and political contexts in Iran. However, it did not focus on these relationships from the policy makers, politicians and regulators. Consequently, because of this gap, further research is recommended; to address how and why policy-makers intervene and establish the institutional and regulatory frameworks and what are the expected responses of the companies at intra-organisational level. This area of research would encourage researchers in field of MA literature as few studies in LDCs, especially in Iran, have examined the link between political factors and MAC particularly in recently privatised companies.

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