A hegemonic form of transfer pricing: The case of a Chinese organisation

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Abstract

Recent decades have witnessed an understanding of management accounting as a social practice with alternative social theory explanations about its practice varieties but transfer pricing issues therein have inadvertently been neglected. Based on 7-month fieldwork in a Chinese privately-owned group enterprise, this thesis attempts at understanding transfer pricing practices differently vis-a-vis power relations in that organisation. I have focused on interrelationships between dominant and dominated social groups in this organisation to examine how transfer pricing has become a political phenomenon. The theoretical framework based on the Gramscian hegemony captures these interrelationships. The findings illustrate that the political development in China conditioned the hegemonic relationship in Chinese organisations while the ideology of Confucianism determined certain control practice. As business owners are most powerful, mundane controls are rather informal while formal controls are largely de-coupled from operation. Consequently, transfer pricing practice is determined by hegemonic interests and ideologies of the dominant leading to a situation where managers, who perform transfer pricing calculation, rely on a “common sense”. However, agreement is still possible as Confucianism provided good sense of harmony and concern-of-others. This study contributes to transfer pricing literature by highlighting the social complexity of transfer pricing, while contributes to hegemony theory by showing the dynamic nature of hegemony.

Key words: transfer pricing, management control, hegemony, China

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Abbreviations

CA	Cost accountant
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
CPC	Communist Party of China
FDA	US Food and Drug Administration
FM	Factory manager
HRM	Human Resource manager
OM	Operation manager
PM	Production manager
PS	Purchasing staff
PRC	People's Republic of China
S	Shareholder
SM	Sale manager
SS	Sale staff

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Author’s Declaration

I declare that, except where explicit reference is made to the contribution of others, that this dissertation is the result of my own work and has not been submitted for any other degree at the University of Glasgow or any other institution.

Printed Name: ___________________________

Signature: ____________________________

Chapter 1: Introduction

> *No longer seen as a mere assembly of calculative routines, it* [accounting] *now functions as a cohesive and influential mechanism for economic and social management. But why should this be the case? Why should accounting have grown in complexity and significance? What have been the underlying pressures for its growth and development? Just what roles has it come to serve in organizations and societies? And Why? All too unfortunately such questions very easily take one into uncharted terrain. For although there has been an enormous investment of effort in improving the accounting craft and even in charting its technical development, very few attempts have been made to probe into the rationales for the existence and development of accounting itself.* (Burchell *et al.*, 1980 p. 6)

1.1 Background

Burchell et al.'s (1980) questions above developed an intellectual curiosity in me towards studying a topic in management accounting in relation to a context in which it operates. When the field of accounting research embraced the functional imperatives of accounting development, researchers asked important questions of 'how' and 'why' accounting was developed in relation to its context, which led to their argument for studying accounting as an organisational and social phenomenon in its context. Inspired by them, the decade of 1980s witnessed a rapid growth in the discussion of sociological and political analysis of accounting. Mostly published in *Accounting, Organisation and Society*, scholars made a significant contribution by discussing promising theoretical insights (Burchell, Clubb & Hopwood, 1985; Hopper, Storey & Willmott, 1987), rich empirical stories (Hopwood, 1983; Berry et al., 1985) as well as essential philosophical lessons (Chua, 1986).

It is this inspiration which led me to consider the role of management accounting in the Chinese context. While prior studies have discussed the obstacles encountered in adapting management accounting in this context (e.g., Liu 2006; O'Connor et al. 2004; Wu et al. 2007), few studies have examined the actuality of management accounting practices in Chinese organisation. I started to ask questions such as 'Why is management accounting being developed in Chinese organisation?' 'How is it being developed?' and 'What is its role in the organisational context?'. This motivated me to conduct an ethnographical fieldwork in a Chinese private organisation (anonymous as PLT) to explore management accounting's socio-political interactions with its context.

I entered the field with a plan to study management control practices, but an interesting issue attracted me: How is transfer-pricing implicated in the context? Unlike other management control practices, such as performance measurements and costing in the organisation, transfer pricing was complexly implicated in a changing organisational structure, the nature of the tax regime, and profitability issues. This means the financial criteria did not necessarily guarantee financially efficient transfer pricing. Rather, market-based and cost-based transfer pricing practices co-existed in different divisions with some ambiguous rules and procedures. For instance, while external purchases/sales were permitted in principle, managers found it difficult to do this in practice because of the system of transfer pricing. Although complaints and contradiction prevailed, a particular form of transfer pricing persisted and senior managers did not want to change it.

This phenomenon contradicts the conventional understanding of transfer pricing as a profit-making device (e.g. Göx and Schiller, 2006; Luft and Libby, 1997; Cools, Emmanuel & Jorissen, 2008). As the view of management accounting as a social-political practice has already been established in prior work (Scapens, 1990), this thesis builds on these works and delineates the way in which transfer pricing implicated in the functioning of an organisation within its broader social context. Drawn on a detailed field data gathered over 7 months, i argue that transfer pricing is conditioned by its cultural-political context and influenced by dynamic hegemonic social relations while its mundane practice is realised through contradictory sense-making processes.

1.2 On transfer pricing research

Although the analysis of accounting has reached a new era with the rise of interpretive and critical perspectives, knowledge on transfer pricing has surprisingly remained in a 'pre-social' era. This practice has traditionally been presumed as a technical device providing financial benefits for organisations. Influenced by neo-classical economic theories, it has been linked to the ultimate goal of profit maximisation (Simons, 2000; Pfeiffer et al. 2011; Baldenius et al. 1999; Drury, 2012). The conventional introduction of this accounting technique has been largely dominated by technical illustrations of calculation methods and their useful scenarios (Simons, 2000), which highlights the contingent nature of transfer pricing.

This emphasis has been carried forward by transfer pricing researchers. The theme of concerning the question of 'how transfer pricing can be efficient' has been predominant in the transfer pricing literature. Based on assumptions of neo-classical economics, scholars have regarded transfer pricing as neutral and independent of 'broader and social issues' (Hopper & Powell, 1985 p.455). The focus has been on the debates regarding the choice of calculation methods (Hirshleifer 1956; Göx & Schiller, 2006; Pfeiffer et al. 2011), and contingent factors influencing the performance of transfer pricing such as tax compliance (Oyelere & Emmanuel, 1998) and concerns about fairness (Luft & Libby, 1997). Such a focus led to the employment of a positivist approach to studying transfer pricing such as analytical modelling (Göx & Schiller, 2006), statistical analysis (Bouwens & Steens, 2016), and experiment (Luft & Libby 1997) as the core methodology. Consequently, studies have examined transfer pricing only in simulated conditions, and little is known about transfer pricing in action.

This domination by the neo-classical economic perspective reminds me of a similar status of management accounting research in the 1970s (Scapens, 2006). As I discussed at the outset, some scholars, having realised the limitations of such a perspective, moved on to consider the socio-political aspect of management accounting. They began to study management accounting practices in action (Scapens, 1994), which provided a rich theoretical explanation of why organisations have particular management accounting practices and how such practices emerged and developed. Thus, a more extensive view of management accounting, emphasising its link with broader economic, social, and political contexts, has been established.

While the development of management accounting research signifies a need to apply social analysis to transfer pricing research, Mcaulay, Scrace, and Tomkins (2001) provided a brief overview of the potential contributions it can offer. They explored how transfer pricing practice can be theorised as a tool of sustaining custom and habit, establishing identity and image, or even as a tool for personal needs and agenda. Their early study on transfer pricing as a social-political practice echoes many findings observed in similar management accounting research (Lounsbury, 2007; Scott et al , 2000; Thornton, 2002). Within their multiple theoretical readings of the story, their interpretation of transfer pricing as a political practice for personal agenda motivated me to explore the implication of transfer pricing in the organisational politics.

Recognising crises and contradictions in society, socio-political studies in management accounting can put power relations into the foreground and explore how management accounting is engaged through class struggles and political games (Hopper & Armstrong, 1991; Uddin & Hopper 2001; Wickramasinghe et al., 2004; Wickramasinghe & Hopper, 2005; Ashraf & Uddin 2015). With a focus on the labour process and political intervention, studies mostly discuss a top-down relationship between the dominant class and the dominated class. Less attention has been paid to accounting beyond such an enclosure. Thus, this gap in socio-political accounting studies, combined with my initial understanding of the field, inspired me to explore transfer pricing practice in relation to dynamic political relations.

1.3 Towards my research questions

A hegemonic theoretical framework was developed to explore the political form of transfer pricing. The theory of hegemony was developed by Antonio Gramsci during his time in prison between 1929 and 1935. Concerning the reproduction of class relations and exercise of power through a focus on 'intellectual and moral leadership', it was Gramsci's attempt to enhance Marxist thought on politics. The use of hegemony in accounting studies has illustrated the active role of accounting in maintaining the prevailing hegemony and potentially changing it (Cooper 1995; Richardson, 1989; Goddard, 2002; Spence 2009). The political nature of management accounting in an organisational context is also captured by studying how management accounting has been used as the representation of the political hegemony (Alawattage & Wickramasinghe (2008), and how management accounting has been shaped through conflicted hegemonic compromises by different dominant groups (Ashraf & Uddin, 2015). While the theory of hegemony provides significant insights into the political nature of accounting, certain gaps can be identified. The current hegemonic analyses all emphasise state politics in developing accounting systems. In addition, dynamic hegemonic relations are less frequently explored. Studies concentrate upon either relations between the dominant class and dominated class or relations among the dominant classes. As a result, the interplay between different relations is not embraced.

Considering the gaps in the transfer pricing research and debates on hegemonic accounting research, this study seeks to answer three research questions:

1) How are transfer pricing practices located in a broader cultural-political context?
2) Do hegemonic relations shape transfer pricing practice? If so, how?
3) How do people make sense of mundane practices of transfer pricing in conjunction with such hegemonic relations?

These questions are related to 1) the structural level analysis which focuses on the broader cultural-political context in which the organisation is located, 2) the organizational analysis which concerns the development of transfer pricing practice within an organisational setting, and 3) the mundane level analysis which concentrates on the daily practice of transfer pricing. Thus, the analysis covers three levels of hegemonic relations in forming transfer pricing. The first one is the relation between structural and local hegemony, the second one is the relations among dominant groups and dominated groups, while the third one is the relation between dominated groups. Together, these three relations construct a hegemonic form of transfer pricing practice.

Bringing together the Gramscian initial conceptualisation of hegemony and its later interpretations, a theoretical framework concentrating on different dimensions of hegemony was developed. First, Joseph's (2002) concepts of structural hegemony and surface hegemony were adopted to understand the broader hegemonic conditions in relation to organisations. Second, inspired by Ashraf and Uddin's (2015) focus on horizontal hegemonic relations, the concept of dynamic hegemonic relations, including vertical and horizontal hegemony, was developed to understand how transfer pricing is shaped by their interrelations.

Third, the Gramscian dialectical concepts of common sense and good sense are used to unpack the sense-making process of transfer pricing. These theoretical inspirations will be elaborated upon in Chapter 3.

1.4 Methodological choice

This study adopted ethnography as methodological approach. The empirical data were collected through a case study in a Chinese private sector organisation. It was selected primarily because of its excellent access. Two main divisions were visited as my research site due to their close relations and frequent transfer pricing discussions. During a seven-month period, I interviewed personnel from different managerial levels, from business owners and senior managers, to middle-level managers and low-level staff, as well as holding countless informal conservations with them during lunch breaks. I spent hundreds of hours with them, sitting at the same table with the business owners and managers to observe their daily practice of transfer pricing. Furthermore, I witnessed inter-divisional meetings where managers openly discussed the transfer pricing issue and negotiated the transfer price in real time. Documents were also reviewed to gain initial knowledge of each research site.

The data were analysed in relation to the organisation's managerial and social processes. During the fieldwork, I reflected upon my data with the theoretical framework through the writing of weekly summaries to identify common themes, summarise theoretical reflections, and update my storyline. Throughout the data collection period, the data were clustered and re-clustered to see how different theoretical insights could be used to make sense of the story.

1.5 Key contributions

This study begins with the aim to explore transfer pricing as a socio-political practice with a focus on hegemonic relations. The intention is to contribute to the existing knowledge on transfer pricing and the literature on hegemony in various ways.

This study aims to criticise the conventional neo-classical economic understanding of transfer pricing by showing transfer pricing as a social phenomenon. Following McAulay Scrace, and Tomkins' (2001) call for the adoption of a critical perspective in studying transfer pricing, this thesis provides such an empirical study. A hegemonic analysis on transfer pricing will demonstrate that transfer pricing cannot be conceived as a purely financial device, however. While arising out of structural and local hegemonic conditions, it is determined by the complex social relations, different interests, ideologies existing in an organisation.

The use of a theoretical framework based on the Gramscian hegemony aims to contribute to the development of hegemonic theory by highlighting its dynamic dimensions. While the current literature often focuses on a single dimension of hegemony, i.e., vertical hegemony (Richardson, 1989; Cooper, 1995; Goddard, 2002; Alawattage & Wickramasinghe, 2008) and horizontal hegemony (Ashraf & Uddin, 2015), this study offers insight into the dynamic interplay between different hegemonic dimensions. Thus, I will show the linkage between structural and local hegemony by exploring the conditional role of structural hegemony. I will also show how hegemony includes not only the hegemonic strategies that dominant groups implement with regard to dominated groups but also the horizontal political struggles between dominant groups.

Relating to this, this study will also bring insights on hegemony from the dominated perspective. Prior literature has focused solely on hegemony from a dominant perspective to explore the strategies of domination and moral leadership. Few studies have explored how dominated groups live in a hegemony, and little is known about either their sense-making process and the potential for resistance (see Mantzari & Georgiou, 2019 for exceptions). Thus, this study fills this gap by examining the sense-making process of dominated groups in their hegemonic context. It will reveal their contradictory thinking in understanding hegemonic practices such as transfer pricing. In addition, this study illustrates how managers can be regarded as dominated groups in certain contexts, which has been less explored in the prior literature.

1.6 Organisation of the thesis

The chapters of this thesis are divided into three categories. The next three preparatory chapters develop the research questions, introduce the theoretical framework, and present my methodological choices. **Chapter 2** identifies the research gaps for the study by reviewing the development of transfer pricing research and management accounting literature. The literature review suggests that transfer pricing is regarded merely as a contingent practice while other management accounting research has entered the 'social era'. This opens up possibilities for insights through social theorisation. In addition, the cultural-political research in management accounting has mainly discussed only the top-down relationship. The dynamic nature of transfer pricing then opens up opportunities to study the dynamic political relationship in organisations. Based on the identified knowledge gap, **Chapter 3** further situates the research questions and develops the theoretical framework to explore it in more detail. The framework is developed around Gramsci's political thoughts on 'hegemony'. Based on his original book 'Selections from the Prison Notebooks' and the theoretical interpretations of others, this framework concerns the dynamic dimensions of hegemony. The relations between structure and local hegemony are explored by the notion of structural hegemony; the relations between different social groups are explored based on theoretical insights into how hegemony is maintained including notions such as consent, common sense, and good sense. **Chapter 4** presents the methodological choices made in undertaking this research. It presents my philosophical and methodological position, which explains my choice of ethnography as a methodological design. In addition, it elaborates upon my field journey by explaining how I gained access, obtained an initial understanding of the field, conducted my data collection, and, finally, analysed the outcomes of my fieldwork.

Chapters 5, 6, and 7 provide an analysis of my empirical findings. **Chapter 5** analyses the structural hegemony within which the organisation is situated. It analyses the cultural-political development in China and analyses how this has influenced Chinese organisations in terms of the emergence of power relations and preferred management control practices. Although it does not directly relate to the internal dynamics of organisations, this macro analysis sets the necessary scene for further analysis. Based on this macro analysis, **Chapter 6** analyses the development and practice of transfer pricing at PLT, exploring the role of dynamic hegemonic relations in its development. By analysing the empirical findings of transfer pricing practice at PLT, especially its origin, development, and current status, I show how transfer pricing at PLT is characterised by different forms of hegemonic relations in different stages. While this analysis focuses on the horizontal hegemonic relations between dominant groups and their influence on transfer pricing, **Chapter 7** moves on to the analysis of hegemony from the dominated perspective by examining the mundane practice of transfer pricing and how managers make sense of it. It analyses the ‘common sense’ staff relied on when understanding transfer pricing and how it is related to each shareholder’s ideology. It also analyses the appearance of good sense as a way of resisting common sense and considers its role in sustaining the hegemony.

The last two chapters critically discuss the findings presented and illustrate the contributions of this study. **Chapter 8** summarises the findings and discusses how the research questions have been addressed. It critically engages empirical analysis with the literature on transfer pricing and management control to relate the present study to the existing research and theory. **Chapter 9** concludes the thesis by summarising the thesis, presenting its contributions to the transfer pricing and management control literature, and discussing possible directions for further research.

Chapter 2： Transfer pricing as a social practice

2.1 Introduction

The previous chapter situated this study in the domain of transfer pricing and management accounting research but also outlined the research gaps, research questions and the theoretical framework adopted herein. This chapter elaborates on these by analysing debates in transfer pricing and management accounting literature. In doing so, it problematises the conventional knowledge of transfer pricing, explores the need for an alternative perspective of transfer pricing and discusses cultural-political research on transfer pricing as a promising research opportunity.

The chapter proceeds by briefly elaborating the debate on ideological bias in accounting textbooks and how transfer pricing is understood in this context. Based on this, section 2.3 critically analyse the conventional research on transfer pricing, problematises theoretical foundation of neo-classical economic perspective, and reveals a narrow theme of transfer pricing as contingent practice. Section 2.4 highlights the need to conduct transfer pricing research differently by looking at similar debates on management accounting. By critically evaluating the relevance of cultural-political issue to transfer pricing, this chapter identifies the gaps in the current literature but also addresses them by exploring cultural-political aspect of transfer pricing

2.2 The textualisation of transfer pricing

The textualisation of management accounting knowledge has been debated for decades. Conventional understanding in mainstream texts and some leading journals has been heavily criticised by interpretive and critical researchers in various ways – for example, for the theoretical and methodological approaches of conventional management accounting research being narrow and problematic (Hopper et al, 1987; Chua, 1986). Thus, many researchers (E.g. Burchell, Clubb, & Hopwood, 1985; Chua, 1988; Hopper & Powell, 1985) have advocated alternative perspectives towards management accounting based on interpretive and critical thinking. Research on management accounting change and management control has occasionally adopted such perspectives and consequently provided fresh insights into it, such as on the social aspects to and implications of management accounting. Inroads have therefore been made, but transfer pricing research shows few signs of developing such an alternative perspective accordingly despite previously demonstrating connections between transfer pricing and social interactions (Mcaulay, Scrace and Tomkins, 2001).

Before exploring this need for an alternative perspective on transfer pricing, this chapter analyses how and why transfer pricing research largely remains locked within its neo-classical economics tradition. It begins by critically appraising conventional depictions of transfer pricing in mainstream texts to explain how a certain worldview of transfer pricing has been inculcated, texted and institutionalised.

2.2.1 Textbook as a form of ideology

The textbook is arguably an essential element of education, being used to explain concepts, show examples and provide a foundation for understanding knowledge, amongst other things. While its use has largely been taken-for-granted, some researchers criticise the textbook and its usage for diffusing certain worldviews while neglecting others. For example, Crawford (2003) calls the textbook a 'cultural artefact', adding that its production and use 'confront a range of issues to do with ideology, politics and values which in themselves function at a variety of different levels of power, status and influence Crawford (2003 P.5)'. Thus, instead of being a mere teaching instrument, a textbook can be viewed as a means of constructing particular meanings, beliefs and values. Given this, it is no wonder that its production, content and use are influenced by powerful groups in society (Ferguson et al, 2009; Crawford, 2003). Such political understanding of a textbook commonly concerns history books evaluating how nations represent themselves and 'the other' (Pingel, 2009), but similar concerns also exist regarding the ideological character in accounting textbooks. In particular, many researchers have problematised the dominance of the neo-classical economics worldview in accounting textbooks (Ferg*uson et al*, 2009; Crawford, 2003; Boyce, 2004; Ferguson et al 2004; Kelly & Pratt, 1994; Scapens, 1984; Cuganesan, Gibson, & Petty, 1997).

While this worldview should not be deemed 'wrong' or 'evil', it should not be taken-for-granted either. Neo-classical economics do highlight profit maximisation and economical rationality as its fundamental assumption, but accounting textbooks almost invariably promote these concepts and usually neglect, relatively speaking, others that are arguably equally relevant within this field (e.g. social implication of accounting). Also, different labels are given to different 'types' of accounting by textbooks. For example, the interests of shareholders are predominant in financial accounting textbooks while management accounting is assumed to have a more managerial orientation and a focus on internal decision-making. Consequently, a critical discussion on the neo-classical economics assumption underpinning texts is generally absent (Kelly & Pratt, 1994). In textbooks, then, knowledge is inculcated without addressing or even conveying any awareness of their implicit assumptions about society, human and value.

This domination of neo-classical economics ideology in accounting textbooks is not naturally developed. Interviews with accounting textbook authors and editors by Ferguson et al, (2006) discovered that these ideologies are actually the product of social and cultural relations. While knowledge is legitimated by professional bodies, businesses and the state, accounting textbooks reflect the ideological and political interests of particular groups in society regarding the types of students they want to produce and the ideologies they want them to carry. Despite textbook authors sometimes holding different worldviews, market pressure forces them to produce ‘publishable’ content in the service of power (Ferguson et al, 2006). Therefore, accounting textbooks actually help establish hegemony in society through their unquestioned reproduction of contestable values and beliefs (Ferguson et al., 2005; Ferguson et al., 2009; Mir, 2003).

The ideology implicated in accounting text is institutionalised in different ways to generate consent. Central to this is how mainstream management accounting texts inculcate students with certain norms of behaviour and practice while excluding awareness of their social and organisational effects. Specifically, management accounting is presented as a mere technical tool while its role in constituting social and political connections is not acknowledged (Ferguson et al., 2009). In addition, the sources of individual motivation are limited because of narrowly framed assumptions of human behaviours. Management accounting textbook regards self-interest as the sole human motives and ignores the possibility of other social concerns (Cuganesan, Gibson and Petty, 1997). Using introductory financial accounting textbook as an example, Ferguson et al. (2009) found that the particular ways textbooks institutionalise their ideology involve various approaches, such as implicitly prioritising shareholders as key users, neglecting historical changes of context, excluding political issues, frequently using certain terms and naturalising the neo-classical economic assumption. Through these and other methods, textbooks thus articulate certain cognitive interpretations of accounting that legitimise the social order of certain power relationships by reflecting the ideological position of certain groups (Mir, 2003). As they do not provide alternative perspectives for understanding accounting, textbooks can be viewed as hegemonic discourses (Mir, 2003).

The emergence of these criticisms highlights how the production and content of accounting textbooks present and institutionalise a neo-classical economic worldview to promote ideologies that represent certain power groups in society. Despite studies in accounting education having called for the introduction of alternative perspective into textbooks to consider social-political dimensions of accounting, texting of accounting still adheres to its neo-classical economic tradition, likely because of the development of corporate university (Boyce, 2004) and the demands of power groups such as professional bodies, businesses and government (Ferguson et al, 2006). Inevitably, the introduction of transfer pricing into mainstream textbooks (e.g. Drury, 2012; Simons, 2000; Kaplan & Atkinson, 1998； Bhimani et al. 2015) has also been based on such a predominant worldview. Next section discusses how transfer pricing is textualised in this social-political context and how attentions are derived from alternative ways of understanding transfer pricing.

2.2.2 Transfer pricing as a profit-making device

Transfer pricing is deemed a profit-making device in conventional understanding of transfer pricing, and neo-classical economic ideology is embedded in the conventional textualisation of transfer pricing – including its definition, purpose and calculation methods. Simons (2000 p. 160) definition of transfer pricing illustrates a dominant economic understanding of the term as ‘an internally set transaction price to account for the transfer of goods or service between divisions of the same firm’. Thus, transfer pricing, as above, is an internal pricing system that creates revenue for one division and a cost for another division in equal amounts. The message this conveys is that transfer pricing is a neutral calculative device where price is the core element of this technique. It also shows how an economic-based understanding of transfer pricing is established at the outset. Likewise, the legitimacy of transfer pricing is illustrated by highlighting its influence on the financial performance of different organisational divisions, leading to the ultimate goal of profit maximisation (Kaplan & Atkinson, 1998; Drury, 2012). This priority hence illustrates a neo-classical economic assumption underlying transfer pricing.

The intra-organisation purposes of transfer pricing are discussed based on this assumption, with two aspects usually dominant: motivation and performance measurement. That is, transfer pricing system should motivate local decision-making in the organisation's best interests, while transfer price and divisional profit should serve as performance indicators for senior management to evaluate each profit/investment centre (Drury, 2012; Kaplan & Atkinson, 1998). Evidently, these two purposes are somewhat conflicting. Theoretically, while a transfer pricing system involves performance measurement, agent problems may occur and these affect motivational purpose. Although this conflict is recognised in most textbooks, authors usually naturalise them. For instance:

> *"Unfortunately, no single transfer price is likely to perfectly serve all of the specified purposes. They often conflict and managers are forced to make trade-offs."* (Drury, 2012 p.510)

> *"Transfer pricing, as a response to the creation of artificial markets within firms, is inevitably a compromise."* (Simons, 2000 p.170)

As these examples demonstrate, authors tend to locate the source of conflict in the transfer pricing system itself rather than the legitimacy of the purposes, perhaps because of their assumptions regarding rational economic human behaviour. While authors tend to assume that all individuals behave rationally when making economic decisions, issues concerning subjectivity are overlooked. Thus, instead of raising attention to the social complexity in firms, authors generally neglect these concerns by assuming that such problems are easily resolvable. As Simons (2000 p.170) summarises:

> *"As long as managers are aware of the potential distortions and incentive effects, profit plans can be adjusted ex ante and ex post to reflect internal transfers, and negotiations can easily be conducted between divisions so that no one is unfairly burdened by internal transfers of goods and services."*

However, some authors do allude to subjectivity concerns. For instance, as Bhimani et al. (2015 p.628) state:

> *"[when negotiating final price] The answer depends on the bargaining strengths of the two divisions … The price negotiated by the two divisions, will, in general, have no specific relationship to either costs or market prices."*

It addresses practical issues of transfer pricing negotiations such as bargaining strengths and non-market driven transfer price. As such issues cannot be explained by a neo-classical economic perspective, the above authors intimate at how values, beliefs and social relations influence transfer price. Despite this, these authors did not further elaborate on the argument and instead discussed different transfer-pricing situations using the contingency approach, which fits the dominant assumption.

Indeed, authors continue to institutionalise the economic significance of transfer pricing particularly through technical illustrations of different calculation methods in transfer pricing. The possible financial outcomes of these in various situations are likewise demonstrated with detailed examples. These methods include market-based, cost-based and negotiation-based transfer pricing in light of contingency theory. The principal argument of contingency theory is that different organisational practices are appropriate under different external environmental circumstance and in different parts of the organisation. This, however, makes it impossible to develop a general applicable management system (Hopper and Powell, 1985). Applying contingency theory's assumptions, authors discuss the usefulness of different methods under various internal and external conditions. For example, the market-based transfer pricing method has been identified as optimal for intermediate products in perfectly competitive market conditions (Drury, 2012), but the negotiation-based transfer pricing method is described as ‘perhaps the most practical method’ for an imperfect competitive market and under cost-based pricing rules (Kaplan and Atkinson, 1998). The complexity of different conditions is reflected in the table developed by Simons (2000) that shows major trade-offs when choosing transfer pricing methods.

Table 2-1: Major trade-offs in transfer pricing methods

	TRANSFER PRICING METHOD				
OBJECTIVE	VARIABLE COST	FULL COST	FULL COST PLUS PROFIT	ACITIVITY-BASED	MARKET PRICE
Promotes rational decision making in Selling Division	Poor	Moderate	Better	Better	Better
Promotes rational decision making in Purchasing division	Poor	Better	Better	Better	Moderate
Provides accurate product contribution measures	Poor	Moderate	Better	Better	Best
Easy to understand	Best	Better	Moderate	Worst	Best
Easy to apply	Better	Moderate	Difficult	Difficult	Varies

Source: Simons (2000, p. 17)

The table above illustrates an attempt to reinforce transfer pricing's contingent complexity by showing how different methods have their own advantages and disadvantages under different circumstances. Such understanding treats the various transfer pricing practices as inanimate objects. Through such an ideology, contingent selection of different methods has become pervasive for practitioners. What contingent selection lacks, though, is a theoretical explanation of how different calculation methods can satisfy or dissatisfy different purposes.

As noted earlier, the dominant neo-classical economics ideology of transfer pricing as presented in conventional textualisation inculcates particular knowledge. Consequently, transfer pricing is commonly deemed a profit-making device and discussions of it are overwhelmingly concerned with its economic benefit, efficiency matters and contingent nature. This reciprocally reflects the perspective of transfer pricing that dominant social groups want to produce and re-produce. While transfer pricing has been labelled a neutral device (Simons, 2000), it has actually been carefully developed in the form of neo-classical economic ideology from the beginning. However, we saw an uncritical adoption of neo-classical economic principles in transfer pricing. Although relevant social issues were hinted (Bhimani et al., 2015), authors tend to neglect its significance. This will cause transfer pricing to become increasingly irrelevant to organisations operating under complex social contexts (Kelly & Pratt, 1994). This will be developed further in the section 2.4.2.

2.3 Re-textualising transfer pricing

This work proposes that the conventional textualisation of transfer pricing in textbooks is largely about indoctrinating readers in the ideology of the neo-classical economic perspective and that the re-textualising of transfer pricing in conventional research reinforces this ideology by developing contingent-based research and positivistic empirical studies. This section elaborates on this argument by analysing various debates within transfer pricing research. First, it discusses the ongoing debates on transfer pricing calculation methods (2.3.1). Secondly, it explores the issue of fairness of transfer price in negotiation (2.3.2). Thirdly, it looks into research on tax compliance and its relation to management control in transfer pricing (2.3.3). Overall, to crystallize the research issues the current study addresses, this section focuses on the management control issues associated with transfer pricing instead of those to do with taxation.

2.3.1 Debates on the choice of calculation methods

Research development on transfer pricing is driven by the analysis of different calculation methods and, often consequently, different analytical results. As with textbooks, debates on different calculation methods persist and they do so on both theoretical and empirical levels. Despite various focuses within these debates, a recurring theme concerns an economical question: 'Which transfer pricing method is the best?’

The standard transfer pricing model proposed by Hirshleifer (1956) introduces a basic model in an organisation with one Headquarter (HQ) and two divisions, and it explores how transfer pricing can perform for the best level of output in different market scenarios. However, this fundamental model of how transfer pricing should be set in a given organisational and market environment does not explain ‘how decentralisation is essential?’, given that centralised price instructions from HQ to divisions can be efficient enough (Göx and Schiller, 2006). Studies adopting the asymmetric information principle seek to answer this question by arguing that information specialisation is one of the main reasons for decentralisation (Kaplan & Atkinson, 1998). Under the setting of asymmetric information, where divisional managers have greater local knowledge than top management, early studies argued that delegating transfer pricing decision-making based on either a cost-based or a negotiation-based method can help firms maintain an optimal financial output (Vaysman, 1996, 1998). A little later, Dikolli and Vaysman (2006) considered the influence of information technology on the economic efficiency of the negotiated transfer pricing and cost-based methods. Their results indicate that the negotiated transfer pricing is financially superior under the condition of coarse information technology because of its information advantage, but with information technology developments this information advantage diminishes, and cost-based methods are able to generate higher profits.

Other studies adopt an incomplete contracting model when analysing the usefulness of different transfer pricing methods. This model assumes that divisional managers make specific upfront investments because these can be valuable for internal trade while having little value for external trades. Therefore, comparisons of different methods are about their capacity not only to guide intracompany transfers but also to motivate managers' investment incentives (Göx and Schiller, 2006). Similar to studies adopting the asymmetric information principle, incomplete contracting model reports mixed results because of the complexity of different scenarios and assumptions. For example, a Baldenius et al.'s (1999) comparison between negotiated and cost-based transfer pricing suggests that both methods can be a superior choice under certain circumstances. Although negotiation-based transfer pricing generally performs better, it can lead to insufficient investment incentives from managers; however, cost-based transfer pricing avoids such problems but they do suffer from distortions in intracompany transfer. Pfeiffer et al.'s (2011) results also indicate that three different methods (centralised standard-cost method, actual-cost method and reported standard-cost method) can dominate others under different levels of cost uncertainties faced by HQ and divisions.

Analytical work discussed above generally suggests that transfer pricing performs differently in different markets and organisational simulations. Different models and assumptions by their very nature are difficult to compare, leaving gaps between theory and practice. The recent appearance of empirical studies on transfer pricing sought to fill such gap and explore reasons for using certain calculation methods in practice. Interestingly, their results tend to conflict with what theory suggests. For example, theoretical work suggests that full-cost transfer pricing may trigger a self-perpetuating cycle of price increases and volume decreases, which leads to an efficiency distortion known as ‘dead spiral’ (Göx and Schiller, 2006). Nevertheless, Bouwens and Steens (2016) argue that the theoretical economic consequence of cost-based transfer pricing system can be prevented by systematic improvements such as cost-related performance measurement systems to encourage cost-reduction actions from managers worked in practice. Believing rational assumption to individuals, they argue that proper system design can help managers make the best decisions for the organisation's financial benefit and to prevent the ‘dead spiral’ (Bouwens & Steens, 2016).

2.3.2 What is fair?

The debate about ‘fairness’ in transfer price negotiations opens another layer of complexity to transfer pricing by adding a subjective factor to it, as ‘fairness’ can mean different things to different people, despite also possibly having some objective measures, so it has a significant subjective strand. Across various contexts people can consider fairness in terms of salaries, promotion opportunities, human rights, bargaining strength, workload, authority, etc. In the transfer pricing literature, Luft and Libby (1997) set an early benchmark for understanding ‘fairness’ in research. For them, ‘fairness’ concerns equal profit for both divisions in transfer pricing negotiations. While conventional economic arguments deem market price a important benchmark for transfer price, Luft and Libby's (1997) experiment with experienced managers indicates that the existence of an external market does not necessarily simplify the transfer pricing negotiation process. They argue that the ‘fairness’ of market price is an influential factor in managers' decisions regarding the appropriateness of the transfer price. For instance, an unfair market price may not be accepted by managers because of their concerns of aversion to unequal price from other division. To further complicate the situation, the authors also found that self-serving bias can lead to different constitutions of a ‘fair price’ among managers whereby they tend to view an outcome more favourable to them as being fair (Luft and Libby, 1997).

Motivated by Luft and Libby's (1997) work, further studies started investigating the influence of different organisational factors on understandings of ‘fairness’ in negotiation processes. Kachelmeier and Towry (2002) were concerned about the influence of internal organisational mechanisms on the ‘fairness’ of negotiation outcomes and found that the negotiation mechanism (e.g. face-to-face or computerised negotiation) influences the fairness of transfer price. They discovered that the expectation of ‘fairness’ would not be materialised under computerised conditions where no direct communication is made other than actions such as bids, asks and acceptances. Kachelmeier and Towry (2002) then argue that the ‘fairness effect’ exercised in face-to-face negotiations may be attributed to the nature of humanised negotiation. Similarly, Ghosh (2000) argues that a complementary arrangement of sourcing and compensation structures facilitates fairness in transfer price negotiations due to negotiating managers’ singular motive (i.e. either cooperative or competitive’). Some studies argue that a manager’s values and cultural background may influence their own understanding of ‘fairness’. For instance, Chang, Cheng and Trotman (2008) argue that a manager’s degree of concern for others (so-called 'social concerns') can influence the transfer price negotiation process. Specifically, when working with partners who have a high concern-for-others, managers are more willing to give up their own profit and accept a less favourable transfer price. In a recent study, Hussein et al. (2017) argue that the ‘fairness effect’ noted by Luft and Libby (1997) is cultural dependent because understandings of ‘fair’ may differ because of different power distance (Hofstede, 1984) across different cultures.

The development of this research stream reveals the social complexity in transfer pricing and shows that it cannot be studied as a mere technique without considering the managers operating it. Managers' attitudes, cultural values and social relations can influence the outcome of transfer pricing, but alas previous research has graced only the surface of such complexity or at least touched only certain aspects of it. While growing evidence suggests that social relations can play a key part in transfer pricing negotiations (e.g. Chang, Cheng & Trotman, 2008; Hussein et al. 2017), how such social relations influence managerial behaviour remains unanswered. Although studies illustrate that fairness of price may be influenced by certain contingent factors such as the negotiation mechanism, managers' attitude and operators' social status, research has hitherto failed to provide any theoretical reason for such influences. For example, Luft and Libby's (1997) work suggests that managers may avoid the unfair transfer price indicated by the market price because of their concerns of aversion, but it is unclear why this happens in the first place. Is it because managers are doing others a favour because of their personal relationship? Is it because of pressure from HQ? Or are there other explanations for this? Similarly, when explaining the appearance of the fairness effect in face-to face negotiations, Kachelmeier and Towry (2002, p. 588) concluded that 'face-to-face contact affords a more humanized negotiation and provides opportunities for persuasive communication, making it more difficult for the advantaged party to exercise the full economic bargaining power of an outside market price option'. However, this claim clearly lacks any theoretical explanation of how a humanised negotiation creates such conditions. These questions cannot be answered without empirical studies that consider the social-political context where transfer pricing practices occur.

Furthermore, the functionalism characteristic of conventional research gives it a sole focus of profit maximisation. The motivation behind trying to identify influential factors usually concerns improving the economic efficiency of the transfer pricing procedure. For example, on the purpose of their research Chang, Cheng and Trotman (2008, p. 706) say they 'attempt to obtain a more unified understanding of how the negotiation process works and, eventually, how to overcome barriers to effective negotiation'. Similarly, Luft and Libby (1997, p. 219) also admit that they are motivated by the need for cost reductions as noted by practising managers and management accountants. Because of such characteristic, research misses the opportunity to embrace the complexity of context and explore the real-world practice of transfer pricing negotiation.

2.3.3 Tax compliance as a contingent factor

The above studies note how the internal managerial functions of transfer pricing contain many complexities with numerous contingent factors to consider, and the tax issue further complicates the issue. Although hardly mentioned in textbooks, transfer pricing associated with international taxation is an important topic for many researchers (E.g. Jacob, 1996; Sikka & Willmott, 2010; Cools, Emmanuel & Jorissen, 2008). These authors view it as a significant challenge for many countries and even researchers because of its implications for the distribution of wealth and public goods in a global context (Sikka and Willmott, 2010).

The prevalence of tax-motivated income shifting (so-called 'international transfer pricing') in MNEs means enterprises can maximise their after-tax income through creative inter-organisational transfer pricing (Jacob, 1996; Oyelere & Emmanuel, 1998; Emmanuel, 1999; Clausing, 2003; Dharmapala & Riedel, 2013), and tax-motivated transfer pricing happens in both developing and developed countries. Thus, transfer pricing is not only an accounting technique for internal management but also a method of resource allocation that affects the distribution of income, wealth, risks and quality of life (Sikka and Willmott, 2010). To avoid loss of tax revenue, most countries have rules or regulations to assess the appropriateness of transfer prices by MNEs (Yao, 2013). For instance, the arm's-length principle, whereby organisations have to operate transactions as neither party is subject to the other's control or dominant influence, is commonly introduced by many regulators to limit conscious profit shifting by international organisations.

Although the taxation issue regarding transfer pricing is not the main concern of this study, many studies found that regulatory control over ‘international transfer pricing’ can influence the management control implications of transfer pricing in many organisations. A contingency framework has been to investigate such effects (Cools, Emmanuel & Jorissen, 2008; Cools & Slagmulder, 2009; Rossing, 2013). Case studies found that companies often use one set of transfer pricing systems for both tax and management control purposes to justify their transfer pricing choice as being internal and more specfically managerial motivated. This means that transfer pricing decisions involve performance evaluation but also currency and tax considerations (Smith, 2002). Interestingly, tax compliance seemingly dominates the entire transfer pricing system in many cases (e.g. Cools, Emmanuel & Jorissen, 2008; Cools & Slagmulder, 2009; Rossing, 2013). The functions of transfer pricing as a management control system are usually sacrificed as a contingent response to tax regulation. Negotiation in transfer pricing was eliminated as it may provide signs of profit manipulation (Cools & Slagmulder, 2009). In the case of Rossing (2013), an additional management control system was even deployed to reinforce the importance of tax compliance. These empirical findings were commonly justified from a contingent perspective, authors generally argue that the arm’s-length principle required by tax regulators seems an environmental pressure on the organisation; hence, sacrificing the management control function in transfer pricing becomes necessary for the organisation's survival. This research stream also highlight their methodological contribution by using case studies to explain how a company’s MCS is designed and used under the environmental pressures from the arm’s length principle (Cools & Slagmulder, 2009). Nevertheless, their methodology is underpinned by functionalism. Instead of involving themselves in the field and constructing psychological realities from the perspective of participants in the field, researchers generally examine formal mechanisms as objects. Thus, the role of transfer pricing is, for them, predetermined and taken-for-granted even before entering the field.

2.3.4 Reflection on transfer pricing texts

This literature review demonstrates how transfer pricing is textualised and re-textualised by reviewing textbooks and engaging in various academic debates. It reveals how textbooks introduced neo-classical economic ideology into transfer pricing and shows how this ideology, although not explicitly mentioned, is embedded throughout the texts including in aspects such as transfer pricing's definition and legitimacy but also discussions of calculation methods. The development of transfer pricing research further reinforced this ideology through the consistent focus on the economic consequences of different contingent factors and transfer pricing methods. This narrative contains diverse debates on transfer pricing issues such as calculation methods, fairness and tax compliance. At first glance, the development of transfer pricing research seemingly demonstrates a rich diversity of research topics, but on closer inspection these topics indeed ultimately share similar themes as demonstrated in figure 2.1.

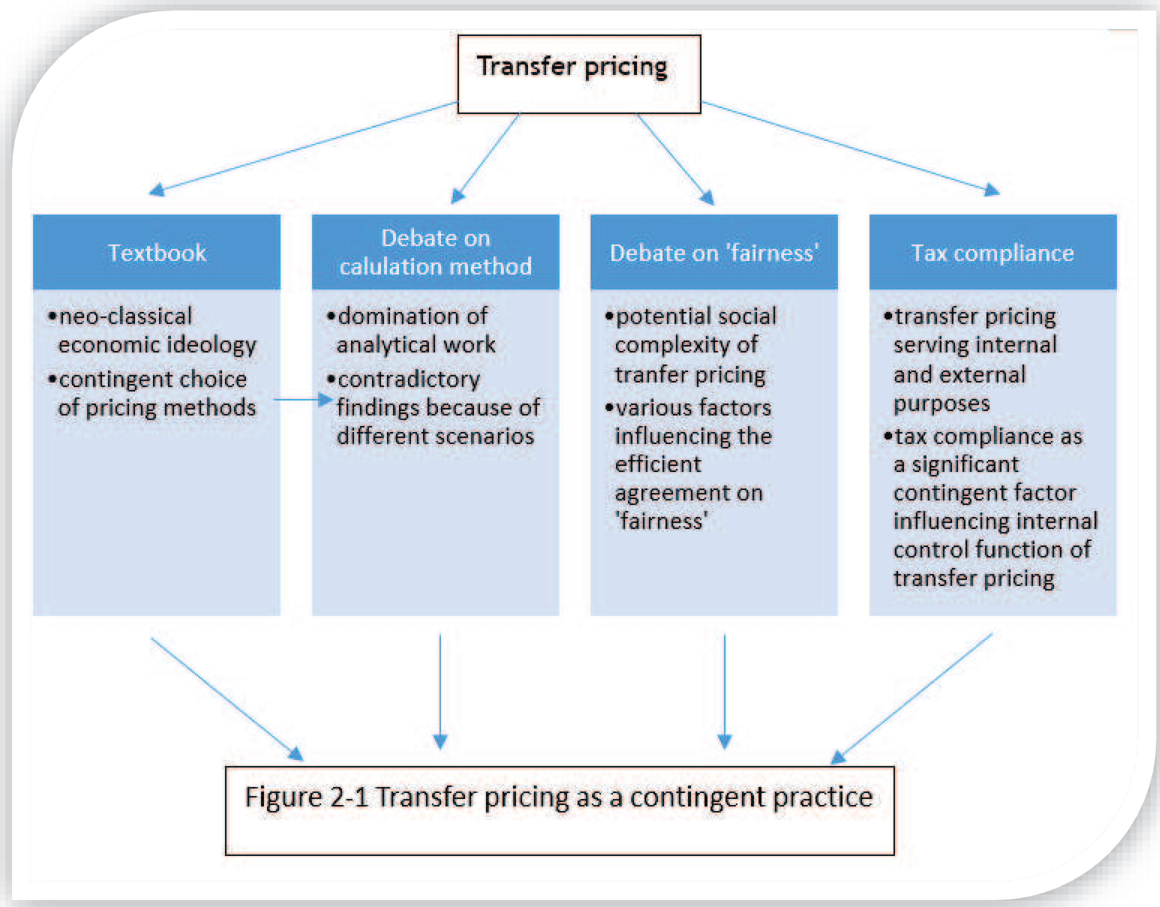

Figure 2-1: Transfer pricing as a contingent practice

As demonstrated in Figure 2-1, conventional research on transfer pricing mostly deem it a contingent practice. New contingent factors evaluating the influence of different environmental factors on different transfer pricing methods are constantly being introduced. Although contingency theory is not interpreted and mentioned in some literature (e.g. Bouwens & Steens, 2016; Hussein et al., 2017), its theoretical insights are implicitly embedded in most studies to justify common contradictory findings. Furthermore, the dominance of the neo-classical economic ideology brings about an exclusive research focus on the economic performance of transfer pricing. While some factors such as managers' social concerns (Chang, Cheng & Trotman, 2008) are viewed as obstacles to the economic success of transfer pricing, other factors such as an appropriate level of cost uncertainty (Pfeiffer et al. 2011), information technology (Dikolli &

Vaysman 2006) and complementary arrangements (Ghosh, 2000) are regarded as key elements for the success of certain transfer pricing methods.

A closer look at the theoretical explanations and ideological assumptions in prior literature suggests that there is actually little difference in terms of their results and research focus among various debates on transfer pricing. Although an increasing number of factors are continually added into the transfer pricing discussion, research has not critiqued its dominant neo-classical economic assumptions. This is quite problematic because it can lead to predictive results given that any contradictory findings can be justified by introducing new contingent factors. However, researchers seem unaware of such a problem and take the economic worldview for granted. Although research such as Cools and Slagmulder (2009) criticises the insufficient attention on the processual nature of transfer pricing, they themselves still maintain an uncritical view of the underlying theories. Such a lack of attention to the underlying theoretical premise of the discipline and this pervasive uncritical assumption of neo-classical economic ideology means that transfer pricing research is reaching a 'dead circle'. This point will be further elaborated on in the next section through a critical review of contingency theory and neo-classical economic assumptions.

2.4 Moving beyond the 'dead circle'

As problematised in the previous section, most research in transfer pricing has been developed based on a neo-classical economic assumption and contingency theory. In order to further identify the research gap, the long-going criticism of these two aspects is discussed first, followed by the discussion on social theocratisation as a way forward.

2.4.1 The economic and contingency trap

The domination of economic and contingency approaches is not unique to transfer pricing research as the development of management accounting research has experienced similar. Scapens (2006) provided a vivid story documenting the evolvement of management accounting studies in the preceding decades, which also gives insights into the current status of transfer pricing research. In the 1970s, management accounting research was dominated by economic approaches employed mathematical models. The intention of such approach was that all relevant theory the practitioners should be using had been developed and what academia should do is communicate it to practitioners and students. Thus, academia believed that management accounting practitioners would eventually learn to use these optimal management accounting models, but academies soon realised realise that practitioners never adopted them. In the 1980s, in response to the huge gap between theory and practice, researchers undertook research to explain the nature of management accounting in practice. A movement from the normative approach to the contingency approach developed to explain contradictory empirical observations and the use of 'unideal' practice in some companies (Otley, 1980). Contingency theory underpinned by economic modelling became widely adopted to understand why diverse management accounting practices exists and to provide theoretical explanations accordingly. Concepts such as technology, organisational structure and environment were commonly used as explanatory variables to justify such diverse management accounting practices (Otley, 1980).

The development of management accounting research up to the 1980s represents the current status of transfer pricing research. Transfer pricing research has widely adopted mathematical models to understand how transfer pricing should be, and contingency theory is used to explain the diversity of transfer pricing practice. Researchers studied transfer pricing with the intention to improve its efficiency as long as practitioners discovered and considered more variables. However, where the two areas differ is that management accounting research moved on to a ‘social era’ while transfer pricing research remains trapped in a focus of contingent approach (Scapens, 2006).

Although the adoption of contingency theory helps justify contradictory observations in management accounting practices, some researchers discovered the inconsistent correlation despite solid theoretical foundation (Scapens & Sale, 1985; Otley, 1980; Hopper & Powell, 1985). Scholars started to realise that management accounting practice is usually not ‘ideal’ and that its development is dynamic and difficult to generalise into different contexts (E.g. Burchell et al, 1980; Scapens & Sale, 1985; Scapens, 1994). Consequently, researchers became sceptical about contingency and economic theories, and they called for studies of management accounting in its context (Hopwood, 1983). For instance, Hopper and Powell (1985, p. 455) heavily criticised neo-classical economic methodological and theoretical assumptions:

> *The failure of accounting research to question its methodological assumptions or to examine related broader and social issues is puzzling, given that so much relevant work in other disciplines impinges on topics normally considered within the accounting domain. Accounting researchers often defend the current position in terms of an academic division of labour. Accounting research is assumed to be concerned with developing managerial techniques and technologies. Abstract theorizing and societal issues are seen as the province of others. However, any such distinction is artificial and self-defeating. Not only can it lead to an impoverishment of understanding about accounting, its social science assumptions and its societal context, but it can have repercussions upon the relevance and usefulness of accounting research within management.*

Others echoed this strong statement and sentiment. That same year, Roberts and Scapens (1985) noted that understanding accounting practices in the organisational context requires not merely a technical description of an accounting system but insights into the ways it is embodied in its societal context. Similarly, Scapens (1990) argues that although the neo-classical economic assumption may be useful when predicting general patterns of economic behaviour, it does not explain the process of individual behaviour. Later, Scapens (1994) argued that scholars should study management accounting practice per se instead of comparing them to theoretical models. This suggests that broader economic, social and political contexts likely influencing how management accounting practice emerges. Considering all helps understand management accounting in its particular and broader senses. Nevertheless, this is often sacrificed for a particular focus in transfer pricing research.

The arguments criticising economic management accounting approaches can easily apply to conventional transfer pricing research. Despite continued calls for recognising broader social contexts when studying management accounting, transfer pricing research still does not show any interest in this and continues its uncritical adoption of neo-classical economic methodological and theoretical standings. In doing this, it considers transfer pricing outside its own and others' (e.g. contexts) realities. Adopting an experimental approach also creates an unrealistic context for transfer pricing and therefore provides only very limited understanding of transfer pricing in practice. Although case studies are adopted in some studies, they tend to separate transfer pricing mechanism from its context and the focus is on one independent variable – tax compliance. Excessive attention on the economic role of transfer pricing limits opportunities to discover the way social contexts influence the emergence of transfer pricing. Although social factors such as bargain strength (Bhimani et al., 2015) and social concern (Chang, Cheng & Trotman, 2008) are recognised in some studies, they are considered barriers to effective transfer pricing. This is ironic given that transfer pricing is traditionally categorised as part of management accounting. To enhance the understanding of transfer pricing practice, a study must thus define transfer pricing as a broader concept that includes not only its technical mechanism but also the interplay of different inter-related factors such as human relations and broader economic, social, cultural and political contexts. This is what this study does. Through social theorisation, this study could possibly provide important insights on transfer pricing issues.

2.4.2 Social theorisation as an essential step

The previous section showed how current transfer pricing research has been trapped within its own ‘dead circle’ of an economic and contingency approach while other management accounting research (e.g. Roberts and Scapens, 1985; Hopper and Powell, 1985) has identified the gap of theory and practice and moved towards a broader understanding of management accounting as a social practice. This section thus discusses how social theorisation is an essential step for transfer pricing research to make a similar move.

Following the demand for broader understanding of management accounting, a rapid development of alternative theoretical perspectives has emerged in recent decades. Various theories and different methodological approaches developed to study management accounting practice have sought to extend the theoretical domain from economic into social theory (Scapens 2006). The core premise of using social theory starts from the belief that management accounting practices are not natural phenomenon; instead, they are socially-constructed practices (Scapens, 1990). Therefore, social theory enriches explanations and understandings of transfer pricing practice not only by viewing this through different theoretical angles but also, importantly, by taking hitherto neglected approaches more suitable to transfer pricing as a social phenomenon.

Social theories have been implicated in management accounting research to offer alternative explanations for the emergence of different management accounting practices other than environmental pressures or technical needs. In recent decades, institutional theory, for example, has been rapidly developed and implicated in management accounting research to understand how management accounting change is emerged and changed in organisations. Burns & Scapens's (2000) institutional framework allows them to explain management accounting practices by viewing it as organisational rules and routines and by emphasising their historical-processual nature (Burns & Scapens 2000). Empirically, researchers using this framework found that the change of certain management accounting practices can be explained as deriving from a complex dynamic between formal rules and day-to-day routines such as their loose connections (Lukka, 2007) and the interaction between historical reproduced routines and formal rules (Steen 2011). Alternatively, an institutional logics perspective provides explanations on the emergence of certain practices with a different emphasis. Instead of focusing on the interactions between rules and routines, this institutional framework analysing actors' logics – the organizing principles that drive the meaning actors give to their social reality (Friedland and Alford, 1991). Therefore, management accounting can emerge due to the materialisation of actors' value beliefs and assumptions instead of technological development or desires for profitability (Lounsbury 2007). Similarly, the change of management practice can be explained as resulting from conflict between competing logics in organisation and society (Ezzamel, Willmott and Worthington, 2008).

The adoption of institutional theories illustrates how management accounting can be studied by viewing it as an ongoing social process. The key arguments are that social theory can provide theoretical explanations for 'why organisations have their particular management accounting practices?', and that transfer pricing can benefit from the social perspective. While prior transfer pricing literature can provide only rational explanations for adopting certain transfer pricing mechanisms, social theorisation has the potential to provide broader explanations on transfer pricing in the real world. Transfer pricing, at its core, is a practice heavily involved in constant discussion, argument, conflict and negotiation between people from different divisions. While people may have different logics, identities and different images to others, the transfer pricing will be emerged accordingly.

The relevance of the social perspective was actually raised almost two decades ago. Mcaulay, Scrace and Tomkins (2001) provided an initial insight into how transfer pricing practice can be established for non-technical use. Acknowledging some neo-classical economic explanations on the emergence of certain transfer pricing practices in Trustco (their case organisation), they highlighted how transfer pricing practice can be used as a tool for sustaining custom and habit, establishing identity and image, or even as means of catering for personal needs and agenda. These observations actually echo those on the management accounting practices discussed above. For instance, Mcaulay, Scrace and Tomkins (2001) argue that the reason for introducing transfer pricing may simply be to comply with the custom of adopting transfer pricing in the industry. This observation relates to institutional studies, where logics at the professional level is able to influence organisational evolution (Lounsbury, 2007; Scott et al , 2000; Thornton, 2002). Thus, attempts at critically theorising transfer pricing can be a positive step towards better understanding of the non-technical role of transfer pricing in practice. The necessity for this is well articulated near the end of Mcaulay, Scrace & Tomkins' (2001, p. 107) insightful research: ‘A critical perspective begins to offer an affirmative stance, which is potentially more fulfilling than the constraining rationality of custom and fashion flooding from the quasi-economic and commercial mindscape of Trustco.’

Knowing this, it would be interesting to extend this critique further. Although their study carries various theoretical insights, it did not adopt any theoretical lens during data analysis. The authors eschewed the commitment to a particular theoretical framework to instead illustrate the mutual interest of theory and practice and highlight multiple readings of the story. Therefore, further studies with a particular theoretical framework can possibly provide a more solid theoretical understanding of transfer pricing.

2.4.3 The cultural-political issue

As discussed above, Mcaulay, Scrace and Tomkins (2001) offer various lines of reasoning for understanding transfer pricing practice. One of their arguments is that transfer pricing might support the personal agenda of the Chief Executive Officer, through which particular stakeholders benefit at the expense of others, including the employees. This observation is significant for this study because it illustrates an example of transfer pricing as a political practice.

Although not discussed in the transfer pricing literature, arguments regarding political and cultural influences on management control are well developed. Power, an inevitable topic for this stream of research, involves capacity for action, command and control, and it mobilises through relations and creates politics (Wickramansinghe, 2006). This is well documented in the various privatisation projects within less developing countries (e.g. Uddin & Hopper 2001; Wickramasinghe et al., 2004; Wickramasinghe & Hopper, 2005; Ashraf & Uddin 2015). Overall, their results suggest that management control practice is usually influenced by the power of state politics instead of local economic decisions. For example, in the study of a Sri Lanka Telecommunications company, Wickramasinghe et al. (2004) noted how attempts at introducing Japanese cost management during privatisation faced heavy resistance from local politician through regulations. In other words, when a neoliberal force tries to mobilise local power the local powerful players resist to maintain existing power relations. Consequently, any ‘new’ management accounting practice gets marginalised and the traditional political-based control approach remains. Thus, the inclusion of political elements such as political intervention and state control into management accounting research extends our understanding of how management accounting is emerged and changed.

Another important power relation is the classic capital-labour relationship. Hopper and Armstrong (1991) note its relevance to management accounting systems in light of labour process theory. They argue that the development of management accounting reflects the evolution of capitalist control. For them, then, management accounting practice is not a mechanism for improving production efficienty; instead, is a political means through which the capitalist class secures surplus value (Hopper & Armstrong, 1991; Alawattage & Wickramasinghe 2008). This perspective therefore stresses ‘contradiction rather than internal consistency; social and political conflict rather than harmony; the monopoly power of corporations rather than self-equilibrating competitive markets, patterns of class formation in specific economies rather than an atomised view of the individual; and human agency in its cultural and institutional setting rather than economistic reductionism’. (Hopper & Armstrong, 1991, p. 406).

The labour relationship embraces crisis and contradictions in society and unpacks different and more broader forms of controls than the economic perspective, but the significance of accounting within this relationship is debatable. For instance, Bryer (2006) argues that accounting is the core control system for capitalists because it provides objective measures of generating and realising surplus value. Many other scholars, however, believe that accounting serves only a supplemental role for other forms of labour control such as physical modes of control (Hopper, et al, 1986). Though the above studies focus on the capitalist control in Western contexts, studies situated in developing countries argue that management accounting can be detached from labour control. Alawattage and Wickramasinghe (2008), for instance, argue that the role of accounting in the labour control domain depends on its broader structural conditions. In the case of a Sri Lankan tea plantation, these authors found that political hegemonic control dominated the overall control mechanism while accounting helped reproduce the status quo. Under this, Cultural practice is a main strategy for political control other than direct political intervention. For instance, ‘paternalistic relations’, as a cultural practice, was central when forming local political control (Alawattage and Wickramasinghe, 2008). Similarly, Efferin and Hopper (2007) noted a culture-driven control mechanism in a Chinese-Indonesian business, finding that accounting for this Chinese-owned organisation is used only to prescribe behaviour. In this, accounting's disciplinary function had been replaced by a cultural-based control based on the Chinese values of loyalty and obedience rather than efficiency or financial result.

While the neo-classical economic perspective is silent on the complex cultural-political environment in which transfer pricing is situated, studies in management control have given some prominence to the power relations in the labour process. In this domain, hints at the relevance of cultural-political influences on transfer pricing offer exciting possibilities for such studies. The potential of the transfer pricing system as a political practice has already been alluded to by Mcaulay, Scrace and Tomkins (2001), and the cultural dependence of transfer pricing has also been discussed in a recent paper by Hussein et al. (2017). Adopting Hofstede's (1984) theory of cultural dimensions, the latter authors argue that decisions on the transfer price are culture-specific. Specifically, they found that collectivist cultures tend to consider unequal profit distribution as fair while individualist cultures tend to consider similar profit distribution as unfair. Although their research demonstrates that transfer pricing practice may differ according to different context, their attribution of this to cultural contingency theory lacks an explanation of ‘what [people’s] values are, why and how they emerged, why they matter, and how they influence control' (Efferin and Hopper, 2007). Hence, the role of politics and culture in transfer pricing needs further exploration.

Studying transfer pricing more broadly can enhance our understanding on cultural-political influences in management accounting. Despite growing engagement with political debates, the current research focus seems to be narrowed to the top-down relationship between the dominant and dominated classes – for example, state control over organisation and capitalists' control over workers. However, few studies explores the horizontal relationships and interplays between different relations. One exception is a recent study by Ashraf and Uddin (2015), who addressed the presence of a horizontal dynamic of politics when it is shaping management control practice. In their case on Pakistan Airport, the political conflict between military and commercial managers in the organisation has created ambiguous management accounting without a consistent ideological foundation. Consequently, the management control mechanism became unstable, which led to resistance from the employees later on. These authors' research therefore highlights that the internal relationship among social groups is also crucial in shaping management control practice. Nevertheless, horizontal political relations are largely absent from current political accounting studies.

In addition, there is little focus on the dominated classes. Although most studies do emphasise how labour control can be achieved with or without management control, hardly any documentation specifically explores the influenced group. Nevertheless, the actions of the influenced group are important for the reproduction of labour control. For instance, the workers' resistance to the capitalist mode of production eventually leads to the restoration of the old control system (Wickramasinghe, Hopper and Rathnasiri, 2004; Wickramasinghe and Hopper, 2005). Though this is so, this also suggests that the political relationship among the dominant group will also be influenced because of the restoration of control system. This dynamic political relationship is therefore important to draw a more comprehensive picture of management accounting in relation to political control.

A cultural-political study on transfer pricing such as this study can fill this gap. Transfer pricing essentially contains two types of practices – management control and internal communication. Transfer pricing can be regarded as a management control practice because of its function of performance measurement, it involves the relationship between the dominant and dominated groups. At the same time, transfer pricing practice is also an information sharing system through which staff in different divisions can communicate. The dual role of transfer pricing in organisation then has the potential to analyse the dynamic political relationship in organisations.

2.5 Summary and conclusions

This chapter has articulated the need for a political study in transfer pricing through my reviews on transfer pricing, and management accounting literature. The review noted that the development of transfer pricing research is largely underpinned but also dominated by neo-classical economic ideology and contingency theory. Textbooks set the benchmark of ideological assumption for studying transfer pricing, and the development of transfer pricing research reinforces the understanding of transfer pricing as a profit-making device. Inevitably, various research is undertaken based on the functional desire to provide suggestions for practitioners. A closer look of research results suggests that transfer pricing is largely regarded as a contingent practice. Although contingency theory is not interpreted and evaluated in some literature, its theoretical insight is employed in most studies to justify otherwise contradictory findings. The review then concluded that transfer pricing research has reached a ‘dead circle’ because of the uncritical attitude toward its theoretical ideology and predictive results.

While this is so, a trace of theoretical development in management accounting research discovered that it has moved into a ‘social era’. While economic and contingent perspectives of management accounting are criticised for being too narrow and unrealistic, a call for understanding management accounting in its broader economic, social and political contexts has led to the adoption of various social theories. This has provided opportunities for exploring transfer pricing issues through the lens of social theory, particularly as the effect of social factors has already been hinted at in conventional research.

The review of cultural-political research in management accounting further encourages the current study of transfer pricing through a political lens. Political research offers an emphasis on power relations and labour control aspects in understanding transfer pricing. Since some transfer pricing research implicitly suggests transfer pricing as a cultural and political practice, this opens possibilities for exploring transfer pricing issues from this angle. In addition, political studies on management accounting mostly discuss the political control mechanisms exercised by controllers, but they give inadequate attention to the dimension of horizontal political relations and the ‘controlled’. These gaps can be addressed through a study on transfer pricing considering its dual role of management control and internal communication in organisation.

Chapter 3: A hegemonic theoretical framework

3.1 Introduction

The previous chapter criticised the neo-classical economic and contingent standing of transfer pricing research. It also identified cultural-political research on transfer pricing as a means of enhancing transfer-pricing research and debates by opening up an critical perspective to arguably limited preceding ones. This chapter articulates a framework from that perspective. Specifically, it shows how the Gramscian hegemony can offer a framework that helps capture underlying political and cultural issues vis-à-vis transfer pricing practices.

To do so, section two of this chapter firstly summarises the identified gaps in the literature then justifies the Gramscian hegemony as a suitable theory for addressing them. It next addresses the current research gap in hegemonic accounting studies. Based on these, the research questions are developed and articulated in this section. Section 3 introduces the Gramscian hegemony as a raw analytical tool and provides a fundamental interpretation of hegemony. Section 4 shows how various interpretations to develop its own hegemonic framework concerning dynamic hegemonic relations for analysing transfer pricing practice consequently addressing the research questions raised. This framework consists of a few key dual concepts including structural hegemony and surface hegemony, horizontal and vertical hegemony, as well as common sense and good sense. The final section summarises and concludes the chapter.

3.2 Gaps to be considered

Chapter two (Section 2.4) identified two areas of research in current transfer pricing that need further attention. First is the issue of theorising transfer pricing, where I argue that the domination of neo-classical economic and contingency theories limits understandings of transfer pricing. In particular, social theorising questions if such dominant perspectives can capture related broader and social issues in accounting (Hopper & Powell, 1985; Roberts & Scapens, 1985; Scapens, 1994) given their exclusive focus on economic performance. As social and political issues in transfer pricing have been explicitly raised (McAULAY, Scrace & Tomkins, 2001), demands for exploring transfer pricing issues through social theoretical lens have emerged.

The second area concerns the possible cultural-political implications on transfer pricing, as a cultural-political agenda in management accounting is well developed. Concerning power relations between different social groups, this stream of research explores different forms of management control in a political sense. However, similar analysis is largely absent from transfer pricing literature. Although this has already hinted at in literature (McAULAY, Scrace & Tomkins, 2001; Hussein et al., 2017), transfer pricing research shows limited engagement in cultural-political debates. Consequently, it constrains the analysis of dynamic political relationships among social classes – an analysis currently lacking in the literature. Consequently, we know little about interplay between different social relations and the dominated perspective. Thus, the motivation for this research is to explore transfer pricing through a cultural-political dimension.

3.2.1 Hegemony as a lens

Hegemony is a concept coined in 1924 by Antonio Gramsci, the General Secretary of the Italian Communist Party. Most of his concepts on the theory of hegemony however, were developed during his prison life (1929–1934) after the Fascist State arrested him. Documenting it in his prison notebooks, Gramsci developed his theory of hegemony in an attempt to enhance Marxist thought on politics.

Gramscian hegemony fundamentally concerns the reproduction of class relations and the exercise of power. He proposes that a class and its alliances exercise power over the dominated classes via a combination of coercion and consensual ways (Simon, 2015). However, this does not mean that hegemony is the means of domination and force; instead, it is a relation of consent conducted through means of political and ideological leadership (Simon, 2015). It hereby distinguishes itself from Classical Marxism as the latter emphasises economic structure and materialism in the shaping of society. In Classical Marxism the objective material conditions are prioritised over consciousness, and the latter is conceptualised as an 'automatic reflection of economic and social processes' (Femia, 1986a, p.3). In contrast, Gramsci prioritises the domain of ideological superstructures in which he constructs his theory of social domination through 'intellectual and moral leadership' in contrast with the direct domination of coercive force alone (Femia 1986a P.13; Pellicani 1981). Gramsci's hegemony therefore presents an alternative way of understanding the supremacy of a social group in a particular historical and social context by foregrounding the problem of consciousness and exploring its relations to the material world (Femia 1986a).

As with labour process theory, a hegemony perspective highlights the power relations between the dominant classes and the dominated classes. For accounting, it brings the notion of interest to the forefront. Although Lehman and Tinker (1987) recognised contributions that showed accounting as socially specific (e.g. Berry et al., 1985), they also argued that the notion of interest had not been elucidated in previous social research. They refer to Gramsci's theory of hegemony to highlight this aspect in the development of accounting. Studying the development of arguments in accounting journals from 1960 to 1973, they argued that accounting practices should be regarded as ideological weapons for participating conflictions over social interests.

Although hegemony theory shares some common concerns with other political theories (e.g. labour process theory, Classical Marxism), its particular ideological focus differentiates itself from others. For example, labour process theory (Hopper & Armstrong, 1991; Uddin & Hopper, 2001) generally focuses on the control mechanism itself and how control generates surplus value. As Hopper and Armstrong (1991) note, management accounting is a political tool through which capitalists secure surplus value. Similarly, Uddin and Hopper's (2001) use of labour process theory also concern how transformations of regimes of control that shapes accounting into different practices. In contrast, Gramsci sought to understand why such a relational structure is reproduced and how ideological leadership secures voluntarily support of such a structure (Richardson, 1989). Hegemonic accounting studies have shown that accounting plays a signicant role in maintaining hegemony by reproducing political ideologies and generating consent. This is captured through the emerge of two research themes: first, the development of the accounting profession as part of state hegemony; secondly, the reproduction of political hegemonic control through management accounting practices in organisations.

On the first, hegemony provided a theoretical explanation of the non-technical historical development of the accounting profession in the UK (Goddard, 2002), Canada (Richardson, 1989) and China (Yee, 2009; Xu, et al, 2014). In this, researchers discovered that the interactive relationship between the accounting profession and state hegemony provides rich understandings of how accounting has been used as a political tool in co-ordination with state actions (Goddard, 2002; Lehman & Tinker, 1987) and that the shift of hegemonic state ideology interacts with the development of accounting practice (Goddard, 2002; Yee, 2009). For example, drawing on Gramsci's analysis on the functioning of the state and 'organic crisis', Goddard found that hegemonic changes in different historical periods (e.g. from Fordist hegemony to neoliberal economic hegemony) were always soon followed by a change of practice in the accounting profession but also that, reciprocally, the accounting profession plays a constitutive role in hegemony by influencing policies and individuals' ideological outlooks. Similarly, Yee's (2009) analysis of Chinese political development (from Maoism to Dengism) shows that the development of the accounting profession in had been fully directed and supported by state hegemony so that the government could materialise the ideology imposed by Deng. Further back, from 1949 to 1957, Xu, Cortese, & Zhang, (2014) reinforced this view by arguing that the rise of Maoist hegemony intentionally mobilised accounting as a tool for diffusing its ideology.

While the above literature mainly focuses on the conclusive influence of hegemonic crisis on changes to accounting practices, other studies demonstrate the active role accounting plays in maintaining and even potentially changing prevailing hegemony. For instance, Cooper (1995) uses Gramsci's hegemony as the theoretical foundation for analysing accounting's role in maintaining advanced capitalism. Cooper's work used the National Union of Journalists (NUJ) as the field to study this an active political function of accounting. She argues that accounting is involved in both consensual and coercive hegemonic control. She adds that accounting is part of the civil society that serves as a discourse for the 'financial consciousness' deriving from capitalist ideology but is also part of the political society that implementis authoritative requirements to trade unions. Thus, accounting is an essential part of capitalism's state hegemony, which explains why trade unions failed in the fight of position using accounting rhetoric as rationales. While trade unions are trapped in a spontaneous mythological financial consciousness, alternative ways of seeing cannot be achieved. Despite this, Spence (2009) argues that accounting can still be a potential emancipatory practice for critiquing prevailing hegemony. Acknowledging the use of corporate social accounting as a shield to prevent criticism, he stresses that social accounting in civil society such as in academia can potentially unleash accounting's emancipatory potential if dominated social groups can construct and disseminate new ideologies that diverge from the interest of economic base.

Despite having different empirical focuses, the above literature arguably all discuss a similar issue: the relationship between accounting and state hegemony. Their analyses therefore take place on a structural level at the inevitable expense of understanding daily accounting practices. Hegemonic management control studies attempt to address this shortcoming by focusing on hegemonic control in an organisational context. Alawattage and Wickramasinghe's (2008) study on hegemonic control in a Sri Lankan tea plantation, for example, reveals the relationship between structural hegemony and local control practices. Adopting Joseph's (2002) interpretation of Gramsci from a critical realist perspective, they emphasise the dynamic interaction between structural and agential dimensions of political hegemony. They also show how ritualised practices and beliefs are manifested in daily accounting practices, which constructs management accounting as the representation of political hegemony instead of a calculative practice for rational managerial purposes. Similarly, Ashraf and Uddin (2015) also noted the influence of structural hegemony on management control practices in their airport case study. They further extend the analysis by focusing on the horizontal relationship between dominant social groups, including their respective interests, political strategies and influence on management accounting practices. Empirically, they demonstrated how an incoherent management accounting framework has been developed because of a ‘weak’ hegemonic arrangement resulting from conflicting ideologies and constant compromises among the dominant classes (in his case, military officers and corporate managers). The went on and argue that the nature of compromise between the dominant groups and their vested interests is very important when understanding management accounting practice because it may influence how management control practice is implemented.

Overall, hegemonic analyses of accounting have provided much insight into the political nature of accounting. Unlike other political theories, a hegemonic perspective highlights the ideological influence of accounting in forming hegemonic control. At a structural level, the ideological influence of accounting on society is apparent as research has demonstrated active and reflective roles of accounting in maintaining prevailing hegemonic ideology in society as civil society (Goddard, 2002; Cooper 1995; Yee, 2009; Xu, et al, 2014). Adopting hegemony in the studying of labour control opens possibilities for linking labour control to broader political contexts. It demonstrates how political ideologies reproduce labour control practices such as accounting (Alawattage & Wickramasinghe, 2008). The focus on the horizontal dimension of hegemony further extends our understanding of accounting's political nature by showing how diverse interest existed in dominant groups influence how management control practices are formed (Ashraf & Uddin, 2015). Therefore, Gramsci's theory of hegemony captures cultural-political issues from the viewpoint of the ideology it carries and the hegemony it preserves. It locates the issues into a broader class struggle and recognises the importance of dynamic relations between social groups. Thus, a hegemonic perspective can provide insights into theorising transfer pricing issues that the neo-classical economic and contingency theories have not even discussed.

Although insightful contributions have been made by hegemonic accounting studies, certain gaps in studying hegemony still remain. First, prior accounting work tends to emphasise the role of state politics in the development of hegemony and accounting systems. Under this, the theoretical concepts related to the functioning of the state such as 'Civil Society' and 'Political Society' were regularly used (Goddard, 2002; Cooper 1995; Yee, 2009; Xu, et al, 2014). Despite Ashraf and Uddin's (2015) and Alawattage and Wickramasinghe's (2008) focus on organisational practice, the political representatives of military and manager and of politician in their respective works still play decisive roles in constructing political hegemony and management accounting practices in organisations. Therefore, such analysis focuses on the structural hegemonic influence on local practices. Joseph (2002) does argue that local hegemonic projects have their own dynamics associated with particular social groups involved, but there is a need to explore internal hegemonic dynamics within the structural condition.

Secondly, prior literature oversimplified hegemonic relationships by solely concentrating either on the relationship between the dominant classes and dominated classes (Alawattage & Wickramasinghe, 2008) or relationships among the dominant classes (Ashraf & Uddin, 2015). Despite recognising both different dimensions of hegemony, the exploration of complex interactive dynamics between these social groups remains absent. Ashraf & Uddin's (2015) study already hints that the relationship among dominant groups in the organisation has implications on dominated groups, which eventually influence the relationship between dominant and dominated groups. Thus, such interactive dynamics need to be explored.

Furthermore, as with other political accounting studies, analysis of the daily life of influenced groups is still scarce. Ashraf and Uddin (2015) discussed the influence of coercive control on workers, noting how this ultimately resulted in resistance. Resistance is a significant element in labour control that needs further exploration. As Uddin and Hopper (2001) demonstrated, labour resistance can interact with state politics to change labour control practices in an organisation. Thus, there is a demand for hegemonic analysis that considers the perspective of dominated social groups to understand more fully the operation of hegemony in organisations.

The empirical access of this study provides an opportunity to make several theoretical contributions. By undertaking the research in a Chinese private organisation, this study can explore the dynamic relationship between the dominant and dominated classes. Due to the characteristic of the case organisation, a study on transfer pricing has the potential to unpack not only the relationship between dominant and dominated groups, but also the relationships among dominant groups and dominated groups. This will be explored in a stable and less state-politics influenced setting. Although China experienced a dramatic social-economical change from the 1950s to the 1980s, this case organisation has been established since the 1990s after the country's economic reconstruction stabilised. In addition, this organisation was established by Chinese entrepreneurs who have no political background, which provides a relatively 'state-politics free' setting so that the internal political dynamics can be emphasised. Also, a hegemonic analysis on transfer pricing potentially offers much insight from the perspective of the 'influenced'. As transfer pricing is a communication and management control system, it involves relationships between people from similar social classes (e.g. between managers) and relationships between different social groups (e.g. managers and staff). It could therefore identify the role of transfer pricing in materialising hegemonic ideologies while giving understandings of its influence on the daily communications between different social groups but also within the same group.

3.3 On hegemony

Although regarded as one of the most influential contributors to post-Marxism, Gramsci did not establish a single set of principles that guided his entire work; hence, his work has subsequently been interpreted differently based on individual theoretical positions and purposes. Despite such interpretational variance and inconsistencies, Gramsci's notion of hegemony, this work argues, is an important analytical tool for understanding cultural-political issues regarding social relations between groups in organisations.

3.3.1 Hegemony as an analytical tool

Gramsci's emphasis on ideological and intellectual leadership underlies his theory of hegemony, but the abovementioned lack of overarching principles had effects (given the fragmented nature of his prison notebooks, it is little wonder that no such single set of principles in Gramsci's writing of hegemony resulted). Despite efforts to unpack Gramsci's thoughts on hegemony, the literature still holds different and sometimes contradictory views on his understanding of hegemony. Femia (1986) nevertheless observes this is not always to do with the work itself, as interpretations vary depending on different writers' theoretical positions and objectives, but the point is that the nature of the work does facilitate this. As an example, Palmiro Togliatti, the Italian Communist leader after Gramsci, argued that Gramsci is nothing more than a 'staunch Leninist' (Femia 1986a), but later writers noted the enhancement of Gramscian over Leninism by arguing that Gramsci developed a revolutionary strategy for use in Western European societies while Lenin considered only Russian Revolution (Bocock, 1986, p. 27).

Indeed, Femia said that Gramsci's writing produced texts that support diverse interpretations, with the reason being that notebooks constituting working notes and jottings on Gramsci's personal reflections were instead used for publications (Femia 1986a). Gramsci thereby provided only a collection of raw materials and reflections that were never intended to be fused into an organic totality. Consequently, different interpretations are possible also simply from constructing the notes in different ways, which makes it extremely difficult to determine the 'truth' of Gramsci's hegemony. So, instead of unfolding the thought of Gramsci from a historian's perspective, it is more practical to view Gramsci's hegemony as a raw analytical tool for researchers to explain various political and cultural issues. Once realising this, a researcher must focus on his/her own interpretation and use of Gramsci when constructing a hegemonic theoretical framework instead of being trapped in the debates on alternative interpretations of hegemony. As such, the next section defines hegemony in light of the my interpretation of Gramsci's work based on his original writing and other interpretations of hegemony.

3.3.2 Defining hegemony

As briefly discussed in Section 3.2.1, Gramsci proposes that the hegemony of a social group is exercised in two ways: through 'domination', or influencing behaviour externally through punishments and rewards; and through 'intellectual and moral leadership', or influencing behaviour internally by diffusing prevailing norms. Such 'internal control' composes hegemony (Femia 1986a). Hence, hegemony essentially expresses the idea that the rule of one class over others does not depend on coercive material power alone. Instead, establishing the ruling class's values as the conventional values is essential (Femia 1986a; Bates 1975; Pellicani, 1981).

Notably, the focus on ideological control does not mean the exclusion of its economic base. Gramsci's interpretation on the economic base is not as decisive as classical Marxism suggests. Gramsci believes that the economic base provides only a range of possible outcomes and that he believes political and ideological activities are decisive in determining the prevailing alternatives (Femia, 1986b P.38). In other words, economic base determines not the form of consciousness but only the possible forms. This demonstrates that 'intellectual and moral leadership' is not pre-determined. Instead, it results from the continuous hegemonic activities that secure consent over other classes. Therefore, the struggles of different classes for domination equate to the struggles between different hegemonies, and whichever class determines the prevailing social order achieves overall hegemony.

Acknowledging the importance of ideological activities in establishing hegemony, various authors provide definitions of hegemony that commonly highlight consent as the foundation of 'internal control'. As Bates (1975) states, hegemony is the 'political leadership based on the consent of the led, a consent which is secured by diffusion and popularisation of the world view of the ruling class (Bates, 1975, p. 352). Similarly, Pellicani (1981) says that 'the form of command based on the consent of the subordinate classes is precisely what Gramsci called hegemony' (Pellicani, 1981 p. 32). Joseph (2002) also read hegemony as 'the way in which dominant social groups achieve rulership or leadership on the basis of attaining social cohesion and consensus (Joseph, 2002, p.1)'.

These interpretations of Gramscian tend to equate hegemony to political leadership based on the consent of the led while coercion is excluded from this concept. Nevertheless, the role of coercive force is still apparent when reading Gramsci's original writing on hegemony:

> *The 'normal' exercise of hegemony on the now classical terrain of the parliamentary regime is characterised by the combination of force and consent, which balance each other reciprocally, without force predominating excessively over consent. Indeed, the attempt is always made to ensure that force will appear to be based on the consent of the majority, expressed by the so-called organs of public opinion – newspapers and associations – which, therefore, in certain situations, are artificially multiplied.*
>
> (Gramsci, 1971, p. 80)

This statement confirms that hegemony itself combines both force and consent and that balancing interactive relations between two are crucial for the 'normal' exercise of hegemony. Therefore, instead of narrowing the scope of hegemony into consent only, one should recognise hegemony as political leadership based on the combination of consent and coercion.

Such an understanding of hegemony fills gaps in political studies. Recognising the relationship between the economic base and hegemonic activities opens up possibilities for multiple competing hegemonies. Instead of assuming the existence of a certain hegemony, this perspective questions how a certain hegemony is emerged out from the economic base. For instance, the broader economic base only creates foundations for possible forms of hegemony in an organisation and a particular organisational hegemony can be formed by continuous hegemonic work based on consent and coercion. As previous literature suggests, an organisation may potentially be controlled through calculative practices such as accounting (Bryer, 2006) or cultural practices such as hierarchical traditions (Alawattage and Wickramasinghe, 2008). Given this, the local political struggle between different social groups in securing 'moral and intellectual leadership' becomes relevant as it is an important aspect in forming hegemony, and dynamic political relations can be highlighted. Based on this, the next section develops a theoretical framework containing different concepts under Gramscian to explore transfer pricing practice.

3.4 Constructing a hegemonic framework

The initial intention of Gramsci's work is to understand how a political hegemony emerges, maintains and reorganises in a nation. Adopting his concept of hegemony into an organisational analysis requires an understanding of hegemony as a multi-dimensional analysis, which is what this section does.

3.4.1 Structural hegemony and surface hegemony

Joseph's (2002) understanding of hegemony provides a useful framework for understanding how local hegemonic activities connect to their social conditions. He criticised that the concept of hegemony has been usually reduced to an agential process, which only concerns the actions of social agents, groups and individuals in diffusing the ruling class ideologies, and neglects the conditions under which the hegemony operates. However, a hegemonic analysis informed by critical realism can argue that hegemony is both the pre-exist structural condition and the reproduced outcome of human agency[1]. Joseph's (2002) development on hegemony rests on the idea of ‘the transformational model of society activity’ developed by Bhasker (1989 p34-35), who argues that ‘society is both the ever-present condition and the continually reproduced outcome of human agency. And praxis is both work, that is conscious production, and reproduction of the conditions of production, that is society’. Thus, it highlights the primacy of structures over agents without turning agents into passive bearers of the structures. Although the structures pre-exist and beyond the control of agents, the agents still have the potential to engage in transformative practice within definite limits (Joseph, 2002).

As such, hegemony should not be understood as merely the description of the relationship between different human agents (e.g. that between dominant and subordinated groups). Instead, it is also about the relationship between these agents and the social structures in which they are living (Joseph, 2002). For instance, the analysis of class struggle in capitalism cannot simply refer to the struggle between the proletariat and the bourgeoisie because it is the objective structures of capitalist society that determines the relation between both social groups (Joseph, 2002). It is therefore necessary to look beyond the actions of different social groups and examine the social structure and objective conditions that give rise to these different groups and their interests.

1 As the study is not mainly drawn on critical realism, the discussion on the debate of critical realism is avoided.

Two concepts of hegemony emerged as a result: 'structural hegemony', or the unintended consequence of social activities by human agents; and 'surface hegemony', or the conscious hegemonic projects in practice. This distinction of structural and surface hegemony provides an analytical method of focusing on analysing organisational hegemonic activities and the connection to their historical, political and social conditions.

Joseph (2002) summarises this duality of hegemony in a simple understandable table, as shown below.

Table 3-1: Duality of Hegemony

Structural hegemony	Surface hegemony
Deep	Actual
Functional	Manifest/realised
Structural	Agential
Secures unity of social formation	Hegemonic activities, projects and practices
Reproduction of social structures and structural ensembles	Emergent from underlying structures (but with their own powers and dynamics)
Underlying condition	Struggle
Social cement	Coercion and consent
Largely unconscious structural reproduction	Conscious transformation, conservation or political advancement

Source: Joseph (2002 p. 131)

This table demonstrates the distinction between two dimensions of hegemony, which is useful when distinguishing the hegemonic projects and their social conditions. Structural hegemony secures the unity and cohesion of the social system while ensuring the reproduction of prevailing structural processes and relations. It helps groups develop hegemonic projects that express their own interests. In contrast, surface hegemony concerns conscious hegemonic projects that have emerged from structural hegemony (Joseph, 2002). It is where human agents exercise their moral and intellectual leadership and deploy manifold hegemonic activities to create consent and legitimise coercion. Accounting, as demonstrated in previous literature, plays an important part in surface hegemonic projects.

This theorisation of hegemony reflects the relationship between the economic base and hegemonic activities, as discussed in the previous section. Economic base is part of structural hegemony so it helps different social groups develop their own hegemonic activities to achieve 'moral and intellectual leadership'. However, the concepts of structural and surface hegemony are clearly linked and they are sometimes difficult to distinguish from each other (Joseph, 2002). In fact, they are very closely linked given that the deeper structural form of hegemony is expressed through various surface hegemonic projects while surface hegemony is determined by underlying broader structural hegemonic conditions. As this point shows, structural hegemony is the pre-existing cause for hegemonic projects, and these projects are important manifestations of the cause. Joseph (2002) thus argues that their distinction is between hegemony's basic material necessity and forms of its actualisation through concrete projects.

Although surface hegemonic projects and struggles are determined by their deeper structural hegemony, they are not reducible to this. Surface hegemony has its own irreducible dynamic associated with particular social groups involved, the interests they represents, the values they hold and the political blocs they constructed (Joseph, 2002). While structural hegemony is a basic material base that secures unity of social formation, surface hegemony contains more social layers and different relations, and these need to be analysed in their specificity. For instance, a dominant hegemonic process may be undercut by other hegemonic processes, or there may be a sub-hegemony under the dominant hegemony (Joseph, 2002). Therefore, it is possible that hegemonic projects pursued by ruling groups do not best suit the needs of structural hegemony in terms of securing cohesion of the social relations.

Despite surface hegemony has its own dynamic, the interrelated nature of structural and surface hegemony needs addressing. Social structure is argued to be the material cause of surface hegemonic projects. While reproducing social structure agents may act to preserve and transform existing conditions (Joseph, 2002). This may occur in a politically unstable context. For instance, Alawattage and Wickramasinghe (2008) documented how the transformation of structural hegemony can create social space for agents to transform and preserve existing conditions in Sri Lanka by intentionally using various political strategies to transform the status quo. Nevertheless, for normal reproduction such agential activities are usually non-political and reflect only the wider hegemony across society (Joseph, 2002). Social structures are generally taken-for-granted and unchallenged. As a result, surface hegemonic activities are confined within these structures. Overall, interrelated nature of these two-dimensional aspects of hegemony depends on the stability of the structural context.

Combining the structural and surface aspects of hegemony provides a useful framework for understanding the relationship between structure and local. On the one hand, it highlights the relevance of the broader political structure when understanding local practices. With a stabilised hegemonic structure exists in society, local hegemonic practices are conditioned to this. This has important implications for the emergence of power relations between groups because the hegemonic structure can create incentives for dominant groups to win the consent of others (Joseph, 2002). The notion of structural hegemony then provides theoretical explanations for the emergence of dominant and dominated groups. On the other hand, although local hegemonic activities are conditioned by the broader structure in which they reside, their internal dynamics allow focuses on the organisation's dynamic social relations. Organisational activities involve different consensual and coercive strategies of social groups within different interests. Reciprocally, the relations between different groups, their respective interests and their hegemonic strategies can be examined to understand how social relations shape the organisation. This then captures the internal politics of an organisation, as discovered in Ashraf and Uddin (2015). Accordingly, this work will trace the cultural-political history of China to theorise the structural condition of Chinese organisations in Chapter 5 and will analyse the organisational activities in a Chinese organisation to understand the role of social relations in shaping transfer pricing in Chapter 6.

3.4.2 Maintaining hegemony

The previous section presented two dimensions of hegemony. One, structural hegemony, concerns the role of historical, social and political conditions in shaping hegemony. The other, surface hegemony, concerns the complex networks of social practices and relations in local contexts. While this is so, hegemony is fundamentally about how dominant groups maintain their hegemony despite the existence of groups with different interests (Cooper, 1995). With this in mind, this section explores how hegemony can be maintained through consent, coercion, compromise and reform.

The notions of consent and coercion are the core concepts in Gramsci's understanding of hegemony. Table 2-1 above shows that these concepts are particularly relevant to surface hegemony. For surface hegemonic projects, the dialectical concepts of consent and coercion are important for understanding how surface hegemony is exercised. Although the concept of consent itself is somewhat vague as Gramsci never explicitly explained it, it involves accepting the social-political order (or certain vital aspects of that order) in a psychological sense (Femia, 1986a) as a precursor to or even a driver of desirable action. 'Consent' is then ultimately manifested by people enacting conforming behaviours, and conformity is thus an expression of different attitudes. Basic explanations for conforming behaviour include the fear of non-conformity or an unconscious habit of doing things in a certain way. However, Gramsci understands 'consent' in a different way. He believes that consent arises from a degree of conscious attachment to certain core elements of society (Femia, 1986a), which means that individuals do consciously value certain patterns of behaviour and conform to it. Thus, the agreement in relations to certain objects such as beliefs, values, ideologies become important when studying consent.

Although a certain social class may achieve hegemony, consensual agreement among other classes is not always stable and will never be taken for granted (Simon, 2015). Persistent activities are needed to strengthen and thus maintain the ruling class's hegemony within changing conditions (Goddard, 2002). Recognising hegemony as a continuous project is therefore crucial in research. An important activity for ruling social groups to maintain consent is maintaining prestige. As Femia (1986b, p. 32) states: 'Consent [is] historically caused by prestige (and therefore by the trust) accruing to the dominant group because of its position and function in the world of production.'

What seems apparent from Femia's argument is that hegemony does not equate to the maximisation of the ruling-class's interests, and it cannot be achieved without the concern of others. Instead, the ruling classes are also restricted in the sense that they must behave in certain ways to gain trust and maintain their prestige from other dominated social groups. As Gramsci argues, a certain compromise equilibrium needs forming to manage the unstable imbalance between the interests of hegemonic social groups and those of subordinated groups. As he states:

> *Undoubtedly the fact of hegemony presupposes that account be taken of the interests and the tendencies of the groups over which hegemony is to be exercised, and that a certain compromise equilibrium should be formed. – in other words, that the leading group should make sacrifices of an economic-corporate kind. But there is also no doubt that such sacrifices and such a compromise cannot touch the essential; for through hegemony is ethical-political, it must also be economic, must necessarily based on the decisive function exercised by the leading group in the decisive nucleus of economic activity.*
>
> (Gramsci, 1971, p. 161)

The political base of hegemony is rooted in a continuous effort to balance the compromise required for sustaining consent and the maintenance of the essential ethical, political and economic cores of hegemony. Later, Gramsci summarised his arguments in his discussion about the state:

> *It is true that the state is seen as the organ of one particular group, destined to create favourable conditions for the latter's maximum expansion. But the development and expansion of the particular group are conceived of, and presented, as being the motor force of a universal expansion, of a development of all the 'national' energies. In other words, the dominant group is coordinated concretely with the general interests of the subordinate groups, and the life of the state is conceived of as a continuous process of formation and superseding of unstable equilibria (on the juridical plane) between the interests of the fundamental group and those of the subordinate groups – equilibria in which the interests of the dominant group prevail, but only up to a certain point, i.e. stopping short of narrowly corporate economic interest.*
>
> (Gramsci, 1971, p. 182)

For Gramsci, then, hegemony will never be obvious as it is usually presented as 'the motor force of a universal expansion', and the interests of the dominant group will be limited because the hegemonic compromise is carried out in cultural, ideological, political and economic forms. Translating Gramsci's discussion of the state to an organisational context, this work proposes that s taken-for-granted organisational practices under neoliberal context can be understood politically. In this sense, organisations occupy a social space in which capitalists create favourable conditions for interests namely surplus value, but they may presented this as a common interest among other social groups. Organisational goals such as profit maximisation and efficiency improvement can serve as an example. As such economical value is deeply rooted in neoliberal hegemony, it is taken-for-granted, so people tend to agree with the goal. Consequently, consent can be generated. Despite this, some compromises are necessary to stabilise this consensual agreement. These political compromise could be one reason why employees may resist the introduction of new accounting systems and bypass rules in practice (Lukka, 2007; Steen, 2011). Other examples can be the economic compromise of offering better material conditions such as promotions, an improved working environment and welfare. Nevertheless, compromise can come with political intention, as demonstrated by the promotion of certain managers giving opportunities for the ruling social group to consolidate their own hegemony by introducing a new ideology. For instance, Yang and Modell (2013) documented how the early retirement of a director and the appointment of a new deputy director by party committee in a Chinese state-owned organisation triggered an organisational reformation process whereby hegemony was reconstituted to suit changing conditions.

Periodically, a 'hegemonic crisis' may develop wherein the hegemony of the ruling political forces begins to disintegrate. This also reflects on the internal dynamics of surface hegemony, as it may result in prolonged instability and transition of hegemony. Despite efforts at defending the existing system through compromise equilibrium, at some point this may not be enough to gain prestige. Consequently, a new balance of political forces is required to reshape the hegemony and form new sets of ideologies (Simon, 2015). Notably, crisis here does not means collapse, which happens only if the opposing force shifts the balance of power into its own favour during that period. If it fails, the prevailing force has succeeded in building a new power bloc that re-establishes its own hegemony (Simon, 2015). For instance, if the dominated group fails to reshape the deep ideological base of a hegemony during an organic crisis then it may be unable to transform its own institutional situation. Cooper (1995) details such a failure, noting how a trade union did not alter the rationale of accounting from the prevailing understanding so failed their resistance over state hegemony.

Although sustaining consent is essential for hegemony, coercive control is still important for reinforcing consensual agreement. Indeed, when Gramsci describes the function of the state, he highlighted how hegemony is protected by the ‘armor of coercion’:

> *It should be remarked that the general notion of State includes elements which need to be referred back to the notion of civil society (in the sense that one might say that State = political society + civil society, in other words hegemony protected by the armor of coercion.*
>
> (Gramsci, 1971, p. 263)

As previously noted when defining hegemony, coercion needs to be presented based on the consent of the majority (Gramsci, 1971). As such, coercion is not always apparent and visible, which suggests ‘coercion’ is an indirect force. Analysing the concept of coercion, Filippini (2016, p. 74) proposes two interpretations of coercion – direct coercion and indirect coercion. Direct coercion makes people conform via their fear of the consequences of non-conformity (Femia, 1986a), while indirect coercion is an environmental force that imposes itself indirectly. The source of this coercive power is historically produced through the dynamics of society as a whole, such as historically constructed common sense and values. It is thus more social than political, but Gramsci believes that indirect coercion is not neutral and is instead always an expression of the power of dominant groups (Filippini, 2016). As discussed in the previous section, historically constructed values are the social cement for securing social unity, so it can be argued that the sources of 'indirect coercion' emerged from the structural hegemonic level.

Efferin and Hopper (2007) provide an example of such 'indirect coercion' in accounting through their study of management control in a Chinese Indonesians business, where the business owners only use accounting to prescribe behaviour instead of to evaluate performance. Employees are valued and regulated subjectively through Chinese cultural values such as loyalty and obedience rather than efficiency or results. This case demonstrates culture as a primary way for the dominant group to exercise hegemonic control over dominated classes. As Efferin an Hopper (2007 p. 255) argue in their conclusion, 'national culture is an abstract concept that can dehumanise, deny free will, and rationalise dominant groups' discrimination against minorities.' As this case demonstrates, although culture is historically produced and commonly regarded as shared norms, values and assumptions, it actually exercises 'indirect coercion' by forcing people to perform in a certain manner to meet cultural expectations.

The discussion demonstrates how the internal dynamics in surface hegemony can be analysed and observed. First, while surface hegemony contains interests from different social groups, it is important for certain social groups to generate consent to establish its ideology and help it prevails. The conscious agreement on values and beliefs is the key evidence of consensual agreement. Therefore, how actors understand and value certain practices will be explored empirically in this work to analyse consent between social groups. Meanwhile, the appearance of coercion will be examined through the relationship between structural hegemony and ‘indirect coercion’. Secondly, consensual agreement is unstable and needs continuous hegemonic activities to maintain such consent. For this, certain economic/social compromises are necessary. As mentioned, some organisational practices such as promotions and welfare improvement are examples of such compromises so should be viewed politically. Unstable hegemony may also lead to a hegemonic crisis where hegemony tends to disintegrate. It involves reshaping structures, forming new ideologies and building new consent to re-establish the hegemony. As such a process creates social space for actors to exercise hegemonic strategies to promote their own interests, the internal dynamics of organisational hegemony can be explored by identifying a ‘crisis’ and observing what strategies have been used by different actors to restore hegemony.

3.4.4 Hegemony and practices: ways of sense-making

The previous section discussed the internal dynamics of surface hegemony. It focused on the dominant classes' political strategies and how hegemony can be achieved and maintained from their perspective. From another perspective, the influence of hegemony on the influenced groups and how they make sense of the practice under hegemony has not yet been theorised. This section elaborates the dialectical concepts of common sense and good sense to theorise the struggles of influenced groups in their attempts to make sense of mundane practice of hegemony.

Gramsci’s theorisation of ‘common sense’ and ‘good sense’ start from his thinking on ‘philosophy’. He argues that a single philosophy does not exist.

Instead, various philosophies exist, and one always makes a choice between them. For him, though, this raised many questions for him:

> *How is this choice made? Is it merely an intellectual event, or is it something more complex? And is it not frequently the case that there is a contradiction between one's intellectual choice and one's mode of conduct? Which therefore would be the real conception of the word: that logically affirmed as an intellectual choice? Or that which emerges from the real activity of each man, which is implicit in his mode of action?*
>
> (Gramsci 1971, p. 326)

His observation of contrast between people's thoughts and actions leads to his argument about the contradictory consciousness of individuals. He proposes that people conduct their practical activities with no clear theoretical consciousness, or even historically opposite consciousness:

> *One might almost say that he has two theoretical consciousnesses (or one contradictory consciousness): One which is implicit in his activity and which in reality unites him with all his fellow-workers in the practical transformation of the real world; and one, superficially explicit or verbal, which he has inherited from the past and uncritically absorbed.*
>
> (Gramsci, 1971, p. 333)

In this context, then, two conflicting concepts of the world exist: one drawn on the dominant group's hegemonic ideology, and the other derived from people's historically reproduced practical experiences of social reality (Cooper, 1995). The first constitutes common sense, or 'the uncritical and largely unconscious way of perceiving and understanding the world that has become "common" in any given epoch' (Gramsci, 1971, p. 322). Common sense thus comprises widely accepted, taken-for-granted 'common' values and ideas that are held and disseminated by hegemonic social groups in shaping the ways people conceptualise the world. Derived from hegemonic ideology, common sense is essential in bolstering consent among dominated groups. At a structural level, common sense such as modernisation, globalisation and neo-liberalism plays a central part in establishing hegemonic practices in society (Alawattage and Wickramasinghe, 2008). For instance, Smyth and Whitfield (2017) documented how market principles as a common-sense govern government auditors practices in prevailing the hegemony of neoliberalism. Similarly, Mantzari and Georgiou (2019) recently argued that neoliberal common sense plays a key ideological role in legitimising and reproducing IFRS hegemony. In the case of IFRS adoption in Greece, the appropriateness of IFRS was largely justified by practitioners' common sense of international comparability and marketisation.

Although common sense is largely discussed in a structural sense, Gramsci argues that a philosophical consciousness that features intellectual elaboration of thought is possible to become the common sense in a fairly limited environment:

> *Every philosophy has a tendency to become the common sense of a fairly limited environment (that of all the intellectuals). It is a matter therefore of starting with a philosophy which already enjoys, or could enjoy, a certain diffusion, because it is connected to, and implicit in practical life, and elaborating it so that it becomes a renewed common sense possessing the coherence and the sinew of individual philosophies.*
>
> (Gramsci, 1971 p. 330)

This indicates that as long as an individual's philosophical consciousness connects to the practical life of the dominated group, it is possible that individuals construct their consciousness as a hegemonic common sense in a small environment. It signifies the observation of common sense in organisational context. As an organisation is a fairly limited environment, the common sense may not directly link to the common sense in broader society. Instead, the ideologies of these in the organisations may be able to diffuse his or her ideologies into common sense. Therefore, in an organisational study the relationship between the common sense of the dominated group, the ideologies of the local dominant group, and how ideologies are diffused as common sense is important to examine.

The contradictory consciousness of an individual also enables the potential for change and resistance. Good sense is developed to reflect that, and it constitutes contradictory views to the 'common sense'. In short, it means 'the practical, but not necessarily rational or scientific attitude' (Gramsci, 1971 p. 322). Although it this concept seemingly opposes the concept of common sense, they are actually interrelated. Gramsci (1971) himself argues that good sense is based on common sense:

> *These popular turns of a popular stamp – examples being drawn from a large dictionary – which contain the terms 'philosophy' or 'philosophically'. One can see from these examples that the terms have a quite precise a conception of necessity which gives a conscious direction to one's activity. This is the healthy nucleus that exists in "common sense", the part of it which can be called "good sense" and which deserves to be made more unitary and coherent.*
>
> (Gramsci, 1971 p. 328)

While common sense can be fragmentary and inconsistent, good sense represents the elaboration of a coherent form of thought that is superior to common sense. It is not about replacing the existing mode of thinking, though: it is about challenging the activities that are already taken-for-granted. The co-existence of common sense and good sense means that an individual can do certain activities based on the common sense even though it conflicts with his or her theoretical consciousness, which is fed by good sense. This clash of sense is the essence of an individual's contradictory consciousness, and it enables resistance to the hegemony and changes to practice. This is evidential by the case of Greece's IFRS adoption (Mantzari & Georgiou, 2019), although neoliberal common sense is predominant among practitioners, some of them are still able to construct critical views by referring to their local context and experience instead of sole rely on neoliberal common sense.

3.4.5 Hegemony in transfer pricing

I have so far engaged the notion of hegemony to develop an analytical framework. This section demonstrates the connection between different concepts of hegemony but also articulates the theoretical framework developed for this work to explore the three research questions. As outlined in chapter 1, three research questions have emerged considering the gaps in transfer pricing research and debates on hegemonic accounting research:

1) How are transfer pricing practices located in a broader cultural-political context?

2) Do hegemonic relations shape transfer pricing practice? If so, how?

3) How do people make sense of mundane practices of transfer pricing in conjunction with such hegemonic relations?

These questions relate to the following areas (respectively explored below): (1) the embedded cultural-political context of transfer pricing; (2) dynamic hegemonic relations; (3) and the sense-making process of daily transfer pricing practice.

The embedded cultural-political context of transfer pricing

Hegemony is historically and contextually dependent, and different forms of hegemony shape accounting practice in different ways. When studying relations between hegemony and transfer pricing, then, the broader cultural-political context should always be explored first. This is theorised by the dialectical concepts of structural hegemony and surface hegemony (Section 3.4.1). The structural dimension of hegemony concerns the broader unspecified structure that is historically reproduced and usually exercised in an unconscious manner (Alawattage and Wickramasinghe, 2008). The surface dimension of hegemony represents the continuous organisational activities that seek to maintain the prevailing hegemony through consensual and coercive approaches. These two aspects mean one can identify the emergence of power relations within an organisation by considering how the structural conditions helped a certain group become and remain dominant. Transfer pricing is one of the hegemonic projects, and it is one that enables the theorisation of the relationship between transfer pricing and its broader cultural-political context. In this work, transfer pricing is no longer assumed as a mere profit-seeking instrument; instead, it is a hegemonic practice that is conditioned by its broader hegemonic structure.

Dynamic hegemonic relations

Although surface hegemonic projects are largely determined by structural hegemony, surface hegemony still has its own internal dynamics (Joseph, 2002). These involve different social groups, the interests they represent and the values they hold. The hegemonic activities within the organisation therefore also occur in two dimensions, conceptualised here as vertical hegemony and horizontal hegemony.

Vertical hegemony describes a classic hegemonic relationship between the dominant and dominated groups, particularly the strategies dominant groups utilise to exercise their hegemony. Understanding vertical hegemony requires identifying the strategies dominant groups use to generate consent and exercise coercive force. As consent involves a conscious attachment to certain values, the consent on certain value, ideology or belief is important to observe. For instance, how the dominant group refers to certain core ideologies and values in society when justifying their actions as universal interest is important to explore. This study also recognises hegemony as a continuous process and understandably so given that hegemony is unstable and never be taken-for-granted. Consequently, different forms of compromises are necessary for maintaining vertical hegemony. Practices such as promotions, bonuses and other social compromises will be viewed politically in terms of how these practices relate to the manufacturing of consent within an organisation.

Horizontal hegemony describes the process of forming a ‘power bloc’ between dominant social groups through constant compromises and political struggles (e.g. Ashraf & Uddin, 2015), or, basically, the relationship between dominant groups. It includes the struggles between two hegemonies where different dominant social groups try to secure their own hegemony as the prevailing ideology. Once again, understanding their interests, ideologies and strategies becomes important. Empirically, this dimension of hegemony is most apparent during hegemonic crisis when a prevailing hegemony is disintegrating. This instability means that a new balance of political forces needs constructing to defend the hegemony. In this context, different social groups with different interests can become more visible. The understanding of horizontal hegemony can therefore begin by identifying ‘crisis’ and observing strategies used by different actors to restore hegemony.

The dynamic hegemonic relation is reflected in the interrelation between vertical and horizontal hegemony. As discussed above, horizontal hegemonic relations may contain different interests, ideologies and strategies, which may have serious implications on the exercise of vertical hegemony. For instance, while two dominant groups in an organisation are struggling to ensure their own hegemony prevails, they both expend effort on generating consent among dominated groups. This leads to the inconsistent ideologies among dominated groups whereby some may agree on a particular value but disagree on another. Consequently, the struggle between dominant groups may be carried to dominated groups as well.

Transfer pricing is in a very interesting position when exploring dynamic hegemonic relations in an organisation. On the one hand, it is a management control practice so involves vertical hegemony. On the other hand, it involves horizontal hegemony because of its power to shift cash/profit allocation. Therefore, this work will analyse the development of transfer pricing practice to understand how it participates in the dynamic hegemonic relations within organisations.

The sense-making process of transfer pricing

As discussed above, organisational systems such as transfer pricing, are important instruments for maintaining hegemony as they diffuse certain ideologies and generate consent among dominated groups. Furthermore, focusing on internal dynamics further complicates the hegemonic process in organisations. Especially as the existence of competing hegemonies, competing ideologies may co-exist in transfer pricing. To fully understand how hegemony works in transfer pricing, this work will explore mundane practice of transfer pricing with a focus on the ways people make sense of the practice and social relations in which they live.

The dialectical concepts of 'common sense' and 'good sense' are used here to theorise this mundane practice. Common sense theorises the uncritical ways of understanding transfer pricing. It is used here to understand what prevailing ideologies people refer to when making sense of their daily practice. It also captures the potential inconsistent ideological foundations of dominated groups, which is helpful when unpacking the horizontal hegemony discussed above. Notably, individuals' good sense is able to constitutes contradictory views to 'common sense'. Thus, individuals can reproduce hegemonic activities based on the common-sense in their environment while engaging in internal struggles with practice based on their own philosophical and practical attitudes (good sense). This explains the appearance of resistance to hegemony in organisations. It is through the notion of 'common sense' and 'good sense' the mundane practice of transfer pricing as a manifestation of particular hegemonic configuration is explored.

3.5 Summary and conclusions

This chapter started by developing the research questions based on the gaps in transfer pricing research identified in the previous chapter and theoretical debate on hegemony. Gramsci's political theory of hegemony was justified as a promising theoretical base for political transfer pricing research. It also revealed possible contributions a transfer pricing research can make to the understanding of hegemony in the organisational context. The research questions have therefore been framed to make contributions to both transfer pricing and hegemonic accounting research.

Based on historical interpretations of the Gramscian hegemony, this chapter argued that Gramsci's idea of hegemony should be viewed as a raw analytical tool instead of a pre-constructed theoretical framework. The intention in this work, then, has always been to construct a theoretical framework based on my own interpretation of Gramsci's work. Guided by this, I developed a hegemonic theoretical framework which theorises hegemonic complexity from its structural level to its mundane practice. First, the relationship between structural hegemony and surface hegemony was identified as being a useful tool for exploring the context of transfer pricing in organisations. While this is so, the internal dynamics of surface hegemony were highlighted, indicating that interrelations of vertical hegemony and horizontal hegemony offer ways to explore the internal dynamic relations associated with transfer pricing. Finally, this chapter showed how common sense and good sense will be used here to explore the mundane practice and potential resistance to hegemonic activities. Connecting these together, this theoretical framework is not only able to analyse the operation of transfer pricing as a hegemonic practice but also has the potential to be used as a hegemonic analytical tool for various organisational studies.

The theoretical framework developed herein organises the analysis of the empirical data in this study. To give an overview of this analysis, Chapter 5 analyses the broader context of transfer pricing in China, where organisational hegemony is conditioned and determined. Chapter 6 analyses the transfer pricing principles and practices in organisations and explores how hegemony is embedded in practice. Chapter 7 analyses the mundane practice of transfer pricing through the lens of influenced groups of people, and it explores the consequences of transfer pricing practice and people's sense-making processes. Before these, the next chapter will discuss the methodology and research method deployed in this study.

Chapter 4: Methodology and methods

4.1 Introduction

The previous chapter developed the research questions for this study and a theoretical framework in relation to these. Although the methodological choices made here are seemingly a linear outcome of the arguments that emerged from the literature review and the identified research questions, it is a rather iterative process, as with most qualitative research. While this work's fieldwork was designed based on the initial readings of various social theories, the study intends to explore the field liberally without preconceived focuses. In other words, while being influenced by certain theories and grounded in my philosophical position, this work adopted an ethnographical methodology. This chapter thus explains the methodological choices that emerged from such an approach, and it presents the ways this fieldwork was conducted.

The chapter therefore proceeds (4.2) by clarifying my epistemological and ontological position adopted herein, which falls into the paradigm of the critical perspective. With this philosophical position, section 4.3 articulates and elaborates on the choice of ethnography as an appropriate methodological approach for this study. This is followed by section 4.4 which introduce the fieldwork including access to the field, early reflections in it and the methods developed for collecting the data. Section 4.5 introduces the research site by presenting its history, group structure and managerial hierarchy. Section 4.6 shows how the empirical findings has been analysed. The final section (4.7) summarises and concludes the chapter.

4.2 Epistemological and ontological position

Burrell and Morgan (1979, p. x) argue that 'all theories of organisation are based upon a philosophy of science and a theory of society', indicating all organisational studies to be deeply rooted in philosophical assumptions on society. The authors (ibid.) add that most accounting studies do not explicitly address these despite certain assumptions having clearly been made on the nature of the social world and the way it might be studied. This work wants to avoid such a shortcoming and instead openly sharing my philosophical assumptions to clarify the philosophical position of the research.

Burrell and Morgan (1979) argue that conceptualising social science concerns four fundamental assumptions: ontology, epistemology, human nature and methodology. *Ontology* is about a researcher's understanding of reality. It can vary from reality being independent or external to individuals to it being the product of individual consciousness (Burrell and Morgan, 1979). Associated with researchers' ontological choices, *epistemology* determines how one obtains knowledge from the world and communicates it to others. Epistemological assumptions determine whether the researcher believes knowledge can be acquired externally or if knowledge has to be personally experienced to understand it (Burrell and Morgan, 1979). *Human nature* describes the relationship between human beings and their environment. At one extreme, human beings and their experience can be conditioned by their external circumstances; at another, humans can be viewed as the creators of their environment (Burrell and Morgan, 1979). Different philosophical standings influence the choice of methodological approaches when studying a particular phenomenon, and research methods will be used differently depending on the notion of reality a researcher supposes to explore (Ahrens and Chapman, 2006). This is apparent in the transfer pricing literature. Researchers of it mostly believe transfer pricing to be independent and external to individuals, but the point here is that whatever their chosen research methods these reflect their philosophical standing and the latter thus influences the former. In this field, analytical modelling, regression analysis and experiments dominate (e.g. Göx & Schiller, 2006; Dikolli and Vaysman, 2006). Case study has also been used occasionally (e.g. Oyelere & Emmanuel, 1998; Clausing, 2003; Dharmapala & Riedel, 2013), but many researchers approach the case company with an extensive focus on the system itself and not the individuals operating the system. A notable exception to this is Mcaulay, Scrace and Tomkins (2001), who also used a case study to explore transfer pricing practice. Their predominant focus on the actors surrounding transfer pricing instead of the system itself derives from their assumption that transfer pricing is the product of individual consciousness.

Considering the debates on different philosophical assumptions, Burrell and Morgan (1979) categorise four paradigms of social analysis (ibid., p. 21–35): functionalist (assumes the objectivity of social facts); interpretive (sees the social world as being created by the individuals concerned); radical humanist (believes that humans are dominated by ideological superstructures, and it seeks to critique the status quo); and radical structuralist (views society as being characterised by fundamental conflicts and that these generate radical change through political and economic crises). Based on these, Chua (1986) categorises accounting research into different streams based on their different philosophical paradigms and table 4-1 summarises her assumptions.

Table 4-1: Streams of accounting research

	Mainstream accounting	Interpretive perspective	Critical perspective
Beliefs about knowledge	Theory is separate from observations that may be used to verify or falsify a theory.	Scientific explanations of human intention sought. Their adequacy is assessed via the criteria of logical consistency, subjective interpretation and agreement with actor's common-sense interpretation.	Criteria for judging theories are temporal and context-bound. Historical, ethnographic research and case studies more commonly used.
Beliefs about physical and social reality	Empirical reality is objective and external to the subject. Human beings are also characterised as passive objects, not seen as makers of social reality. Single goal of utility-maximization assumed for individuals and firms; societies and organizations are essentially stable…….	Social reality is emergent, subjectively created and objectified through human interaction. All actions have meaning and intention that are retrospectively endowed and that are grounded in social and historical practices. Social order assumed. Conflict mediated through common schemes of social meanings.	Human beings have inner potentialities which are alienated through restrictive mechanisms. Objects can be understood only through studying their historical development and change within the totality of relations. Fundamental conflict is endemic to society. Conflicts arises because of injustice and ideology in the social, economic, and political domains which obscure the creative dimension in people.
Relationship between	Accounting specifies means, not ends. Acceptance of	Theory seeks only to explain action and to understand how social order is	Theory has a critical imperative: the identification and removal

theory and practice	extant institutional structures.	produced and reproduced.	of domination and ideological practices.

Source: Adapted from Chua (1986, p. 611, 615, 622)

Conventional transfer pricing research discussed in chapter 2 can be categorised as a functionalist analysis of mainstream accounting research. Such research objectivises transfer pricing and the individual while focusing on hypothesis testing to verify or falsify a theory. Chapter 2 highly criticised this perspective for being too narrow and predictable. It even called this research tradition a 'dead circle' that avoids the social potential of transfer pricing. Such a viewpoint implicitly reflects my philosophical standings on how transfer pricing should be understood and should be studied. The present study is conducted from the ontological position that social reality is subjectively created and objectified through human interactions (Chua, 1986). It therefore emphasises the subjective nature of the social world in its quest to analyse how a social reality is being socially constructed and negotiated (Hopper and Powell, 1985). Its perspective, then, is that there is no independent 'reality' – only people's perceptions on reality (Hopper and Powell, 1985). On meaning and norms, these are objectivised through continuous social interactions (Chua, 1986). Although they can be changed, they can also become stable and structural social activities (Ryan, Scapens and Theobald, 2002). Grounded by such a belief, this work does not see transfer pricing as a neutral technical activity that is separated from social relations, or as mainstream literature does. Instead, it understands transfer pricing as being socially constructed, so it deems social interaction to play an important part. As action is instrumental to such interaction, transfer pricing practice must be understood through insights into motivations of actions, how actions are embedded in practice and how people make sense of the actions (Chua, 1986). This perspective goes beyond objective understandings of transfer pricing to investigates its meaning for people in their daily lives and such everyday life itself.

This philosophical standing criticises mainstream transfer pricing research, and it positions this research within an interpretive/critical agenda. While the philosophical distinction between mainstream accounting research and alternative perspectives is quite clear, the difference between interpretive and critical perspectives can be blurry as they indeed share certain common characteristics in terms of their understanding of reality as being socially constructed, but an important distinction between the two is their understanding of society. Hopper and Powell (1985 p. 450) state that ‘radical [critical] theorists view society as being composed of contradictory elements and pervaded by systems of power that lead to inequalities and alienation in all aspects of life; they are concerned with developing an understanding of the social and economic world that also forms a critique of the status quo.’ A critical perspective therefore carries a critical imperative with an intention to promote change, and it goes beyond the pure interpretation of reality (Gioia and Pitre, 1990).

Compared with the interpretive perspective, the critical perspective critically evaluates the forms of life they observe in order to analyse ‘false consciousness’ and dominations (Chua, 1986). As such, analysing conflicting interests between classes in society is a core element of the latter. Adopting Gramsci’s theory of hegemony as the theoretical framework brings this research into the critical perspective. Gramsci’s theory of hegemony is essentially a critical theory. While it concerns the social control of and conflictions between different classes of people, it always has a critical imperative. Gramsci developed hegemony not merely to explain how society works: he developed the theory with emancipative desires. As Simon (2015) puts it, it is a tool for understanding society in order to change it. Following this, this study recognises the contradictory nature of society and the presentation of power. It thus does not see transfer pricing as a neutral technical activity that is separate from social relations. Instead, it sees it as characterised by conflict of interest among different classes (e.g. capitalists and the working class).

4.3 Ethnography as the chosen approach

The adoption of Gramscian hegemony brings this research into the position of a critical perspective. While this is so, Gramsci did not provide any methodological implications of using his theories. Rooted in my ontological and epistemological positions, ethnography was chosen as the most appropriate methodology for this study. Although the research questions have not been concentrated to transfer pricing when I entered the field, a motivation for this work is a genuine desire to contribute to Gramscian research in accounting by exploring the operation of management control systems in an organisation and the details of mundane practice about internal dynamics. The focus is therefore on people's experience of management control practices, their different understandings on management accounting and how the relationship between actors is influenced as a result. A deep immersion into everyday life in the organisation, its control system and the relationships among different actors is required. Consequently, this work adopted an ethnographic approach as the most appropriate research approach for this study.

Ethnography is concerned with sociality, including how people live their lives and make meanings together during interactions and through written text, talk, behaviour, etc. (Cunliffe, 2010). Traditionally it has been used primarily by anthropologists and sociologists but have been gradually incorporated into accounting research in recent decades. Given the gap between theory and management accounting practice (as explored in Chapter 2), debates on suitable methodologies for empirically exploring issues continued. Surveys were initially used but it was soon realised that they offer only a superficial view (Scapens, 1990). Consequently, research increasingly started adopting a case study approach to provide more comprehensive views on management accounting practices in organisations. These case studies have also been adopted by both positivist researchers and interpretive/critical researchers, but the use of this approach by social theorists is quite different. In the former, case studies are part of the process of developing positive theories for positivist researchers such as Kaplan, but case studies informed by social theory are about providing detailed investigation of accounting in practice in order to understand the complex inter-relationships within a single system. This is why Scapens (1990) argues that case studies are far more central to research processes for interpretive/critical researchers. Given all these aspects, it is unsurprising that demands for deeper understandings of the field have resulted and for the adoption of ethnography in pursuit of these (e.g. Power, 1991). Unlike previous transfer pricing research, the current research focuses are on people's experiences of transfer pricing within an organisation, the relations between actors and how actors react to transfer pricing practice.

Ethnography involves ‘the study of people in naturally occurring settings or "fields" by means of methods which capture their social meanings and ordinary activities, involving the researcher participating directly in the setting, if not also the activities, in order to collect data in a systematic manner but without meaning being imposed on them externally’ (Bryman, 2000, p. 10). This study's approach accordingly embraces such researcher involvement and hence collects data internally. In ethnography researchers must physically present in and even immerse themselves in the field for an extended period of time and also closely work with actors – interact with them, build relationships with them and participate in their daily lives – to collect rich data (Cunliffe, 2010). Different from the linear model of analysis usually found in natural science, ethnography is about capturing people’s ordinary activities in their natural form, which requires unstructured and flexible methods of data collection that provide ‘thick description of people’s daily lives (Cunliffe 2010; Bryman, 2000). All in all, ethnographers ‘do what it takes to understand meaning-making’ (Cunliffe 2010, p. 231).

Ethnography is clearly about researchers engaging with and in the research field, but different interpretations of sociality will influence their reflections on ethnographical data (Cunliffe, 2010). For instance, while realist ethnographers are concerned with true meaning by ‘telling it like it is’, interpretive ethnographers view sociality as intersubjective, and critical ethnographers conceptualise sociality as discursive, contested and hegemonic. What results is that understandings of observed and experienced phenomena differ depending on how ethnographers interpret social reality. Realist ethnographers search only for one ‘true’ meaning, while interpretive ethnographers seek the existence of ‘multiple’ meanings. For critical ethnographers, the authority of ethnographical texts is usually questioned through deconstruction and multiple readings of ethnographical data. As this research adopts the critical theory of hegemony, it positions itself as a critical ethnography, so participants’ expressions are not taken-for-granted. For instance, the interviewee’s descriptions on transfer pricing will not be regarded as 'fact'. Instead, these will be questioned and compared with other discourse to critically evaluate all the ethnographical data. In this way, the field is understood through the constant deconstruction of different readings of the social meaning provided by actors from different levels.

The design of this fieldwork was catered towards collecting the ‘quality data’ required for this ethnographical study. The research focus is on a private Chinese group organisation (anonymous as ‘PLT’), and this organisation was selected for several reasons. First, it offered good access. I was allowed to visit their main divisions (discussed later) and able to engage with personnel at all levels of the managerial hierarchy from the business owners and senior managers to middle-level managers and employees in different departments. This is crucial for an ethnographical study because such a degree of access enabled me to become significantly involved in the setting, spend time with different people and collect rich data about their daily lives. Secondly, the organisation is in my hometown. Hence, there is great familiarity with the local language and culture, which facilitates all kinds of understandings from the emotions of different people to similar cultural experiences, which more deeply involves myself in the field and interpersonal relationships in particular. On a practical level, the locations of the main divisions are relatively close to my parents' house so there was suitable local residence during the fieldwork. Two divisions involved in this research are located in Shanghai and Suzhou, which are both 40-minute drives from this residence. This allows easy access to both divisions. For researcher embeddedness into the field, six months were spent with the people being studied, talking with them on a daily basis in the office, restaurant, corridor, workshop, etc. I attended meetings, discussed various issues and shared views with people as they share theirs. More details of the fieldwork, from gaining access to conducting the fieldwork through different ethnographical methods, are given in the next section.

4.4 Fieldwork

This chapter's preceding sections presented my philosophical position, the approach to this research and the methodological approach of ethnography as adopted herein. Guided by this, I conducted fieldwork in a Chinese private group organisation with a focus on its management accounting practice. This section gives further details of the fieldwork – from gaining initial access to the field to the research methods employed. It also presents several challenges encountered during the fieldwork.

4.4.1 Access and ethical clearance

As noted in the last section, there are various reasons for choosing PLT as the research site for this ethnographic fieldwork, particularly because of the company itself and the great access offered compared with other potential sites. After committing to an ethnographic study not long after commencing the PhD programme, I started utilising family connections to search for suitable research sites. Different organisations were approached, and eventually the Chief Financial Officer (CFO) of PLT was contacted. Several informal discussions about the nature and aspects of the study and about the organisation took place, including possible approaches to conducting the fieldwork, the duration of visit and desired access. This was all very promising, especially regarding access. The gatekeeper generously not only offered informal permission to access the field but also promised unconditional support to ensure that interviews could be conducted with people at all levels, that observations of all departments could take place, and that access to most of the internal accounts and reports would be granted. These promises therefore helped confirm the choice of PLT as the research site.

The ethics committee approval application commenced two months before departure to the field. As part of the procedure, a formal approval of access was necessary, so the CFO was approached again to obtain a formal access letter. The rights of participants are also important for research ethics, and the initial part of this was to ensure that participant recruitment was totally voluntary. The CFO was asked to tell all staff in advance that a researcher from the University of Glasgow would be visiting and to inform them of their rights as participants of this study. The initial plan for obtaining consent was to provide consent letters to participants during every interview and observation, but on commencing the fieldwork I soon realised that such an approach was impractical due to the amount of casual conversations and observations involved. Such an approach was even harmful to the ethnographical study because participants would be distanced from me, which is against the philosophy of ethnography. Instead, during introductions I informed each participant of the purpose of the research project, the policy of confidentiality and their rights. Considering the confidentiality of participants' information, all participants were made aware that their information will be confidential and anonymised. To do so, the field data was stored safely in a password-secured hardware and pseudonyms were used for each participant when writing transcripts and the thesis. Specifically, participants' names were replaced by codes such as 'sale staff 1' and 'sale staff 2' to ensure the anonymity of participants' identities. I was granted ethic approval in January 2017, and the fieldwork started the same month.

4.4.2 Entering the field

The fieldwork started in January 2017, shortly after the granting of the ethics approval from the University of Glasgow. The fieldwork plan was to observe and interview participants from various divisions with a relatively even allocation of time for each to explore different people's different experiences, the influence of management accounting practice in people's daily lives and opinions of management accounting practice from different perspectives. The first visit was to the organisation's trading division in Shanghai because it was where the CFO was located at the time (a 40-minute drive away). The fieldwork specifically started on 3 January, just after the New Year holiday. Although the CFO was not available on the first day, he assigned the operational manager to welcome and introduce me to all the staff. As the national holidays for the Chinese New Year would be starting from the end of January, the atmosphere was quite relaxing as less work was assigned before the holiday. A short visit then provided a good chance to gain familiarity with the participants without heavily intervening in their daily tasks.

The most striking first impression of the office concerned its arrangement. Instead of allocating departments into different rooms, all departments except the accounting department shared a single open space, though a spare office room was left for one of the shareholders who was mostly located in the US. The assigned operational manager allocated a vacant table for me, from which most departments could be observed, people in most departments were heard, the working atmosphere was felt and reflective notes were made. After greeting all the staff, I had an informal conversation with this operational manager wherein the latter introduced the history of the group, its structure, the functions of different divisions, the duties of different staff and the internal management mode.

A brief history of PLT

The group was initially established from a merger between two organisations – the formal sales division and the main factory. In 2004, one of the founders – Shareholder A – went back to China from the US after an unsuccessful business venture there. He had a trading company that sold medical supplies but felt that it was difficult for a pure trading company to survive. He then started searching for business partners to establish a group with both manufactory and trading components. Eventually, he found Shareholder B, who at the time had a small factory that was manufacturing rubber. Later, they established an HK-registered company and created a joint venture organisation in China. By framing the group structure this way, the group enjoyed a more controllable profit allocation, tax reductions and product development, which allowed them to expand very quickly in subsequent years. The organisation pursued international trading business and tried to access international market even before Chinese government opening up of international trading to private organisations. During that period, an export trading licence authorised by the government was required to trade with foreign companies, so the group made contact with a public company and 'borrowed' their licence in order to export their products.

Group structure

Besides giving an overview of the group's brief history, the operational manager also introduced basic information about the organisation, including its products, group structure and basic business procedures. PLT is in the wound care and personal care industry, mainly manufacturing and selling daily medical supplies such as bandages, first-aid kits and other daily care products. It acts as a supplier for international retailers and organisations that need medical supplies. The group has two manufacturing divisions and three sales divisions in both China and the US, employing over 400 people. Figure 4-1 visualises the structure of it

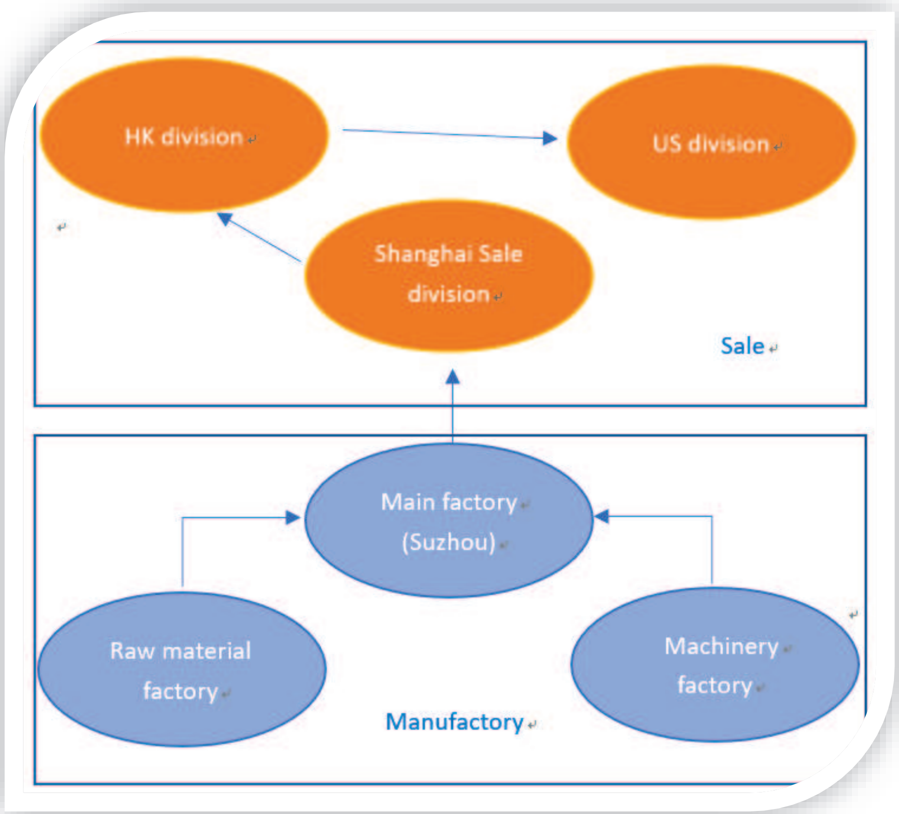

Figure 4-1: The main structure of PLT

The group's structure can be divided into two parts: manufactory and sales. The former has three manufacturing factories. the main factory is responsible for manufacturing, assembling and packaging the products. Approximately 90% of the products are manufactured in the factory, so about 10% are externally supplied but these are also packaged in the factory. The other two support this main factory: the raw material factory's function is to manufacture raw materials for bandages and tapes; the machinery factory is about designing and producing machinery exclusively for the group. This internal supply chain is one of the group's core competitive advantages. Although the main factory has external sale capabilities, most of the products it produces and develops are sold internally to sales divisions in the group, who subsequently sell the products to external customers. The main sales division of the organisation is located in Shanghai and is responsible for most of the group's trading tasks, including international trade and customer service. Despite the group having a trading company registered in HK, its actual operation is held in Shanghai. The HK division exists because of the historical tax benefits and different customer preferences. Also, the organisation recently established a US trading division that provides an online retail business in the US market.

Divisions within the group have close relationships with each other, especially between the main factory and the Shanghai sales division. The process of one trade contract usually involves work from both divisions. The Shanghai sales division usually receives customer requests and sends them to the main factory for price quotes. Considering the cost and own profit margin, the factory gives its internal price to the sales division. If the sales division is not satisfied with the price, they will re-negotiate the price with the manufacturing division until the final price is agreed. These two divisions are thus identified as the core divisions for this group.

Their importance in the group is also proved by the review of their recent accounting statements. It is found that most profits in the group are generated from these two divisions. With over 10 years of development, these two divisions have currently holding over 70,000,000 RMB (around, 7,100,000 GBP) of assets which includes properties, machines, inventories, receivables etc. In 2016, two divisions were able to generate annual revenue of 2,800,000 USD, within which Shanghai sale divisions contributed 1,500,000 USD and Suzhou factory generated 1,300,000 USD. Annually, Shanghai sale division earns net income of 200,000 USD while Suzhou factory earns 500,000 USD. Given all this, these two divisions were selected as the main research sites.

Managerial hierarchy and people

Discussions with operational manager gave a good understanding of the research sites. She was also interested in this study's work plan, including the research aim, planned duration of my visit and possible data collection approaches. She kindly suggested several people to interview. The Human Resource manager (HRM) also gave insights into the group's managerial hierarchy, even providing an image that depicts the hierarchical relationship between staff members. Knowing the significance of the Shanghai sales division and the main factory, I asked more details about the managerial hierarchy in these two divisions in particular to plan future interviews and observations accordingly.

The managerial hierarchy of the organisation consists of three groups: shareholder, senior management and staff. The group has three shareholders: the two founders and an investing shareholder. The two founders hold over 75% of shares in the whole group, which obviously makes them the major owners. These two are actively involved in senior management as they act as chairmen and vice-chairmen for different divisions, but the investing shareholder acts only as an investor. Each division usually has several senior managers who perform certain managerial roles and play important parts in their division. Most individuals in senior management are usually promoted to these positions from staff level. They are generally originally recruited as university graduates and work in the organisation for more than ten years, which allows them to establish good experience on working procedures. A perk for senior managers is that shareholders sometimes allow them to invest in their own division as a motivation for better performance. For instance, the former Chief Executive Officer (CEO) of the Shanghai sales division held about 10% of shares in the division. In terms of decision-making and reporting, senior managers are usually responsible for daily decision-making, though they do have to report the circumstances of the division to the founders regularly and answer any questions they may have. Compensations for senior managers depends on the division's performance, and the annual bonus is negotiated directly with two founders on an individual basis.

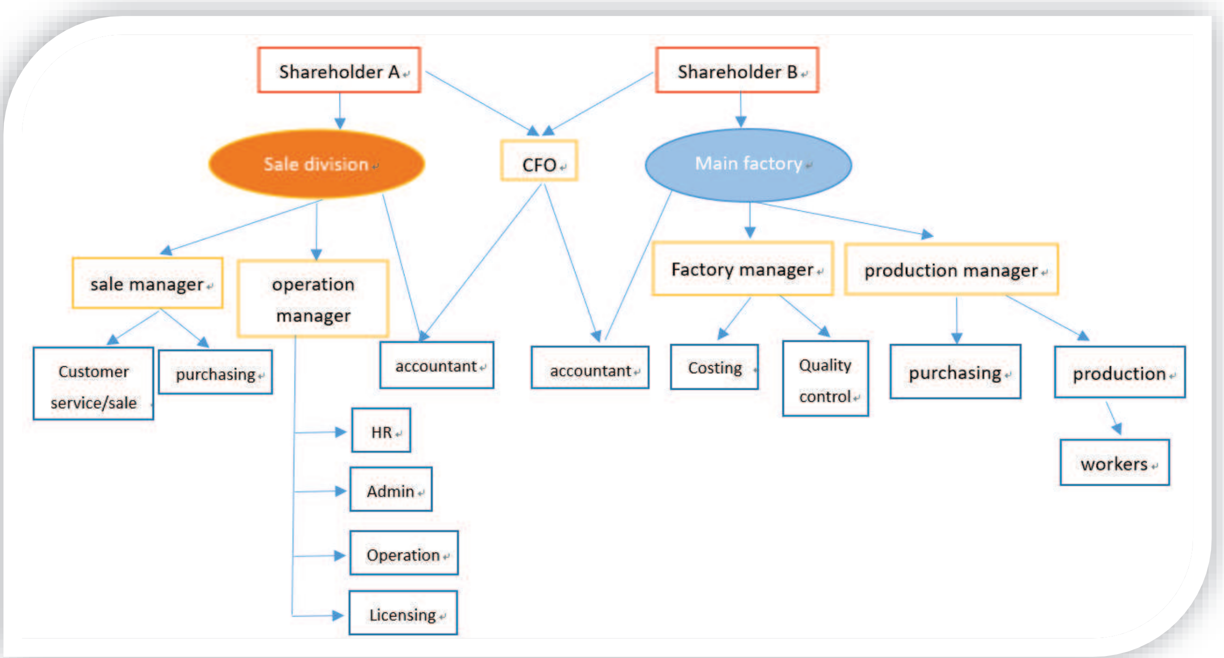

Figure 4-2: Managerial hierarchy of PLT

Figure 4-2 shows that the managerial hierarchy of PLT consists of two main shareholders at the top, with several senior managers responsible for different divisions in the middle level and staff in the bottom hierarchy. Each level will be discussed to explain their role and relationship with others.

Shareholders

The two owner-shareholders assigned themselves to monitor two divisions based on their experience and expertise. Shareholder A monitors the activities in the sales division because of his experience of running a trading company. Shareholder B is involved in managing the main factory because of his expertise on material and manufactory processes. Holding over 75% of shares in both divisions, the two shareholders have significant power over not only staff but also senior managers. Most operational processes were designed mostly by these two shareholders themselves and practised by senior managers. Senior managers in both divisions have to report to shareholders, and the annual bonus of these senior managers was directly negotiated with shareholders. The power of shareholders is also reflected in their ability to overwrite managers' decisions. For instance, shareholders can determine the sale price without discussions with senior managers.

Senior management

As mentioned above, shareholders assign specific managerial duties to different senior managers. These managers make daily managerial decisions and are accountable for the performance of each division. In Shanghai sales division, the sale manager is responsible for client development and after-sale customer service. She leads the team with sale staff and purchasing staff members. The operating manager takes charge of the general operational processes in the organisation, including allocating work, handling contract processes, etc. The operation of the main factory is led by two senior managers: the factory manager and the production manager. The factory manager is very respected in the factory. With his previous experience as a secretary of Shareholder B, he particularly monitors costing procedures, including checking price quotes and monitoring manufacturing costs. He also leads the quality control team in its quest to ensure manufactory procedures meet the requirements of various regulations such as those of the US Food and Drug Administration (FDA). The production manager, along with his production staff, monitors the production process. With expert knowledge on the production process and relevant materials, he reviews the external supply contracts made by the purchasing staff.

While different managers all ‘belong’ to respective divisions, the position of the CFO is unique in the group. Instead of monitoring one division, he is assigned to overview the financial performance and accounts in the entire group. He is also responsible for developing accounting statements and giving shareholders financial advice. Notably, he belongs to neither division. Instead, he travels across different divisions regularly to provide information and advice to senior managers and shareholders. He also produces internal annual auditing reports for all divisions and prepares statistics for shareholders to evaluate each division's annual performance.

Staff

The next level of hierarchy is the staff, who can be categorised based on their specialisation and responsibilities in the different divisions. In the sales division, staff consists of the sales staff, purchasing staff, operating staff, licensing staff and accountants. They all report to their senior managers respectively. Sale and purchasing staff usually report to the sale manager, operating and licensing staff report to the operation manager, and accountants report directly to the CFO. Residing in the bottom of the hierarchy, these staff are relatively passive. Most do not work overtime and enjoy relatively stable but fixed compensation and bonuses. One exception is the sale staff, whose bonus depends on the profit they make from the contracts for which they are responsible: for every contract they successfully secure, they get around 1% of the sum as a bonus. In the manufacturing division, the office staff includes purchasing staff, costing staff and quality control staff. Purchasing staff report to the production managers, and the costing staff's daily task is to prepare price quotes for different products based on the requests. Compared with others, cost staff has more engagement with staff in Shanghai sales division. Nevertheless, as with their counterparts in the sales divisions, most staff are quite passive because of the nature of the performance measurement system.

4.4.3 Field journey

Initial discussions with the operational manager and HR manager gave a good understanding of the history, structure and people working within this group. With all this in mind, I interacted more with the staff and managers in the sales division to establish a good relationship with participants and learn even more. The next few weeks involved conversations and interviews with people from different departments on various subjects (e.g. accountants, sale staff, sale manager, purchasing manager). The first interview was undertaken with the accountants mainly to hear their opinions on the management accounting system and its change, though through the first interview with two staff members in the accounting department it soon became clear that this department plays a rather passive role. Instead of actively being involved in management practice, its function is limited to only book-keeping and account preparations. On this realisation, interviews were arranged with managers from all departments including sales, documentary, operation and purchasing departments to gain further understanding of the organisation's operation mode. The first round of interviews suggested that the sales department was the core of this organisation. A request was consequently made to interview and observe closely staff from the sales department. I also sometimes engaged in additional activities such as occasionally helping participants to complete forms, translating English letters from clients and packing demos for delivery. Lunch was also had with participants every day, which involved frequent casual conversations discussing various topics (e.g. their daily practice, their opinions on transfer pricing). After a month of fieldwork, such an overall approach had proven an efficient and effective way of obtaining data. Despite topics discussed sometimes being irrelevant to the work, this approach helped me gather data in a natural manner. To improve the outcome, a routine was developed in which I consider topics and questions for lunch discussions during the morning and tried to lead the conservation towards these during the lunch.

After two months of fieldwork in the sales division, the important role of transfer pricing for the group had become clear in the sense that it can directly influence the sell price quoted to customers. Notably, the transfer pricing observed was not the typical transfer pricing evident in textbooks at university or that appeared in the literature. Instead of being very efficient and processual, transfer pricing at PLT is quite ambiguous with constant controversy during the negotiation of the transfer price between the trading and manufactory divisions.

The scope of the fieldwork quickly narrowed to transfer pricing practice. To further explore this issue, a request was made to the factory manager to start the second phase of fieldwork at their main factory in order to experience transfer pricing practice from a different perspective. Fortunately, much support and a great level of access was also given at this factory. The factory manager even offered to share the big office table with me, which allowed direct observations of his daily work, including his work routine and conversation with others about various issues, and we had many casual conservations during his break and lunch. The opportunity to observe Shareholder B in the group for two weeks also arose, which similarly involved sharing the office with him and discussing various topics regarding his opinions on transfer pricing, management control and business in general. The support from this shareholder was also vital for access to internal meetings and subsequent individual interviews. As with my experience in Shanghai, lunch discussions were particularly effective in obtaining rich data. I also regularly had lunch with the factory manager, which involved discussing various issues on transfer pricing and his own reflections. Thanks to the factory manager granting permission, I also observed the practice of cost accountants for a week. As happened at place, I did additional work here such as occasionally helping staff translate emails from foreign customers, which likewise improved my personal relationship with staff. Different from the sales division, where most staff have a decent level of English skills, only the factory manager is fluent in English in the main factory, so I sometimes acted as a translator when foreign clients visited the factory.

Reflecting on the ethnographical visits to both sites until end of May, I summarised all the data that had so far emerged and developed a story around transfer pricing issues at PLT. While the summary provided a good overview, it also opened up more questions that needed exploring. To collect richer and thicker data for this ethnographical study, frequent visits to both sites continued and through these supplementary data was collected for another two months. My familiarity with employees, their personalities and ways of work all helped me gather additional information efficiently in the final stage of fieldwork.

4.5 Data collection methods

The previous section outlined this current fieldwork at PLT. It covered the processes of entering the field, getting to know people there and conducting this ethnographical study. Data collection methods such as interviews, casual conversations and observations have already been mentioned in previous discussions, but this section elaborates on them by providing detailed information on how different methods have been used and how they interrelate.

4.5.1 Interviews and informal conversations

Interview is one of the key data collection methods for this fieldwork, so for this work an interview plan and rationale (Appendix 1) was prepared prior to departure to the field. This provided initial guidelines to clarify the themes for discussion and the participants sought for interviews. Since broad themes were selected based on initial readings and reviews on various social theories, the initial design of questions was about exploring how people understand the management control system differently, their daily lives and how they themselves influence management accounting practices. This interview plan helped identify interesting issues based on participants' understanding on similar subjects during the first round of interviews, which helped the development of questions for further rounds of interviews and observations. For instance, the initial round of interviews identified that participants had different views on transfer pricing. Different sides of the argument were presented when different staff were asked similar questions about transfer pricing. This motivated a focus on transfer pricing, including its structure and participants' understanding of the system, their daily practice and their comments on current practice.

Interviews were primarily used to identify potentially interesting themes and issues. In addition, it is usually conducted with participants with less availability. Thus, it usually conducted with participants with a managerial role in the organisation including the CFO, two shareholders, the sale manager, the operational manager and factory managers. For interviews, appointments were booked with particular participants in advance and the face-to-face interviews took place in a private environment – usually their offices. Although interviews were conducted based on pre-determined questions, the interviews were actually rather semi-structured. This allowed the general theme (i.e. around transfer pricing) to generally be followed while maintaining flexibility to also get more open-ended responses from interviewees, which is important when observing their unique social and cultural realities. A total of approximately 10 hours of interviews were recorded, as itemised in table 4-2.

Table 4-2: Summary of interview details

Interviewee(s)	Issues discussed	Time spent
CFO	• About the company and his role as CFO • Operation of transfer pricing practices and its history • His opinion on transfer pricing issues • His experience in the organisation	4 hours
Shareholder A	• Opinion on transfer pricing issues • His role as a shareholder/owner • His logic of internal management • His future vision of the organisation	1.5 hours
Shareholder B	• Opinion on transfer pricing issues • His role as a shareholder/owner • His logic of internal management • Evolution and future vision of the company	4 hours
Sale manager	• Transfer pricing procedure • Negotiation methods • Performance measurement	2 hours
Factory manager	• Transfer pricing procedure • Negotiation methods • Performance measurement • His experience in the organisation	2 hours
Operational manager	• Organisational structure • Her experience in the organisation • Operation process	1 hour
Human Resource manager	• Employment preference • Duties of each staff member • History of the organisation	1 hour

Interviews provided much insight into the transfer pricing issues at PLT, but I observed that the interviewees tended to be very nervous during the interviews. In addition, I discovered some inconsistency between interviewees' ‘formal answers’ and their actual practices. To explore the transfer pricing issues in its natural form, informal conversations were employed to discuss the issues in a more relaxing and open manner. This method was used to improve the reliability of data and discover new information. Different from the formal interviews, informal conversations were usually not pre-arranged and often happened during the break and lunch time. The relaxing environment allowed participants to express themselves freely about the topics they were concerned about, which also helped understand their sense-making and personal concerns. This method proved particularly effective in the last few months of the fieldwork after I had developed more trusting relationships with many participants.

With participants' consent, audio was sometimes recorded for both interviews and informal conversations. After the fieldwork commenced, diaries were also written to organise and document the fieldwork. It includes my daily plans, observations, interview information and personal reflections. Transcripts were produced either immediately after the interviews or at the end of the day. This allowed access to and analysis of the data in a timely manner, which was important for the development of subsequent questions for interviews. When audio recording was not possible, notes were taken during the interview in order to mark interesting points. Table 4-3 illustrates the details of informal conversations

Table 4-3: Summary of informal conversations

Participants	Issues discussed	Time spent
Sale staff, including manager	• Details of working experience as a sale staff • Impression of others • how relationship is maintained	Conversations spanning the entire duration of fieldwork
Cost accountant	• Working experience as a cost accountant • Her understanding of cost structure and transfer pricing	Around 2 hours during two days of observation.
Factory manager	• How relationship is maintained • Details of working experience as a factory manager • his concerns, compliance and comments on various issues • His attitude towards his relationship with shareholder	Conversations spanning the entire duration of fieldwork
CFO	• His experience to work in the organisation • How he would solve the problem • His relationship with different actors	Conversations spanning the entire duration of fieldwork
Shareholder B	• How staff are managed • His personal philosophy of business	Around 3 hours during observations
Factory operation manager	• His opinion on performance measurement • His personal experience as an operation manager	Around 2 hours during lunches

Trading company operation manager	• Her personal experience in the organisation over 10 years • Her reflection on the internal management	Around 3 hours during lunches
Trading company accountants	• Their role in the organisation • Their attitude towards this job	Around 2 hours during observations

4.5.2 Observations

Observations were another core data collection approach of this fieldwork. General observation was especially used during the first few weeks, which helped familiarity with participants. Observing people’s mannerisms, interactions, behaviours as well as organisational procedures and occasional incidents gave understanding of operations and participants’ daily routines at work, their interactions with other employees and their reactions during the negotiation of transfer prices. Potential issues were also realised by listening to conversations, feeling the working atmosphere and observing people’s facial expression during conversations.

General observation was followed by in-depth observation with key personnel associated with transfer pricing, including sale manager, factory manager, the CFO and Shareholder B. Such observation was undertaken by spending time with participants on their normal working days, observing how they proceeded with daily tasks and who they communicate with, and seeing how they react to different incidents. Several internal meetings were also attended, which provided opportunities to observe some face-to-face interactions between different divisional managers. The actual relationship between participants is hard to verbalise during interviews, but such observations provided a good source to understand people's relationship with each other. Many hours of observations gave much insight into transfer pricing issues and showed the functioning of transfer pricing practice from different viewpoints. During the observation period, diary writing was maintained to note personal reflections on collected data. It includes impressions on certain issues, notes on my thinking process on developing interview questions and reflections on what was observed and heard.

Table 4-4: Summary of observations

Location	Observations made	Time spent
Sale department - Shanghai	• Operation of work, particularly transfer pricing • daily conversations and routines	Around 3 weeks
Operation department - Shanghai	• Business operation mode • Relationship between different departments	1 week
Factory office - Suzhou	• Daily work of factory manager • Daily work of cost accountant • Dperation of transfer pricing	Around 3 weeks
Shareholder office - Suzhou	• Performance of power • Daily work of shareholder	1 week
Accountant office - Suzhou	• Daily work of CFO • His involvement in transfer pricing • Performance measurement criteria	1 week
Accountant office - Shanghai	• Daily work of accountants • relationship with other divisions	2 days
Meeting room - shanghai	• Meeting discussing transfer pricing and recent status • Relationship between managers	2 occasions
Meeting room - Suzhou	• Meeting discussing transfer pricing • Performance of power by shareholder	2 occasions

4.5.3 Document analysis

For this ethnographical study, interviews, informal conversations and observations were used as primary data collection methods and documents were analysed to substantiate relevant information. The documents studied include the company's annual financial reports from 2014 to 2017, internal statistical records, cost documents, a managerial structure document and a human resource guideline. The document analysis was helpful during the initial stage of the fieldwork when understanding the organisation's managerial hierarchy and current status. In later stages, internal documents were also reviewed to supplement data and triangulate with the primary data gained from the interviews and observations, a process that gave a more comprehensive understanding of the issues. Copies of the documents were provided by the CFO, cost accountants and HR managers. These are summarised in Table 4-5 below.

Table 4-5: Summary of document analysis

Documents	Sources of documents	Areas studied
Annual reports of organisation	The CFO	To understand the company’s financial position.
Cost reports	Factory manager	To understand procedure for calculating costs of the products.
Managerial structure document	Human Resource manager	To understand the managerial hierarchy and the organisation's structure.
Annual profit leader board	The CFO	To analysis the comparative annual profit data for each division
Human resource guidelines	Human resource manager	To understand the employment principle of the organisation and the ethical rules applied to all employees.
Manufacturing guidelines	Factory manager	To understand the manufactory procedure.
Products information book	Sale manager	To get an idea of the products the company produces and the features of different products.

Having discussed the ways the research was conducted and the data collection methods used in this study, the study will next (4.6) presents the data analysis process and thereby link the methods with the analysis.

4.6 Data analysis

The above section shows that the data collection process was rather unsystematic and unstructured. An enormous amount of data being collected – including many hours of recorded interviews and transcripts, diaries for over 70 days and files of company documents – meant that an efficient strategy for understanding the data was necessary in the sense of organising, interpreting and presenting the data (in a structured piece). Unlike quantitative studies, data analysis for qualitative studies is usually not a distinct process. Instead, it involves ongoing reflections on data and its positioning against different theories in order to further develop the chosen research question and identify potential theoretical contributions (Ahrens & Chapman, 2006). This study also embraces this ongoing process of data analysis during time in the field.

The initial data collection was guided by the general reading of various social theories, but the initial form of analysis was shaped by the abstract theoretical lens based on institutional logics. This determined the themes of the initial round of interviews and the initial categorisation of data. Such a theoretical lens led to a focus on different understandings of the same subject from different actors. Thus, data was initially grouped in order to understand how transfer pricing is practised based on different 'logics'. Data-theory reflections were implemented through the writing of weekly summaries that identified common themes, summarised theoretical reflections and constructed storylines. To do so, Nvivo was used as a tool to categorise data and quotes into different themes. Throughout the data collection period, identified themes were clustered, re-clustered and visually displayed in diagram form to understand emergent patterns and linked information. These initial classifications of the data were discussed during regular meetings with supervisors (who were in the UK and Sri Lanka during the period of this fieldwork). About three months into the field, data analysis led to the relevance of power relations between shareholders, so instead of employing an 'institutional logic' perspective certain political theories such as Bourdieu’s practice theory, Burawoy’s manufacturing of consent and Gramsci’s theory of hegemony were widely discussed to see how different theoretical concepts could be used to make sense of the story. Such an ongoing process constantly reshaped the research questions and data collection approaches.

The ethnographical data collected provided the picture about the management control practice at PLT from different perspective reflecting a complex socio-political setting from which different theoretical themes can be derived. Therefore, this thesis is only a reflection of the ethnography which picked transfer pricing as the focus. For this, a detailed storyline in understanding the company’s transfer pricing practice. From this, the theme of hegemony had emerged because of my personal feeling on the story I was telling. The fieldwork had demonstrated that transfer pricing in the organisation was not efficient, economically speaking. Despite this, it did keep different divisions together and maintains a balance of power and control over people. After the fieldwork and with an established understanding of the stories on transfer pricing, I re-wrote the literature review chapter around transfer pricing to reflect the new empirical focus. Gramsci’s work of hegemony was studied, the theory chapter was also rewritten and a hegemonic theoretical framework for further data analysis was developed. Data was re-visited in order to theorise them accordingly. The research questions were also modified to reflect the empirical and theoretical gap identified (Chapter 2,3).

4.7 Summary and conclusion

This chapter sought to present this study's methodological position, data collection approaches, data analysis procedures and the ways this fieldwork was conducted, including issues encountered and how these were overcome.

Furthermore, it introduced the research site by providing an overview of the organisation.

The chapter began by positioning myself and this research within broader ontological and epistemological debates. This research was deemed critical research in terms of my approach to research and choice of theory. The argument presented here is that transfer pricing is socially constructed so knowledge of transfer pricing should be obtained through personal experience. My philosophical position motivated the choice of ethnography as the methodological approach for exploring how transfer pricing operates and how hegemony is exercised in this setting. An ethnographical study was justified as it allows embeddedness in the daily experience of different actors within the organisation.

Details of the fieldwork were then presented, from initial access to the field to the data collection methods employed, though this actually began by giving the rationale for selecting the case organisation, PLT, and documenting the process of securing ethics committee approval. The chapter next provided a brief rewind of my visits to two research sites and gave basic details about the case organisation. The process for collecting data for this ethnographical study was also presented, which includes interviews, informal conversations, observations and document analyses. Finally, the chapter shared how the data collected from the field has been analysed and theorised. After having clarified these, the thesis next moves on to the empirical analyses, the first of which provides an analysis on the cultural-political context in which the organisation is situated.

Chapter 5: Structural hegemony in the Chinese context

5.1 Introduction

The preceding chapter clarified my philosophical position on the critical perspective and ethnographical methodology adopted in the study. Based on this, I intend to analyse the transfer pricing practice at PLT guided by the hegemonic framework developed in Chapter 3. For this, the cultural-political context of organisational practices needs to be considered, since this context conditions and influences how hegemony is practised at PLT. Therefore, the aim of this chapter is to analyse this through the concept of structural hegemony. It presents the political and cultural development of China and considers how the broader context determines the organisational practices at PLT.

To do so, the chapter is organised as follows. The second section discusses the political development after the establishment of the People's Republic of China (PRC) in 1949, which documents the development of social conditions for the rise of the capitalists as the dominant class in the organisation. Section three discusses the ideological dimension of structural hegemony. It explores the largely unconscious structural reproduction of Confucian values, which provides a philosophical basis in justifying the paternalistic form of control in Chinese organisations. The final section (Section 4) summarises and concludes the chapter.

5.2. Structural condition in China

Structural hegemony refers to the structural evolution of particular political, economic, and cultural conditions for certain social groups to assert themselves as dominant. The prevailing structural condition creates incentives for dominant groups to generate consent and control over others, either by maintaining existing structures or bringing about minimal change to ensure that they maintain dominance (Ashraf and Uddin, 2015). For organisations, the power relations may be conditioned by the development of a structural hegemony. Ashraf and Uddin (2015) noted this relation between structural hegemony and power structure in organisations. They found that although a Pakistan airport was traditionally dominated by the military, the effort toward economic reforms from the new Prime Minister actually influenced the power structure in the airport. Business managers began to have influential positions in the airport, and military officials had to share power with them. Similarly, the structural hegemony also conditions the practices of governance and control in organisations; Alawattage and Wickramasinghe (2008) found that the political development from coercive-based to consent-based leadership in the state provided a base line for rationalising the routine labour control in Sri Lankan tea plantations. Therefore, to understand the exercise of hegemony at PLT, it is essential to study the broader political development in order to make sense of the emergence of local power relations and particular control practices.

Stressing the influence of structural hegemony to an organisation, this section analyses the political development in the PRC in order to explore how power relations at PLT can be explained through the broader structural conditions and their implications. It illustrates how the transformation of the political ideologies in China resulted in the change in the hegemonic relationship between capitalist and proletarian, which explains the structural conditions for capitalists being dominant at PLT.

5.2.1 Socialist hegemony under Maoism (1949 to 1978)

The rise of the private sector in China can be traced back to the legacy of the structural economic reform after the death of Mao and the replacement of Maoism with Dengism. Although the dominance of the owner-manager in Chinese organisations may be taken for granted in the literature (Redding, 1990; Efferin and Hopper, 2007), the hegemonic position of the owner-manager actually experienced a drastic change as a result of the economic reform. To understand how owner-managers transform themselves to achieve a dominant position, the discussion will start with the hegemonic ideology under Maoism and how it was the 'darkest age' for private sector firms.

After the Communist Party of China (CPC) won the final victory in the civil war with the Chinese Nationalist Party and took power in 1949, the PRC was established. The CPC leader Mao Zedong (referred to hereafter as Mao) took the national leadership and launched his political reform. Influenced by Marxism and Leninism, Mao held a strong socialist ideology and had the ambition of turning China into a communist state like the Soviet Union. Consistent with his communist ideology, central planning, collective ownership, and class struggle primacy became central to Chinese political polices (Ezzamel, Xiao and Pan, 2007).

Thus, Mao's efforts at political reform can be understood as his attempt to create a communist hegemony. Associated with other organisations, such as trade unions, youth organisations, and academic scholars, the state diffused a communist ideology as the 'correct' way of thinking and the essential path for development (Laaksonen, 1988). For instance, while accounting scholars highly criticised double-entry bookkeeping as inappropriate for a communist society, they uncritically accepted Soviet accounting as the way forward (Ezzamel, Xiao and Pan, 2007). The infusion of political ideologies was also implemented violently. The Cultural Revolution was initiated by Mao in 1966 with the aim to eliminate any form of ideology except Maoism. In short, it can be regarded an ideological re-education project. During that period, the education was politically driven. For instance, enrolment in the university did not depend solely on the student’s academic performance but also depended on recommendations from party members. In addition, a movement called ‘up to the mountains and down to the villages’ was implemented to imbue the youth with a socialist ideology in a coercive way. Millions of university students and graduates were forced to leave their hometowns and were allocated to rural areas to be educated by farmers, who were regarded by the state as an ideologically purer class (Li, 2013).

The dominance of Maoist ideologies had serious implications for private business in the PRC. Firstly, the focus on the class struggle meant a strong rejection of western ideas. While western techniques such as double-entry bookkeeping were highly criticised, as it was considered to have been designed to mask facts in the interest of capitalists, organisations were also considered as mere units for implementing central plans with little autonomy under central planning. Human resource decisions were usually made directly by government officials, and the organisational targets were collected from the government on an annual basis (Ezzamel, Xiao and Pan, 2007). Under these circumstances, there was little room for private business. Indeed, private business was completely disallowed by 1956. Already existing private organisations were forced to transform into SOEs in different ways because of private sector’s image as part of ‘evil capitalism’. The communist desire could even be traced back to the first Constitution of the CCP (‘*dang zhang*’) back in 1921, where it stated: ‘Abolish private ownership, confiscate all manufacturing material such as machine, land, workshop, semi-product, etc; and return them to the society’[2] (People’s Daily, 2012). Prior to 1978, all enterprises were either state or collectively owned (Adhikari and Wang, 1995).

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[2]People's Daily (2012) 'The constitution of the Communist Party of China' China Daily, Viewed 21 November 2018, <http://www.chinadaily.com.cn/dfpd/18da/2012-08/29/content_15716271.htm>

The strong implementation of Maoist ideologies not only influenced the status of private business but also resulted in the emergence of proletarian leadership in organisations. In 1949, when the PRC was established, managerial resources were usually privately formed by family members or individual labour administrators. Although they had experience of managerial positions, it was clear that they failed to meet the requirements of the socialist ideology, which stressed quality and worker-centred values (Laaksonen, 1988). Therefore, skilled and literate workers who had the blessing of the CPC were promoted to the leadership positions as the replacements for the 'capitalist boss' (Laaksonen, 1988). In addition, the members of the CPC including political personnel and army officers who were trained in the political morality, such as the Marxist value system, were appointed as management resources to fill the ideological gap between former managerial morals and new communist values. Through the appointment of communist-inspired management, the state was able to create a 'power bloc' to maintain its leadership through the constant infusion of the communist ideology in society.

The period from 1949 to 1978 marked the emergence of a communist hegemony along with the birth of the PRC. The promotion of the communist ideology resulted in the disappearance of the private sector, which can be regarded as the darkest period for entrepreneurs. Instead of being assumed to be the dominant class in a capitalist society, they can be regarded as the dominated social groups in this context.

5.2.2 Rise of Market Hegemony (1978 - present)

Communism continued to dominate the Chinese form of hegemony with the hierarchical leadership centred on Mao. However, China witnessed the rise of a new form of hegemony after Mao's death. Indeed, 1976 was a dramatic year in Chinese politics. During this year, several powerful Chinese leaders, including

Mao himself, died. This removed his steady influence on Chinese politics and initiated a series of political reforms. A new government established around Deng Xiaoping immediately started their strong criticism of Maoist ideologies. In the Third Plenum of the Eleventh Central Committee of the CPC in December 1978, the slogan 'take class struggle as the key link' was officially discarded, as it had become deemed unsuitable for a socialist society (Laaksonen, 1988). The aim of the new government was to transform the communist leadership into a leadership that focused on economic growth, the open market, and technical enhancement. The focus then quickly shifted to the work of 'socialist modernization', which includes the modernisation of industry, agriculture, national defence, and science and technology (Laaksonen, 1988).

Using his national influence as the new leader, Deng gradually introduced his market ideologies to the masses. For instance, the economic reform was framed in such a way that the idea of a market economy could be gradually introduced while maintaining the socialist identity of the CPC. Deng (1979)[3] rationalised the introduction of market economy as follows:

> *It is wrong to maintain that a market economy exists only in a capitalist society and that there is only 'capitalist' market economy. Why can't we develop a market economy under socialism? Developing a market economy does not mean practising capitalism. While maintaining a planned economy as the mainstay of our economic system, we are also introducing a market economy. But it is a socialist market economy. Although a socialist market economy is similar to a capitalist one in method, there are also differences between them [...] taking advantage of the useful aspects of capitalist countries, including their methods of operation and management, does not mean that we will adopt capitalism.*

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[3]Deng, X (1979) 'We can develop a market economy under socialism. In: The Selected Works of Deng Xiaoping, vol. 2'. China.org.cn Available at: http://www.china.org.cn/english/features/dengxiaoping/103388.html (accessed 14 December 2018).

The introduction of a 'social market economy' was able to produce a market-based ideology while still maintaining the old socialist identity. Guided by this, various projects were undertaken to introduce the elements of capitalism into organisational management. State enterprises were required to be much more autonomous, and managers were expected to monitor their own economic activities rather than passively follow the instructions set out in central plans (Scapens and Yan, 1993). The adoption of Western management techniques was also encouraged by the state. Government officials and scholars started to argue that techniques such as accounting could be used to help develop not only capitalist countries but also socialist countries such as China (Ezzamel, Xiao and Pan, 2007).

While Mao's hegemony created the socio-political conditions for a proletarian leadership in organisations, the economic reform also witnessed a gradual shift of power in organisations. The reproduction of a market ideology supported by the state created the objective conditions necessary for the rise of capitalists as a hegemonic group despite them not being recognised as 'capitalist' at the state level. The decade of the 1980s was viewed as the entrepreneurial decade, which witnessed an explosion of private entrepreneurship in rural areas of China (Huang, 2008). In 1979, although public ownership was still the means of production, peasants were granted the right to be relatively independent and were allowed to construct basic organisational units in rural areas (Laaksonen, 1988). This provided essential political conditions for the establishment of the original form of privatisation in the Chinese modern era. Following the state policy, 'Town and village enterprise' (TVE) was established by peasant entrepreneurs. It was framed in such a way as to compromise both socialism and capitalism. Although it was usually set up privately by several or individual households in a village, it was officially referred to as a collective enterprise (Li, 2013). Thus, TVEs enjoyed more support from the state than did other private businesses at the time, which is known as 'getihu' (individual businesses). While individual businesses had an employment restriction of fewer than eight employees, TVEs were excluded from this. The promotion of TVEs suggests that entrepreneurs were becoming an important bloc in the market-based hegemony by serving an essential role of contributing to economic growth. From 1978 to 1981 alone, the number of TVEs grew by over 200% as a result. Huang (2008 p.51), when discussing the development of entrepreneurship in China, related the story of Mr Nian, who utilised sunflower seeds to establish one of the most profitable enterprises in the country:

> *The scale of Mr. Nian's operations was phenomenal. He hired hundreds of workers at a time when private-sector employment was supposedly capped at seven workers per firm. In 1981, he started with four employees, and in 1983, he had 103. By 1986, his business was netting 1 million yuan in profits. To put this number into perspective, in 1985, the average profit per SOE – the largest of the businesses in the country at the time - was only 1.1 million yuan.*

The success of TVEs was crucial for the reform of the state hegemony. Rural economic growth accelerated the transition from a socialist ideology to a market-driven ideology. In addition, the growth of personal wealth in rural areas was able to generate consent for the market ideology while the socialist ideology was still partly recognised in order to maintain the sustainability. This, then, set the foundation of its diffusion into urban areas of China.

The origin of private business in urban areas can be understood as another political project developed by the state to sustain social stability and further diffuse the market ideology. As I discussed before, millions of young people and graduates were sent to rural areas for re-education during the Cultural Revolution. Shortly after the economic reform, these young people were free to go back to their home cities. However, this created a huge unemployment issue, which was viewed as a serious crisis threatening national stability and leadership. Therefore, youths were encouraged to undertake an ‘individual business’ in the repairing, service, and handicraft industries (Li, 2013). This, then, marks the first step of opening up the private sector.

However, the relaxing of constraints on private business was not a one-step process. Similar to the process of developing TVEs, the gradual development of private enterprise was initiated with a careful balance between developing a market ideology and maintaining political correctness as a socialist nation (Li, 2013). In the beginning, the operation of private business was restricted; only private businesses in certain industries were approved, and hiring labour was not allowed except for family members. Even then, the business owners, who were known as ‘getihu’, had to have fewer than seven employees. However, such an ambiguous attitude toward private enterprise was replaced by a friendlier posture in 1987 when the CPC acknowledged the important role of private enterprise in developing the national economy and improving life quality in their 13th Party Congress (Li, 2013). The year 1989 witnessed the registration of the first groups of private enterprise of 0.09 million. In 1992, Deng Xiaoping further showed the full political acceptance of developing privately owned organisations during his famous ‘South tour’ inspecting Wuchang, Shenzhen, Zhuhai, and Shanghai, where he made the famous statements: ‘The market economy does not equal capitalism, socialism also has market’ and ‘More central planning or more market is not the fundamental difference between capitalism and socialism’. As a result, private enterprise grew by 70% in 1993 and by 81% in 1994 (Li, 2013). To support the market ideology, political societies such as tax and law regulations were reformed to provide the necessary foundations for the development of modern private firms. The economic activities in private enterprise then become an important part of the state hegemony because of their ability to contribute to economic growth and maintain social sustainability.

The story of the political transformation after the establishment of the PRC demonstrated a dramatic reform of the state hegemony in China. It can be seen that the broader political transformation had a serious impact on the power relations in Chinese organisations. The political era of Maoism provided the socio-political conditions necessary for the proletariat to be the power players because of their political superiority in a communist society. In contrast, capitalists were powerless and invisible in the organisational hierarchy because of the state's disregard of capitalism. However, a political transformation from Maoism to Dengism dramatically reversed the power structure in organisations. After the death of Mao, Deng took over the leadership and heavily promoted marketisation as the key political ideology. As a result, private entrepreneurs started to emerge and played an essential role in sustaining the state hegemony. This created the political conditions necessary for entrepreneurs to regain power in organisations while the proletariat started to lose their voice in those same organisations.

The entrepreneurs at PLT, namely, shareholders A and B, also started their private business in this social context. With the boost of private sector in 1990s, shareholder A, an ordinary citizen without political background, initiated his real estate business in Qingdao. After earning his 'first bucket of gold', he travelled to the US to discover the market and particularly look for the products which can be exported there. He identified that the bandage can be a promising product and therefore returned to China to look for business partners in 2000s. He found shareholder B, who at the time just established a small factory producing medical material in Suzhou. The emergence of the political environment allowed them to initiate their business and transform themselves from proletarians to capitalists. Following the merger of their individual business in the 2000s, their power had remained apparent. As mentioned in section 4.4.2, the managerial hierarchy at PLT is quite centralised. The owner-managers are at the top of the hierarchy with immense power over the decision making.

Therefore, the trace of structural hegemony in China is able to provide explanations of how the shareholders at PLT gained their dominant hegemonic position in the organisation.

This section shows the need for structural hegemony in understanding the emergence of a particular dominant group in an organisation. It was found that state hegemony provided the essential objective conditions for entrepreneurs to win consent and control over others. Therefore, this section has provided a structural explanation of the hegemonic relations at PLT. However, one can argue that, although capitalists' activity in private enterprise plays an important part in maintaining the state hegemony, it does not lead to the conclusion that private enterprise is under the hegemony led by business owners, as the managers were usually regarded as capitalists themselves as well, as shown in labour control studies (Burawoy, 1979; Wickramasinghe & Hopper, 2005; Alawattage & Wickramasinghe, 2008). Therefore, the political context cannot explain why owners have more power than managers. To answer this question, the next section will discuss another aspect of the structural hegemony which determines the particular forms of control constructed at PLT.

5.3 Confucianism as a prevailing ideology

The previous section discussed how the historical political context of China provided the structural conditions for the rise of a capitalist leadership. However, the state's politics and its interaction with the economy cannot explain the entire hegemonic arrangement in the local context. Although the influence of the political force was obvious, this explanation on its own is not convincing when explaining the emergence of owner-manager leadership in Chinese organisations. As demonstrated in Alawattage and Wickramasinghe (2008) and Efferin and Hopper (2007), cultural tradition can also be hegemonic by providing an ideological rationality for consent (and control). Therefore, this section discusses Confucianism as a hegemonic ideology securing the unity of social formation in China. I argue that the ideology of Confucianism provides the essential cultural conditions for the infusion of a paternalistic and harmonic management in Chinese organisation. To do so, I will firstly provide an overview of Confucianism. Then, I discuss how Confucianism was utilised as a hegemonic ideology in Chinese society, which is followed by the discussion of those aspects of Confucian values which influence management control in Chinese organisations and PLT in particular.

5.3.1 Confucianism – an overview

The philosophy of Confucianism and its doctrine has been a prevailing ideology influencing Chinese society for most of its recorded history (Redding, 1990). It was developed by the ancient Chinese philosopher and educator, Kong Confucius (551 – 479 BC). His ideology was established and then evolved as both informal and unofficial, but it became one of the most powerful religions based on moral, political, and social principles influencing everyday life of the Chinese people on the mainland, as well as those Chinese who had migrated to other countries, such as Japan, Singapore, and Indonesia (Wang *et al.*, 2005).

While Confucianism is concerned with all aspects of life, it is impossible to discuss it fully in a limited space. Therefore, the discussion will focus on its relational aspect, which can be understood from two perspectives. One is concerned with the human relationships while the other focuses on the development of the inner characteristics of an individual. Firstly, Confucianism affirms the accepted values and norms of behaviour in human relationships through the principle of *'wu lun'* (Wang et al., 2005; Berling, 1982). It describes five basic ethical role relations, that is, between emperor-subject, father-son, husband-wife, elder-younger brothers, and friend-friend (Wang *et al.*, 2005). This includes defined roles and obligations for different sets of relationships. For instance, the son should listen to advice from his father and must accept the father's precept. It can be seen from the example that '*wu lun'* promotes a dominant-subservient relationship. In the father-son relationship, the father is in the dominant position where the son has to obey his advice. Similar to the dominant position of the father, the Emperor, husband, and elder brother are also granted a naturalised dominant position in their respective relationships. However, this does not mean that the dominant party in each relationship can abuse his power. Rather, *'wu lun'* also includes obligations for dominant parties in the relationship. For example, the father should use his wisdom to educate his son and understand how to love. Thus, *'wu lun'* offers pre-assigned social roles and relevant obligations to guide appropriate human interactions for all individuals in society and expects everyone to conform to their role in the relationship and act properly to match their identity.

While the doctrine of *'wu lun'* determines the social orders for different social identities, another aspect of Confucianism nurtures the internal virtue of an individual through the notion of 'five virtues': *'ren'* [humanity-benevolence], '*yi'* [righteousness], *'li'* [propriety], *'zhi'* [wisdom] and *'xin'* [trustworthiness] (Wang et al., 2005). Among them, *'ren'* is regarded as the core and as the source of all the other virtues (Berling, 1982); it provides the idealistic spiritual characteristic which acts as a moral guidance for Confucianism's believers.

Although *'ren'* describes the ideal virtual as an individual, this concept closely links individuals with the broader community they live in:

> *The ideogram for 'jen' (as their term for Ren) represents a human being: 'jen' is humaneness – what makes us human. We are not fully human simply by receiving life in a human form. Rather, our humanity depends upon community, human reciprocity. […] It connected with the Confucian golden rule of not doing to others what you would not want them to do to you. Against individualism, it*

> *implied that people have to live together hopefully, even lovingly. People have to cultivate their instinctive benevolence, their instinctive ability to put themselves in anther's shoe. That cultivation was the primary educational task of Confucius and Mencius.* (Carmody & Carmody, 1983, p.135 cited from Redding, 1990).

Therefore, to be *'ren'*, the individual should treat others with love and respect and should consider the needs of others just as they consider their own needs. This generates an emphasis on community and harmony because an individual is not considered an individual unless they show consideration for others in the community. The cultivation of this virtue involves constant education and self-reflection with a lifetime commitment to inner character building and ethical maturity. Confucius himself describes his own life-time character building as follows: 'At fifteen, I set my heart on learning. At thirty, I was firmly established. At forty, I had no more doubts. At fifty, I knew the will of heaven. At sixty, I was ready to listen to it. At seventy, I could follow my heart's desire without transgressing what was right'. (Analects, 2:4 cited from Berling, 1982). Therefore, the path of character building was provided by Confucius himself to guide people in being *'ren'*.

These two perspectives of Confucianism set the ideological principles that define appropriate individual behaviours in relation to social harmony (Wang et al., 2005). It also promoted a hierarchical social order that defines the obligations of different identities in different relationships. Thus, it provides a deep structural ideology which secures the unity of social formations in an unconscious manner and contributes to the reproduction of social structures. In addition, the ideologies of Confucianism carry a religious character. Its ideologies are transcendent, not in the sense that they are otherworldly but in the sense of aiming for perfection (Berling, 1982). On the one hand, Confucian values are closely related to daily life to the point that people may not take Confucianism seriously. On the other hand, it constantly reminds people about the familiar ideals of friendship, parenthood, and themselves. Although it does not have any physical institutional structure like Islam or Christianity, its philosophical thought has evolved to be a matter of how people act, just like the influence of capitalism (Redding, 1990). Consequently, people who follow the Confucian doctrine in daily life may not consider themselves as followers of Confucianism (Redding, 1990). Thus, it becomes deep and unconscious and is hard to delineate.

5.3.2 Confucianism – a hegemonic ideology

The previous section illustrated Confucianism's principle in managing people's relations and their ideologies. This cultural ideology has been prevailing for most of Chinese recorded history. The Confucian philosophy became dominant due to its function of securing the unity of the social formation in ancient China, especially in the Han dynasty. In ancient China, the civil laws were not well developed. Thus, the state was not maintained based on the jurisdiction that can be usually found in Western societies. Instead, Confucianism was utilised to provide the philosophical basis for the filial piety which supported the family structure and, in turn, the state itself. It also established a highly integrated society where the dominant class and dominated class shared the same world view via a common literary ideology (Redding, 1990).

Under the influence of Confucian ideology, the state was understood differently by its members compared to their counterparts in the Western world. While the distinction between the state and the individual was clear in the West, the Chinese state was usually understood as a super-family for its members (Redding, 1990). The maintenance of order was based on the morally enriched prescriptions guided by the Confucian discipline of the family, such as *'wu lun'*. In this context, an individual was no longer a 'free' individual with private thoughts but rather was one party in a relationship or connection. Influenced by the Confucian value of *'wu lun'* and the five virtues, members were able to identify their own roles as the parents, children, friends, and partners of others and to follow their obligation to maintain the harmony in their own social context. The society, then, is constructed of morally binding relationships connecting all while the state is naturally at the top of the hierarchy as the father of the family (Redding, 1990).

The intensiveness of social interactions leads to the establishment of a collectivist society. While people in an individualist society tend to have only loose ties between each other, in contrast, a collectivist society is one in which people are integrated into strong, cohesive groups throughout their lifetime (Hofstede, 2001). Consequently, open confrontation is considered as being rude, and direct refusal is usually replaced by a delay or an agreement everyone knows would never be acted upon (Tang and Ward, 2003). People who continually disagree with others are regarded as being at fault. While much can be left unsaid, people rely on the common sense and shared opinions guided by Confucianism to fill the knowledge gap (Tang and Ward, 2003). Another important implication of a collectivist view of life is the distinction between people who belong to the group and those who do not (Tang and Ward, 2003). While people naturally trust other people who are in the same group, the claims by outsiders are usually viewed with suspicion. This has important implications for the state hegemony. While the ruling classes were regarded as the 'parent' in the 'super-family' in ancient China, their ideologies and policies can be easily legitimised and trusted as common opinions. In contrast, the recognition of the 'super-family' prevented the diffusion of alternative opinions as anyone offering such opinions was regarded as outsider and their opinions were suspect. Thus, it can be argued that the consent of subordinated groups was manufactured by the prestige given to dominant groups because of their naturalised superior identity as described in Confucianism.

However, the justification of the hierarchical relationship does not mean the exercise of a dictatorship. The Confucian system of values not only contributes to the sustainability of the hierarchy; it also imposes rules and obligations on the authoritarians. Just like a father has certain obligations in the father-son relationship, the Emperor was expected to have certain virtues and obligations as well. For instance, a good emperor should respect and show care to his subordinates. The abuse of power is constricted by the morality of righteousness and compassion. The restrictions on dominant class can be seen as a compromise from dominant groups, which further contributes to the generation of consent in ancient China. With the influence of Confucianism, people respected the moral leadership of their leader if he strictly followed Confucianism (Redding, 1990). Combined with previous discussion, the practice of following Confucian principles can be regarded as the main source of legitimacy for effective leadership in ancient China.

While in ancient China, leadership was largely justified by Confucian principles, the appearance of Confucianism can still be observed in modern China. Despite Confucianism being heavily attacked by the CPC because it represents of the values of Chinese imperialism, the sense of Confucianism remained embedded in the attempt of the CPC to justify itself as the new leader. For instance, the CPC promoted the description of the state as a 'big family', which can be seen from many forms of artworks including posters, poems, and songs. When advocating the ethnicities of China, a song with lyrics '56 ethnicities are 56 flowers, brothers and sisters of 56 ethnicities are one family' is still widely heard in China. In fact, during my childhood, similar phrases could be easily heard or seen on the streets. This represents the CPC's attempt to present the state as a family. The hierarchical family structure then could be transferred to the governance of the state. The CPC, which described itself as 'parents', was able to justify the power and privileges it had over others. For other social groups, who acted as 'sons and daughters' in this family relationship, the recognition of the party as ‘parents’ made it easier for them to accept the social order. Therefore, although the members of the society shared the same power in the principle of the CPC, it was organised in a hierarchical way through Confucian ideology, despite the CPC denying support for any religion.

The Confucian concept of harmony was also emphasised when the CPC framed its leadership during the market economy era. In September 2004, The Fourth Plenary Session of the 16th Central Committee of the CPC proposed the development of a ‘socialist harmonious society’ as one of the top agendas for central government. According to the report[4]:

> The general requirements for building a harmonious socialist society are: democracy and law; fairness and justice; integrity and friendship; vigour and vitality; stability and order; and the harmonious coexistence of man and nature. … In a harmonious society people at all levels respect each other. Labour, knowledge, technology and capital are all factors of wealth creation, which can make profits and should be respected so long as they have made contributions to society. A harmonious society should see honest, friendly and harmonious relationships and just, fair and open competition between social members, regions and departments. In such a society, competition will optimise the distribution of resources, foster technological progress, develop social productivity and raise overall national strength.

The pursuit of a ‘socialist harmonious society’ was constantly re-addressed and emphasised and still is, even in the present day. By framing the goal of central government with the Confucian ideology, the government was able to reinforce its moral leadership. In addition, the government justified the development of

[4] China Daily (2004) Harmonious society. Available on: http://cpcchina.chinadaily.com.cn/2010-09/16/content_13918117.html (Accessed 19/12/2018)

market competition, which was not in accordance with socialist ideology, by claiming it to be the essential step for creating a harmonious society.

To get people to understand their prescribed roles in the state, interpretations of Confucianism were embedded in education and family socialisation (Redding, 1990). Through the teaching of Confucianism, different social groups were identified, and the prevailing social structures were able to be stabilised through the reproduction of Confucian ideologies. The Confucian education can still be observed in modern Chinese education based on my own experience of the education system in China. Despite school education not being based on Confucianism as in ancient China, the original writings of Confucianism are commonly discussed as part of the Chinese curricula in primary and secondary schools. Children are encouraged to understand the original texts, memorise the classical phrases, and apply the Confucian principles when building their own relationships in their daily lives. In contrast to the emphasis on the independence and creativity encouraged in individualistic societies, children are educated to be obedient and responsible to their peers. Considering this, I recall a vivid example of my own experience. Throughout my primary and secondary education in China, we always had a class-based moral performance system across the school. When someone in the class broke the school rules, the marks of the whole class would be reduced. As a result, the bad behaviour of an individual became the shame of the whole class. Thus, a collectivist thinking was created in order to achieve the common good for the class. In addition, in line with the principle of *'wu lun'*, teachers are always respected and are held in a dominant position. The teacher-centred learning experience is prevalent; for example, students are not allowed to speak in class unless the teacher asks them to answer questions (Tang and Ward, 2003), and students have to greet the teacher before and after the class to show their respect to their teachers. Confucian principles are also circulated in family education as well. Parents educate their children to respect their elders, follow their advice, and understand the importance of the family as a close unit. The marriage of young couples is treated as the uniting of two families while parents' opinions are usually very important. In return, parents have the obligation to support young people financially and provide life advice to them.

Based on the above discussion, it can be argued that Confucianism serves as a structural hegemonic ideology in Chinese society. In ancient China, it was the core ideological base for the state hegemony and social stability. It established a stable social hierarchy which helps emperor gaining consent among subordinated groups. In modern China, it provides ideologic support for the emergence of moral leadership by the CPC. The CPC's effort on relating education and state policies to Confucian principles showed that Confucianism still influences people's sense-making in the present day. Thus, it is a long-standing structural hegemonic ideology which works as a social cement to connect members of the society together in an unconscious way. Thus, the next section presents the appearance of Confucianism in Chinese enterprises and at PLT, showing how the ideological influence of Confucianism at a structural level is able to influence the organisational practices in China.

5.3.3 Appearance of Confucianism in organisations

The previous section argued that Confucianism works as a hegemonic ideology to maintain the moral leadership in both ancient and modern China. With the influence of broader Confucian ideologies, the unique tradition of management control in Chinese organisations emerged and developed. This is what this section aims to analyse. Two dimensions of the Chinese management tradition derived from the influence of Confucian ideology are discussed. The first dimension shows the vertical order in Chinese organisations where a paternalistic governance promoting hierarchy and authority is prevalent; the second dimension shows the horizontal relations in organisations where hegemony is the foundation for maintaining relationships between colleagues.

Paternalistic governance

The social orders cultivated by the notion of *'wu lun'* and the virtue of *'ren'* initiated the paternalistic mode of control (Wang et al., 2005). As discussed in the previous section, the principle of *'wu lun'* provides defined roles for each member in society and encourages individuals to conform to their social role in different relationships and to fulfil their individual responsibilities. The dominant-subservient relationship described in *'wu lun'* leads to the respect of hierarchy and authority. In the state, the power and authority of the ruling classes, such as emperors and the CPC, were justified and naturalised because they linked their moral leadership to Confucian principles and concepts. For instance, the state is commonly described as a 'big family' while the state acts as the 'parent'. Through this, the social hierarchy between superior and subordinates became acceptable as long as the superior appeared to obey Confucian principles (Wang et al., 2005).

Conditioned by this broader structural ideology, Chinese organisations are usually managed in a similar way. An organisation is usually treated as a family where the business owners are usually regarded as the superior in the Chinese context. Because of the hierarchical order of the family, the decision-making authority is typically regarded as the natural right for the business owners or managers in control (Laaksonen, 1988). Owners tend to believe that their authority and power are given as a natural right rather than being based on their defined contractual managerial role or their professional skills (Laaksonen, 1988). On the other hand, the moral principle described in the virtue of 'ren' requires the owner to behave and think like the parent in the family and to provide acceptable leadership in the organisation. This ideological influence results in the dominance of paternalistic governance as a widely accepted governance approach in Chinese business (Pun, Chin, & Lau, 2000; Dong & Liu, 2010; Wang et al., 2005; Hempel & Chang, 2002; Lau & Young, 2013). Influenced by hierarchical interpersonal relationships in the Confucian value system, paternalistic governance is characterised by centralised authority by owner-managers and the hierarchical organisational structure (Dong & Liu, 2010; Pun et al., 2000). Owners tend to be at the top of the managerial hierarchy and exercise tight direct control over the organisation unless the manager wins the personal trust of the employees. Therefore, critical managerial positions in the organisation tend to be assigned to family members of the owner or trusted managers (Redding & Witt, 2011 p,7). Staff usually have little influence on the operation of control system, and have little involvement in standard setting and monitoring (Whitley, 1999).

With the influence of the ideology of Confucianism, the PLT is also managed through a paternalistic way. A centralised managerial hierarchy and authority can be observed from its managerial structure (Figure 4-2). It is apparent that the managerial hierarchy was centralised toward the business owner. The two business owners (acting as shareholders) enjoyed naturalised power in the decision making in the organisation. Such naturalised power is legitimised by Confucian ideology and the managers tend to respect the arrangement. At PLT, it seems like every member has their own social role in their relationship and try to fulfil their own responsibilities. The business owners act like ‘parents’ in the relationship and usually have the responsibility to make critical decisions for the organisation. The senior level managers did not have control over the decisions. Instead, their job was to execute the decisions and respect the authority:

> *For me, I am just the executor of the owner’s decisions. If he* [Shareholder B] *wants more sales, I will try to achieve that; if he doesn’t want me to do that, I am also ok with it. We are just*

> *executors; they* [owners] *need to have a clear target. The problem is that his target is changing, which makes it hard for me hard to get the point.* (FM)

Bottom level staff had less information and did not have any decision-making responsibility. For example, for cost accountants, they followed only the calculation formula designed by senior management when calculating the manufactory cost and did not make any contribution to the design of the system. Instead, they have the responsibility to calculate the cost using the formula:

> *Manufactory cost includes the costs incurred during the manufactory processes. I am not sure what is inside this cost. The numbers are decided by managers* [factory manager and shareholder B] *and the cost per unit is based on the width of the bandage. This is their formula, and I don't really know the principle behind it. Managers decide this, and we have to follow the formula.* (CA-1)

In addition to the centralised decision-making arrangement, it was observed that the appointment of management teams was based on the owners' personal relationship and trust. While the two business owners were at the top of the managerial hierarchy as shareholders and executive directors in the different divisions, only their family relatives and loyal employees were assigned to critical managerial positions at PLT. In Factory A, the head accountant was shareholder B's uncle, the production manager was his childhood friend, and factory manager had been promoted after several years of working as the shareholder's secretary. In the Shanghai sales division, shareholder A's wife was appointed as the COO of the company while all the middle-level managers including the sales manager, operational manager, and HR manager were promoted to their positions after more than 5 years of working in the organisation as their first jobs since graduation. In addition, the CFO of the group had at least 8 years of experience working in both organisations as a group accountant before finally being promoted to the position. The construction of the management team in the organisation showed a clear preference toward individuals who had already established an informal or family relationship with the business owners.

Members of the owners’ families shared similar levels of authority and power in the organisation. The COO can be regarded as a good example. In the Shanghai sales division, the COO was responsible for most of the major financial decision-making while exercising direct control over the employees. Although there was some degree of autonomy for middle-level managers, paternalism still shaped how the employees interacted with the owners:

> [When facing problems] *middle-level managers will try to solve the problems by themselves first; however, if the issues are big or managers are not sure about the solution, the COO will be asked to provide a valid decision. The decision related to fund raising and money transfers have to be reported to the COO so she can monitor the financial circumstances of the whole group. Although she is in the US for most of the year, I don't feel any difference; some issues still need to be reported to her through Wechat.* (OM)

The above excerpt illustrates the authority of the COO in the sales division. Although she was not always physically in the office, her power was still visible in the organisation. However, when she did come to the office, her supervision approach demonstrated her paternalistic way of governance:

> *When the COO was here, she always asked us some random things when we had something on hand. For example, when I was typing, she would walk behind me and ask me something about the customer, the status of a certain contract, and the customer she had previously introduced to me. I had to answer her questions, and after that, I had to switch my mind back to the task I was doing, which is a bit annoying.* (SS-1)

Apart from centralised control practice, paternalistic governance is also characterised by personal and informal relations between the controllers and the controlled. Instead of following the rules and formal procedures, owners prefer direct supervision and personal contact when monitoring organisational activities in order to retain considerable personal discretion in the decision-making process (Whitley, 1999). Performance indicators usually involve judgements based on personal feelings instead of calculative figures. For example, decisions such as firing, hiring, promotion, and evaluation in a Chinese Indonesian company were found to be based on friendship, trust, and loyalty instead of results and efficiency (Efferin & Hopper, 2007).

At PLT, the performance measurement system was also quite informal and personal. Apart from the sales division, which had a clear performance indicator based on profit, other departments did not have any formal performance measurement system. Middle level managers tended to negotiate the salary and bonus directly with the owners. During my time at PLT, many managers mentioned to me that they would negotiate their salary on an annual basis with the two owners. Managers valued employees' performance in a rather personal way. As a result, a good informal relationship between managers and staff had become increasingly important:

> *The performance indicator here is based on if the bosses like you. If they like you, you are doing everything right. If they don't like you, they will nit-pick some problems even if you were doing a fairly good job. So there is no objectivity here. In my previous organisation* [a US organisation], *different departments rate each other along with self-assessment. Both financial and non-financial categories are developed to assess how well and hard you worked.* (PS)

It can be said that a leadership based on paternalism is similar to an autocratic leadership. Owners take decisions on behalf of the company while few inputs are taken from the group members. The owners dictate all the tasks to employees and evaluate the performance based on their own judgements. However, it differs from autocratic leadership because of the owners' obligations as derived from Confucianism. A paternalistic leader is regarded as the father of the organisation (Lau & Young, 2013). Therefore, they have to take care of the employees like a parent would do. For instance, owners are responsible for employee welfare and job promotion and even provide help in difficult personal situations. In return, employees show obedience to the leaders and respect to centralised authorities from owners (Efferin and Hopper, 2007). The promotion of loyal staff at PLT provides a good example of how owners take care of loyal employees as part of their obligations. Therefore, the collectivism and relationship-centralisation described in Confucianism results in paternalistic governance in Chinese organisations.

The above discussion shows that the management practice at PLT was based on a paternalistic ideology, which is a hegemonic ideology rooted in Confucianism. It influenced both the business owners (the controller) and employees (the controlled). Paternalism enabled the business owners to accumulate power and consequently exercise centralised control and direct supervision. On the other hand, these practices were accepted by employees because they were in line with their Confucian ideology. More importantly, Confucianism had infused people's way of thinking in an unconscious manner. Although participants never explicitly discussed the impact of Confucianism on them, Confucian values could be observed through the way they did things and the norms they took for granted. The discussion on paternalistic governance also shows the importance of informal relationships at PLT. While performance measurements, promotions, and even salaries were based on the personal relationship with managers or owners, the building of personal relationships had become essential for people to live in the organisation. Realising this, the next section discusses how actors deal with relations in an organisation where the concept of ‘harmony’ is elaborated.

Concern of Harmony

While paternalistic governance is mainly concerned about the vertical order in Chinese organisations, the maintenance of harmony sets an ideological foundation which governs interpersonal relations in Chinese organisations (Westwood, 1997; Hempel & Chang, 2002). As previously discussed, the Confucian principle of *‘wu lun’* stresses the importance of harmony in the same group. ‘Trustworthiness’ is highlighted as the core principle in friend-friend relationships, which means that friends should always trust and help each other. The notion of *‘ren’* also educates people to respect others and consider others’ needs. This all signifies the emphasis of harmony in Confucianism. In the organisational context, while a harmonic relationship between leader and subordinate can be achieved through the naturalisation of the paternalistic management tradition, the harmonic relations between people with similar social identities are governed by the notions of *‘guanxi’* and *‘renqing’* in the workplace.

The notion of *‘guanxi’* is common in China. It is derived from the Confucian teaching of *‘wu lun’* on commonality and harmony in family relations, which also provided a benchmark for the maintenance of non-family relationships (Chen, Chen, & Huang, 2013). Chen, Chen, and Huang's (2013) review on over 200 articles in the management literature discussing *‘guanxi’* demonstrates the complexity of *‘guanxi’* in Chinese society. The direction translation of ‘guanxi’ can be ‘relation’ or ‘connection’. However, there is no universal definition of *‘guanxi’*, as different researchers interpret the concept rather differently. It can be generally interpreted from two perspectives. For the individual, it can be understood as a social practice of building and using personal relationships in life and work. For organisations, it can be understood as a strategy for a business to gain competitive advantages and as a way of establishing contracts and transactions between organisations (Chen, Chen, & Huang, 2013). Despite various interpretations in different contexts, the notion of *'guanxi'* generally describes a set of informal connections between people within the same network, which leads to agreements and personal benefits given in an informal manner.

However, Chen, Chen, and Huang (2013) highlighted the distinction between family and non-family *'guanxi'*. They argued that, while *'family guanxi'* carries the characteristics of affect, obligation, and informality, *'non-family guanxi'* is instrumental, which means that non-family relationships are motivated by the objective of obtaining benefits and rewards. Therefore, the relationship is built because of the benefits one is expected to get from others. While *'family guanxi'* is usually maintained in an informal or personal form, some *'non-family guanxi'* is contractual. This form of 'guanxi' usually refers to the interpersonal or inter-firm relationships, which are characterised by formality. This form of *'guanxi'* is initialised for business and work requirements and therefore is not as close as *'family guanxi'*. On the other hand, Chen, Chen, and Huang (2013) still recognised that *'guanxi'* in the workplace can be a mixture of the personal and the impersonal, the expressive and the instrumental. The workplaces and contractual connections provide social spaces for people to initiate an ongoing 'guanxi'. Over time, people involved in contractual *'guanxi'* tend to become 'shouren' (acquaintance), and their shared social identities (such as employees) tend to establish a horizontal relationship. Their *'guanxi'* can be less instrumental and more affective, and the harmony is valued more than before.

The harmony in the *'guanxi'* relation was highly valued at PLT, especially between employees. The building of harmonic *'guanxi'* was important for staff to feel comfortable in the organisation. As the HR manager commented regarding her feeling about the maintenance of good *'guanxi'* with colleagues:

> *The evaluation system is useful when adjusting the annual salary for staff. However, the social relationship in the organisation is also important; you spend more time a day in the company than at your home. You will feel uncomfortable if you don't have good social relationships in the organisation unless you are a very competitive person. As you can see in our organisation, the sales manager and her staff have good match of their character. No-one is overhanging.*
> (HRM)

The managers at PLT also tended to prevent conflicts between others especially in the case of contradiction. An incident was observed between the operational manager and the graphic designer in the sales division regarding the designer's late arrival time. The company implemented a sign-up system where each employee has to sign in for attendance when they arrive at the company to monitor their arrival times. However, the operational manager discovered that the designer usually did not sign in. When the operational manager asked the designer about this, designer did not provide any valid reason and simply said: *'You can do whatever you want and follow the rule'*. However, the operational manager clearly regarded that as the last option and kept talking about how he should have followed others' routine and done the same. After two weeks, they made an agreement. The designer's salary was cut by 20%. In return, he would enjoy the free attendance schedule as he wanted. This incident shows the concern for harmony as an important criterion when the operational manager handled conflict with staff. Although she could have simply applied the rule and punished the designer for his behaviour, she tried to convince him by talking about how others all follow the routines and negotiated an acceptable solution for both parties in order to maintain the harmonic 'guanxi' in the workplace.

On the other hand, *'guanxi'* also contains obligations to the others in the relationship (Hempel and Chang, 2002). A social rule is implemented to govern the social and business interactions in the exercise of a *'guanxi'* network to maintain harmony. Such a social rule is known as *'renqing'*. In brief, it means a favour someone owes to others. For example, if an individual has received some help/benefit from others, he owes a *'renqing'* to those others. This means that should the others encounter trouble later on, the individual is obligated to repay the favour as far as possible. Therefore, any conflict that appears can be avoided and harmony maintained by offering a '*renqing'* to the other party rather than having to resolve the conflict. The benefit and the obligation in the *'guanxi'* network, then, provide an effective social mechanism to prevent direct interpersonal conflicts and preserve the social harmony in the field (Hempel and Chang, 2002).

Negotiations are usually a mixture of conflict and cooperation because of the different interests and expectations between parties. Tang and Ward's (2003) research on management practices in Chinese joint-venture projects shows how the negotiation process between Chinese managers is characterised by the sense of harmony and hierarchy. They argued that, due to the concern of harmony, honest confrontation will be regarded as aggressive and therefore is seen as unacceptable behaviour. Instead, disagreement will be skirted through non-committal responses to maintain the harmony of the relationship in the workplace. Similarly, refusal is sometimes difficult without harming the *'guanxi'* between parties. This is where *'renqing'* comes into play. If a known disagreement occurs during the negotiation, there is a possibility that one party may accept the deal even if it harms their self-interest. However, once it is accepted, a *'renqing'* is incurred. The one who received the favour has the obligation to make an unspecified future repayment to another party.

The sense of harmony could be observed during the observation at PLT. Staff recognised the importance of harmony in '*guanxi*' and sometimes used '*renqing*' as the ultimate solution. For instance, when discussing negotiation approaches in the sales division, Sales staff 1 told me:

> *Normally, I usually negotiate with Nina* [cost accountant in the factory A], *but we usually cannot reach an agreement. In the end, I have to find their manager. In most of the cases, the manager will accept our request but normally he complains. For example, he would say: 'You are sales staff, and you should negotiate a better price with clients*. (SS-1)

> *I don't have regular communication with the production manager. I am afraid of talking to him because I will be pushed back within three sentences. Only the operations manager can have any communication with him because she sometimes speaks for him, and he may remember the 'renqing'*. (SS-1)

This example illustrates the typical negotiation result at PLT. When the price requested by sales staff was not favourable to the factory, the cost accountant avoided the conflict by forwarding the negotiation to her manager. The factory manager also tended to accept the request in order to prevent any direct conflict. In addition, the informal relationship between staff seems important. While the operations manager had better personal *'guanxi'* with the production manager, it became easier for them to communicate. Therefore, the desire to maintain harmonic '*guanxi*' during transfer pricing could be observed. This had serious implications on the transfer pricing negotiations and hegemonic relations at PLT. This will be discussed in more detail in Chapter 7 where I discuss how the Confucian value of 'harmony' influences the sense-making process of transfer pricing for staff.

5.4 Summary and conclusion

Joseph (2002) argued that hegemony is not only an agential process, but also the relationship between agents and the social structures in which they are living. Thus, the exploration of hegemony in an organisation needs to be based on an understanding of the structural hegemony that shapes the current hegemonic status in the organisation (Alawattage and Wickramasinghe, 2008). Based on this, this chapter has focused on exploring the relationship between the broader Chinese cultural-political conditions and the establishment of power relations and control ideologies in organisations. Firstly, it was discovered that the power relations in conventional Chinese enterprises are not static. Instead, the development of entrepreneurial leadership should be understood by tracing the development of structural hegemony in Chinese context. The establishment of the PRC carried the mission to create a socialist-based hegemony where a planned economy and the centralised leadership centred on Mao Zedong was prevalent. In this political context, the communists, usually workers and party members, were empowered to control production and organisation. As a result, capitalists, who represented ‘evil capitalism’, were punished, and the private sector was eliminated. However, the political reform from Maoism to Dengism witnessed a change in the political conditions for capitalists. The introduction of a market economy as a key hegemonic ideology provided objective conditions for the re-emergence of the capitalist class. Due to their contribution to the economic growth and development of the private sector, business owners became key players in the ‘power bloc’ in the newly formed state hegemony. Therefore, the reform of the structural hegemony allowed the transformation of the capitalist from the controlled to the controller in Chinese organisations. This provided an essential explanation for the current dominant position of business owners at PLT. These findings can be linked to prior management control research which have highlighted the significance of intervention of state politics for management control practices and how accounting techniques are replaced or influenced by traditional political control practices (e.g. Uddin & Hopper

2001; Wickramasinghe et al., 2004; Wickramasinghe & Hopper, 2005; Ashraf & Uddin 2015). Compare to the previous study, the influence of state hegemony can also be observed in the case of PLT. However, it only provided a foundation for the establishment of hegemonic relations in the organisation and does not necessarily influenced the internal dynamic of its local circumstance.

On the other hand, the hegemonic ideology of Confucianism explains the power of business owners and their unique control tradition in organisations. It is argued that Confucianism is a structural hegemonic ideology contributing to the justification of the hierarchical social order in both ancient China and the PRC. It determines acceptable values and behaviours in human relationships. It also provided the ideal inner character of an individual in relation to the society. The reproduction of such an ideology through school and family education serves as the function of structural hegemony by securing the unity of the social formation and moral leadership of the state in an unconscious manner (Joseph, 2002).

Organisations operating under the ideology of Confucianism form a unique practice. I found that the principles in Confucianism such as '*wu lun*' and '*ren*' promoted paternalistic governance in Chinese organisation including PLT. The business owners enjoyed naturalised decision-making power and act like a 'parent' in the organisation. This leads to the prevailing of informal relations between owners and staff in organisation. The business owners prefer direction supervision of staff and performance measurement is usually based on owners' personal judgement. While Confucianism developed such vertical relations in the organisation, it also influenced horizontal relations in organisation through the concern for harmony. I found that the harmony in '*guanxi*' is important for all staff in organisation, which eventually influences their negotiation behaviours.

Overall, the notion of a structural hegemony has provided a lens through which to understand the embedded context of organisational control at PLT. It facilitated the analysis of how the political and cultural context affects the power of the controller, the controlled, and their interrelationship. The transfer pricing practice at PLT operated in this structural hegemonic context. The transformation of state hegemony established the fundamental power relation in transfer pricing practice. The business owners enjoy biggest power while managers share similar power because of their roles in the organisation. In addition, the Confucianism ideology helped developing an understanding of transfer pricing as a social practice. The analysis of Confucianism demonstrated how its ideology determined relationships in Chinese organisation and facilitated a unique control tradition. The evidence of unique vertical and horizontal relations in Chinese organisation showed how performance measurement and negotiation is conditioned by the hegemony of Confucian ideology. This has influenced how transfer pricing is understood and how negotiation is done, which helped me to understand transfer pricing as a social practice.

This chapter sets the necessary scene for how the structural hegemony conditioned the power relations and certain control practices at PLT and answered the first research question. However, Joseph (2002) highlighted that a surface hegemony also has its own internal dynamic. To explore the internal dynamic of the surface hegemony, the next chapter focuses on analysing the internal dynamic hegemonic relations at PLT and the role of transfer pricing within it.

Chapter 6：Hegemonic transfer pricing practice

6.1 Introduction

The previous chapter analysed the broad context in which transfer pricing practices are embedded and showed how ideologies under the Chinese cultural-political context permeated management control traditions in the private sector. While the state hegemony sets essential conditions for the emergence of business owners as a hegemonic class in the organisation, the ideological influence of Confucianism also resulted in a paternalistic governance approach in Chinese organisation. Based on this macro analysis, this chapter explores the micro level and analyses the hegemonic framing of transfer pricing practice focusing on the dynamic hegemonic relations at PLT. In particular, it answers how the transfer pricing system has emerged out of the continuous dynamic relationship between dominant groups and dominated groups.

Chapter 3 conceptualised 'surface hegemony' as the continuous organisational activities maintaining the moral and intellectual leadership of the dominant class. In the meantime, it also shows its own dynamic as associated with different social groups, within which the dynamic hegemonic relations play important roles (see section 3.4.5). In the context of PLT, the operation of a transfer pricing system is conceptualised as one of the hegemonic projects (instead of economic projects) in order to highlight how dynamic hegemonic relations drive the practice of transfer pricing.

Therefore, this chapter addresses the second research question. To do so, it is organised as follows. Section two discusses the original design of the transfer pricing system by PLT and its motivation and analyses the way in which transfer pricing appears in the hegemony formed by the CEO and shareholders. It is followed by section three, which provides an analysis on structural change in the organisation after 2013 and reveals how the reformation of hegemony influences transfer pricing. Section four then analyses the current transfer pricing system that emerged from the reformation, which reveals how dynamic hegemonic relations in the organisation influenced the construction of the transfer pricing system and resulted in a fragile arrangement. Section five then summarises and concludes the chapter.

6.2 Original form of transfer pricing

My interviews with the HR manager revealed that PLT is an organisation with three layers of management hierarchy, with the shareholders at the top, then middle-level management for daily operations, and low-level staff at the bottom (see section 4.4.2). However, when I started exploring the development of the transfer pricing system at PLT, I realised that the design of the original form of transfer pricing was not based on such a structure. A rather different organisational circumstance pre-2013 means that the function of the original transfer pricing system may differ from the current functions. While the development of the accounting practice can be related to the shift of hegemonic ideology (Lehman and Tinker, 1987; Goddard, 2002), it is important to start my discussion with the original form of transfer pricing and its role under hegemony.

6.2.1 Original design

The original design of the transfer pricing system at PLT was initiated with the goal to design a tax avoidance system to reduce the total payable tax for the group. It aimed to provide a legal mechanism to transfer the profit generated from other divisions to a division in a low tax region and so maximise the tax benefit. The system was designed in such a way that most of the profits were transferred to the group’s agent division in Hong Kong where the organisation enjoyed lower company tax compared to Mainland China:

In the past (before 2014), we did transfer pricing for tax purposes as well. We (internally) sold the products at a very low price. For example, for each 1 USD of the cost, we added only 0.5 RMB. Therefore, profit in the Shanghai sales division was very low. As long as we did the sales through HK, most of the profit would go to the HK division … every order had to go through me so that I could adjust the internal price to balance the profit for each division. However, they (sales and factory managers) don't care about this nowadays. (CFO)

Therefore, the original transfer pricing system was a simple tax avoidance mechanism that involved few actors. The sales division was ordered to transfer their products to their HK division at a pre-determined low price in order to transfer their profit to the HK division. The CFO was responsible for adjusting and balancing the profit figure for each division. It seems that he can be regarded as the only decision-maker in this transfer pricing system because other staff members were simply providing him with the price information.

Because internal prices and profit margins were carefully monitored and determined, the system was rather irrelevant to management control mechanisms. Instead, it seems that it served other strategic purposes. Further interviews revealed that the negotiation of transfer pricing still existed in the system although it was not accessible to low-level employees. When asked for details about the transfer pricing mechanism between the factory and the sales division, the CFO said:

At that time, factory would sign a contract with the Shanghai sales division with 80% of the actual agreed price. At the time, I was working mainly in the Shanghai division; all orders were monitored by me. Our 'true price' concerns everybody's benefit, including the profitability of the factory. However, if the factory earned too much profit, they had to pay tax, and they could not afford that. In the past, the factory was profitable even after reducing 20% of the price *from their actual negotiated price. The Shanghai sales division usually added a negotiated 5% profit and internally sold the products to the HK company at basically the same price. In the end, the products were sold under the name of the HK division.* (CFO)

This revealed an important hidden mechanism in the transfer pricing system. Although the transfer pricing between the trading divisions in Shanghai and HK was motivated by tax implications, the negotiation of the ‘actual’ transfer price happened between the sales division and the factory, in particular, between two dominant individuals in the group - the CEO and Shareholder B. They determined what was the ‘actual transfer price’ under the table. In this sense, we can realise that the CFO was not the actual decision-maker in the system; he was just the operator of the ‘surface transfer pricing system’ for tax avoidance. In contrast, the CEO and shareholder B were the actual decision-makers, as they determined the profit allocation. Therefore, it became important to examine the interplay between these two actors.

As was shown in Chapter 5, the power of the business owners (shareholders) was taken for granted at PLT. The political development of China and the doctrine of Confucianism provided the necessary conditions for the naturalisation of the owner’s authority. Thus, it is understandable that shareholder B participated in the negotiations of the ‘true’ transfer pricing. However, the participation of the CEO needs further discussion, as the structural analysis in chapter 5 cannot explain the presentation of his power. Therefore, the next section aims to provide an investigation on the moral leadership of the CEO.

6.2.2 Moral leadership of the CEO

The hierarchical structure of PLT before 2013 was quite different from its current form. In general, an extreme top-down management system was established. While the factory division was directly managed by shareholder B with the assistance of his secretary, the CEO was initially hired by shareholder A to develop the trading division while the shareholder himself focused on establishing their US division. In both divisions, there was no visible middle-level management, and low-level staff generally did not participate in the decision-making process.

Owning some shares in the sales division, The CEO was regarded as an owner-like person in the sales division. According to the interview of HR manager, the CEO took charge of most of the decision-making in the sales division, including product development, customer development and internal operational management:

> *When I first joined the organisation (six years ago), there was a CEO in the organisation – Steven. The operational mode at that time was different from the current form. The CEO mostly dealt with the customer/production development, and he was the leader. Most of the current stable long-term suppliers and customers were found and secured by him.* (HRM)

As a result, he was regarded as a leader by the staff. As the CEO took all the decision-making responsibilities, all other staff in the sales division were under the administrative control of the CEO. An extreme top-down organisational structure emerged. Under this structure, all staff were obliged to perform their assigned duties without question. Given the power of the CEO, the managerial hierarchy was solidified and there was little potential to climb up the hierarchy from the position of an ordinary member of staff. In fact, no middle-level management existed during that period. The pay grade was also similar across the company while the bonuses were usually fixed. The CEO had higher authority than the COO at the time. While the COO was the wife of shareholder A, the expectation was that the COO held the power in the division. However, the interviews revealed that the CEO was the actual controller of the division due to his influence on the business and management control:

> *The management control was very detailed, and it was monitored by the CEO. The COO did not manage anything at that time. She was only responsible for signing things. All the operational ideas were produced by the CEO and shareholder A. … As a professional manager, he (the CEO) has control over almost everything.* (HRM)

While the organisational structure was characterised by the centralised authority of the CEO, the only other managerial position was assigned to a member of his family. Although there was an HR manager in the division at that time, it was discovered that the CEO was the real controller due to his personal status with the HR manager. I discussed with the current HR manager about her predecessor:

> *She* [the previous HR manager] *is the CEO's wife, she had good relationship with the CFO. Although she was the HR manager. I think that the related decisions were still made by the CEO. Because of their relationship, they just discuss the issues with each other (privately) and inform the COO their decision. So the ideas may came from the CEO, but it was the usually the HR manager who report to the COO as part of the procedure.* (HRM)

With such an arrangement, the CEO can be regarded as the dominant individual in the division. He had control over almost all aspects of the division and had full decision-making authority. The power distance between the CEO and other staff means that there was a clear distinction between the leader and the dominated groups. Subordinates had little influence on decision-making. However, staff in the sales division still recognised him as their leader due to the responsibilities he took. The CEO acted as a 'father' and took care of his followers. Staff enjoyed the straightforward tasks and less complicated working environment because the CEO was able to take care of employees' welfare and provide a stable working environment by securing and developing customers for the organisation. In return, the inequality in status was taken for granted, and staff showed obedience to the CEO. Therefore, despite the centralised management, the CEO was well respected and appreciated, and the consent for the CEO's leadership was commonly generated among staff.

6.2.3 Implication on transfer pricing

The above discussion on the moral leadership of the CEO illustrates his dominant role in the sales division, which provided explanations of the function of transfer pricing at that time. In the sales division, the CEO exercised a paternalistic form of hegemony which emerged from the cultural ideological condition of China. The decision-making was centralised, and the CEO preferred direct supervision. At the same time, the CEO took care of all the responsibilities, which allowed the staff to enjoy a stable working environment. This form of management surprisingly replaced the management control function of transfer pricing. As a result, the leadership was justified based on the paternalistic ideologies, which contribute to the exercise of vertical hegemony.

On the other hand, the original form of transfer pricing took part in the horizontal hegemonic process. Due to the hegemonic position of the CEO in sales division, it can be said that he was in the same position as the shareholders. Therefore, the negotiation of 'true' transfer pricing between the CEO and the shareholders can be regarded as an activity where they allocate profit for different divisions. Although the vertical hegemony was generally secured by the paternalistic mode of control, for a group to maintain dominance, they would need to secure the reproduction of the political, economic, and ideological structure (Ashraf and Uddin, 2015). This means that any change of structure may cause social uncertainty, which in turn may lead to a hegemonic crisis. Thus, at PLT, smooth negotiation of the transfer pricing between shareholders and the

CEO became crucial to reproduce this prevailing hegemonic structure. However, it seems that the negotiation of transfer pricing was not always smooth due to conflicting interests between the CEO and shareholders:

> *In the past, the CEO was leading the sales division. He likes to invest all revenues into the operation. I used to audit the factory account because the shareholders want to know the financial circumstance, for example, how much profit the factory could make. Sometimes, the factory held their price (during transfer pricing negotiation) and shareholder A actually supported them. This is because their aims were the same: putting the 'real profit' into the factory. When the money was there, shareholders had the ability to distribute and use it because it was their 'private land'. They could not control the action of CEO. He would invest all the profit he got and leave no dividend. In the past, the factory could have a profit up to even 1 million while the trading company always had zero or a slight loss.* (CFO)

Conflicting interests between the CEO and shareholders can be observed. While the CEO preferred a higher risk by investing all revenues back into the operation, the shareholders were generally low risk takers with the desire to secure the dividend whenever they could and to have control over the cash allocation. Different preferences on risk management meant that different interests existed within the dominant groups. This made the transfer price negotiation a hegemonic struggle between the dominant groups, as it is an important system in securing their interests.

However, this struggle typically ended with a cash allocation in favour of the shareholders. Despite the CEO being an owner-like manager in the division, the shareholders still saw him as an outsider instead of a business partner. They utilised their power in both divisions to transfer cash to the factory to limit the power of the CEO. By doing this, the shareholders' personal financial interest was sustained. However, in such situations, satisfying the interests of one group means that the interests of other are not secured. Here, transfer pricing not only reflects the hegemonic relationship between shareholders and the CEO, but also becomes a hegemonic strategy for power. It seems that the shareholders use transfer pricing system as a hegemonic strategy to gain power over the CEO. By securing more cash through transfer pricing system, the shareholders were able to guarantee the financial control over the group and eventually constrain the power of the CEO.

The unstable struggle between the dominant groups at PLT eventually led to a collapse. In 2015, the CEO left the group. Although he might have lost the hegemonic battle with the shareholders, his hegemony within the sales division was still secured by his paternalistic control. Utilising his leadership within the sales division, he took the whole sales team away with him. As a result, there was a lack of the core element in the sales division. This led to the dramatic transaction of the organisational structure at PLT.

6.3 Transaction of organisational structure

Conflicting interests between the dominant groups eventually led to a hegemonic crisis. The loss of the entire department in the sales division meant that the prevailing hegemony began to disintegrate. As a result, creating a new balance of political forces was necessary to reshape the hegemony and form new ideologies (Simon, 2015). Thus, a dramatic structural change in the group was observed, which later led to the emergence of a new transfer pricing system.

6.3.1 Shift of focus

With the absence of key personnel, reformation of business structure was essential to bring the business back on track. The interviews reveal that there was a big shift of business focus in the sales division after the departure of the

CEO. This reformation can be seen as shareholder A's attempt at reforming the hegemony and constructing a leadership around him. To do so, the systems established by the CEO were all abandoned. The cost issue was addressed as one of the main reasons. One senior member of the purchasing staff shared his understanding about the drastic change in the organisation during that period:

> *Because of the cost issue, the system itself was fine. However, it cannot last very long because of the loss of staff and the conflicts between senior management. At that time, the organisation was growing up slowly. Therefore, we thought that a detailed system would be quite important to increase productivity. However, the result was that the company stopped growing anymore. This results in the simple system now.* (PS-2)

With the aim of reducing costs, the organisation started to adopt simpler organisational systems with fewer principles and reports, which resulted in a significant saving in administrative costs. In addition, it seems that the strategic focus was also changed by shareholder A. Although the CEO had put effort into expanding the domestic line, this was replaced by the close connection with the US division, signifying a focus on the international market. According to the HR manager, who experienced the change process:

> *Steven* [the name of the CEO] *left the company in the end of 2013. Until now it has been three years and the (operational) mode has been changed. The mode now is more on the stable side and focus on the US organisation.*
>
> *Before the change, the US division had been just established, and the focus was still on the Shanghai* [sales] *division. Doing trade in China has to depend on the government policy especially the trend of domestic trade policies. We even did domestic business before. We used to rent more office spaces in this level* [of the building]. *We used to have a big demo room as well, but it was closed after the*

> *leave of the CEO and his team, which means that we would not do domestic business anymore.*

Thus, the strategic focus was shifted after the CEO had left. The US division became the focus with the aim to further develop international opportunities while the domestic market was abandoned. As part of the project, the division also experienced a significant downsizing from the bottom level. According to the HR manager, the number of low-level staff was cut from over 60 to just under 20 in the sales division alone. The office space was also cut to one-third of the previous size.

As will be demonstrated in section 6.5.1, such a shift in focus actually suited shareholder A's personal ideology of developing the international market. Thus, while reconstructing the sales division, he attempted to implement his own ideology and interests in it and tried to establish a moral leadership based around himself. Thus, consent among employees in the sales division became essential to establish such hegemony. The next section then discusses what strategies shareholders used to regain consent among others.

6.3.2 Rise of middle-level management

Establishing middle-level management was another important aspect of the change process to appease the working class. To fill the absence of senior management in the sales division, the COO stepped forward to manage the division and adopted a rather different managerial approach. Instead of using a centralised management approach, the COO promoted the decentralisation of decision-making. As part of her efforts to rebuild the division, several loyal low-level staff were promoted to managerial positions and granted decision-making responsibilities. For instance, the only remaining staff member of the sales team was promoted to be the sales manager. Other three staff members who had been in the organisation since they had graduated were also promoted to the managerial position responsible for human resources, internal operations, and trade documenting. The promotions could be viewed as a form of compromise to regain consent among staff. On the one hand, it offered decision-making power to loyal staff while on the other hand, it offered economic compromises to these staff members. However, it seems that the decentralised approach suited the COO's own ideology. When we discussed this topic, she commented:

> *I have always been in the Shanghai company. At the beginning, Steven* [the CEO] *helped me to do things; when he left, I wanted to implement some of my ideas – I wanted to promote some people from the team and let them have a bigger role in the company. First, I thought their ability would be good enough. What was urgent was whether we could give them enough time, whether we were ready to let them make mistakes. Having the opportunity of Steven's departure, I carried out this change that I had always wanted to do. Therefore, I picked some suitable employees to be responsible for the daily operational management in the organisation. After 2 to 3 years, I feel that this system is working fine. Therefore, I think the timing that I picked was appropriate. I don't really care about the experience. Sometimes, young people have some good ideas.*

Thus, the promotion of some members of staff enabled the COO to realise her ideology of decentralisation in the division. This means that the process of decentralisation was not only a mere compromise to staff but also a political act to reshape the organisation. Further interviews revealed that the promotion was also politically informed in a sense that it was based on the 'loyalty' of staff instead of their financial performance. Despite the COO's claim that ability was an important criterion for the promotion, further discussion showed the importance of 'loyalty' in the process:

> *In our organisation, I am not dealing with the daily management. For me, if an employee has put ten years of his life into our company, he should be very serious. I think he should be in the same boat as me.*

> *We should have the same will to make this company better. So, I don't have any worries; I am ok with that.* (COO)

For the COO, the length of time employees had spent in the organisation was directly linked to the attitude of the employees toward the organisation. Therefore, employees should be more trustworthy and more reliable if they have been in the organisation for a longer period. In other words, it can be said that if employees were ‘in the same boat as her’, her leadership would be more easily sustained and stabilised. In the factory, similar action was also observed; shareholder B also promoted his loyal secretary to be the factory general manager responsible for the operation of the factory and communication with the sales division.

As a result, the middle-level management emerged in the group. This created another layer of hierarchy, which was above the low-grade staff and below the senior management represented by shareholders. Under this new arrangement, middle-level managers were granted the authority to undertake daily decision-making tasks, such as customer development, contract negotiations, and product developments. In association with this strategic shift, a new form of transfer pricing eventually emerged to reflect the broader structural changes at PLT.

6.4 Emergence of profit-driven transfer pricing

As discussed earlier, the conflict of interest that appeared in the transfer pricing system eventually led to the departure of the CEO in 2013. This means that the original transfer pricing practice became impractical because of the absence of key actors in the system. At the same time, the organisation also experienced a dramatic change in terms of its strategic focus, managerial mode, and operational mode. Consequently, a new form of transfer pricing started to emerge. Instead of being a tax-driven system where only senior management had control over the price, the new form of transfer pricing system was profit-driven and was mainly operated by middle-level managers. It included the contribution from the factory and the sales division through their regular communication and negotiation. Therefore, transfer pricing became increasingly relevant to low-level and middle-level managers.

Despite the drastic change in the transfer pricing mechanism, there were no written documents stating the changing schedule or principle. Therefore, the construction of the newly emerged transfer pricing system was understood based on my continuous conservations and observations with staff from different levels in the sales and factory divisions. Figure 6-1 shows the relations between actors involved in the newly emerged transfer pricing system.

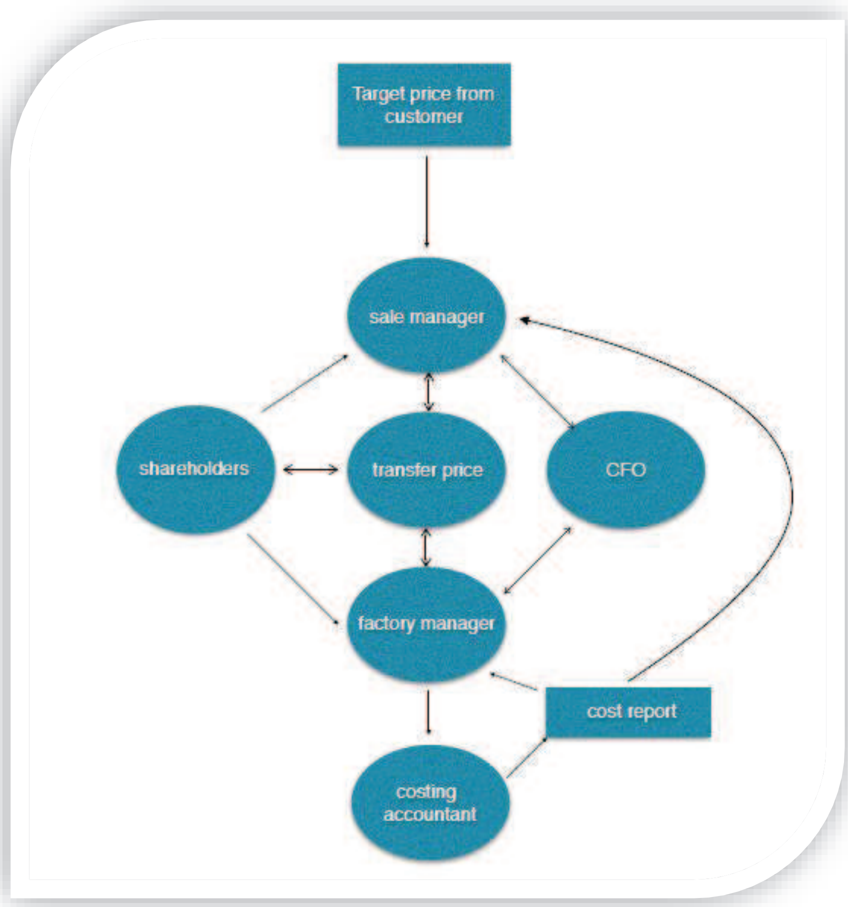

Figure 6-1: transfer pricing procedure

Compared to the original form of the transfer pricing system, the reformed system involves more actors. Both low-level and middle-level employees participate in its daily operation. The process of transfer pricing is usually initiated by the sales department in the sales division. The sales team receive price quote enquiries from potential customers looking for certain products. Once they have received the customer's enquiries, the sales team is responsible for preparing a report explaining the product type, customisation requirements, and estimated amount. The report is then sent to costing accountants in the factory, who assess the feature of the product and produce a draft price quote report for the sales team. A sample of the price report is presented in Figure 6-2.

胶带品名 Tape	单价（元/㎡）
卡通PE Cartoon	14
离型纸品名 Releasing Paper	单价（元/㎡）
65g单硅Single side	0.52
吸水垫品名 Absorbent Pad	单价（元/㎡）
110G单面覆白膜针刺吸水垫 110g absorbent pad	4
包装纸规格 Wrapper	单价（元/㎡）
40g不含乳 Latex free	2.5

76*19mm直边圆角创可贴单价核算表 3/4*3 Adhesive bandage			
	长度 Length (m)	宽度 Width (m)	合计 Calculation
胶带 Tape	0.08	0.019	0.02128
离型纸 Releasing Paper	0.045	0.019	0.0008892
吸水垫 Absorbent Pad (Island)	0.023	0.012	0.001104
包装纸 Wrapper	0.095	0.028	0.00665
损耗 Loss Rate	<200,000片	0.05	0.00149616
制造费用 Manufacturing cost		0.41	0.00779
工厂利润 Factory Profit	10%		0.003920936
工艺参数 Technical Surplus	常规 Normal	0	0
裸片单价 Price Per Unit			0.043130296

创可贴装盒			
	单价 Unit Price	个数 count	小计 Price
裸片单价 Price per pc	0.043	20	0.863
彩盒费用 Box cost	0.350	1	0.350
Inner、PDQ、Display			0.000
外箱 Carton	3.227	0.007	0.022
内包装人工 Packing Fee	0.004	20	0.080
其他包装人工 Additional Packing Fee			
运费 Freight cost		3%	0.039
每盒单价 Cost Per Box			1.354

瓦楞箱子价格换算 Case packaging cost			
长 Length	宽 Width	高 Height	
31.5	29.5	39.5	Input the dimention in cm
Price	3.2266		

inner/outer	144

瓦楞箱子价格换算 Inner box Cost			
长 Length	宽 Width	高 Height	
			Input the dimention in cm
Price	0.00564		

inner/outer	

Figure 6-2: Sample of cost report

The price report follows a cost-plus model, which contains information such as a picture of the product, types of raw material used, the amounts of raw material for each product consumed, its cost, the loss rate, the manufacturing costs, the labour costs, and the default factory profit. Therefore, the whole cost and the profit margin are apparent and fixed. In addition, relevant ratios, such as loss rate, manufactory/labour costs per unit, and default profit rate, are initially estimated by the senior management:

> *Manufacturing cost includes the cost incurred during the manufacturing processes. I am not sure about what this cost comprises. The rate is determined by managers, and the unit cost is based on the width of the bandages. This is the formula, and I don't really know the logic behind it. Managers decide these issues, and we have to follow the formula.* (CA).

Shareholder B was heavily involved in the design of the formula and determination of the rates due to his rich knowledge of the raw material and production procedures. He briefly expressed his opinions on how cost should be handled:

> *We update the manufacturing cost per unit on an annual basis. However, we used the expected figures to calculate the cost instead of using historical data. This is a different job for an accountant. It will be too late if you let accountants calculate it. To make things efficient, we apply the formula.*

It is interesting to see how the shareholders understood the role of the accountant in the transfer pricing process. These instances suggest that cost accountants are powerless in the process of cost calculation. On the one hand, cost accountants use these figures on a daily basis; however, on the other hand, they do not understand the figures. Therefore, they cannot be regarded as the active actors in the transfer pricing system. In contrast, shareholder B, who only had an overview the organisation, understood the figures better than most of the staff in the division. Since the shareholders' concern was work efficiency, he decided to provide a fixed figure for accountants when producing the price quotation report.

Once the report has been produced, it is sent to the factory manager for evaluation. He can be regarded as a regular actor in transfer pricing. With some understanding of the price, he is able to fill the knowledge gap and provide the necessary adjustment to the report. My fieldnote documented the role of factory manager in the process:

> *Factory manager will double check the price quotes prepared by costing accountants. He may adjust some material price rate*

according to the newest update and adjust the price to their acceptable range. He always suggests the price he thinks is acceptable to costing accountant.

The approved price quote report is then sent back to the sales team as the initial transfer price offer. The transfer price is quite sensitive for the sales staff. They assess the price report and evaluate the price based on several criteria: 1) the available target price provided by customers, 2) the target price by the break-even point of the sales division, and 3) their own profit margin. According to the sales staff, some long-term clients provide and adjust their target price on an annual basis while some clients provide their target price when sending their enquiries. In this case, the customer's target price is prioritised as the reference. If such a price is not available, the sales team judges the price based on their break-even point, which is seven percent. The internal operation system is designed so that every order must meet the break-even point to proceed further. Besides the pressure from the internal system, the sales staff have to consider their own profit margin because staff earn a bonus for every percentage of profit above the break-even point. This means that the greater the profit margin they have, the larger the bonus they will receive. Therefore, the profit margin becomes an important agenda for all sales staff.

While this is so, negotiation of the transfer pricing becomes common. If the sales staff are not happy with the initial transfer price provided by the factory, they negotiate with the factory staff. Usually, such negotiations are initiated between low-grade staff – costing accountants and sales staff, for example. They highlight their issues and requirements to each other through email and always forward the conversations to their managers, making sure that middle-level managers are aware of the negotiation processes and outcomes. However, although low-grade staff are the ones who initiate the negotiation process, it seems that they don't have sufficient decision-making capabilities. When facing conflicts, it is a common practice for low-grade staff to forward the issues to management level. Interviews and observations revealed that they are concerned not only about the competitiveness of the price but also about the fair allocation of profit between them. Therefore, justification of the proposed price is known to be challenging among managers. Since the meaningful negotiation and discussion usually happens between middle-level managers, they became the main contributors to the transfer pricing process. Although they do not proceed with many of the price quotations directly, their negotiations can determine the final transfer pricing.

The basic discussion on the new transfer pricing system reveals big differences between the current system and its original purpose. While the previous transfer pricing system was mainly concerned about tax avoidance and was driven by the senior management, the reformed system serves more purposes, including profit allocation, communication, and performance measurement. Based on this, it seems that accounting-based controls at PLT started to emerge. Thus, the transformation of the organisational structure reshaped the transfer pricing system into a totally different practice. However, as hinted in the above discussion, some politics were observed to play a part in the process. In particular, the default profit margin in the factory and the bonus system in the sales division caused conflicts among managers. Unfortunately, further investigation on transfer pricing practices revealed that it is a fragile practice with conflicting principles. This will be discussed in the following sections.

6.4.1 Fragile arrangement for new transfer pricing

The above discussion has provided a basic understanding of the procedure of the transfer pricing system at PLT. Although it could be seen as a basic full-cost based model with some negotiation mechanisms, further investigation revealed that it is a rather fragile and self-conflicting system dominated by conflicting principles and system designs, which usually leads the negotiation to a dead end.

Conflicted ideological principle

Despite there being no theoretical principle guiding the whole procedure, it seems that the emerged transfer pricing system follows a mix of full-cost and market-based methods. On the one hand, the factory calculated the full cost of the product and added the default profit margin onto the cost, which suggests a full-cost method was in place. On the other hand, the market price was considered during the process. The sales team used the customer’s market price as their primary benchmark when assessing the transfer price. In addition, shareholders claimed that the two divisions both had a certain degree of autonomy in terms of their choices of suppliers and customers despite their close links. Thus, the internal transfer/supply was not the only source of supply for the sales division while the factory was also allowed to sell their products externally to organisations other than the sales division. In an ideal situation, the market price should be used as a reference point for both divisions to make rational decisions on internal or external trade.

The ambiguity of the transfer pricing principle was caused by the different ideologies held by shareholders. Firstly, the ideology of a market-based mechanism was strongly supported by shareholder A. He provided me with an example of the topic when I asked him about the internal pricing issue in the group:

> *If you sell a cup, the factory wants to get 15% of the profit, and the trading company wants to get another 15% of the profit. However, the market only gives you space for 10% of the profit. If you are only able to earn 1 yuan but you want to earn 3 yuan, then you cannot even earn that 1 yuan. The problem is how much the market allows*

you to earn. For example, as a trading company, you can only earn 1 yuan; if you want to have 3 yuan, the money will be earned by others. Therefore, everything is driven by the market. You have to follow the market trend. For example, if you want to come and work here now, we will give you 10,000 yuan. If you want 11,000 yuan, then we will not hire you. Therefore, the market decides the price, not us. If the factory quotes the wrong price, then they will not get the order, which means that you cannot even get that 10% of profit. (S-A)

This is a fascinating and vivid example of how shareholder A understood the concept of 'market' and how he applied his ideology to the transfer pricing system. Shareholder A believed that the market always determines the 'right' price for them. Therefore, both divisions should understand the market price and accept their profit margins as given by the market. In contrast, the group that does not follow the market trend should be punished. Supporting his ideology of doing transfer pricing in the group, shareholder A also claimed that the two divisions were operating separately, which means that both parties had the right to search for alternative external suppliers/customers. However, it seems that the shareholder also did not have the full commitment to apply market-based approach:

Yes, we also ask the price from other factories; if the price from them is lower, then our factory should follow their price. We also work with other factories such as [xxx]. However, if we buy from other factories, we have to pay first, so there is more risk. You see, everything has two sides, it is not only the problem of the price. Therefore, to be a good salesman/manager, you must think comprehensively. Instead of looking at the question from one point of view, people should examine different issues, such as information securities, business secrets. For example, I may have a new product that I don't want others to know about; then, our own factory is the only place to produce it. So many factory and sales staff only understand the issues on a superficial level. It is not a simple issue, Steve. (S-A)

Due to the potential risks associated with other suppliers, he still viewed internal transfer as the safest way to produce and transfer products. It seems that the market ideology did not fully transfer to the transfer pricing system at PLT. Consequently, the ideal form of transfer pricing can be an ambiguous one. While market price may mainly serve as the price benchmark for the internal transfer price, external trade has to be carefully examined before proceeding.

On the other hand, shareholder B adopted a full-cost principle as the foundation for the transfer pricing system in the factory side:

> *We should just follow the current formula. It is fine that we share our cost information with them. They can earn 100% of profit if they can. If they can't earn a profit, they should blame themselves. They can't just laugh when earning money and negotiate with us when they are not getting a profit. They should judge for themselves. If they think that a certain customer is very important, then you should prepare to suffer some loss in the beginning.* (S-B)

Clearly, shareholder B did not agree with the market-based principle and preferred a more stable transfer pricing system. Thus, he established a cost-based transfer pricing principle for the factory and set a default 10% profit margin. Normally, staff are not allowed to go under or above the margin. His rationale was that, by adding a fixed profit margin, transfer pricing became less relevant to the market price and was more consistent and stable. Such a solution provided a clear accountability principle in the group. While the factory was accountable for providing a stable price with a fixed formula, the sales division should be responsible for external negotiation with potential customers.

That said, negotiation of the transfer price from the sales division was regarded as a disgrace. Shareholder B believed that he had already made a compromise and that he had done the sales division a favour by setting a fixed profit margin:

> *My idea is that I still want to let Shanghai gain some profit to recover the loss from the past* [during the CEO's era]. *I have discussed the issue and made the decision, and you should just do your thing. However, they still want to negotiate the price. I have made enough compromise and let them gain some profit; that's done. If they have time, they should negotiate the price with external parties.* (S-B)

This was expressed with frustration since it shows that shareholder B generally believed that a full-cost based principle should be ideal for efficiency. Therefore, negotiation of the transfer price was meaningless for the shareholder. Instead, he held the view that the sales division should focus on improving their own ability for negotiating with external parties such as customers and external factories instead of the internal factory.

Such a contradictory observation signifies different ideologies driving the transfer pricing process. The market-based principle promoted by shareholder A drives the transfer pricing process in the sales division. While he appreciated the power of the market, the competitiveness of the transfer price had become important. Naturally, negotiations must occur in order to get the best price possible. On the other hand, Shareholder B established a cost-based transfer pricing principle for the factory. The transfer price was determined by adding a fixed profit margin onto the full cost. This signified the irrelevance of the market price and was contradictory to the market-based principle applied in the sales division.

The existence of different ideologies between shareholders means that neither transfer pricing principle would work as intended. As demonstrated by Ashraf and Uddin, (2015), a conflicted ideology and interests may result in a fragile alliance between dominant groups, which causes the implementation of rushed and unfair organisational systems. Similarly, the contradictory ideologies between shareholders later reflected in the issues of the daily transfer pricing practice.

Conflicted compromises in practice

Conflict between the shareholders on transfer pricing principles had a direct influence on the practice of transfer pricing. As both shareholders had great power in the group, contradictory ideologies were able to co-exist in the transfer pricing system. Different compromises and strategies were made by the shareholders in the actual practice of transfer pricing.

First of all, the market-based principle and ideal autonomy was heavily constrained in the factory. A full-cost approach promoted by shareholder B in the factory constrained the benchmarking function of the market price in transfer pricing. Thus, although the market price may be higher than their default price, the factory manager has no choice but to offer a lower pre-determined price to the sales division. This was difficult for the manager to accept, but they had no alternative:

> *We don't have a simple supplier and customer relationship because we are both monitored by our boss (shareholders). We are not operating independently. We don't have the power to decide the price. Although we have independent accounting systems, I only get a 10% profit from the internal transfer. At the same time, it is impossible for us to add*

only a 10% profit for external customers. For example, I am able to gain 30% ~40% profit from our own external customer. This customer was originally introduced by the sales division. (Factory manager)

As a result, the manager had to behave differently to the sales division and to external customers during price negotiations. Thus, the ideal autonomy was indeed nominal to them anyway. The division simply did not have the capability for external trade. Without a proper sales department, the factory relied solely on the sales division for customer development. This further discouraged the use of a market-based transfer pricing in the factory:

We don't have the resources to find our own clients, and the board doesn't allow us to do so. We don't have many external clients. Some of them were from other contracts. In some cases, we used to manufacture other products for them through the sales division, but they want to work with us directly instead of going through a trading company now. (FM)

On the other hand, some autonomy on sourcing was encouraged in the sales division. With a proper purchasing department, the division was able to search and negotiate with external suppliers, which was in line with the market-based principle promoted by Shareholder A. However, the sales division always purchased one of their main products – bandages from the factory. While bandages account for over 60% of the annual sales, this means that the factory was still the biggest supplier for the sales division. This came from the pressure given by shareholder B. While the two divisions were regarded as a family, the avoidance of any internal supply was seen as a disgrace. Due to the absolute power held by the shareholders, staff did not have the courage to alter the decisions: '*It is impossible to buy (bandages) externally, the factory will be* *ruined if we buy from other factories, their 70% ~ 80% of the orders are from us'* (OM).

When I enquired if they asked for price quotations from other factories, the operations manager provided an interesting answer:

> *We don't have the courage to do that. We will be 'dead' if shareholder B knows about it. He will be like, 'How dare you ask for prices from other factories.' This is a subtle relationship. If the lips are lost, the teeth will be cold.* (OM)

Thus, intervention from shareholders led to a nominal autonomy in the sales division. On the one hand, shareholder B constantly put pressure on the sales division to purchase products from the internal factory. On the other hand, shareholder A also discouraged the purchase of important products from external factories because of his risk preference. In an economic sense, it seems that market-based transfer pricing did not fit the organisational purpose. While market price and external sales /supply were not always encouraged, a full-cost approach could be appropriate for PLT to efficiently operate a transfer pricing system without conflict.

However, the negotiation between divisions still existed. In fact, complaints could be heard almost every day during my field visit in both divisions. Different complaints and excuses can be found in the fieldnotes and interviews. For example, one discussion of the transfer price between the factory manager and the sales manager is documented in the field dairy.

> Factory manager complains to sales manager that they cannot ask too much just because they are in the same group. Sales manager, however, complains about the cost calculation methods from the factory side. On the other hand, factory manager thinks that the factory is already more standardised than some of the external factories. Therefore, calculation should be accurate enough for them.

While the sales manager always tried to negotiate the price by addressing different issues, the factory manager always stressed that the procedure from the sales division was not appropriate. He believed that the 10% default profit was the standard procedure for transfer pricing. Therefore, such a procedure should not be changed or challenged. Due to the unavailability of a market price, the negotiation was built on the arguments with various rationales, including work load, external comparison, accuracy of number, or even previous favours. This signifies the transfer pricing practice was a political practice for managers as no clear principles/patterns could be found during the negotiation. Managers only constructed the arguments with their favourable rationales to attack and counter-attack each other while neither of them was able to convince any others in most of the cases.

The above discussion illustrates a rather fragile operation of transfer pricing at PLT. While different transfer pricing principles co-existed in different divisions, the practice was full of ambiguity and contradictions. It was observed that shareholders' actions played an important part in this. While they implemented different principles based on their own ideas of an ideal transfer pricing principle, their intervention on system design and constraints on autonomic practice created ambiguities in daily practice. As a result, the transfer pricing system became inefficient and political for managers.

It seemed that there was no cooperation between shareholders. Instead of working together to improve the transfer pricing system, their intervention actually constrained each other's policies. They reinforced their own ideal principles in their respective divisions and tried to constrain the development of other ideologies at the same time. This signifies a conflicting relationship between them. Therefore, it becomes important to examine the relationship between the shareholders in order to understand how this fragile arrangement of transfer pricing system emerged.

6.5 Conflicted hegemonic arrangement

The above discussion explored the process of the transfer pricing system at PLT. It also demonstrated its conflicting principles and compromises in practice. Mostly importantly, it raised the question of how the hegemonic relationship between the shareholders shaped this fragile arrangement of transfer pricing. While the departure of the CEO triggered the hegemonic crisis and led to the new hegemonic arrangement formed by the two shareholders, their actions became increasingly influential and had serious implications for the design of the transfer pricing system.

On analysing the social condition of private enterprise in Chinese organisations, the dominance of business owners as a hegemonic social group is apparent. The previous discussion also shows the influence of shareholders on the operation of PLT. For a hegemony to prevail, the establishment of a 'common will' is essential. While it is obviously important for dominant groups to win consent from subordinate groups, dominant groups must reach agreement to apply coherent hegemonic strategies. Therefore, a shared ideology and interest becomes important for them. However, as with the initial transfer pricing system, the current transfer pricing system at PLT become another hegemonic strategy for power, which is reflected by conflicted interest and compromise between two shareholders.

6.5.1 Conflicted interest

As discussed in the previous section, the departure of the CEO meant that a new hegemonic arrangement was necessary to reproduce a similar form of hegemony at PLT. While shareholder B continued to lead the factory division, shareholder A's wife, who was the COO of the group, took over the sales division and made several managerial changes, which contributed to the emergence of a new transfer pricing system. Thus, it can be said that the shareholders formed a new 'power bloc' in the group. However, the interviews and observations with both shareholders revealed that they had quite different interests and future plans.

On the one hand, shareholder A believed that the international market was the future vision for the business. He originally started his business by establishing an international trading company and was always trying to expand his export business. As part of his plan to develop the organisation, he had established a US division in 2011, and he was still managing the division until the time of the interviews. After stabilising the operation of the trading division, the COO also moved to the US to help with the financial management, and their daughter was also working in the US division as an accountant.

In addition, it was well-known that shareholder A had put noticeable resources and effort into developing the US division. As a result, the US division became very powerful in the whole group. During a lunch I shared with staff in the sales division, staff discussed their view of their US division. According to my diary for the lunch:

They think that the US division is above the Chinese divisions. The US company has just requested a more detailed pricing report including everything so that they can make sure that the Chinese divisions do not get any profit from them. However, staff think that these kinds of requests are inappropriate. If they asked external suppliers to do the same, nobody would do it for them. Therefore, they think that the US division is acting like their 'dad' whom they cannot ignore.

The superior standing of the trading division was also felt by the factory manager, who commented:

Shanghai and the US division do not always follow the procedure or ask shareholder A to give us pressure. This makes the work undoable because we will not know the issues they are concerned about. Once the shareholder knows the conflict we are having, I have to spend the time to explain things again, which is a waste of time. (FM)

It is interesting to see that shareholder A openly put more effort into developing his US division and intentionally put pressure on divisions in China to cooperate with the requests from the US division to realise his interests. This shows his strong desire to develop the US market as his major ambition and interest.

During the interview with shareholder A, he claimed that his business partner (shareholder B) shared the same ideology on how to develop the organisation with him. However, interviews with shareholder B revealed that he clearly had different business interests. During our casual conservations when I spent 2 weeks with him, he shared a lot of his business ideas which were mostly related to developing the domestic market. For instance, during the first day of my observation, he spent a lot of time talking about his new business idea with me. The field summary of this one-and-a-half-hour discussion shows that he wanted to develop retail stores in China to push the group forward. In his opinion, the business model for medicine stores in China is out-dated, and a new model could be applied to the market. Therefore, there was a good opportunity to promote their own-branded products in the domestic market. This implied a focus on developing the retail industry in the domestic market as shareholder B's primary interest.

When I asked him if he shared his plans with shareholder A, his response further confirmed their different interests:

> *Our investment in the US doesn't pay for itself yet; we have invested over 3 million yuan. Now they are investing in the online market to see how it goes. I want to do 'new retail', and he wants to copy the success of the online platform in the US. However, we hold only 20% of the shares in that project* [in the US]. *We can earn only a small amount to cover the previous investment in the US division. Therefore, our directions are different, but we also acknowledge each other. I like to be in China. Although I got the 'Green card' in the US, I don't like it. There are more opportunities in China. It is ok if they only do the online market in the US. However, I have to do both online and traditional markets in China.* (S-B)

It is obvious that shareholder B did not prefer the business approach adopted by his partner. He thought that their US project only consumed a great amount of money without realising enough profit. He also acknowledged the different directions they were heading in. Although both shareholders emphasised that they respected each other, and each acknowledged the work of the other, it seems that their interests and observed actions were clearly not in the same direction. Hence, conflicts between the shareholders became inevitable since they had different personal goals to achieve. While the political basis of hegemony is rooted in balancing compromise and maintaining the essential political and economic cores of hegemony and different economic interests indeed made it hard for the shareholders to exercise a coherent hegemony. While shareholder B disclosed his dislike of his partner's business plan, it became difficult to satisfy the economic interests of both shareholders. As a result, they may aim to create their own favourable conditions for their own maximum expansion with a limited concern for the interests of others.

Apparently, the conflict between two shareholders was also rumoured amongst staff. On one occasion when I was talking about the profit arrangement with a sale staff member, I said:

> *For the shareholders, it [profit arrangement] should not matter right? Because it is the group's profit at the end of the day'.* However, he responded with：*'maybe that's not the case, shareholder A may have more shares in trading company and shareholder B may have more share in the factory.* (SS-1)

On another day, the same staff member commented further about his opinions of the relationship between the shareholders:

> *I feel that Shareholder A and the COO must want the trading company to have more profits. They must; they just pretend that they don't care about it. I suppose that they can use the money more easily in Shanghai, and the group's money is not the same thing. The money isn't your money unless it gets into your pocket. But it is just our guess; nobody will know the details.* (SS-1)

The implication here is that the shareholders may try to secure their own profit due to their personal interest, just like how they secured the profit from the CEO. With the emergence of a different form of hegemony, a new hegemonic struggle also emerged at the same time. The hegemonic struggle between the dominant groups then led to the use of transfer pricing as a hegemonic strategy for power, instead of coherent control. As a result, conflicting compromises were exercised by both shareholders with the aim of securing the consent of their staff.

6.5.2 Conflicting compromises

In chapter 3, I discussed how consent is not an unconscious agreement, but instead, it arises from a degree of conscious attachment to certain core elements of hegemony. Therefore, certain compromises have to be made to manage the unstable balance between the hegemonic group and the subordinated group. In the case of PLT, conflicting compromises were made in the two divisions by shareholders in order to sustain their own leadership and motivate staff to pursue each shareholder's own interests.

As I discussed in the previous section, the decentralisation of the organisation is one of the strategic decisions that senior management made during the change process in order to create a new organisational structure which suited their vision. This reshaped the hegemony into a new arrangement formed by the two shareholders. Such a hegemonic arrangement also came with implications for a new performance measurement system.

In the sales division, the discussion with various staff members revealed that the organisation applied a rather simple performance measurement system. The salary bonus of the sales staff was directly linked to the profit they make for each contract. While 8% of the profit ratio was the break-even point for the organisation, the staff could get a direct bonus cut of 2% for any extra profit they made. Therefore, the system encouraged staff to maximise their profit. This system was also received positively among staff. As sales manager commented:

> *The bonus system did have some motivation effect on staff, and I am more sensitive to prices. Before the policy was established, everyone was not sensitive to the price and did not actually care much about the profit we got because it was kind of irrelevant to us.* (SM)

This bonus system had two implication for shareholder A's hegemony. On the one hand, the improved financial reward was beneficial for him to gain consent and prestige among subordinated groups. On the other hand, it provided a 'common will' between shareholder and staff in the sales division, which maximised divisional profit. While staff could gain a bigger bonus with more profit, shareholder A was able to reach a more favourable position in the hegemonic struggle as he would have control over profit.

On the other hand, shareholder B also counter-attacked the strategies applied by his counterpart. He applied a similar performance measurement system in the factory. The performance of middle-level managers including the factory manager and production manager also depended on the profit they made while 10% profit ratio was determined as their standard profit margin. For production manager in the factory, this created problems. When I asked if their performance was based on the profit, he answered:

> *Yes, and this is the problem. If we use the joint performance system to evaluate us and the Shanghai staff collectively, then we can avoid the problem we are having now. However, this can lead to other problems. For example, if two companies consume the profit unevenly, for example, the sales divisions had an annual dinner for 2000 yuan, and we had an annual dinner for 1000 yuan, then it makes things unfair.* (PM)

While the manager found their performance system problematic, they could not propose any better alternatives because they still considered their own benefit over that of others. Therefore, the managers were all trapped in a vicious circle.

It is fascinating to realise that hegemonic conflicts between the shareholders actually could be passed down to the managers through the influence of the performance measurement system and the transfer pricing system. While the performance measurement system was linked to their personal livelihood, the transfer pricing became the only place for them to realise their interests. While the managers struggled to secure their individual interests, they were actually trying to secure the shareholders' interests at the same time. This further proved the point that transfer pricing was working as a political practice for managers.

It seems that the conflicted compromise from the shareholders influenced the attitude of staff towards the different divisions and generated consent for their representative 'leaders'. While I was chatting with one of the sale staff, he expressed his position on the relationship between the two shareholders and his position in their relationship:

> *Sometimes, I think about the actual relationship between these two divisions. I think that the sales division is led by shareholder A, and the factory is mainly led by shareholder B. I, who am employed by the sales division, must seek the benefit on behalf of the sales division, and this division's benefit is also linked to my own benefit because my KPI is linked to it. (SS-1)*

On the other hand, similar comments were also made by the factory manager:

> *If I seek help from shareholder B, he will fight for some benefit for us. However, shareholder A is also a big shareholder. So what shareholder B can do is limited. … I feel that shareholder A is in favour of the sales division. For example, when the sales division doesn't secure a customer, he won't say much. However, if there is some issue in the factory, he will complain a lot. But he is not a*

manager here, but he is just a shareholder, in principle he does not have the right to say anything. (FM)

The above excerpts show that staff in both divisions had their own identity in the organisation. They both recognised that they were led by different shareholders and therefore must seek own benefit and not the group benefits. This also implies that compromises by the shareholders were able to generate consent among their respective staff in different divisions and create ‘common will’ within the division. As a result, it can be said that different forms of hegemonies were generated in the group as the consent of subordinate groups was generated toward different hegemonic individuals. Transfer pricing practice is then used by shareholders as a hegemonic strategy to gain power in the organisation. This means that a conflict in the transfer pricing system became inevitable. Transfer pricing system became a ‘battleground’ for the hegemonic struggle between the shareholders while managers acted as the agents of the different shareholders. This, then, explains the fragile arrangement of transfer pricing.

6.6 Summary and conclusions

This chapter has explored the development of transfer pricing at PLT, and in particular, how hegemony can be seen during the process. The findings suggest that transfer pricing at PLT was developed in response to different form of hegemony. The chapter firstly looked at the original design of transfer pricing at PLT. On the one hand, transfer pricing was deemed a tax-driven system and so was irrelevant to any management control mechanism. Management control was achieved by the paternalistic governance exercised by senior management. On the other hand, transfer pricing served as a cash allocation tool for senior management, where tensions were created. The departure of the CEO signified the transformation of the organisational structure. This period witnessed organisational strategic change and the rise of middle-level management. This led to the emergence of a new form of transfer pricing system which served multiple functions including communication, performance measurement, and profit allocation. However, interviews and observations revealed that it was actually a fragile system with conflicting principles, ambiguous guidelines, and intervention from senior management. The influence of shareholders in the transfer pricing process demonstrated their power, which led to a further investigation. Different personal interests and conflicting designs of the performance system were observed as a result. This finding echoes other historical analysis on accounting development which identified that accounting reflects and constitute the ideological framework of the prevailing hegemony (e.g. Goddard, 2002; Yee, 2009; Xu, Cortese and Zhang, 2014).

However, different from the previous studies, transfer pricing not only reflected the prevailing hegemony, but was also actively involved in hegemonic struggles when competing hegemonies co-exist. The findings show that the transfer pricing practice at PLT was used by dominant groups as hegemonic strategy for the battle of power. The initial form of transfer pricing can be associated with the horizontal hegemonic relationship between the dominant groups formed by the CEO and shareholders without the participation of subordinate groups. Transfer pricing system under their hegemony marked the power struggle between the shareholders and the CEO. It is found that shareholders utilised transfer pricing system to secure financial recourses and restrain the power of the CEO. However, the departure of the CEO triggered the 'hegemonic crisis' when a reformed hegemony was needed to reshape hegemony and form new sets of ideologies (Simons, 2015). As a result, the shareholder formed a new power bloc with serious implications for a new organisational structure. However, different personal interests and ideologies between shareholders signified the emergence of new hegemonic struggles at PLT. Consequently, transfer pricing was again used by different dominant individuals as their hegemonic strategies in the battle of power. Conflicting compromises were provided by the dominant groups to generate consent among the different actors in order to reshape the hegemony and form new sets of ideology in their own favour (Simon, 2015). The conflicting hegemonic strategies resulted in a fragile arrangement of transfer pricing. For senior management, it provided a strategy to solve the hegemonic struggle. However, it became a different story for the subordinate groups. Managers were left in an awkward position where they were motivated to seek the shareholder's interests and could not escape from the ambiguous negotiations of transfer price because of interventions from senior management.

The next chapter continues the discussion of the transfer pricing practice at PLT but focuses on the daily sense-making process staff adopted to understand the operation of transfer pricing. It also aims to discover how subordinate groups generated consent or resistance under the hegemony. The analysis explores how common-sense and good-sense were adopted by different actors during the transfer pricing practice.

Chapter 7: Sense making of hegemonic transfer pricing

7.1 Introduction

Chapter 5 analysed how structural hegemonic ideologies in the cultural-political context of China determined the power relationship between the dominant group (business owners) and the dominated group (staff) in a Chinese private organisation. Taking this macro analysis into the local context of PLT, chapter 6 explored the development of the transfer pricing practice at PLT. It emphasised that the emergence of transfer pricing practice was not the outcome of the organisational and economical rationalities. Instead, it was constructed by dynamic hegemonic relationships between the dominant groups and the dominated groups. Based on the previous analysis, this final analysis chapter concludes the analysis by exploring the sense-making process of the dominated groups in the hegemonic context.

Drawing on the concepts of ‘common sense’ and ‘good sense’ as defined by Gramsci (1971), this chapter depicts the daily life of a subordinated group under hegemony to see how hegemony is reproduced through these dual concepts. To do so, the chapter is organised as follows. Section two examines the contradictions of the common-sense views adopted by managers in different divisions and their influence on transfer price negotiations. Section three reports the self-contradictory good sense of managers and the way in which it is applied in transfer pricing negotiations. This is followed by section four, which analyses the use of dialectical senses in relation to the reproduction of hegemony. The final section summarises the issues addressed.

7.2 Common sense views

Drawing on hegemonic ideologies of the dominant groups, common sense describes a widely accepted and uncritical way of understanding the world by subordinated groups. It explains how consent can be generated and how hegemony can be sustained. In a global context, the notion of marketisation, globalisation, and neoliberalism can be regarded as forms of ‘common sense’ for state hegemony (Mantzari and Georgiou, 2019). These common-sense views provide the ideological foundations for the diffusion of hegemonic accounting practices such as the adoption of IFRS in a global context. While common sense usually refers to wider uncritical beliefs existing in society, Gramsci (1971) also recognised that, in a local context (such as at PLT), the philosophical consciousness of dominant groups always has the potential to become a type of common sense if they are able to diffuse and connect it into people’s daily lives (see section 3.4.4).

As common sense is derived from the hegemonic ideologies of dominant groups, it is important to examine their ideologies. The previous chapter has already illustrated the different ideologies adopted by different dominant individuals (shareholders) at PLT. While shareholder A held the ideologies of marketisation in designing transfer pricing, shareholder B believed in a cost-based approach because of its clear accountability. This pluralistic character of hegemonic ideologies had significant implications for the daily practice of transfer pricing. As I demonstrated in the previous chapter, both ideologies somehow co-existed in the transfer pricing practice. Thus, the important types of common-sense will concentrate on two main aspects: first, marketisation, and second, cost centralisation and clear accountability. Instances of staff meetings and daily discussions on transfer pricing were analysed to understand how staff made sense of transfer price negotiation based on these.

7.2.1 Diverse views during negotiation

The design of the transfer pricing system at PLT was characterised by the hegemonic relations between two dominant individuals (see Chapter 6) and was used as hegemonic strategies for power by them. With the existence of conflicting interest, the transfer pricing system was designed to motivate managers to further the personal interests of the shareholders. A fragile arrangement of transfer pricing means that managers could not escape from the system. This created a social space for the uses of common sense which reproduced the hegemonic struggle happening in the organisation.

During my time at PLT, occasional meetings were held for managers to exchange information and discuss issues in transfer pricing negotiation. This is one of the social spaces where staff use common sense to negotiate transfer price. While such meetings were regarded as important by staff in both divisions, they were quite informal and flexible, just as most of the practices in the group. The meetings were not regularly scheduled and were usually organised based on the convenience of both parties, for example, when sales team needed to go to the factory for a customer inspection or when the factory manager needed to go to the sales division for other business meetings. Due to this informal nature, the attendance was usually inconsistent. However, factory managers and sales managers would always be present to lead the meeting. I encountered two of those meetings during my fieldwork – one at the beginning of the fieldwork and one at the end of the fieldwork. To highlight the managers' diverse views during transfer pricing negotiations, I am going to discuss the first meeting I encountered, which was held in the sales division in February 2017, just eight days after I had entered the field. The meeting was quite informal but with tensions. It was informal because people sometimes divided up into small groups and talked at the same time. Tensions came from the intense discussions with different arguments and counter-arguments about transfer pricing issues. This event provided me with a good opportunity to observe how the managers understood transfer pricing differently and how they negotiated the transfer price in real time.

The observation of the meeting revealed different views towards transfer pricing between the managers in the meeting, which indicates the existence of different common-sense views. For managers from the factory division, the rationale for negotiating a higher transfer price usually concentrated on cost-related issues, such as higher labour costs, material costs, and administration costs. The selection of excerpts below provides a vivid taste of how the managers negotiated the transfer price:

> *FM: 'We are losing profit for some of the internal orders. For some products, we just bought from other factories and pack them. All the costs are transparent. If the volume is large, and it is long-term, we are able to organise it. However, if the volume is low, like 3000 to 4000 units, our labour cost will increase dramatically. We have to set up things. We are losing money for your small contracts.'*

> *SM: 'However, some customers came because they visited our factory and liked our factory's standardisation. We cannot find alternative external factories in those cases.'*

> *FM: 'In those cases, you have to leave enough profit for us. Your small orders are usually quite awkward for us. We sometimes have to schedule overtime work on Sunday to deal with your orders, which doubles the labour cost.'*

> *FM: 'For some customers, it may involve management costs like the preparation of certificates.'*

> *OM: 'If we can find an external factory which is cheaper, we will ask them to do the packaging. However, if other factories do not have the capabilities, we will still ask you and we can deal with the labour cost based on your way.'*

The negotiation of the transfer price in the meeting revealed the prioritisation of cost coverage for the factory manager. Numerous mentions of 'labour cost' in this short selection of excerpts showed how the factory manager understood transfer pricing from a cost perspective. When negotiating the transfer price, he tended to assess the price offers based on the cost structure of particular orders. For instance, the orders with small volume were regarded as costly and inefficient, and a higher transfer price became necessary. In fact, cost coverage was a core criterion for the factory manager in deciding whether to accept the transfer price or not. There was a common sentiment that the cost of the product provided a hard 'benchmark' for the transfer price. The inevitability of the cost meant that any price below cost was not acceptable for the factory manager:

> *SS-2: 'One order was pushed back from the system because you increased the transfer price after signing the internal contract, why is that?'*

> *PM: 'Because we cannot cover the cost. Now you can all calculate the labour cost; you can try to calculate it by yourself. It is clear that that price was not high enough. This is a fact. You can leave us no profit, but the hole will be bigger and bigger, and it is not a good thing.'*

Cost coverage was central in legitimising transfer pricing decisions and was deeply embedded in the rationale of an appropriate transfer price for factory managers. On the other hand, managers from the sales division tended to justify their transfer price decision from a rather different perspective. During the negotiation, the sales managers usually counter-attacked the cost-based arguments by using arguments from market perspective. For instance, customer related issues had been used extensively to justify the need for a lower transfer price, despite the increase in cost. They argued that the transfer price should be directly related to the customer's target price. If the customer did not accept the price, then the increase of cost should not be justified. Following the arguments raised by the production manager above, the sales managers actually counter-attacked the cost-based argument by saying:

> *SS-2: 'Yes now we are absorbing this money by ourselves. Therefore, either you re-negotiate all the prices, telling me that you will increase the price from next year, listing all your items and tell me the price. Some customers have even placed the order for next year already.*

> *SM: 'XXX* [Customer name] *knew that we would increase our price and placed big orders before that. XXX already placed order for Fed 2018'*

> *OM: 'But the factory has publicity for price increase now'*

> *SS-2: 'It is impossible for us to explain every item for the customers. When they placed the order, they placed it based on the price we offered.'*

> *FM: 'But we gave you our cost information, and we taught you how to use it. You should be able to calculate and predict the cost based on that.'*

> *SS-2: 'No we cannot do that because there will be some error between you and me.'*

Therefore, the transfer price, for the sales staff was calculated based on its competitiveness in the current or future market circumstances. Competition was also generally used to justify the requests for a lower transfer price. Sales managers often made a link between market competition and the internal transfer price to highlight that a lower transfer price is important to win the bidding held by customers:

> FM: *'Actually for new customers, if we made a deal with 10% of profit with you and we made a deal with the customer as well, we would give you 10% profit for sure.'*
>
> SS-2: *'For new customers, we will not negotiate the price with you.'*
>
> SM: *'However, you cannot leave too much profit either. For example, XXX* [an existing customer] *is having a new round of competitive bidding. We have to provide a very competitive price. If we follow your formula and give you the profit you want, we will have a loss of 0.6%'*
>
> FM: *'For these customers, they are historically problematic, and it is hard to change, so you need to tell me your acceptable price. I cannot take the loss for you.'*
>
> SM: *'But you cannot take too much profit, I am just saying. Our profit is already really low.'*

It was interesting to see how the rhetoric adopted by the sales manager was similar to the rhetoric used by shareholder A when he talked about his ideology on transfer pricing (see section 6.4.1). The recurrent justification and judgement on transfer pricing was, therefore, based on the common-sense arguments related to the inevitability of the market price.

Overall, the observation of the meeting reflected the managers' desires to try to secure a transfer price in their own favour. It can be observed that managers from different divisions held quite different common-sense views toward transfer pricing. One was a cost-based view that transfer pricing should be based on costing information. Interviewees from the factory often highlighted the inevitability of cost increase because of low volumes and raw-material market trends. Another was a market-based view that transfer pricing should be based on customer requirements and competition. Staff from sale divisions prioritised the customer in transfer pricing as securing and satisfying customers were their primary goals. Such contradictory and inconsistent common-sense views existing in the group had significant implication for the daily practice of transfer pricing negotiation. Although both sides seemed to have logical arguments, they somehow neglected the arguments provided by their counterparts. While others provided alternative arguments, the managers tended to still focus on their own arguments and disregard alternative views. This means that understanding of transfer pricing was divided and uncritical among employees in different divisions.

In addition, it is not hard to realise that the arguments used by the managers in the meeting can be related to the ideologies discussed by the shareholders in the last chapter. Cost principles and marketisation promoted by different shareholders were both adopted by the respective managers. This linkage between hegemonic ideologies and common-sense arguments was able to manufacture consent between the managers and their respective leaders. As a result, the negotiation of the transfer price was able to contribute to the hegemonic struggles in the dominant level. While the observation above provided a taste of different types of common senses that existed in different divisions, my daily observations of and interviews on the topic of transfer pricing was able to provide further insights into how different types of common sense influenced the decision making on transfer pricing at PLT.

7.2.2 Common sense on 'profit maximisation'

As shown in the previous section, the sales staff usually justified their arguments on transfer price from a market-based ideology This was carried over into their daily practice of transfer pricing. During my time in the sales division, I observed many instances where the sales staff talked about their struggles and opinions on transfer pricing in an informal manner. They made jokes during breaks and shared their own frustrations working with the factory staff. These were able to provide more insights on how they discussed the transfer price freely in a private environment. In particular, I was able to pick up their priorities when approaching the transfer pricing system.

The common assumption on transfer pricing in the sales division, closely linked with the previous section, was related to the concept of 'profit maximisation'. Many instances show that the sales staff assumed profit maximisation was their only goal when practising transfer pricing. Even through the profit margin for the whole group was getting less because of the increasing market competition, the sales staff still tried to secure their own profit before being concerned for others. For instance, when the sales manager accidently received an internal profit report from the factory manager and saw the low profit the factory had, one sales staff member joked that: *'We cannot let them* [the factory] *know our profit or they will kill us'*. Subsequently, another staff member joked: *'What if they sent that to you on purpose to show that they don't have profit?'* Although staff were chatting about this in a joking manner, it signifies the significance of profit maximisation for sales division staff. This is not surprising, considering that the design of the profit-related reward system had been a significant motivation for such a view. However, why did they want to 'hide' the profit from other parties? According to the sales manager, the confidentiality of profit information was important for them to maintain overall profit when profit for different orders may vary:

> *Normally, we do not let the factory know our target price. Some new products may have a higher profit and some regular products may have less profit. However, our principle is that we cannot lose money from the order.* (SM)

Apart from the sales staff appearing to be highly sensitive over the profit, their market-based view on transfer pricing practice is also reflected on their daily negotiation practice. As the cost report from factory was available to the sales division, cost comparison became an important activity when judging the appropriateness of the transfer price offer. Despite the fact that cost can change due to different requirements, purchasing price, quality, and production process, the sales staff only focused on the cost and required further negotiation based on the price difference. For instance, the price difference of the 'start-up' cost in different cost reports was able to catch sales staff B's attention when assessing the transfer price offer. She believed that this cost was problematic and needed further clarification. Despite having little understanding of the production procedure for different products, she focused only on the price difference, as she felt this cost should be static. The practice of price comparison was also confirmed by factory managers:

> *They came to the factory and saw the production processes before, but they were not willing to know and don't care about it. They just use the formula and don't care about the principles behind it. However, they know how to compare prices; they will find out that some parts of the cost are increased or decreased and ask us to lower the price without caring why it was increased.* (PM)

> *Sometimes, price is not the only thing they need to consider, sometimes, reliability of the supplier is also crucial. However, trading company normally don't consider that.* (FM)

In line with the market rationales of an appropriate transfer price, another regular element in the sales staff's argument was concerned with the 'poor work consistency' from the factory and its influence on the overall profit for the sales division. The price information provided by the factory was considered to be rather inaccurate and inconsistent. For instance, staff often criticised the consistency of the product quality during the daily discussion. The sales manager referred to one customer's order as an example. The customer had a high requirement for product quality, and initially, the factory was able to meet the requirements. However, after the initial purchase, the sales manager felt that the factory had lowered their quality standard and tried to do less work, which caused quality problems and led to the customer's complaint about the current order. While they criticised the work consistency of their counterparts, they were actually criticising the potential loss that occurred because of the poor consistency instead of criticising the inconsistency itself. The customers' complaints often resulted in a forced discount offer to customers, which influenced the profitability of the sales division.

In addition, the sales staff were highly critical of the inconsistent transfer price provided by the factory. In particular, they often complained that the transfer prices of a product could be changed before and after a contract was signed. While this might be due to the change of material costs, this was sometimes linked to the potential loss of profit for the sales staff. It was argued that when factory failed to provide a consistent transfer price, the sales division would get pressure from customers and potentially be forced to offer a discount because of the 'mistakes' made by the factory. As a result, transfer pricing became uncertain for the sales staff. Knowing that the transfer price might be changed after the initial negotiations, the sales staff were motivated to negotiate for an even more favourable price during initial negotiations in order to deal with the uncertainties in the future. Such an incident actually happened to one sales staff member one time. He commented to colleagues that the factory had sent a demo to the customer before mass production. The demo was received well, and mass production was started. However, the factory ‘changed their mind’ and said that the supplier thought the volume was too small and that they could not maintain the previous price. This made the situation very complex and created a financial loss for the sales staff:

> *I asked the cost accountant to look for the production manager and solve the problem since the order had to be finished either way. Then they had found another supplier. However, the design of the product had to be changed, and then they needed to let the customer check again. This led to a tight delivery deadline for us. If we delayed the delivery date, the customer would ask for a further discount.* (SS-1)

While the predominant value of ‘profit maximisation’ saturated the daily practice of transfer pricing in the sales division, it also prevented the recognition of alternative understandings. Many of the arguments provided by the sales staff were uncritical and inconsistent. For example, despite knowing little about the production procedures for different products, sales staff B had an uncritical belief that ‘start-up cost’ occurs only once each day and should be the same figure for every order. In addition, the staff tended to ignore the issues raised by factory managers during inter-divisional meetings while concerning their own market related issues, they tended to ignore similar issues that occurred in the factory, such as cost increases. It seems that there was a general disbelief of the factory’s claim in the sales division. This was observed on different occasions during my fieldwork there, including staff’s conversation just after the inter-divisional meetings in February 2017. Apparently, members of the sales staff did not believe most of the claims raised by the factory manager, despite the fact that those claims were generally reasonable and were discussed internally in the factory in a daily basis.

7.2.3 common sense on 'fairness'

In section 7.2.1, I illustrated how the factory staff members negotiated the transfer price utilising cost-based arguments, which indicated a cost-oriented view on understanding transfer pricing. Similar to what I did in the sales division, I also spent time in the factory division, sitting on the same table with the factory manager and production manager, where I observed many interesting conversations between staff members on topics similar to those discussed in the sales division. The observations, along with the interviews, were able to provide insight into how they viewed transfer pricing as a practice of 'fairness' instead of price competition.

As discussed in chapter 2, the concept of 'fairness' is not new in transfer pricing research. Studies such as Luft and Libby (1997), Ghosh, (2000), and Chang, Cheng, and Trotman, (2008) discussed how 'fairness' can be associated with various social factors such as the negotiation mechanism (Kachelmeier & Towry, 2002), social concerns (Chang, Cheng, & Trotman, 2008) and can influence the negotiation outcomes. Thus, the sense of 'fairness' often drives the transfer pricing negotiation processes. In the literature, 'fairness' in transfer pricing means a degree of equal profit between two parties. However, at PLT, the 'fairness' issue was generated from the clash between different types of common sense.

Firstly, 'fairness' is associated with the work load and attitude in the factory divisions. Indeed, arguments for a favourable transfer price were often linked with the work load. Instead of talking about financial criteria such as profit, cost, and price, many staff were very critical of the small work load and poor working attitude of the sales division. Although they did not really observe the daily practice of the sales staff, there was a general belief that the sales staff took on less work in the whole procedure. As one cost accountant put it:

Staff in the Shanghai division are becoming more and more lazy; they just screenshot the customer's requirements and send it to us without any form of preparation. When I ask what that is, they just translate the English email for me. (CA)

An argument staff often raised was that sales division acted only as a 'translator' between the customer and them. The sales staff were considered to be lazy and even mindless:

I feel that Shanghai trading company only works as an airfone between factory and final customer. They take every request from the customer and ask us without thinking by themselves. (CA)

They just find the new customer who wants particular product and ask us if we can make it. They just calculate the profit for their orders but don't think about the cost we have to put for new type of material. (CA)

Although this argument is unilateral and does not necessarily reflect the reality, it may not be significant to the transfer pricing negotiation on its own. However, what is interesting is how the factory staff linked their unilateral belief with the profit allocation in transfer pricing. There was a general belief that there should be a connection between the work load and profit allocation in the transfer pricing system to ensure that a fair arrangement on work and reward can be achieved:

Although I feel that most of the work is done by us, most of the profits are usually given to the customer service departments in the sales division. This makes us demotivated because more profit is giving to the people who do not work. (FM)

> *We are doing three jobs with one man, and but we still cannot get reward out of it,* (PM)

In fact, a fair arrangement on work load and responsibilities was valued more highly than profit maximisation in the factory. As long as 'fairness' was achieved, the factory was prepared to compromise to some extent on profit. This value of 'fairness' had significant implications for the sense-making of transfer price negotiations. In particular, the distance between the actual work arrangement in transfer pricing and its ideal form imagined by the factory staff motivated the profit-seeking behaviour by the factory staff. The sense of fairness provided a rationale to criticise negotiation behaviours by the sales staff and to disregard opposite criticisms. For instance, the work load was reflected in the transfer price offer, and criticisms about their work consistency were disregarded because of the unclear responsibility arrangement. Consequently, the transfer pricing was negotiated based on the redemptions of fairness instead of economic considerations, which was personal rather than financial:

> *I think they should take responsibility when they take more benefit. I actually don't care about the profit rate the factory can get. I just care about the work arrangement. For example, we used to buy a product and add a 10% profit including packaging. When we don't do packaging, we add only 5%; it is clear and transparent. However, they still think we have a problem and think that our team is not good enough. But the internal structure is out of my hands. Their complaints were not their business. If they think the price is not good enough, they can totally look for others. Our company's problem is that, regarding benefits, everyone wants them; regarding troubles, no one wants to take them.* (FM)

The interpretation of the system design also reinforced this non-financial view on transfer pricing. As I discussed in the previous chapter, the factory division usually provided a cost report to the sales division as part of their transfer pricing procedure. This was linked with the 'fairness' value by the factory staff.

While the ideal profit allocation for transfer pricing was linked to the work arrangement, the information advantages given to the sales division were interpreted regarding this aspect. As the sales division was able to access more information, the factory staff believed that more work should be done by them to 'deserve' the profit. As the factory manager commented:

> *The reason why we give them a detailed cost report is that we want them to use the report independently. We can provide all the information, and they can calculate the price by themselves. In this way, we can save some labour cost as well, just like Nanjin factory* [group's raw material factory] *did. If we can just be a factory, I will be very happy. They* [sales division] *can build their strong team instead. However, they don't have the ability, and we take some of the work. Therefore, we must have our return. The development of our system and our salary needs money. Thus, we must seek more benefit and profit for ourselves.* (FM)

The information imbalance provided further justification for the profit seeking activities in the factory. In addition, the existence of this information imbalance was regarded as 'unfair' on its own. There was a general belief in the factory that the information imbalance was utilised by the sales division against them during the transfer price negotiation although no example was provided:

> *The sales division is the part which always saves something for themselves. Our system used to be not transparent. After I came to the company, we started sharing our internal cost reports with them. However, they did not share their information with us. In the end, we exposed ourselves, and they could take information advantages and put pressure on us.* (FM)

> *The staff in the Shanghai company* [sales division] *always hide the price they give to the customer and steal the profit from the US division. We want to be honest, but they won't be honest to us. In the end, they may get all the profit, and we get zero.* (PM)

> *They know the cost of our product, but we don't know their price to the customer. When we have to raise the cost and show it in the cost report, they just say, 'I can't sell it', and that's it.* (CA)

While the 'fairness' I am talking about here is the fairness of information, it can be related to the general belief of 'fairness' of the work load and responsibility. The existence of an unfair information advantage means that a fair price in the financial sense would be hard to achieve because the sales division can always use it for their own benefit. As a result, an alternative understanding had to be developed to make sense of the daily transfer pricing negotiation in the factory, which gave birth to the 'fair price' based on non-financial matters, such as fair responsibility and work load.

The concept of 'fairness' was central in legitimising their decision on pricing and was deeply embedded in their understanding of how transfer pricing should work in the factory division. Ultimately, the fairness issue stemmed from a clash of different types of common sense. While the factory staff judged the transfer pricing based on non-financial criteria, such as work load, responsibility, and information availability, this approach contrasted with the sales staff's focus on profit and marketisation. This clash of ideas created the 'fairness' issue in the factory. While interviewees often highlighted how 'unfair' the transfer pricing system was in terms of the unfair arrangement of the work load, responsibility, and information, it directly influenced their judgement during transfer pricing negotiations. Therefore, the transfer price, for factory staff, was negotiated based on their view on 'fairness', instead of purely on market or cost concerns.

Analysis in this section so far has revealed the existence of contradictory types of common sense in the same transfer pricing system among people from the sales division and the factory division. Both types of common sense had 'logic' and were generally held together by different concepts. For instance, the sales staff carried the logic of 'marketisation' which highlights the profit maximisation and customer prioritisation. This common sense led to their uncritical belief that transfer pricing should be a market-oriented system, as they were dealing with market competition and customers. Combining this with the motivation from their reward system, price became a very sensitive issue for them.

On the other hand, the factory staff members made sense of their daily transfer pricing practice with the logic of 'cost' and 'fairness'. They believed that cost circumstance was the essential and unnegotiable factor for them. Thus, transfer pricing was understood from a cost perspective, and the negotiation was based on how transfer price can cover the cost. In addition, the common sense on 'fairness' held by many factory staff motivated them to approach transfer pricing from a rather non-financial perspective. The workload and responsibilities became the rationales behind transfer pricing decisions.

Due to the uncritical belief of different common sense, staff from different divisions approached transfer pricing differently and the agreement on transfer price became sometimes difficult. The contradictory and inconsistent common-sense views existing in different divisions therefore had a significant implication for transfer pricing negotiation.

7.2.4 Diffusion of common sense

It is fair to say that common sense views observed at PLT is contingent upon its local context. Interviewees usually make sense of transfer pricing not only based on their uncritical belief in something such as profit maximisation, but also based on their own practical experience of transfer pricing. Based on this, the next question is how the common sense emerged in this local context. As discussed in section 3.4, in a fairly limited environment, ideology and thought of an individual was able to elaborate to be common sense as long as it is implicit in practical life of others. Thus, this section elaborates the connection between shareholder's ideology and existing common sense, and how individual ideologies were diffused to be common sense governing daily practice of transfer pricing.

During my time with the shareholders, there were many instances showing the similarities on the understanding of transfer pricing between the shareholders and their respective managers. For instance, the fairness of the current system was also an issue of concern for shareholder B. Similar to common sense observed in the factory, fairness about responsibility, working amount was important for shareholder B. For him, transfer pricing system should work like a performance measurement system measuring work amount and effort. The logic is that, the more work employees did, the more profit they should get from transfer pricing system. When shareholder B discussed profit issues with the CFO, he expressed his opinions on the staff in sales division; as I noted in my diary:

> *During the discussion, Shareholder B found out that the profit the sales division make is very good at around 10% to 20% for each order. This makes him quite angry because he thinks that the sales division should not make so much profit. He makes the example that a US trading company he knows does lots of services for the clients and only gets 5% of profit. He thinks that the problem is not the profit they make but the work they do compared to the profit they get. He thinks that the company does not do enough work to be able to deserve the amount of profit. In his opinion, the trading company staff always ask the factory to do things and do not put enough effort into dealing with new clients. Therefore, it seems that factory managers' logic of holding profit can come from the shareholder's point of view of Shanghai staff.*

It was not hard to find similarities between the shareholder's opinions and the staff's general opinions. Both of them argued that it was unfair for the sales division to earn more profit when they did ‘less’ work. This connection means that the ideology of shareholder B was able to be diffused into the idea of common sense in the factory. Then the question that is raised is ‘How did he do that?’.

According to the observation, the ideologies of the shareholders could be diffused through regular interactions between the shareholders and their staff through meetings, phone calls and messages. As I mentioned earlier, meetings were occasionally held, offering opportunities for managers to discuss the transfer pricing issue directly. One such meeting was discussed in the previous section to illustrate the different views managers held during negotiations. However, meetings were sometimes attended by shareholders as well if they were available. During my fieldwork, one meeting held in the factory was attended by all the managers as well as by shareholder B. This provided some insights into how the shareholder raised issues in front of the managers in both divisions.

The meeting was attended by all members of the sales division staff, the factory manager, the production manager, and shareholder B. While the factory manager and the shareholder sat on one side of the table, the sales staff sat on the other side. The meeting lasted for over two hours and was dominated by shareholder B. The meeting provided social spaces for the shareholder to diffuse his ideologies to his staff.

Firstly, Shareholder B amplified the importance of the work load by complimenting the work provided by the factory staff. He highlighted the amount of work the factory staff had to do regarding the transfer pricing practice and beyond. In addition, he was able to link his opinions to the daily life of the factory staff. Many examples of the internal managerial tasks the factory manager and the production manager had to do were raised, which were followed by high compliments given by the shareholder. For example, he said that the production manager had to pick up 130+ phone calls in a day to highlight how busy he was. Based on these statements, he argued that the lengthy internal price negotiation harmed the organisation and would lead to losses for both parties. In addition, many arguments related to the cost increase and inappropriate working arrangements were raised to support factory staff against their counterparts. For instance, he argued that the cost report should be efficiently utilised by sales staff members to calculate the price by themselves. This moral support became one of the sources which the factory staff relied on in understanding their daily practice of transfer pricing.

In contrast with his support for the factory staff, shareholder B publicly critiqued the work quality and efficiency of sales staff members in front of all staff, which was also important when diffusing his ideology. Throughout the meeting, the shareholder tried to disseminate his ideologies on business and transfer pricing to the staff. The idea of cost centralisation and an ideal work arrangement was raised through different criticisms and examples. He criticised the price priority of the sales staff, regarding it as an outdated way of doing business. He argued that the narrow vision of price priority brought issues to the factory because the factory requires a lot of money for production-related tasks, such as regulation inspections, certificate applications, and production improvement. Instead of blindly putting pressure on the factory, he highlighted that the sales division should focus on improving their own service and on understanding the supply chain to secure ‘premium customers’. In addition, the shareholder highlighted that the profit itself was not important for the factory. However, the sales division had to be accountable for more effort in the whole sales procedure to ‘claim’ the profit.

It was apparent that the moral support and ideologies on transfer pricing shared by shareholder B were able to influence the factory staff's understanding of transfer pricing and reinforce their confidence in what they believed. After the 'speech' by shareholder B, the factory manager was able to reinforce the same arguments given by the shareholder. He further highlighted that a 10% profit margin was essential for the factory to cover its increasing costs and develop themselves further. Therefore, he demanded that the sales division staff members 'consider' their circumstances and have fewer price negotiations, allowing them to do 'real' work, such as customer service and production efficiency improvement. He also reinforced the point that the factory staff did not get the reward they deserved compared to their abilities. This was reflected in the less competitive salaries the factory was giving to the staff.

It can be said that this type of meeting has an ideological effect on the diffusion of the hegemonic ideology. It provided a social space for the shareholder to elaborate upon and spread his ideologies. Considering the limited access the factory staff have to the actual work arrangement and profit margin of the sales division, it is unlikely that they could construct their thought on transfer pricing on their own, especially regarding some comparative arguments, such as the unfair profit arrangement and unequal work load. However, they were able to construct their thoughts on the reality through the narratives given by the shareholder. The ideological arguments were communicated not only through relations of concepts and propositions but also through vivid examples which were close to the daily life of the factory staff. Factory staff who received the narratives, although lacking a theoretical consciousness, were able to develop a common sense view on how the transfer pricing negotiation should be. This is an example of where the generic ideas of a dominant individual are successfully diffused as the common sense of the dominated individuals. It is implicitly connected to the practical life of the dominated individuals and actually helped them to conclude a coherent explanation of the reality. As a result, such common sense shaped the ways peopled conceptualise transfer pricing.

Knowing this, the prevailing of 'marketisation' ideology in sales division becomes understandable as well. Although I did not have the opportunity to follow shareholder A very closely and observe his interactions with sales division members, some connections between his views on transfer pricing and the common sense adopted by the sales division staff members did exist. As I discussed in section 6.4.1, shareholder A is a strong believer of market economics and market-based transfer pricing. During my interview with him, I raised the nature of the factory's standard profit margin and its demotivation of a flexible price quotation. He indirectly problematised the approaches used by the factory, implicitly questioning the validity of the cost-based transfer pricing system:

> *This problem is shareholder B's problem. Why our transfer pricing system is not sufficient enough?* [This is] *because none of them ask the market for information, and they always provide a price according to their own thinking, like 'I think the price should be this'. (S-A)*

The dynamic market condition and its necessary link to the transfer pricing system in the organisation was highlighted. Shareholder A believed that a competitive price was not static and was always based on the present market condition. Thus, a transfer price should be based on the competitiveness of the final price instead of on the cost of the product itself because a cost-based price can be meaningless in ca hanging market:

> *However, the market is not decided by your cost, nor by the sales men. It is decided by the market, its demand and supply. For example, when*

a market is doing flash sale and a cup may be priced 1 dollar instead of 5 dollars, at that point, this cup will only be worth 1 dollar and when the sell ends the market will return to normal. Therefore, the market controls everything. You have to be competitive under different contexts. (S-A)

Holding this view, he argued that the factory failed to follow the market principles and only provided the price based on their own cost without thinking about its competitiveness. As discussed in previous sections, the sales team had a strong sense of price and profit maximisation when understanding transfer pricing and justifying their arguments during negotiations. To maximise the profit, they hid their profit figure and criticised the general work consistency as their rationale to maintain a high profit. When the factory manager countered their arguments based on increase of cost, the sales division staff chose to neglect the claim, as they believed that the price should be decided by the customer, who represents the market competition. Thus, the linkage between the daily practice of transfer pricing in the sales division and the shareholder's focus on marketisation shows that the common sense view of practising transfer pricing was based upon the hegemonic ideologies prevailing in the division.

Although shareholder A did not physically stay in the division most of the time, it seems that he was still able to influence the construction of common sense in the sales division. During the fieldwork, I discovered that regular communications between the sales staff and shareholder A were maintained using WeChat (a WhatsApp equivalent in China). This could provide social space for shareholder A to diffuse his ideologies. While staff were motivated by a profit-oriented performance measurement system, they also had to provide individual monthly reports including profit and volume figures to shareholder A. The design of this practice can be regarded as the material existence of a market ideology in the organisation, which provided people with rules which guided their moral and practical behaviours (Simon, 2015).

The above discussion showed a clear linkage between shareholders' ideologies and the common sense that staff relied on for their mundane practice of transfer pricing. I found that shareholder B often highlighted the importance of work amount and responsibilities in determining profit allocation in transfer pricing negotiation. This can be related to the common sense views on fairness analysed in section 7.2.3. On the other hand, shareholder A's ideology of market economics and his critique on the cost-based transfer pricing can be related to similar common sense observed on sale staffs in section 7.2.2. The linkage between dominant ideologies and common sense views is created through the daily interactions between shareholders and their respective staffs such as meetings and communications. It is found that shareholders' ideologies were able to connect with the struggles staff were experiencing on a daily basis. This enabled the establishment of the shareholders' ideologies as norms and beliefs for managers. Consequently, different forms of hegemony emerged in the two divisions. While two dominant individuals both had enough power to establish their ideologies in the divisions, the practice of transfer pricing became an activity to achieve the balance of the political forces.

7.3 Good sense views

The previous section discovered different types of common sense on transfer pricing in different divisions. The application of different types of common sense made it possible to maintain different forms of hegemony in the group. Common sense was able to affect the transfer price negotiation procedure by making negotiations difficult and ambiguous. As a result, the staff, as the dominated groups, actually contributed to the hegemonic struggle between the dominant groups by practising transfer pricing. Considering this, a question arises regarding how the overall leadership of shareholders can be maintained in this context, in the other words, how and when an agreement of the transfer price can be reached.

Common sense represents the widely accepted and prevailing values and ideas diffused by hegemonic social groups. At PLT, the common sense of marketisation and fairness shaped the ways of understanding transfer pricing. In contrast, Gramsci (1971) argues that actors are able to constitute views which are practical but not necessarily rational and that contradict dominant beliefs. This is conceptualised as good sense. It challenges activities that are taken for granted. For instance, in the case of IFRS adoption in Greece, Mantzari and Georgiou (2019) found that although practitioners supported common-sense ideas, such as the benefit of international comparability and a market approach to financial accounting in adopting IFRS, there were still arguments based on good sense ideas that challenged the appropriateness of adopting IFRS by looking at local circumstances. For instance, practitioners referred to the frequent amendment of standards and increasingly subjective judgements required as factors that had a negative effect on the implementation of IFRS. Good-sense views, in this study, are represented as challenges to the diverse, conflicting understanding of transfer pricing, in other words, the views which prompt mutual agreement on transfer price. The role of good sense in mitigating the conflicts created by conflicting types of common sense and its relations to the maintenance of the hegemony formed by the shareholders are explored.

Although interviewees embraced different types of common sense regarding transfer pricing, they also recognised that an agreement on transfer price was necessary in actual practice. In particular, staff showed their concern about the needs of others as well as considering their own needs. Although managers highly criticised others from different perspectives, they were able to show understanding regarding the situations faced by their counterparts. For instance, when talking about the conflicts on transfer pricing in the group, the factory manager commented:

> *Although we have many conflicts, I also try to think of the situation from both sides. Shanghai staff have a hard 8% profit rate on every order built in the system. This is because 8% is their break-even point. Therefore, they will have to make the price suitable for them. In addition, they will not get any profit cut if they only get an 8% profit. Therefore, it is understandable that they would try to push every penny to increase their income.* (FM)

This can be linked to the discussion on Confucianism in section 5.3. It can be argued that Confucianism actually provided a theoretical foundation for the sense of ‘concern for others’. As I discussed before, Confucianism can be understood as a philosophical thought that evolved to be a guide to how people should act. It is deep and unconscious to the point that people who follow the Confucian doctrine may not realise it. The sense of ‘concern for others’ observed in the factory manager can be related to the concept of ‘ren’ in Confucianism (see 5.3.1). It highlights that an individual is not an individual without considering others. To be ‘ren’, an individual should have the ability to put themselves in another person’s shoes (Carmody & Carmody, 1983). Based on this, managers were able to consider the situation faced by others and put themselves in their ‘shoes’. By doing so, the difficulties or opportunities faced by others can be understood.

Empowered by a broader belief of Confucianism, the sense of ‘concern for others’ was able to challenge the seemingly total dominance of common sense on transfer pricing in this organisational context. In the case of the factory manager, his belief on fairness and cost prioritisation was challenged by the sense of ‘concern for others’ and influenced his decisions on transfer pricing. Even though cost prioritisation was highly rated for factory staff, compromise in the form of a flexible arrangement on transfer pricing became possible when a potential benefit for the whole group was presented, such as an important client. As the factory manager commented when discussing the negotiation process of transfer pricing with the sales manager:

> *We* [the factory] *want to save labour costs as well by having less negotiation with you. However, if you* [sales division] *judge that a certain contract is very important and essential for the group, you can write an email to us providing us with the information of your profit margin. Then we can accept the price even with a zero profit rate. It is fine; it's not impossible. We still can be very flexible.* (FM)

This contradictory thought of the factory manager created an interesting scene where both senses – common and good - were presented during negotiations. While he still stressed the importance of cost saving, he recognised the importance of benefiting the whole group. This represents the common sense which he largely uncritically absorbed from the shareholders, and the good sense which he derived from the practical experience of being 'ren'. As a result, the transfer pricing decisions made by the manager was sometimes contradictory to his theoretical consciousness fed by common sense. As a sales staff member commented on how the factory manager might respond to his request:

> *I will tell them that the clients don't respond to me anymore and ask if they can reduce the price. Normally, I will discuss this with costing accountants, and if we cannot reach an agreement, I will discuss it with the factory manager… Normally we* [costing accountant and him] *cannot reach an agreement, In the end, I have to look for their manager and almost beg him to reduce the price. In some cases, he will say, 'You are the sales man and you should negotiate better with clients', but he will accept my request.* (SS-1)

Similar to the sense of 'concern for others', there was a strong sense that two divisions should be regarded as a single community (family). Although profit maximisation generally influenced the decision-making process of transfer pricing in the sales division, staff were still able to understand transfer pricing from a group perspective. They admitted that maintenance of ‘harmony’ was important for both divisions as a group, as the two divisions had close bonds with each other and may not be able to operate independently of each other:

> *When negotiating price, we have some level of honesty. If the factory provides a high price and we are unable to sell the products, it is not good for them either. Even though it is a half-half purchase, they will still be influenced by it. If our sales are good, then it will benefit them as well.* (OM)

Derived from the Confucian teaching of *‘wu lun’*, ‘harmony’ with fellow members is important to develop a good character as an individual in the community. At PLT, *‘guanxi*’ and *‘ren qin’* are important relational concepts especially for harmonic relationships among employees (see section 5.3.3). The informal connections between people within the ‘guanxi’ network at PLT was able to lead to agreements on transfer pricing. The social mechanism of *‘ren qin’* and the relationship building of *‘guanxi’* was able to provide a basis for an agreement on the transfer price. For instance, while the factory manager sometimes chose to provide a favourable price to the sales staff, he exchanged a *‘ren qin’* from the sales staff which would be repaid in the future. This created a social practice of informal benefit and obligations, which prevented direct conflicts between managers in the transfer pricing practice. This value of *‘ren qin*’ is critical for many staff, as better ‘guanxi’ leads to a smoother negotiation process:

> *The operations manager can sometimes have good communication with the production manager in the factory because the operations manager sometimes speaks for the production manager and he may remember the ‘ren qin’.* (SS-1)

A harmonic relationship between staff is not only highly rated for its instrumental functions in the transfer pricing process; it is generally important for staff because of the need to maintain a good social profile in the organisation. Staff recognised that a good relationship with fellow workers was sometimes as important as a favourable transfer price because a good profile was necessary for them to 'live' in the organisation:

> *At the end of the day, we are in the same family. Maintaining a good relationship is very important. This kind of company is only for a few people to shine and make money. People like me should just keep calm and maintain good relationships with others. In addition, letting the factory get some benefit in some orders can give us some more room in some big bandage orders.* (PS-2)

Overall, staff in both divisions showed a willingness to reach an agreement on the transfer price. Even though staff usually took one-sided stances towards transfer pricing, they were also capable of showing understanding to others and were willing to 'make things work'. It was interesting to see how staff who highly criticised others would contradict themselves by showing concern for others and were willing to achieve something for the group as a whole. The analysis indicates that staff tried to preserve harmony in their horizontal relationships. The good sense constructed by Confucianism opened a narrow opportunity for managers to compromise and to fill the gaps between their differing views of common sense, which eventually enabled them to reach consent on the transfer price. It provided a theoretical foundation for managers to challenge the views of common sense prevailing in transfer pricing and resist the negotiation activities promoted by the fragile hegemonic form at PLT. This explains why the transfer pricing system at PLT had not collapsed yet. In practice, not all internal transfers at PLT had to go through conflicting negotiations. There were many cases where a contract went through smoothly when everyone was happy with the profit margin they received.

7.4 Hegemony and dialectical senses

Previous sections have discussed how common sense governed the daily practice of transfer pricing, and how agreement on the transfer price could be reached due to the influence of good sense. Although the different senses seemed to be contradictory and served different purposes, the dialectical relations between the different senses contributed to the reproduction of hegemony.

Firstly, it seems that common sense was used for dual purposes at PLT. On the one hand, the hegemony formed by the shareholders was sustained by the use of common sense. Gramsci (1971) argues that common sense derives from the hegemonic ideology and is essential in bolstering consent among dominated groups. This function of common sense is observed in the analysis in section 7.2. I found that the dominant individuals (shareholders) were able to act as articulators of the public interest in their respective divisions and established their own political and economic values as common sense for staff and managers (Gramsci, 1971). The views of common sense created consent between the dominant ideologies and the theoretical consciousness of the dominated groups, which helped to sustain different forms of hegemony in the two divisions. This finding echo previous accounting study drawn on the concepts of common sense. Mantzari and Georgiou (2019) found that common sense acts as the basis of consent at an ideological level. However, different from previous studies, the ‘clash’ between different views of common sense dominated the daily practice of transfer pricing. Due to the acceptance of different views of common sense, managers in different divisions held different expectations on the transfer price. While the sales staff generally expected a high profit margin, factory staff expected the work load to be a criterion for the transfer pricing decision. This plurality of common sense contributed to the ongoing hegemonic struggle fought between the dominant groups (shareholders). While managers negotiated the transfer price based on their common sense, they negotiated for their own benefit as well as in accordance with the personal agendas of the shareholders.

As a result, it reproduced and reformed the hegemony by contributing to the emergence of a new balance of political forces.

Given the continuous hegemonic struggles, the overall hegemony formed by the shareholders could be unstable and weak. Indeed, this ‘organic crisis’ was still ongoing, as both forces were strong enough to form ideologies but not strong enough to shift the balance of forces in their direction. Consequently, there was no consistent prevailing value creating consent for all the dominated groups in the organisation. Therefore, resistance from the dominated groups could occur through the sense making of good sense. It represents the thought which challenges the activities that are already taken-for-granted (Gramsci, 1971). This is evidential based on the case of Greece’s IFRS adoption (Mantzari and Georgiou, 2019), where practitioners constructed critical opinions on IFRS by referring to their local context and experience. In the case of PLT, the pluralistic character of common sense created conflicts in the transfer pricing. Thus, the wish to prevent conflict can be viewed as a way of resisting involvement in hegemonic struggles. The analysis in section 7.3 showed that the transfer pricing decisions made by managers was sometimes contradictory to their theoretical consciousness fed by their view of common sense. Good sense draws on the Confucian idea of ‘harmony’ to construct views in contradiction to the dominant beliefs and thus allow challenge and resistance to the conflicting negotiation.

So far, the theorisation of good sense has been used to explain the possible resistance of dominated social groups (Mantzari and Georgiou, 2019). While the emancipatory potential of good sense cannot be denied, the analysis of this chapter revealed that there are also two levels of good sense. On the one hand, views of good sense were presented as a way of resistance to transfer pricing negotiations and show the positive effect of good sense in resisting hegemony. Relying on the Confucian idea of ‘concern for others’ and ‘harmony’, the shareholders in the different divisions were able to make sense of the transfer pricing from alternative perspectives and demonstrate a willingness to compromise and agree. From this angle, good sense enabled managers to resist the hegemonic struggles. On the other hand, I argue that the good sense here actually contributed to the maintenance of the fragile alliance of the shareholders' hegemony to some extent. Although good sense provided alternative thinking over the dominant views of common sense that emerged from the hegemonic ideologies of the shareholders, it was derived from the wider common sense existing in society after all. As I discussed in section 5.3.2, Confucianism can be regarded as a hegemonic ideology sustaining the state hegemony in the Chinese context. While it is deeply embedded in education and family socialisation, it influenced all the people at PLT, including shareholders and staff members. Therefore, although it can be seen as good sense in the organisational context, it was part of the broader common sense in society. Thus, the good sense of Confucianism actually provided theoretical rationales for the dominated groups to show a collective will to solve issues on transfer pricing and so unconsciously sustained the hegemony formed by the shareholders.

7.5 Summary and conclusions

This chapter has explored the sense-making of the transfer pricing practice for dominated groups and its relation to the hegemony. The analysis firstly explored the diverse views that existed in the transfer price negotiations. An incident that occurred in a meeting was used to illustrate how staff from different divisions understood transfer pricing differently. While the sales division staff tended to justify their transfer price decisions based on a market-oriented perspective, such as customer requirements and market competition, the factory staff usually utilised cost-based arguments to counter-attack. The pluralistic character of the common sense on transfer pricing was reinforced when looking into the daily practice of transfer pricing in both divisions. In the sales division, a common sense of 'profit maximisation' constituted the understanding of transfer pricing.

Competitive price and profitability were highly prioritised while ‘poor work consistency’ in the factory was utilised to justify their demand for more profit during transfer price negotiations. In contrast, a common sense of ‘fairness’ was closely linked to the rationale of the transfer pricing decisions in the factory. A fair working and information arrangement was highly rated, which created a non-financial sense on transfer pricing. The different views of common sense explored in both divisions were able to explain the conflicts in the transfer pricing practice.

A closer look at the linkage between the shareholder’s ideologies and common sense prevailing in the divisions revealed how different forms of hegemony were sustained in the two divisions. It was found that the shareholders were able to establish their own ideologies as norms through different social spaces, such as meetings and reports. For instance, by connecting his ideological belief of cost priority to the practical life of managers, shareholder B was able to create a sense of ‘fairness’ to managers as their common sense. A similar connection between the ideology of shareholder A and the sales division staff’s common sense was also discovered. While this explained how different forms of hegemony can be sustained in two divisions, it further demonstrated how a fragile alliance formed between two dominant individuals was clearly shaped by their respective interests and the political strategies of the two individuals vis-a-vis each other. Therefore, common sense in this context contributed to the hegemonic struggle between the dominant groups.

On the other hand, good sense, which emerged out of the traditional ideas of Confucianism, was able to provide a philosophical foundation for managers to contradict themselves. The sense of ‘ren’ and ‘harmony’ encouraged managers to show a willingness to make reach an agreement with each other on the transfer price. While good sense represented a way of resisting hegemony, it also helped maintain the fragile hegemony at PLT. Observed good sense was derived from the broader common sense existing in Chinese society after all. As a result, it enabled the generation of consent among managers and prevented the collapse of organisational hegemony, which was going through a crisis. In the end, this presents an ironic case where the dialectical concept of common sense and good sense helped each other to maintain the shareholders' hegemony. The significance of this finding will be discussed in the next chapter.

Chapter 7, together with the analysis outlined in chapters 5 and 6, was able to provide a complete story of transfer pricing as a hegemonic practice at PLT. It explained the development of hegemony formed by the shareholders and their influence over transfer pricing from a structural sense to an individual level. To make sense of the whole analysis, the next chapter discusses the empirical findings analysed by a comparison with the existing accounting literature.

Chapter 8: Discussion

8.1 Introduction

This thesis has set out to understand transfer pricing as a socio-political practice. In line with the hegemonic framework developed in Chapter 3, the study firstly emphasised the structural reasons for business owners to be dominant social groups at an organisational level and the emergence of a paternalistic mode of control (Chapter 5). Based on this macro analysis, the study moved to the micro setting, where I explored the development of dynamic hegemonic relations and their influence on transfer pricing in an organisation (Chapter 6). While this highlighted the relationships and strategies of dominant social groups vis-à-vis each other while they attempted to form their own hegemony, the study continued to explore the hegemonic form of transfer pricing from the perspective of dominated groups by looking at how managers and staff made sense of their mundane practice of transfer pricing (Chapter 7). This analysis uncovered the development of the transfer pricing system in which a series of issues occurred, and it showed an attempt to explain these issues through a hegemonic lens.

Based on the empirical analysis, the purpose of this chapter is to address the research questions outlined in chapter one and discuss the empirical findings in relation to current knowledge on transfer pricing, management control, and hegemony. In doing so, Section 2 firstly discusses the empirical findings to answer the research questions. Following this, section 3 critically discusses the empirical analysis by engaging with the prior literature and theory. The final section summarises and concludes the chapter.

8.2 A glimpse at the story of transfer pricing

The main purpose of this study is to explore transfer pricing as a socio-political practice. In chapter 2, I illustrated that transfer pricing was understood as a profit-making instrument while mixed results were reported on how transfer pricing should be designed (Kaplan & Atkinson, 1998, Göx & Schiller, 2006, Dikolli & Vaysman, 2006, Pfeiffer, Schiller, & Wagner, 2011 and Bouwens & Steens, 2016). Contingency theory offered an explanation for these mixed results by arguing that different transfer pricing practices can be appropriate under different external and internal environmental circumstances such as information technology (Kachelmeier and Towry, 2002), culture (Hussein *et al.*, 2017), and pressure for tax compliance (Cools, Emmanuel, & Jorissen, 2008; Cools & Slagmulder, 2009; Plesner Rossing, 2013). However, this study criticised this conventional understanding of transfer pricing by examining how transfer pricing has become a political phenomenon. To do so, this study identified three research questions concerning the hegemonic form of transfer pricing: 1) How are transfer pricing practices located in the broader cultural-political context? 2) How do dynamic hegemonic relations shape transfer pricing practice? 3) How do people make sense of the daily practice of transfer pricing in the context of such hegemonic relations? This section summarises the empirical findings to see how these have been addressed.

8.2.1 Cultural-political context

This first research question explored the creation of organisational hegemony in its cultural-political context. The answers are derived from Chapter 5 where I considered in detail the broader context of China in which PLT is located. Adopting the concept of 'structural hegemony' developed by Joseph (2002), I was able to focus on the relationship between agents and the social structure they are living in and explore how the emergence of hegemony at a local level relies on the reproduction of broader social and economic structures.

It was clear that the power relations and certain control practices in organisations are conditioned by the reproduction of structural hegemony in the Chinese context. I found that power relations in Chinese organisations are not static. Before 1978, a structural hegemony formed by a socialist ideal prevailed in the state. Because of the domination of the Maoist ideology, class struggle became the national focus, which came with a strong rejection of western ideas. This social condition resulted in the emergence of proletarian leadership in organisations. Due to their 'correct' political profile, skilled workers or CPC members were promoted to a managerial position in organisations. In contrast, capitalists had no power at all and were granted a poor social profile for being 'evil'. However, the power relation between workers and capitalists was reversed due to the change of political ideologies in China after 1978. After the death of Mao, China experienced a drastic political 'earthquake', which led to the rise of market-based leadership focusing on economic growth, the open market, and technical enhancement. The reform of the state hegemony from a socialist hegemony to a market-based hegemony meant that private entrepreneurs became an important player in the 'power bloc' for economic development. Thus, this explained the structural reason for the emergence of business owners as a dominant social group at the state and case organisation level.

In addition, the analysis illustrated how a structural hegemonic ideology formed the management control in Chinese organisations. This was explored in more detail by looking at the influence of Confucianism in maintaining state hegemony and shaping organisational control. It was found that Confucianism was a form of hegemonic ideology in maintaining state leadership in ancient and modern China. Widely taught in education and family socialisation, Confucianism disseminated a doctrine which solidified social relations and maintained social orders. Until now, the Chinese government still uses Confucian ideas when justifying their public policies and decisions. The prevalence of this structural ideology had serious implications for organisational practice at PLT. Firstly, I found that it enabled a paternalistic mode of control. A big power distance between business owners and others in the organisation was discovered. Such a power hierarchy was also naturalised and taken for granted (Laaksonen, 1988). While the two business owners had the ultimate authority in decision-making, they appointed trusted persons (such as relatives and loyal employees) as managers. Furthermore, the performance measurement was rather subjective, as the performance was usually determined by the owner's personal judgement instead of calculative indicators. For employees, their relations were governed by their work of 'guanxi' in organisation. Work relations were important for them, which led to the avoidance of conflict.

These findings on the Chinese cultural-political context made it possible to answer the first research question. The understanding of power relations in the society helped me to understand the existing power relations in the organisation, which is essential when exploring transfer pricing as a management control practice. On the other hand, the structural ideology of Confucianism also provided an explanation of the prevalence of a paternalistic mode of control in the organisation. This also influenced transfer pricing, as some of its management control functions were replaced by paternalistic control.

8.2.2 Transfer pricing and hegemonic relations

Following a macro level analysis on structural hegemony in the Chinese context, the story continued as I turned to explore the development of local transfer pricing via the reproduction of hegemonic relations in the organisation in chapter 6. It demonstrated how the transfer pricing practice was characterised by dynamic hegemonic relations involving all actors.

The empirical findings reveal that transfer pricing was developed as a result of the different hegemonic relations in the organisation. The original design of transfer pricing as a tax avoidance system was not only motivated by the tax benefit but was also determined by the hegemonic relations existing in the organisation. Transfer pricing practice was detached from management control practice. Here, the macro level analysis was linked to the micro level. It was found that dominant groups represented by the business owners and the CEO adopted a paternalistic mode of control in managing the vertical hegemony. Thus, dominant groups generated consent over dominated groups by offering a stable working environment and taking care of all the decision-making responsibilities. Under this hegemonic relation, the management control function of transfer pricing has been replaced. Alternatively, it served a political agenda in balancing relations among the dominant groups. Through the indirect strategy of the transfer pricing system, dominant groups were able to allocate their wealth without influencing the management control practice in the organisation.

However, the hegemonic relations between the dominant groups eventually broke down due to the conflict of interests. As a result, new forms of hegemonic relations between the two business owners (shareholders) emerged with serious implications for the transfer pricing practice. A decentralised transfer pricing system was initially established as a compromise to dominated groups in order to regain their consent. However, it was found that the two business owners had conflicting interests and ideologies toward transfer pricing. They also made contradictory compromises in practice. The hegemonic struggles between them resulted in a transfer pricing system with inconsistent principles and the co-existence of calculation methods. Furthermore, the hegemonic relations between shareholders and managers were also important when making sense of the fragile arrangement of transfer pricing at PLT. Due to different interests and ideologies, the two shareholders used different hegemonic strategies to diffuse their ideologies in different divisions in order to form new sets of ideology in favour of themselves. For instance, the profit cut offered to sales divisional staff was able to motivate the staff to seek more profit from the transfer pricing system while similar compromises were made to factory staff as well. Thus, the hegemonic struggles between shareholders was transferred to the daily practice of transfer pricing performed by managers. The analysis of hegemonic relations then addressed the second research question.

8.2.3 Mundane practice of transfer pricing

Empirical findings up to this point have shown the significance of hegemonic relations between dominant groups to the development of transfer pricing. In order to demonstrate the full picture of the hegemonic form of transfer pricing, the dominated perspective needed to be addressed. Thus, the study lastly emphasised the mundane practice of transfer pricing in order to understand the sense-making process of the dominated groups. This was analysed through the dialectical concepts of common sense and good sense.

This study found that managers in different divisions relied on different views of common-sense when understanding their mundane practice of transfer pricing. This was apparent when looking at the transfer price negotiation instances at PLT. On the one hand, managers in the sales division embraced profit maximisation as their core principle. Thus, profitability became the central criterion when judging the transfer price while other factors such as cost and quality were less considered. On the other hand, their counterparts in the factory relied on costs and non-financial criteria, such as work load, as common sense when judging the transfer price. The appearance of different views of common-sense became clear when looking at the clash between them and a series of 'fairness' issues that were thus created. For instance, factory staff commonly believed that they were treated unfairly because the work load did not relate to a favourable profit arrangement. While interviewees highlighted how 'unfair' the transfer pricing was in terms of the unfair arrangement of the work load, responsibility, and information, it actually reflected a mismatch of views of common sense in different divisions. More importantly, it was found that observed views of common sense represented the hegemonic ideologies of dominant groups. Business owners diffused their ideologies through different social spaces, such as meetings and daily communications as well as the design of bonus systems. As a result, different forms of hegemony emerged in the two divisions.

However, this study also showed how managers were able to contradict themselves by showing their desire for an agreement on the transfer price. Here, the macro analysis discussed in section 8.2.1 is reflected. It was found that the different views of good sense that emerged out from broader ideology of Confucianism could provide the theoretical foundations for managers to resist the conflicts that resulted from the clash of different views of common sense. While still holding their common sense on transfer pricing, managers were able to show their concern for others and their willingness to be harmonic due to the influence of being 'ren'. In practice, managers usually saw the transfer price compromise as a favour to others which would be paid back later. As a result, conflicts around transfer pricing did not happen on every occasion, and the two divisions were able to agree with each other most of the time. Thus, these findings addressed the third research question of this study.

8.2.4 Transfer pricing as social-political practice

Overall, the recap of the empirical findings of the previous chapters has demonstrated the socio-political nature of transfer pricing. It has provided a whole story on how transfer pricing was a structural condition, influenced by complex social relations and practised through different ideologies. Based on

Gramsci’s perspective, this study is able to present and explain the findings that highlight the problematic nature of the neo-classical economic standing of transfer pricing. The core assumption for conventional transfer pricing practice is that transfer pricing is a profit-making device for profit maximisation (Section 2.2.2). However, this study problematised this assumption by presenting a case where transfer pricing is developed based on hegemonic instead of economic motives.

As demonstrated in the previous sub-sections, the development of transfer pricing was always related to the hegemonic relations. The findings in section 8.2.1 demonstrated that the broader social structure was able to influence the fundamental power relations in the organisation and therefore has an influence on the construction of transfer pricing. This showed that transfer pricing was influenced by the broader hegemonic conditions instead of economic needs. Locally, the initial tax-driven transfer pricing served a political agenda in distributing wealth between the dominant groups. The change of transfer pricing was also triggered by the collapse of hegemonic relations. The development of decentralised transfer pricing was not motivated by information specialisation (Kaplan & Atkinson, 1998) but by the need to generate consent. However, the hegemonic relations characterised by conflicting hegemonic interests, ideologies, and compromises between the business owners resulted in an inefficient economic transfer pricing practice (Section 8.2.2). While this will be problematised by conventional research due to their function desire of achieving an effective system (Chang, Cheng, & Trotman, 2008), it seems that this was never the real issue at PLT. Instead of trying to solve the issue of economic inefficiency, the business owners actually utilised different hegemonic strategies to diffuse their ideologies to their trusted managers, who later relied on these ideologies when practising transfer pricing. During the mundane practice of transfer pricing, there was an enormous issue around ‘fairness’. However, it was not caused by an unfair market price (Luft & Libby's 1997) but by the ‘clash’ of different views of common sense existing in different divisions (Section 8.2.3). As a result, transfer pricing was used as a field to solve hegemonic struggles instead of as a tool for economic enhancement. Thus, by addressing the three research questions, this study has demonstrated a case of transfer pricing used as a socio-political practice and has provided a richer and deeper explanation of the development of transfer pricing than the neo-classical economic stance.

8.3 Discussion of empirical analysis

The previous section provided an overview of the main findings of this study and explained how the research questions were addressed. This section critically engages my empirical analysis with the literature on transfer pricing and management control in order to relate my findings to the existing research and theory.

8.3.1 Cultural-political conditions

The empirical findings demonstrated in chapter 5 showed how a particular transfer pricing practice in a Chinese organisation emerged from the development of a broader social context. Adopting the concept of ‘structural hegemony’ developed by Joseph (2002), I was able to focus on the relationship between agents and the social structure they are living in and to explore how the emergence of hegemony at a local level relies on the reproduction of broader social and economic structures.

As discussed in section 8.2.1, the transfer pricing system at PLT was located in unique political-cultural circumstances. The political development of China set a foundation for the hegemonic relationship between business owners and staff in the organisation. As the business owners were part of the ‘power bloc’ for state hegemony and played an important role for state economic goals, they had already won consent over others at the national level and naturally became powerful players in the organisation. Thus, the hegemonic ideology of Confucianism influenced the function of the transfer pricing practice. The management control function of transfer pricing became invisible and was replaced by Confucian-informed control practices. The influence of Confucianism promoted a paternalistic mode of control in the organisation. The business owners were surrounded by managers whom they trusted or who were family relations while they held power themselves. The absolute power of the entrepreneurs was naturalised because it was amply justified by the Confucian ideology. In addition, the entrepreneurs tended to exercise direct supervision and informal monitoring over the organisation.

By looking at the transfer pricing practice as a management control practice, the findings of this research can be linked to prior management control research. The cultural-political implications of management control practices have been discussed in a different context (see section 2.4.3). Mostly located in LDC contexts, researchers have highlighted the significance of political intervention for management control practices and how conventional management accounting techniques are replaced or influenced by traditional political control practices. Therefore, these researchers have analysed the relations between political control and 'new' accounting technologies with a focus on the influential power of the state. Similar to this study, Alawattage and Wickramasinghe, (2008) used structural hegemony as part of their theoretical framework when understanding management control practice. They have analysed in detail the development of state politics and how labour control practices are conditioned by the reproduction of a structural hegemony.

Although LDC researchers have demonstrated the significance of state politics to management control practices in organisations, there is an over-emphasis on the transformative role of state politics. State politics usually have a direct influence on the power balance in an organisational context, and the hegemonic struggle in organisations also reflects the similar struggle at a national level (Ashraf and Uddin, 2015). This may be caused by the empirical focus on privatisation programmes in prior research. By examining the transfer pricing practice in a private organisation which is not historically related to the government, I found that the role of state politics can be conditional instead of transformative. In the case of PLT, state politics provided a foundation for the establishment of hegemonic relations in the organisation. However, it did not necessarily influence the internal dynamic of its local hegemony. Thus, the concept of ‘structural hegemony’ here helped us to understand the existing power relations in the organisation. Instead of being decisive elements influencing the hegemonic scene in the organisation, structural hegemony actually sets the scene for me to further analyse the evolvement of different forms of hegemonic relations in the PLT.

On the other hand, the cultural-ideological dimension of structural hegemony seems have a more significant influence on the transfer pricing practice in the organisation. To some extent, the finding reveals that cultural ideology is able to provides an ideological justification for political control (Williams, 1983). Some Western scholars argue that accounting is actively participated in hegemonic purposes by generating surplus value. It provides objective measurements for control (Bryer, 2006) and support other forms of labour control such as physical control (Hopper, et al, 1986). Therefore, in the western word, hegemony is driven by the numerical control under capitalism. In contrast, my analysis in Chinese context found that Confucianism, as a structural hegemonic ideology, not only conditioned the basic hegemonic relations in Chinese organisation, but also determined the control practice exercised by dominant social groups.

The empirical findings suggest that the principle of '*wu lun*' established solidified social relations in organisation and provided the necessary ideological foundation for the establishment of unique paternalistic mode of control within which accounting is less used for hegemonic purposes. At PLT, the main strategy of hegemonic control was exercised through informal relations and naturalised power. This echoes political studies in LDC context such as Alawattage and Wickramasinghe (2008), and Efferin and Hopper (2007), who show how cultural-political hegemonic control dominated the overall control mechanism while accounting has minimal role in such development. However, different from these studies, it seems that transfer pricing has an active role in the development of these hegemonic relationships during hegemonic crisis when competing hegemonies co-exist. This will be elaborated in the next section.

In addition, this study extends the previous understanding of culture by theorising it as a form of hegemonic ideology. By recognising Confucianism as a form of structural hegemony existing in the broader ideological structure, this research offers a broader perspective when understanding the cultural form of management control. While structural hegemony helps secure the social cement (Joseph, 2002), its ideological influence affects all actors in the society including the dominant groups. As a result, the hegemonic strategies exercised by dominant groups are conditioned by the particular structural hegemonic ideologies in their context. Thus, instead of using 'culture' as the explanation for different ways of control, cultural practices can be theorised as the structural hegemonic ideologies influencing the field.

8.3.2 Hegemonic dimensions

The previous section discussed the structural context in which Chinese organisations operate. These macro-level contextual observations provided explanations on the hegemonic relations between dominant and dominated groups in Chinese organisations. From here, I explained the transfer pricing practices at PLT in relation to the hegemonic dimensions in the organisation. As discussed in section 8.1, transfer pricing at PLT was surrounded by enormous ambiguities, divisional conflicts, and lengthy discussions. While a conventional perspective would see this as a negative issue, the lens of hegemony allowed me to embrace this complexity and understand why such a practice continues to exist in the organisation. This section demonstrates how the transfer pricing practice at PLT was developed in response to different forms of hegemony and how this transfer pricing practice played a central role in the hegemonic struggle where competing hegemonies co-exist.

Firstly, transfer pricing at PLT was developed in response to different forms of hegemony. The original design of the transfer pricing system was formed based on the hegemonic arrangements led by the business owners and the CEO. When this relationship collapsed, a new form of transfer pricing was also developed based on the newly constructed hegemony led by the business owners. This observation on the transfer pricing practice echoes other hegemonic studies on accounting development (Goddard, 2002; Yee, 2009; Xu, Cortese and Zhang, 2014). Historical analysis on accounting development has identified that accounting development always reflects and constitutes the ideological framework of the prevailing state hegemony. Putting this into an organisational context, my finding identified that transfer pricing, as a form of accounting, was also mobilised by different forms of organisational hegemonies in different periods. However, previous studies have argued that the transformation of accounting practice becomes possible because of the new hegemonic need for ideological diffusion. This indicates that these studies investigated only the period when a certain hegemony was prevailing and was clearly identifiable. However, this study showed the role of transfer pricing in a situation when competing hegemonies co-exist. I argue that accounting is used not only to reflect or construct a prevailing hegemonic ideology but also it is actively involved in hegemonic struggles when competing hegemonies co-exist.

The reproduction of hegemony should not exclude the existence of competing hegemonies. Thus, the organisation is regarded as the site of hegemonic struggles where competing hegemonies attempt to secure greater control within the power bloc. Ashraf and Uddin (2015) presented an example on how organisations provided a field where the hegemonic struggle between dominant groups including the military and the corporate manager occurred, which had significant implications for management control practices. Similar to their study, the investigation on the horizontal hegemonic relations among the dominant groups at PLT revealed the existence of a hegemonic struggle. The competing hegemonies exercised by two different business owners shaped the transfer pricing practice. However, while management control practice was passively changed and did not contribute directly to the hegemonic struggle in the case of Ashraf and Uddin (2015), my case demonstrated the central role of transfer pricing in a similar situation. It was found that competing hegemonies contained conflicting interests, ideologies, and compromises. As both business owners sought control over funds, transfer pricing became a battlefield for the dominant groups. Vertical hegemonic strategies became important as the operators of the transfer pricing system were managers. As a result, the business owners exercised different hegemonic strategies to generate consent over their respective managers, which created inconsistent principles in the transfer pricing at PLT. Thus, the development of transfer pricing at PLT was not simply a reflection of the prevailing hegemonic ideologies; instead, it reflected the conflicting interests, ideologies, and hegemonic strategies of the dominant social groups within the organisation.

This study also looked at the different hegemonic dimensions in terms of the categorisation of hegemonic social groups in the organisation. When looking at hegemonic issues in organisations, prior studies have tended to regard managers as the dominant groups and to treat workers, such as daily wagers (Ashraf & Uddin, 2015) and tea plantation workers, (Alawattage & Wickramasinghe, 2008) as dominated groups. Although this classical categorisation of hegemonic relations is efficient and reasonable when exploring hegemony within their specific contexts, alternative classifications of hegemonic relations in organisations can be neglected.

This empirical finding of this study demonstrates how the classic hegemonic relationship between manager and worker in factories and fields can also appear in offices. The use of Joseph's (2002) concepts of structural hegemony and surface hegemony helped understand the origin of such relation from a structural level. The investigation on structural hegemony in the Chinese context found evidence of business owners acting as powerful players. This provided a theoretical foundation for understanding power relations in Chinese organisations. Through the investigation of the transfer pricing system at PLT by looking at the hegemonic relations embedded in the practice, I further confirmed that managers at PLT should be categorised as a dominated group while the business owners (shareholders) are the actual dominant group. I also found that managers were experiencing hegemonic domination, which stems from the cultural-political context of China. Managers at PLT were generally powerless against the business owners; they did not have real decision-making authority and were being controlled by the hegemonic ideologies formed by the dominant groups. While the transfer pricing system was largely characterised by the conflicting interests and ideologies, the fragile transfer pricing practice became essentially the field where organisational politics between the dominant groups were played out. Managers were then motivated to perform for the benefit of the dominant groups. They were left in an awkward position where they could not escape from the ambiguous negotiation of transfer pricing because of the interventions from the shareholders. Thus, I argue that it would be essential to not only examine the hegemonic dominations exercised by managers but also to include the hegemonic strategies implemented by more powerful social groups and their domination of managers in an organisational context.

8.3.4 Relational dimensions

The discussion so far has illustrated that a hegemonic interpretation of transfer pricing can offer a deeper and richer explanation of how transfer pricing is developed and practised. It was found that transfer pricing played a role in different hegemonic dimensions. While transfer pricing reflected the development of hegemony in the organisation, it also played a central role in the hegemonic struggle.

This is possible because of my focus on the relational dimensions of hegemony. As shown in previous sub-sections, I utilised different Gramscian concepts to make sense of the findings. However, the interrelations between concepts highlights the relational dimensions. Firstly, I discussed the relation between structure and the local area through the dialectical concepts of 'structural hegemony' and 'surface hegemony'. In line with other hegemonic literature (Ashraf & Uddin, 2015; Alawattage & Wickramasinghe, 2008), this study found that an emphasis on the relationship between state hegemony and local context offered theoretical explanations for certain hegemonic practices in the organisation. In my case, the paternalistic mode of control and naturalised power of shareholders are explained through this relation.

Concerning the influence of structural ideology in forming hegemony, this study also presented a case on the relation between religion and hegemony. Discussion of hegemony and the role of religion is still sparse. In the accounting field, hegemonic studies focus more on how different forms of accounting practice are developed in relation to state ideologies. However, as Gramsci (1971) noted, the church, as a form of religion, plays an important role in diffusing hegemonic ideologies in the form of civil society. While this influences the society as a whole, this study presented a case where religious principles and ideas influence the development of hegemonic strategies such as accounting. For this research, Confucianism has been regarded as a form of religion influencing all social actors. For state hegemony, it has provided important hegemonic ideologies when rationalising state policies on marketisation and privatisation. Concepts that have emerged from Confucian principles can be seen in lyrics, reports, and the media, highlighting the importance of harmony and 'big-family'. This allowed the generation of consent over political ideologies although they were sometimes contradictory. Based on that, this study explored how Confucianism formed hegemony in an organisational context. Hegemonic practices based on Confucianism, such as paternalistic control, were observed although the organisation experienced little state intervention. The hegemonic control was not exercised through calculative practice; instead, the naturalised power distance and religious relational principles were crucial there. Thus, religious principles actually drove the management control practices while accounting did not have a constructive role. To some extent, this observation is similar to Alawattage and Wickramasinghe's (2008) argument on the detachment of accounting from labour control.

While this study is concerned with the structure-local relation, it also emphasises the internal dynamics in the organisation. This study highlights the dynamic hegemonic relations in the organisation, including the horizontal and vertical dimensions and the interplay between them. The relational aspect of hegemony is usually implicitly discussed in accounting research. While studies tend to focus on the ideological perspective of hegemony in terms of the ideologies accounting reproduces and the political hegemony accounting represents (e.g., Richardson, 1989; Cooper, 1995; Goddard, 2002; Yee, 2009; Xu, et al, 2014), they essentially discuss the vertical relationship between the dominant and dominated groups and the role of accounting in securing moral leadership and consent among the masses. This is also observed in this study when looking at how the business owners manipulated the organisational structure and systems to secure consent among the managers. However, this study emphasises that hegemony is not only describing a top-down relation but also involves interplay between hegemonic relations in different dimensions. Although these hegemonic relationships can be discussed separately as different levels of hegemonic strategies, they are closely interrelated elements that should not be considered in isolation in reality.

Ashraf and Uddin (2015) illuminated the horizontal dimension of hegemonic relations by discussing the hegemonic relationships between the powerful players in an organisation and how their conflicting interests and ideologies resulted in a weak vertical hegemonic strategy. Following Ashraf and Uddin's (2015) emphasis on the horizontal hegemony, this study has also illustrated how the development of horizontal hegemonic relations drove transfer pricing into being a fragile practice. However, different from Ashraf and Uddin (2015), the development of a fragile transfer pricing practice seems to be intentional and has contributed to the hegemonic struggle between dominant groups. In the case of Ashraf and Uddin (2015), two dominant groups (military officials and commercial managers) resolved their struggles by making several compromises with each other, which resulted in a weak management control practice. However, this study has demonstrated a case where the hegemonic struggle between dominant groups was able to pass down to the dominated group through vertical hegemonic strategies. Both business owners successfully secured consent among their respective managers in order to promote their ideology as the prevailing one. This is evidential based on the linkage between the business owners' ideologies and the managers' common sense. This enabled the co-existence of competing hegemonies. Here, the paralleled vertical hegemonic relations also triggered horizontal hegemonic relations among the managers. While the managers' common sense represented the hegemonic ideologies promoted by different shareholders, the 'clash' between different views of common sense, manifested in the transfer price negotiations, was actually the 'clash' of different hegemonic ideologies. Thus, common sense served a dual purpose in the hegemonic struggle. On the one hand, common sense created consent between shareholders and their trusted managers. On the other hand, it enabled managers to engage with the hegemonic struggles by practising transfer pricing based on their common sense. Thus, this study has shown how different hegemonic relations played different roles in constructing transfer pricing as a hegemonic practice at PLT. In particular, the interplay between different hegemonic relations was important. It is only through these relations that I was able to fully understand the unique transfer pricing practice existing at PLT.

8.3.4 Imperatives of sense making

The last part of the discussion in previous sections has illustrated how paralleled vertical hegemonic relations eventually led to the 'clash' of different views of common sense between managers, which played an important role in the hegemonic struggle. This illustrates the imperatives of sense making when discussing the issue of hegemony in organisations. In the language of Gramsci, this sense-making process involves the generation of common sense and good sense during daily transfer pricing practices.

The literature has already discussed how hegemonic control can be exercised through different forms. Accounting has been used an as important ideological tool in maintaining the prevailing hegemony (Goddard, 2002; Cooper 1995; Yee, 2009; Xu et al, 2014). For different forms of hegemony, accounting has been framed differently to reflect its core ideologies. While accounting was able to provide a discourse of 'financial consciousness' derived from capitalist ideology (Cooper, 1995), it was also able to represent other political ideologies, such as the socialist ideology promoted by Mao (Xu et al., 2014). Thus, different forms of hegemonic control definitely influence the life of dominated groups. As part of the hegemonic relations, it is important to understand how dominated groups react to it. However, there is little research emphasising how dominated social groups either make sense and accept the ideological control, or resist it. Ashraf and Uddin (2015) noted that an inconsistent and coercion-based management control system resulting from a weak hegemonic arrangement can lead to resistance from dominated groups. Unfortunately, they did not have the space to elaborate further upon this important aspect. The finding in chapter 7 builds on their work and elaborates how dominated groups react to a hegemonic transfer pricing system through common sense and good sense.

As discussed in section 8.2.2, the transfer pricing system at PLT was characterised by the horizontal hegemonic relation between two dominant individuals with conflicting interests, ideologies, and compromises. As a result, different hegemonic strategies were also used by them to form different hegemonies in organisation. In such a context, it was not easy for managers to make sense of the system and operate it on a daily basis. Gramscian common sense allows a deeper understanding of the transfer pricing practice by linking it with dominant beliefs in the local context. As mentioned in section 8.2.3, I found that managers relied on different views of common-sense when understanding their daily practice of transfer pricing, for example, profit maximisation, cost priority, and work load. These views of common-sense were rather inconsistent, local, and did not necessarily reflect the dominant ideologies on a structural level. As an individual's philosophical consciousness can elaborate as common sense in a small environment as long as it has the approach to diffuse (Gramsci, 1971), there was a direct linkage between the business owners' ideologies and the common sense adopted by their respective managers. For instance, shareholder A's ideology on marketisation was linked to the common sense of price priority in the sales division. In order to connect their ideologies to the practical life of the dominated groups (Gramsci, 1971), the business owners utilised different social spaces (such as meetings and daily communications) to support their respective managers using their ideologies. Thus, while common sense is an important way for dominated groups to 'live their lives' under hegemony, it is also important for dominant groups when manufacturing consent among dominated groups.

The findings echo Mantzari and Georgiou (2019), who revealed that dominant neoliberal common sense drives the practitioner's decision to accept IFRS in the context of Greece. For them, common sense acts as the basis of consent at an ideological level, which was also observed in my case. However, the hegemonic struggles at PLT created other dimensions which previous studies were unable to observe. The existence of an ongoing hegemonic struggle between the shareholders meant that the prevailing hegemonic ideology had not yet been established. While multiple hegemonic ideologies were competing with each other for domination, common sense contributed to this process. The findings exposed the diversity of rationales used by the managers when making sense of transfer pricing. While managers in the sales division mainly relied on concepts of 'profit maximisation' when negotiating the transfer price, their counterparts in the factory saw equality of work load as their priority. The attachment to certain ideologies means that the alternative views were neglected and difficult to communicate. As a result, the 'clash' of different types of common sense created a contradictory practice of transfer pricing in different divisions. Managers rejected alternative arguments and judged the transfer price based solely on their own views. While common sense did play a role in maintaining the vertical hegemony by constructing taken-for-granted common values (Gramsci, 1971), it was also important in the reproduction of horizontal hegemonic relations when competing hegemonies co-exist.

A contradictory consciousness of the individual also enabled resistance (Gramsci, 1971). Mantzari and Georgiou, (2019) observed that alternative views of IFRS based on the empirical experience of practitioners enabled some level of resistance although it was not strong enough to be transformed into a comprehensive counter-philosophy over neoliberal common sense. Similarly, I also found that the managers at PLT were able to contradict themselves and critically reflect on the situation. Good-sense ideas that emerged outside the local prevailing common sense provided the ideological foundation to challenge the activities which were taken-for-granted (Gramsci, 1971). In my case, the philosophy of Confucianism was able to provide such a source. The analysis in section 8.3.1 helped me to identify Confucianism as a structural hegemonic ideology which conditions the hegemonic relation and control practice at PLT. Here, the application of Confucianism demonstrates that the ideological foundation of local good sense can also emerge from broader structural context. The concepts of harmony and concern for others enabled resistance to the transfer pricing practice fed by common sense. While still recognising their type of common sense, the managers were able to show willingness to compromise and reach an agreement due to their concern for others and their desire to be harmonious. This further highlight how Confucianism not only determines the ideology of dominant social group, but also provides ideological foundation for dominated social groups to resist local prevailing ideologies.

As noted, the theorisation of good sense has been used to explain the voice of resistance to hegemonic ideologies (Mantzari & Georgiou, 2019). While the emancipatory potential of good sense cannot be denied, I argue that the dialectical relations between two different types of sense may contribute to the reproduction of hegemony after all. This study has presented a case where good sense actually secured a weak hegemonic structure. As noted, the ‘clash’ of the different types of common sense created conflicts simultaneously due to the role of common sense in the hegemonic struggle. In this context, good sense actually contributed to the maintenance of the shareholders’ unstable hegemony to some extent. Although the managers were able to resist any conflict on transfer pricing by reminding themselves of the Confucian doctrines such as the importance of harmony and concern for others, they actually stabilised the overall hegemony in the organisation. While Confucianism can be regarded as the philosophical base for good sense in the local context, it also represents the broader common sense that exists in the Chinese context. This is because the concepts of common sense and good sense are interrelated and hard to separate (Gramsci, 1971). This observation highlights the dialectical nature of two conceptual ideas. Thus, one should not simply regard common sense as a hegemonic ideology and view good sense as its critical counterpart. Instead, their dialectical nature should be examined in order to deeply understand their role in reproducing hegemony.

8.4 Summary and conclusions

This chapter has presented a series of interpretations regarding the practice of transfer pricing at PLT. Section 2 summarised and reflected on the empirical findings, during which the research questions were addressed. It showed the complexity of the transfer pricing practice as it is conditioned by the cultural-political context, involved in hegemonic relations, and practised through different types of common or good sense. This showed that Gramsci’s interpretations were able to provide a deeper and richer understanding of the practice of transfer pricing at PLT compared to neo-classical economics standings. This addressed the overall research purpose of the cultural-political nature of transfer pricing.

Section 3 discussed the empirical analysis in relation to current cultural, political, and hegemonic accounting research in order to highlight the contributions of this study. Firstly, I discussed the conditional role of structural hegemony to local practice and the significance of its cultural-ideological dimension. In addition, I highlighted the different hegemonic dimensions in relation to transfer pricing and addressed managers' dominated position under hegemony. Furthermore, I emphasised the relational dimension of hegemony by highlighting the appearance of dynamic hegemonic relations including structure-local relations and the interplay between horizontal and vertical hegemonic relations in the organisation. Last but not least, I highlighted the Imperatives of sense by arguing how dialectical relations between common sense and good sense may reproduce hegemony during a hegemonic struggle.

The next chapter, which is the final chapter, concludes the thesis by summarising the arguments, demonstrating the contributions of the research, and indicating possible directions for further research.

Chapter 9: Conclusion

9.1 A summing up

The recent past has witnessed a trend in accounting research that has emphasised its cultural-political context. The trend, however, has neglected transfer pricing studies, as they have still been dominated by neo-classical economic traditions which focus on efficiency dimensions and technical aspects. Such researchers have regarded transfer pricing as a neutral and objective practice, thus neglecting how it operates in actual contexts. To fill this gap, my study took a critical approach and reported on a case study of political trajectory of transfer pricing.

Consulting the literature on transfer pricing, management control, and hegemony, I identified a gap and developed three research questions. As was presented in chapter 2, I offered a critique of the domination of neo-classical economics in transfer pricing research to make the case for studying transfer pricing as a social practice (Mcaulay, Scrace, & Tomkins, 2001). Moreover, I identified the excessive focus on a top-down relationship between the dominant and dominated classes in management control studies with a little emphasis on its cultural-political influences. My data allowed me to investigate how transfer pricing would be implicated in the dynamic political relations in an organisation. The review of accounting research inspired by Gramscian ideas led me to identify a gap in the knowledge and to look at such political influences. I realised that the hegemonic relations implicated in accounting practices were incomplete, as the interplay between different social classes was neglected. Hence, I went on to address three research questions: 1) How are transfer pricing practices located in a broader cultural-political context? 2) Do hegemonic relations shape transfer pricing practice? If so, how? and 3) How do people make sense of mundane practices of transfer pricing in conjunction with such hegemonic relations?

Drawing on the theoretical framework based on the Gramscian hegemony, transfer pricing was conceptualised to be shaped by different dimensions of hegemony. First, the relation between structural and surface hegemony (Joseph, 2002) conceptualised how transfer pricing is located in its structural hegemonic context. Second, instead of seeing hegemony as a top-down relation, I emphasised horizontal hegemonic relations (Ashraf & Uddin, 2015) along with the classical vertical hegemonic relations to prioritise the interplay between these relations in shaping a transfer pricing system. Third, I used dialectical concepts of common sense and good sense to theorise the sense-making process of dominated groups when understanding the mundane practice of transfer pricing. This theoretical framework then emphasised the dynamic hegemonic relations and their interrelations in shaping the hegemonic form of transfer pricing.

The research questions were addressed through a 7-month ethnographical case study at PLT, where I conducted interviews, observations, and informal conversations with actors associated with the transfer pricing in the organisation. The empirical findings were organised into three chapters to answer the three research questions. The study firstly emphasised the implication of Chinese cultural-political conditions for the emergence of power relations and management control practices in the organisation (Chapter 5). We saw how the dominant position of the business owners in the organisation emerged out of the reproduction of an economics-focused state hegemony. We also saw how the philosophy of Confucianism provided a theoretical foundation for the use of a paternalistic mode of control in Chinese organisations, which silenced the management control function of transfer pricing. This showed how transfer pricing was conditioned from a cultural-political perspective, which answered the first research question. Secondly, this study analysed the micro-organisational dynamics and their influence on transfer pricing (Chapter 6). We saw how transfer pricing always resulted from the hegemonic relations between dominant groups. In particular, the development of horizontal hegemonic relations, characterised by conflicting interests, ideologies, and vertical hegemonic strategies, shaped a fragile transfer pricing system. This answered the second research question. Finally, this study analysed the mundane practice of transfer pricing to examine its sense-making process (Chapter 7). We saw how managers from different divisions approached transfer pricing negotiations differently because of their different views of common-sense. While the clash of different views of common-sense created conflicts, we also saw how managers contradicted themselves by referring to Confucian good sense, and this eventually led to compromise and agreement in the transfer pricing negotiations. We also encountered evidence that the views of common-sense were derived from dominant ideologies favoured by business owners, and views of good sense actually contributed to sustaining the hegemony after all.

9.2 Contributions

This study has provided an account of how a transfer pricing system was practised as a socio-political phenomenon in the context of changing hegemonic dynamics in a Chinese private sector organisation. Adopting the Gramscian hegemonic perspective, this study has deepened our understanding of the different dimensions of hegemony and their interrelationships in shaping transfer pricing practice. This section discusses several contributions made by this study.

This study calls for a critical approach to transfer pricing research. It questions the current neo-classical economic trend in the transfer pricing literature. As discussed in Chapter 2, the transfer pricing literature has focused on the issue of financial performance (Luft & Libby 1997; Pfeiffer et al. 2011; Oyelere & Emmanuel 1998). Transfer pricing has ultimately been regarded as a contingent practice in the sense that its financial performance depends on internal and external contingent factors. The philosophical and methodological assumptions of the neo-classical economic perspective have been problematised. It was argued that such a perspective failed to consider the broader and social issues implemented in accounting (Scapens, 1994). Given that neo-classical economic theory cannot provide a better understanding of transfer pricing, Mcaulay, Scrace, and Tomkins's (2001) initial attempt at a critical approach to transfer pricing provided initial evidence of the social complexity of transfer pricing. While they offered a considerable contribution to understanding transfer pricing as a social practice, I highlighted that they fall short of a coherent theoretical framework in explaining their story. Thus, this study contributes to the transfer pricing literature by further emphasising the social-political complexity of transfer pricing through a case study of the non-technical development of transfer pricing in an organisation. A hegemonic analysis of transfer pricing is able to provide a deeper understanding of how and why different forms of transfer pricing have been developed and have been prevalent at different periods.

Firstly, this study offers insights into how transfer pricing, on the one hand, is constrained by structural hegemonic context, and on the other hand, is reproduced by the agential hegemonic dimensions. This study has demonstrated the way in which transfer pricing practice is determined by its broader cultural-political conditions. The case in Chinese context has shown how Chinese political hegemonic development conditioned the power relations in the organisation and how Confucianism solidified social relations in organisation and determined control practice influencing transfer pricing practice. This study then highlights the need to examine the cultural-political conditions when studying transfer pricing as a social practice. Secondly, this study demonstrates an example of how transfer pricing can be influenced by organisational politics. It was clear that the nature of transfer pricing was not financial driven but was influenced by the hegemonic arrangement and political strategies of dominant groups in the organisation. In relation to this, this study also has shown how the mundane practice of transfer pricing is governed by the common sense derived from the local hegemonic ideologies instead of rational financial sense suggested by conventional transfer pricing literature. Through the illustration of social complexity of transfer pricing, this study argues that it would be useful not only to trace the cultural-political context but also to deeply examine the social relations that emerged in the organisation for better understanding of transfer pricing.

In addition, this study contributes to the theory of hegemony by highlighting hegemony's dynamic nature. Accounting research employing the theory of hegemony has generally focused on a single dimension of hegemony. Studies have explored either vertical hegemonic relations through the examination of political strategies exercised by dominant groups(Richardson, 1989; Cooper, 1995; Goddard, 2002; Alawattage & Wickramasinghe's 2008) or have focused on horizontal hegemonic relations and explored how the relationship between dominant social groups has been significant for management control practices (Ashraf & Uddin, 2015). Recognising the importance of both dimensions, this study offers an initial insight into the dynamic hegemonic relations concerning the interplay between vertical and horizontal hegemonies. This study has provided strong evidence that the nature of transfer pricing was influenced by not only the horizontal political struggles between two dominant individuals but also by the paralleled political strategies exercised by the dominant groups and their influence on the relations between the dominated groups. Thus, the study highlights the necessity of examining the interplay between different hegemonic dimensions when studying hegemony in an organisational context.

Considering dynamic hegemonic relations, this study also contributes to the literature on hegemony by exploring the imperative of the sense-making process when studying hegemony. Studies of hegemony have failed to consider the perspective of dominated groups and how they make sense of the hegemony. The notion of hegemony fundamentally describes a relationship between dominant and dominated groups. However, most studies have not examined how the dominated groups make sense of the hegemony (see Mantzari & Georgiou, 2019 for exceptions). In contrast, this study has provided an initial insight into the sense-making process of dominated groups in an organisational context. The empirical evidence has shown how the managers engaged with the transfer pricing practice and explained why the consensus for hegemony is maintained. I have shown that common sense, diffused from hegemonic ideologies, drove the managers' mundane practice of transfer pricing while the attachment to certain hegemonic ideologies silenced the discussion of alternative views (Mantzari & Georgiou, 2019). Under the context of competing hegemonies, this created a constant ideological battle. Thus, this study argues that dominated groups are not merely passive in hegemonic relations; instead, common sense enables their participation in the hegemonic struggle between dominant classes.

While this is so, this study has also revealed that the dominated groups in the case study were able to contradict themselves and were capable of critical reflection. Views of good sense that were based on Confucian principles acted as a source of critique to common sense, which enabled the alternative understandings of transfer pricing (Mantzari & Georgiou, 2019). The contradiction between common sense and good sense explained why, despite the existence of competing views of common sense, managers could reach an agreement and offer a compromise in the transfer pricing negotiations. While it is important to examine this aspect considering its emancipation potential, this contradiction contributed to some extent to the maintenance of an unstable hegemony. Although conflicting views of common sense created contradictions in the organisation in the context of the hegemonic struggle, good sense essentially maintained the organisational hegemony after all. Thus, I argue that common sense and good sense are not just opposites; instead, their dialectical nature needs to be embraced in order to understand their role in reproducing hegemony.

As noted in Chapter 3, the literature on hegemony has focused on the transformative role of state hegemony. While a macro analysis explored the interactive relationship between accounting and state hegemony in sustaining the prevailing ideology (Goddard, 2002; Lehman & Tinker, 1987), a micro analysis of hegemony in an organisational context also commonly emphasised the state's political intervention into local accounting practices (Alawattage & Wickramasinghe, 2008; Ashraf & Uddin, 2015). For instance, when describing a scene of hegemonic struggle in organisation, Ashraf and Uddin (2015) considered such a hegemonic struggle as a reflection of the political struggle at the state level. By adopting Joseph's (2002) concepts of structural hegemony, this study has improved our understanding of the role of the state in locating the local hegemony. The evidence has shown that political hegemonic development at the state level is conditional rather than transformative for the local hegemonic dynamic. My findings have illustrated that the political development in China only set a foundation for power relations in Chinese organisations instead of directly influencing how hegemony was exercised in these local contexts. The state policies did not necessarily intervene in the hegemonic scenes in the organisation. Thus, this study argues that local hegemonies are not simply a reflection of the hegemonic scene of the state. Instead, organisations have their local hegemonic dynamics characterised by different interests and ideologies.

This also contrasts with contemporary research on hegemony, namely, the categorisation of hegemonic groups. The current literature on labour control often examines the classic hegemonic relationship between managers and workers in factories and fields (Hopper & Armstrong, 1991; Ashraf & Uddin, 2015; Alawattage & Wickramasinghe, 2008). While such recognition was not problematic in their local context, this study found that the hegemonic relations were determined by the development of structural hegemonic condition. The answer to 'Who is the dominant group?' relies on the understanding of the broader social political environment. The investigation of structural hegemony in the Chinese context found evidence that power relations could change due to changes in the structural hegemonic conditions. While proletarians had a powerful position in organisations during the socialist hegemony, capitalists, represented by business owners, took over the power in organisations due to the change of hegemony from socialism to a market-based hegemony. Thus, it is unwise to assume the nature of the hegemonic relations in organisations without studying the structural hegemonic context.

On the other hand, this study embraced the cultural-ideological dimension of structural hegemony, which has been largely neglected in the prior literature. The findings suggest that religious principles, such as Confucianism, serve as an important hegemonic ideology in state hegemony. This hegemonic ideology provided the necessary ideological foundations for the cultural form of hegemonic control, such as paternalistic governance (Efferin & Hopper 2007). While similar control mechanisms have been explained by the 'culture values' (Efferin & Hopper 2007) of business owners, the use of structural hegemony enhanced our understanding of 'cultural value' by regarding it as a form of hegemonic ideology. Since such ideologies influence all actors, including dominant groups, they influence particular ways of control practice. Thus, instead of using 'culture' as the explanation of different ways of control, one should consider how hegemonic ideologies influenced the choice of hegemonic strategies in controlling dominated social groups.

9.3 A personal concern

This research provides numerous contributions to the theoretical debates on transfer pricing and hegemony. Meanwhile, my ethnographical experience in the field also raised some personal concerns, especially regarding the position of managers in the neoliberal organisational context.

As noted in the previous section, this research found that the managers were in a dominant position in the organisation. They were controlled by the business owners and were motivated to seek the business owners' interests. While this was unpacked through my adoption of the Gramscian perspective, managers who were actually experiencing it commonly were less aware of it, which I found puzzling. This study involves a willingness to encourage managers to rethink their own situations in their organisation.

Traditionally, managers are viewed as powerful players in their organisation. Compared to factory workers, they usually work in a comfortable environment and enjoy higher and more stable salaries. However, this research provided an example where the managers were powerless and were forced to be involved in the organisational politics played by the owner-managers. This study has shown that the office is becoming the new form of factory. When performance measurement and ideological control are heavily implemented with respect to managers, they make no difference to blue-collar workers. It is, then, important for managers to critically assess the situation and challenge the common-sense view existing in the field. The reproduction of good sense is important here. Although good sense actually helped the reproduction of hegemony in the case of PLT, some managers who had a rich working experience utilised their previous practical experience as good sense and initiated the resistance to hegemony. For instance, based on his own observation, the factory manager was able to link transfer pricing issues with the organisational politics between the owner-managers. 6 months after the fieldwork had been completed, he actually left his job there and went to a rival company. Thus, the difference between managers and workers is that managers usually have alternative choices and therefore have more emancipation potential. As long as managers can construct their coherent thinking based on alternative ideologies, resistance can be enabled. Based on this, this study calls for more research concerning the dominated position of managers in demonstrating how they can be controlled as well as how they resist the hegemonic practices.

9.4 Directions for future research

The contributions of this study provide directions for future research in the field of transfer pricing and hegemony. As this study has argued, there is a huge gap in the literature regarding broader socio-political issues in transfer pricing. While this study has provided initial insights into how transfer pricing can be seen as a political phenomenon, it is located in the Chinese context. Thus, it would be useful to explore the social complexity of transfer pricing through case studies from other contexts and analyse if there are different hegemonic dynamics in the transfer pricing there. In addition, to enrich our understanding of the social meaning of transfer pricing, future studies can focus on other social aspects when examining transfer pricing. As Mcaulay Scrace, and Tomkins (2001) demonstrated, transfer pricing may be used as a tool for sustaining a habit or establishing identities. While this study has focused on its hegemonic aspect, further research can evaluate how identities (Taylor & Scapens, 2016) and different logics (Friedland & Alford, 1991) influence the practice of transfer pricing.

The use of a hegemonic theoretical framework focusing on hegemonic relations also helps improve our understanding of hegemony in the organisational context, which is useful for further research in organisational studies concerning hegemony. The adoption of such a theoretical focus can help us understand how dynamic hegemonic relations work in organisations, which includes the structural-local relations, and the interplay between vertical and horizontal hegemonic relations. Also, researchers will find how mundane hegemonic practice is maintained and justified. Thus, organisational studies can benefit from the theoretical framework developed in this study and explore how other organisational practices related to hegemony, such as human resource management and performance measurement systems.

In addition, this study assessed the relevance of religious principles in forming hegemony. This study has shown how the principles of Confucius formed paternalistic control practice in the organisation. As Confucianism is only one form of religion, it is important to examine other religious principles and their roles in reproducing hegemony. Religions such as Christianity, Buddhism, and Islam all play a significant part in society in different contexts. Although they may disseminate different ideologies, they work in a similar way to Confucianism in reproducing hegemony. This study has presented an example of how the state utilises these religious ideologies for developing their own hegemonic arrangements and manufacturing consent among the members of a society. Religious influence is particularly significant to business and management in some countries. For instance, Islamic banking is mainly driven by the principles of Islam instead of economics. This can create different forms of hegemonic systems compared to the neoliberal hegemony. Therefore, further research that explores how religion shapes the diffusion of hegemonic accounting practice in different religious contexts could contribute to our understanding of religion and hegemony.

Appendix 1: Interview Plan and Rationale

Questions	Rationale	Participant
How will you describe your job?	Basic understanding of participants and what they do in the organisation/what their role is in the system.	Shareholder, Manager, Staff
What is the history of the organisation?	Understand context and identify potential broader institutions that may influence organisational decisions.	Shareholder
What's your product? How would you describe its competitive advantages as the product?	Examine different understandings towards the organisation's product.	Shareholder, Manager, Staff
How would you describe your competitive advantage as a company? How do you compete with others?	Understand views of the middle or above management. Understand the strategy the company is using, for future comparison with local practice.	Shareholder, Manager
What is the goal of your organisation? Does it have any organisational culture? What do you think the organisation needs to achieve?	Understand organisational value.	Shareholder, Manager
What is the organizational structure? How does it work?	Understand the structure of the organisation in order to plan further data collection.	Shareholder

What does management accounting mean to you?	Understand different perspectives of understanding of the same notion in the organisation.	Shareholder, Manager, Staff
What is your current accounting system especially management accounting system?	Understand the current system as a background.	Manager
Did your management accounting system change? Is 'yes', why has it changed?	Identify potential changes that can be the core issue for data analysis.	Shareholder, Manager
If there is some change, how do you feel about it? Is it good or bad?	Understand different perspective on changes.	Shareholder, Manager, Staff
Do you think you work with staff in different divisions? If 'yes', in which way? If 'no', why not?	Understand connections in different divisions in the group and get deeper understanding of the system.	Manager, Staff
To your knowledge, what do you think other groups of accountants do?	Identify people's views to others. See how they critic others or justify themselves	Manager, Staff
Do you require information from another department (divisions)?	Understand connections between groups. Identify potential issues.	Manager, Staff
How do you use the information generated from the system?	Understand the process of using information, especially how managers use information differently.	Shareholder, Manager

Do you think you have any connection with other subsidiaries? If 'yes', how? If 'no', why not?	Understand connections in different organisations in the group. Link with the questions with shareholder.	Manager, Staff
What do you think about the organisation now? Are there any issues you are concerned about?	Identify different issues/concerns of people. Find different focuses.	Shareholder, Manager, Staff
In your opinion, what needs to be improved in the organisation?	Identify people's logics by identifying their needs and desires.	Shareholder, Manager, Staff
How do you use the information generated from the system?	Understand the process of using information, especially how managers use information differently.	Shareholder, Manager
What is your experience prior to joining/establishing the organisation?	Understand the habitus through past experience and thus the basic background of the shareholders.	Shareholder
How do you think your past experience influences your career in this organisation? Do you think your past experience influences your decisions when running the company?	Let participants describe how their habitus influences them.	Shareholder
What you believe is most important for the organisation right now?	Understand different focus points actors are having. Help with identifying institutional logics and orders of worth.	Shareholder, Manager, Staff
What do you think is essential for your	Identify worthiness or, in Bourdieu's terms, symbolic capital	Shareholder, Manager

position (e.g. cars, planes, salaries, reputations, etc.)		

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