



School of Economics  
and Commercial Law  
GÖTEBORG UNIVERSITY

# GREAT EXPECTATIONS

*SOX Influence on  
the Ever-Changing World  
of  
Internal Control*

Bachelor's Thesis in Business Administration  
Fall term 2004  
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## Abstract

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**Title:** Great Expectations *SOX Influence on the Ever-Changing World of Internal Control*

**Keywords:** Sarbanes-Oxley, SOX, Internal Control, Volvo

**Background and Problem:** After a series of accounting and auditing fraud scandals, a demand for increased control was heard. The most important legislation passed is *The Public Company Accounting Reform and Investor Protection Act of 2002*, also referred to as SOX. One of the issues regulated is *Management Assessment of Internal Controls*. We found it interesting to further investigate the subject internal control.

**Purpose:** The purpose of this research is mainly to smooth the progress of implementation by coming to a conclusion of whether or not the employees of AB Volvo have experienced any changes, where implementation is under progress, in matters surrounding quality, independence, responsibility, and processes in the ways of working. The more general purpose is that other companies on the verge of implementing SOX in their operations can have use of our advice and conclusions.

**Delimitations:** We are content with only one company of research. We only aim to investigate the effects after the introduction of SOX. Considering that every person with a significant view or experience concerning the topic cannot be interviewed, a delimitation has been made since we have only interviewed six persons.

**Methodology:** A qualitative study of descriptive and explanatory nature was conducted to gain a deep understanding. We used a partly structured interview approach to obtain as much information as possible and to give the interviewees opportunity to explain any misunderstandings.

**Results and conclusion:** After the data collection was completed, the different opinions were compiled and analysed to detect what effects of implementation were felt. We came to the conclusion that the enforcement behind the project was poor but once knowledge was spread the acceptance grew due to the expected improved internal control and overlooking of the processes. Greater service ability to the financial reports is achieved as a result of SOX.

**Suggestions for further research:** It would be of interest to investigate the situation once implementation is working on a day-to-day basis or and once a significant amount of time has passed it can be examined if the legislation has fulfilled its purpose. Even comparisons with other companies would be of interest to see if similar effects have been noticed.



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## Preface and Acknowledgements

After an intense semester, we have finally reached our goal of completing this bachelor's thesis. Performing research at this level takes a lot of time, effort and patience. Without the help from our surroundings it would not have been possible to accomplish such a study. We would like to thank those who have contributed with information, point of views, critique and shown interest. We would like to first and foremost thank the interviewees for making this thesis possible. They have taken time from their busy schedules, shared their perspectives and shown interest in our work. Our sincere thanks also go to our adviser, Urban Ask, for his commitment and feedback that has given us guidance and new angles of approach. Thanks are due to Gunnar Låstbom for the help and ideas given by him. And, we do not want to forget about all of the help we have received from friends and family on the home front for putting up with our hectic schedule and never-ending nagging as well as for their encouraging attitude.

Gothenburg, January, 2005

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Heidi Bader

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Ewa Svensson



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## The Paradox of Control

In many circumstances the more managers attempt to obtain and exercise control over the behaviour of others in the organization, the less control they have. Furthermore, often the less control they have, the more pressure they feel to exert greater control, which in turn often decreases the amount of control they have, etc., etc. (Dalton, 1971)



## 1 Introduction

*This chapter provides a background for the research and the reader will be introduced to the subject and purpose of the thesis. The chapter also clarifies the delimitations and gives an explanation of the disposition of the thesis.*

### 1.1 Background

An era of change has taken over the world of accounting and corporate governance. Ever since the scandals of 2002, discussions concerning legislation of the accounting and auditing world have been held, in order to more precisely control the environment in which businesses are run. Thereby new scandals like those involving several prominent companies in the United States are avoided.

For example there is the Enron case which was the first large company charged for accounting and auditing fraud. The case involved their systematic use of loopholes to improve the financial statements. They were closely followed by Worldcom. The Worldcom scandal involved the accountants who practically shifted \$350 million from “expenses” to “assets” with the sole intent to hide the company’s losses. Also, the former CEO, Bernie Ebbers, loaned \$400 million from the company at a beneficial interest rate. This type of corporate scandal has not only taken place in the US alone. Corporate fraud has also been visible in the EU with companies such as Parmalat, as well as in Sweden with Skandia among others.

The scandals resulted in an unprecedented lack of confidence in the financial markets and a loss of public trust in corporate accounting and reporting practices. Demands for an increased control and regulation of auditing standards were heard in both the US and in the rest of the world. We have more prescribed procedures now than at any time in our history, nationally and internationally. One would have thought that there would be evidence of a decline in the dissatisfaction with the data accountants are producing and that it is obvious that the resent regulatory framework has failed to improve it. One would pursue that line, with the expectation that the more standards, the less the complaints and criticism of accounting from consumers, the fewer the instances of creative accounting. The opposite has occurred (nationally and internationally). The only regulator defence for compulsory accounting standards is that they would improve the service ability of accounting information (Clarke & Oliver, 2003).

In the US the congress quickly responded and passed legislation concerning corporate governance. The most important legislation is *The Public Company Accounting Reform and Investor Protection Act of 2002*, also known as The Sarbanes-Oxley Act, (here on after we will write SOX when we refer to matters concerning implementation or the Act when we refer to the legislation itself) which has impact on companies registered for trade on American Stock Exchanges (ASE). The impact has been felt throughout the financial markets and will continue to have impact on every industry and service sector. One of the issues regulated in section 404 of the Act is *Management Assessment of*



*Internal Controls.* It requires companies' external auditors to report on the efficiency of the company's internal control over financial reporting and also holds the company's CEO and CFO responsible for any misstatements in the annual report. It also requires an issuer to provide in its annual report an internal control report including a statement of management's responsibilities for establishing and maintaining adequate "internal controls and procedures for financial reporting" and management's conclusions about the effectiveness of those controls and procedures (Smerdon, 2004). The accounting firm preparing the audit report must give a statement and attest to management's evaluation.

The Act has met plenty of resistance along its path. First, compliance is a costly process, consisting of three steps; documentation, monitoring and testing, which take a lot of effort and funding (Needleman, 2004). Second, many agree with the need of the legislation but not as excessive as it has been enacted (Ruquet, 2004). Finally, many question why the Bush Administration was so quick to pass legislation in an issue where Congress has not acted so strongly to restore investor confidence since the *Securities Act* of 1933 and the *Securities Exchange Act* of 1934 (Hartmann, 2004). Some believe that aspects of the Act add yet another layer of bureaucracy to the corporate world (Banks, 2004).

Nonetheless, the impact of the legislation has led to an attempt to harmonize accounting standards. In the EU, a proposal to modernize the *Eighth Company Law Directive* has been established. The law bears legislation on the approval of persons responsible for carrying out the statutory audits of accounting documents ([www.europa.eu](http://www.europa.eu) [a]). It is also likely to introduce legislation over the next ten years (Smerdon, 2004). In order to meet the changes in the environment, the Swedish Commission of Trust created a committee designated to draw up a *Swedish Code for Corporate Governance* under the guidance of Erik Åsbrink. The committee was named "*Kodgruppen*" and consists of members from The Committee of Trust as well as representatives from the business world ([www.regeringen.se](http://www.regeringen.se) [a]). The committee was created with the intent to improve the confidence in Swedish businesses and to strengthen the audit process.

During our studies this semester, we decided early on that we were interested in corporate governance and internal control. When we prepared for the Business Industry Fair, *Näringslivsveckan*, at Gothenburg University, we were introduced to an AB Volvo representative. She was able to help us get in touch with the project group manager of implementing SOX at AB Volvo. He then met us and we started sketching on an idea.

## **1.2 Discussion of the Problem**

As mentioned in the discussion above, we found it interesting to further investigate the subject internal control, which may be the most challenging aspect of SOX. We have therefore chosen one of the 11 Swedish companies that will be directly affected by the legislation (Karlsson, 2004), and will have to comply by quarter four of 2005. The many provisions of the Act include a requirement that management provides a report, both annually as stated in section 404 and quarterly as stated in section 302 of the Act, on the effectiveness of the entity's internal control over financial reporting.





### 1.2.1 Presentation of Case Organization

AB Volvo (Volvo) is the company we have chosen to do research for. They are affected by the legislation given that they are listed for trading on, amongst other stock exchanges, NASDAQ and Dow Jones and have until May 2005 to comply with the Act (AB Volvo, 2003). Volvo was founded in 1924 by Gustaf Larson and Assar Gabrielsson ([www.volvo.com](http://www.volvo.com) [a]). The Volvo Group was officially born ([www.volvo.com](http://www.volvo.com) [b]) in 1927, when the first series-manufactured Volvo car was driven out of the factory. Many mergers and acquisitions have taken place along the years, whereas the most known may be Fords acquisition of Volvo Car Corporation in 1999. The company is one of the world's leading manufacturers of heavy commercial vehicles and diesel engines (AB Volvo, 2003). Today; the Volvo Group consists of eight business areas; Volvo Trucks, Mack, Renault Trucks, Buses, Construction Equipment, Penta, Aero and Financial Services ([www.volvo.com](http://www.volvo.com) [c]). In addition, there are a number of business units with responsibility for providing support to the group. The four largest units are: Powertrain, IT, Parts and 3P (AB Volvo, 2003). The President of AB Volvo and CEO of the Volvo Group is Leif Johansson and the CFO is Stefan Johnson, they are both fully responsible for attesting correct reports.

The scope of which Volvo has begun implementation includes 70 percent of its business units (Låstbom, 2004). So far, Volvo has identified 16 control objectives, or processes groups as they are referred to at Volvo, a few of which also have sub processes and all including several generic processes (Johannesson, 2004). They are now in the documentation phase of implementation and will have completed the initial inspection of weak processes by the end of the first quarter in order to have time to attend to weak processes and verify that the controls have been working for most of the year. Once the controls are running smoothly, Volvo as well as the hired consultants can certify that reports are neither untrue nor misleading, and state when the financial reports do not follow national accounting standards.

The management of Volvo is carried out through a number of corporate bodies. Daily quality management, an aspect of internal control, is decentralized to ensure close proximity to the customers. The president exercises the daily control of the group and the business area presidents report to him (AB Volvo, 2003). Key terms are total quality and participation by everyone through dialogues and clear objectives. Energy, passion and respect for the individual are the key concepts of the "Volvo Way" which is a cornerstone of Volvo's corporate culture. Volvo has also recently started to work alongside the quality system Business Management System (BMS), certified according to ISO 9000, and used to define and control responsibilities and follow-up procedures. Today, most of the employees in the Volvo Group work in an ISO 9000-certified unit ([www.volvo.com](http://www.volvo.com) [d]). SOX, on the other hand, is a quality system over internal control, yet the systems intersect in several areas. In the long run the question is can they run side by side?



### **1.3 Definition of the Problem**

The aim of the thesis is to enlighten the reader about the effects and implementation of the Act at Volvo. Given the requirements necessary for Volvo to implement SOX, the main problem of this thesis is formulated as follows:

- What effects will the implementation of section 404 of the Act have on existing internal control with regard to previous internal control procedures?

In order to find the answer to the main question we will focus on five different areas which have been defined through the questions derived from the questionnaire in Appendix A. These research questions will serve as guidelines to our empirical study and our analysis. The categories of factors influencing effects on implementation, serve as headings under which subsequent research questions are stated;

**Expectations:** What do you hope to accomplish with the new rules/what has been required of you? What has Volvo achieved through implementation? What concerns you about this project? Any uncertainties surrounding the process for making the assessment of internal controls? Any uncertainties related to the outcome of the assessment and the possible identification of internal control deficiencies? Possible pitfalls? Do you see any opportunities with the implementation? What are the benefits considering the costs?

**Independence:** Have the requirements diminished your independence? Has everyone taken an active interest in the implementation? Does the company have an internal Code of Conduct? Has there been any violation or waivers of its provisions?

**Responsibility:** To whom does the project team report? How do you think the enforcement behind the project has been? What could have been done better? Do you think that the management has been able to motivate the employees concerning the implementation of SOX? Have you received enough information to carry out the requirements? Do you think the information concerning SOX has been adequate?

**Ways of working:** Have you used the website? What do you think of it? What is your timetable for completing the project? Has your daily workload changed in any way? Do you think you will have more or less to do? How will you handle detected gaps?

**Quality:** How do you think the quality will be affected? Old versus new quality systems and routines? Do you think that the quality of the process or the company as a whole has been improved?

### **1.4 Purpose of the Study**

The purpose of this research is mainly to smooth the progress of implementation for the remaining units by clarifying the condition of the implementation and identifying possible opportunities and threats at Volvo. We will fulfil the purpose by questioning persons responsible for implementing SOX in the different business areas as well as



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## INTRODUCTION

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persons responsible for various processes. Also, we will question the expectations of implementation and define possible opportunities that may help the entity achieve operational goals and strategies, and threats of the implementation. We would like to come to a conclusion of whether or not the employees of the company have experienced any changes, both pros and cons, in matters surrounding quality, independence, responsibility, and processes in the ways of working.

This thesis also has a more general purpose given that other companies who are on the verge of implementing SOX in their operations can have use of our conclusions. The advice given in our concluding chapter can be of importance to other organizations and is therefore not only of essence for Volvo. Any change awaiting internal control in other organizations may have use of our research given that we have identified possible opportunities and pitfalls as well as presented advice on how to best attack the change situation.

### **1.5 Delimitations**

We cannot investigate every aspect of the legislation and have therefore decided to concentrate on section 404 of the Act and how it has affected Volvo. Considering that Volvo has only reached the documentation phase of implementation, we will only investigate the interviewees' opinions of the existing situation. We only aim to investigate the effects after the introduction of the Act therefore we do not attempt to understand or investigate how quality management has taken place prior SOX.

Selecting the impact on a single company has been a conscious choice in order to make the research relevant and manageable. We could have interviewed several companies to reach a greater understanding but we have made the assumption that the results would be similar, regardless which company, industry or market is studied, which is why we settled with only one company. Therefore, we are able to draw general conclusions that can be of use to any company standing before implementation. From the start, our plan was to look at the situation at only one of Volvo's business areas but later on, this expanded to cover Trucks, Buses and Penta. In the end, we found this more helpful for us in order to draw adequate conclusions.

Considering that every person with a significant view or experience concerning the topic cannot be interviewed, a delimitation has been made since we have only interviewed a few people. We found it important, when choosing interviewees, to look at to what extent they have been affected by the legislation in section 404. The interviewees have been carefully selected based on their expertise and knowledge in the area.



## 1.6 Disposition

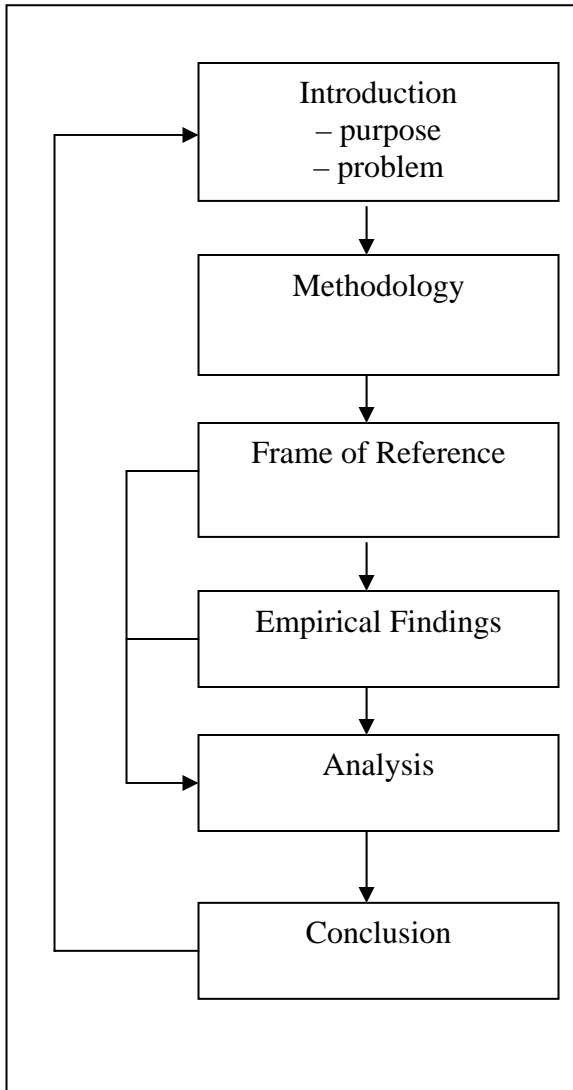


Figure 1.1 Disposition (own design)

### Chapter 1: Introduction

This chapter provides a background for the research and the reader will be introduced to the problem and purpose of the thesis. The chapter also clarifies the delimitations and gives an explanation of the disposition of the thesis.

### Chapter 2: Methodology

In this chapter, the different options of methodology are presented. Next, the interviews that have been carried out during the research are reviewed. Then, the secondary data is discussed and the chapter ends with a discussion on credibility.

### Chapter 3: Frame of Reference

This chapter presents the different practices in theories relevant to the framework of this thesis and from which the research can be interpreted.

### Chapter 4: Empirical Findings

The results of the empirical findings are presented in this chapter. The information is organized into the five areas that were presented in the definition of the problem. The opinions stated are the interviewees and not the opinion of the company.

### Chapter 5: Analysis

This chapter connects and analyzes the frame of reference and empirical findings in order to fulfil the purpose and answer the questions in the definition of the problem.

### Chapter 6: Conclusion

In accordance with the purpose of the thesis, this chapter will present the conclusions that have been made from the analysis. Also, we present advice of importance to other units of the organization or to other organizations on the verge of implementation in order to more easily perform the compliance. The chapter ends with a few suggestions for further research.



## 2 Methodology

*In this chapter, the different options of methodology are presented. Next, the interviews that have been carried out during the research are reviewed. Then, the secondary data is discussed and the chapter ends with a discussion on credibility.*

### 2.1 Scientific Approach

Scientific research can be divided into two main approaches when performing case study research: the positivistic and the hermeneutic (Patel & Davidson, 2003). The approaches have several similarities as well as differences. The positivistic approach is built upon logic and facts and aims to describe and explain phenomena through quantitative measurements (Eriksson & Wiedersheim-Paul, 2001).

On the other hand, the hermeneutic approach is the opposite of the positivistic and aims to give a holistic view of the problem through analysis and discussion. Supporters of the hermeneutic view feel that scientific methods are not suited for research in the field of social science (Arbnor & Bjerke, 1994). The hermeneutic method is based on a spiral where interpretation and dialogue leads to increased understanding and knowledge. The spiral of increased knowledge begins with a certain level of pre-understanding of the subject. Thereafter, persons of greater knowledge and literature on the subject can help the researcher to gain more knowledge. This newly gained information is interpreted by the researcher which gives the researcher more understanding of the subject. Through this, new questions arise that are answered by new dialogue with the research material (Eriksson & Wiedersheim-Paul, 2001).

According to Ryan, Scapens and Theobald (2002), there are three aspects of difficulties tied to case study research. First of all, there is the difficulty of drawing boundaries. How much should we broaden our view of interrelations with other systems? How far back in time should we investigate? We will limit the area of our study in order to give a more detailed study of the area. Secondly, one must consider the social reality which is being researched. We try to avoid researcher biases by knowing that we have different backgrounds but also by sending a copy of our translations in order to not misinterpret any answers. Finally, there is the ethics of the researcher's relationship with the interview subjects. The information we have received is not confidential and we wonder then if there is anything we have missed or if the company is confident in confiding in us?

In performing this research, we must recognize that we are only describing a situation and not predicting it. We must also be aware that we can only draw theoretical generalizations and not statistical (Ryan et al, 2002). In order for us to produce good study research, we have to provide clear understandings of the subject area studied and aim to help the individuals working in this area or similar areas work out their problems, as well as have interviews at various levels within the organization to cover the entire spectrum. The holistic ideal is clearly unattainable and we must be satisfied with approximations (Ryan et al, 2002). Yet, our intent is to have a hermeneutic approach to the subject as the



purpose of the study is to interpret and understand the situation rather than to measure it. We believe it necessary to apply this approach as the aim of the thesis is to enlighten the reader about the effects and implementation of the Act, using Volvo as an example. Therefore, we agree more with the hermeneutic approach and aspire to achieve this.

## **2.2 Research Approach**

There are several ways to convince others while reading a text. According to Ryan et al (2002), a reader can be persuaded by showing authenticity, plausibility and criticality in the text. The first is attained by showing that the researcher's interpretations are based on the case. Another way to achieve persuasion of the idea is to display a high level of knowledge on the part of the author. The criticality of the text concerns the possibilities it provokes.

There are several different research approaches. This thesis is descriptive and explanatory. A descriptive approach aims to reproduce and document reality, which, according to Eriksson and Wiedersheim-Paul (2001), is necessary to explain, understand, predict or decide. In addition to describing the effects on the existing internal control during SOX implementation procedure, the research also aims to explain why the outcome has become what it is and therefore the research also has an explanatory approach. The interviews are conducted in order to declare why and how the outcome has turned out the way it has and also what could have been done differently.

## **2.3 Research Method**

According to Andersen (1998), there are two main methods upon which research can be based: quantitative and qualitative methods. The quantitative method is carried out according to clear, formalized and structured guidelines and is characterized by mathematics and statistics (Holme & Solvang, 1997). As opposed to the quantitative method, the qualitative method is focused on obtaining deeper understanding (Holloway, 1997). Information is gathered from few sources but the gathered information is more extensive. Qualitative studies are flexible and aim to understand and discern patterns (Trost, 1997).

For the purpose of this research, the qualitative method is the most suitable, as the aim is to increase knowledge of the effects of implementing section 404 of the Act and therefore a qualitative method that increases understanding is needed. The qualitative research consists of 6 interviews with relevant personnel whom have expertise in the area. We would also like to mention that the quantitative method has been recognized in cases where several interviewees have responded similarly. We have then been able to gather their opinions into one collective response.





## **2.4 Selection of Company**

During our studies this semester, we decided early on that we were interested in corporate governance and internal control. Later on, when we prepared for the Business Industry Fair, *Näringslivsveckan*, at Gothenburg University, we came in contact with a Volvo representative. She was able to help us get in touch with the project group manager, Ole Johannesson, of implementing SOX at Volvo, as well as another member of the group, Gunnar Låstbom. The latter then met us and we started sketching on an idea.

We are content with only studying one company because we have made the assumption that the results would be similar, regardless which company or market is studied. Therefore, it may be possible to draw general conclusions that can be of use by any company standing before implementation. From the start our plan was to look at the situation at only one of Volvo's business areas. The study later expanded to cover Trucks, Buses and Penta. We were initially very concerned about this change of direction because we were worried that the time at hand would not be adequate to perform more interviews. Once we started, we realized that the answers were very similar and there were no contradicting responses or any newly found information which is why we decided to settle with the six performed interviews at the three different business areas. In the end, we found this more helpful for us in order to draw adequate conclusions as well as more reliable.

## **2.5 Data Collection**

The two main types of data that can be collected are primary and secondary data. Primary data is data that the researcher gathers for a defined purpose and secondary data is data that has been collected by others for another purpose (Lundahl & Skärvad, 1999).

### **2.5.1 Primary Data**

To answer the research questions posed earlier, we had to gather empirical information. In order to ensure a collection of the appropriate information we analyzed the information which would be needed to provide answers for the research questions, and whom to gather that information from. We first met with Gunnar Låstbom and discussed how to proceed with our study. We have chosen to be content with only relying on three of the business areas, Volvo Trucks, Buses and Penta, given the time we had at hand. The new information collected consists of interviews with selected employees at Volvo in Gothenburg. The choices of interviewee subjects have been made together with Gunnar Låstbom. In order to perform an adequate analysis and to be able to draw general conclusions we have chosen to interview persons from several business units of the company as well as from different levels of the hierarchy. The reason we were satisfied with only six people has to do with our conclusion that the responses were in fact very much alike and similar enough to draw conclusions from. Also, we have asked the interviewees to name other relevant persons who should be interviewed and the same names appeared which only confirms our decisions.



### 2.5.1.1 Interviews

This thesis is based on personal, in-depth interviews with employees who work on a daily basis with the Act or are affected by the implementation of SOX and therefore have great knowledge or experience relevant for the result of the thesis. The Act is still rather new, which makes it important to get in contact with the most suitable persons. Therefore, our contact at Volvo has guided us in choosing employees and the interviewees themselves have been asked to recommend other relevant persons.

Interviews can be structured, unstructured or partly structured (Andersen, 1998). The first predetermines the questions and is used to quantify results. The second is useful when the interviewer does not have extensive knowledge of the subject. The questions are open and there is then no direct answer. Instead there is a form of conversation and the interviewee is urged to speak freely. The third way to run an interview is to prepare the questions in advance whereas it is possible that the situation may be adjusted through personal contact during the interview. The partly structured interview is the method that has been used during the research and was suitable in order not to steer the conversation.

One of the advantages with personal interviews is that they are very flexible (Kvale, 1997). They enable the interviewers to ask follow-up questions and they also give them opportunity to explain any misunderstandings in expressions to the interviewees. There are, however, some disadvantages with personal interviews. The interviewees may be influenced by the interviewer. To avoid this, we have tried not to ask any leading questions or give any hints in what we would like to hear. Another issue is that it is hard to draw general conclusions when only a few interviews are conducted. We hope to overcome this by means of interviews with persons from various areas of the organization in order to receive the best overview and to be able to draw conclusions.

The interviews were conducted in Swedish by both researchers and they each lasted approximately an hour. We both took notes and asked questions at the same time as we recorded the interviews. As we have followed the partly structured approach, we have used the attached questionnaire (Appendix 1) as a guideline but mainly allowed the interview to resemble a conversation. One question may have spun-off into another and new questions were added to best fit the situation. Also, all questions were not suited for each and every interview which is why we have adjusted the questionnaire to fit the person present at the moment. We then translated the interviews into English and asked the interviewees to approve the translation in order to eliminate any mistakes due to translation errors. The information received is the opinion of the interviewees and it is important to remember that this is not the opinion of the firm. While writing the empirical chapter, we are consequently securing anonymity, in respect to the interviewees' wishes by not mentioning the owner of any quote.

### 2.5.1.2 Interviewees

Tarja Anttila works as an internal auditor for Volvo Trucks. She sits with the central group in Gothenburg but they have a global network within the Trucks group that spreads





out to the other markets. The internal auditors work with supporting the existing financial projects.

Jan Holm is project manager for SOX at Volvo Buses, actually for the whole business area but México and Brazil have to cope pretty much on their own for the reason that he does not have all the time he needs to help them as much as he would like to, but he tries to check that they follow the guidelines that have been set up.

Henrik Hylving works with SOX at Volvo Buses. He is a controller for purchasing automobile parts and is responsible for the Purchase and Payables process.

Kristine Lundberg is project manager for SOX at Volvo Penta. She also works part-time with tax, including VAT, income tax, insurance questions and transfer prices.

Jonas Nordlund works as a business controller for Global Manufacturing (GM) under the Industry Division for Trucks and is the local project leader for GM as well as the Inventory and Cost of Goods Sold process. He was responsible for producing the very first examples for the process which the factories later used as templates.

Stefan Nilsson works with SOX at Volvo Penta. He is a controller and responsible for the Purchase and Payables as well as Inventory & Cost of Goods Sold processes. He also works with product development.

### **2.5.1.3 Interpretation and Analysis of Qualitative Data**

In this case study, we are aware of the fact that the interviewees work on different levels of the organization. Therefore we cannot draw conclusions for the entire company itself, only the assumption that the interviewees are representative of the organization. Given this situation, we can only assume that the results would be the same regardless of company, branch or market.

In a qualitative study the analysis is ongoing through the entire information search (Holloway, 1997). This was true in our study as each interview aroused thoughts and discussions amongst ourselves, leading to an informal analysis of what had been said at the interview. Once the data collection was completed, the research questions provided structure to the presentation of the findings and the analysis. In the analysis the findings were related to the frame of reference. The implications of different situational factors put forward in the theoretical framework were used to determine what the analysis of the findings suggested. These suggestions were then gathered in the conclusions chapter, in order to reach a final recommendation.

### **2.5.2 Secondary Data**

Given that it is cost-efficient and easier to use data that already exists; secondary data is what is first used in a study. The usage of secondary data gives the researcher possibility to read existing material on the subject and to receive a view of the existing models and



theories concerning the subjects (Eriksson & Wiedersheim-Paul, 2001). One of the disadvantages of secondary data is the risk of information overload and the researcher must be able to choose what is relevant. Another disadvantage is that the information seldom is adjusted to the research since the person who collected the data did not have this particular research in mind during his/her research (Andersen, 1998). When using secondary data we have constantly gone back to the original author to avoid any misinterpretations. Considering that the purpose of this research is to clarify the condition of the implementation and identify possible opportunities and threats at a specific company, there is not much secondary data ready to use. A year from now, the foundation for completing a similar thesis will be totally different given that so many more companies will have implemented SOX.

## **2.6 Discussion on Credibility**

In order for the research results to have a scientific value there are certain demands on the validity, reliability and relevance of the measurements and research methods used. It is important for both the planning and for the actual performance of the research to examine that no systematic or random errors have aroused during the development of the problem formulation or the information gathering. All three concern how representative the statistical research is (Holme & Solvang 1997). The quality of the research is improved by high validity, reliability and relevance to the subject.

### **2.6.1 Validity**

Validity is a measurement of how a research actually studies what it is meant to study. It is only the information that is relevant for the purpose of the study that has high validity (Patel & Davidson, 2003). This thesis is based on interviews which imply that the validity of the research can only be as high as the validity of the interviews. The questions asked have been of essence in order for us to come to an adequate conclusion. The responses given have been relevant for the study and we have succeeded in measuring the areas mentioned in the definition of the problem; expectations, independence, responsibility, ways of working and quality. The validity of the secondary data is regarded highly seeing that the articles and other literature have close association with the subject of this thesis.

### **2.6.2 Reliability**

Reliability is the measurement method's accuracy and ability to avoid random influences of any kind (Patel & Davidson, 2003). The reliability of the secondary data is considered high because the researchers have less opportunity to control and affect the material to reach a certain result (Arbnor & Bjerke, 1994). The reliability can be reduced if there is risk that the interviewees are people who are assumed to have responsibility or knowledge concerning SOX. While performing the interviews the interviewees were asked to name other people in the organization who they thought should be interviewed. The same names appeared and we can therefore establish that the research has a high level of reliability.



### 2.6.3 Relevance

Research is relevant when it is of interest and significance to people other than the researchers themselves (Eriksson & Wiedersheim-Paul, 2001). The implementation of the Act will lead to changes in the work and structure of the way people work in the organizations which will be affected. For this reason, we believe that a survey of these effects can be of great relevance for understanding how to best implement a change on corporate governance, and in this case internal control. In order to meet challenges and to oppose threats, it is relevant for Volvo to understand how the implementation is progressing. This study is also useful for the remaining processes that have not fully implemented SOX. It may also be of interest for other firms who are preparing implementation to have access to information surrounding pitfalls and opportunities.

### 2.6.4 Criticism of the Sources

When conducting research it is of the utmost importance to be critical of the sources that are being used. According to Holme and Solvang (1997) the purpose of criticism of the sources is to investigate whether or not the sources are valid, reliable and relevant. To do so, there are four steps that need to be followed: observation, origin, interpretation and usefulness. Also, three critical criteria can be used, contemporary demand, tendency critique as well as dependence critique (Eriksson & Wiedersheim-Paul, 2001).

When observing the available material it is essential to evaluate which sources are relevant. The interviews, being the basis of this research, are the most important and relevant to help us come to a conclusion. Most of the secondary data that we have collected has helped us in one way or another although there may be a risk that they do not represent all aspects of the subject.

While conducting research, one must question the origin of a source and the impact it has on the reliability. For collection of our primary data we are aware that the interviewees are influenced by their own interpretations, which we find only positive for the purpose of this thesis. When judging the primary data we are aware of the fact that the interviewees are affected by their personal experiences. Considering that the interviewers will question their opinions of changes, it is clear that their answers will reflect their experience. Contemporary demand depends on the actuality of the source, which we see has been fulfilled concerning the primary data given that the interviews took place during the writing of the thesis. The literature used is considered to have high reliability given that it has been written by experts on the subject. Even the articles and websites used have been relevant and reliable for the obvious reason that their sole purpose is to educate and inform the public about this new legislation. We have drawn this conclusion knowing that the websites we have used have been produced by Government and other organizations involved in the upcoming of the legislation. Concerning the use of our secondary data we believe that the sources fulfil the demand for actuality given that the topic is new and the sources are not more than a year old. When it comes to tendency critique we question tainted information of the sources.



A crucial issue when conducting research based on interviews is that answers can easily be misinterpreted. As the interviews have been held in Swedish and translated into English the risk for misinterpretation increases. To avoid this, as stated above, the interviewees have been, before publication, allowed to read the empirical chapter in advance. When drawing conclusions from the interviews we have drawn general conclusions from the interviews performed and not for the company itself. We are aware that this has been done but only for the purpose of assisting the remaining processes with completing their implementation. For the primary data it is important to take notice of any dependencies between the respondents and other sources. There may be a risk that some sort of information gathering has taken place between the respondents given that they come from the same departments but we believe that this has no effect on the result. For the secondary data, we find the problem with misinterpretation easier to avoid knowing that we can reread the sources. Dependency critique signifies a control of the sources dependency of each other. How useful a source is depends on how useful it is for the purpose of the thesis. We have taken consideration to this both during interviews and studies of the literature and excluded irrelevant information from the research.

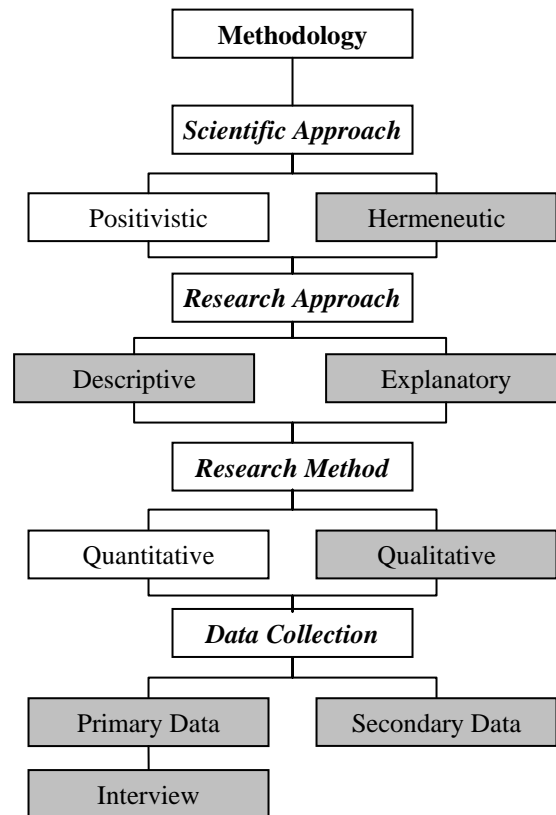


Figure 2.1 The Choices of Methodology (own design)

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*The methodology we have used during the research has been outlined in this chapter. The next chapter will introduce the frame of reference needed to analyze the empirical findings.*

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### 3 Frame of Reference

*This chapter presents the different practices in theories relevant to the framework of this thesis and from which the research can be interpreted.*

As stated in the background SOX requires companies' external auditors to report on the efficiency of the company's internal control over financial reporting and also holds the company's CEO and CFO responsible for any misstatements in the annual report. It also requires an issuer to provide in its annual report an internal control report including a statement of management's responsibilities for establishing and maintaining adequate "internal controls and procedures for financial reporting" and management's conclusions about the effectiveness of those controls and procedures (Smerdon, 2004).

In relation to our research and in order to fulfil the purpose of our study we will divide SOX into two portions that are necessary to look at. Corporate governance acts as one of them, where the agency theory is included as well as the SOX and internal control requirements. The soft side of SOX consists of elements such as Total Quality Management (TQM), change and motivation theory. We discuss the manner in which corporate governance can take form to understand how a company is structured. We have decided to present agency theory because it has to do with how the organization best will act simultaneously. The legislation is presented to better understand why the change is being conducted. The requirements on internal control are discussed to be able to understand why it is so important to review the processes.

The knowledge of the requirements that each employee has, has impact on the *expectations*. The internal control requirements have effect on the Code of Conduct which in turn has effect on *independence* as stated in the definition of the problem. Agency theory has impact on *responsibility* issues because of the relationship between the owner and management and how they act in best interest of the company. Theory on change is discussed because it concerns the purpose of the study, to clarify the condition of the implementation or change in corporate governance through the internal controls, and to identify possible opportunities or threats. Depending on how the change takes place it will have effects on the independence, responsibility and *ways of working*. Motivation theory has to do with how the employees will be motivated to act in a certain way and this will most certainly have effect in all of the areas discussed in the definition of the problem. Theory of TQM is presented because of the close interaction between internal control and *quality* issues. All of the above are therefore relevant and applicable to implementing internal controls and are also appropriate to present in order to analyze the empirical research.



### 3.1 Corporate Governance

Corporate governance is defined as “the manner in which a corporation is directed including laws governing the formation of firms, the bylaws established by the firm itself, and the structure of the firm as well as customs effecting the direction of the firm” (www.wikipedia.com [a]). Relations and the distribution of rights and responsibilities of the corporate governance structure are clarified among mainly four types of actors – the board of directors, managers, employees, and shareholders. Rules and procedures for making decisions on corporate affairs, the structure through which company objectives are set and means of attaining and monitoring the performance of those objectives are stated through this system. A firms’s shareholders and employees prefer to see that directors and managers act in the interest of the firm and that the means by which managers are held accountable for the use of assets are ensured. Issues of fiduciary duty, which are duties that directors and managers have in representing shareholders interests and of accountability, a mandate often supported by law where a company cannot be liable to all stakeholders at all times, are often discussed within the framework of corporate governance (Banks, 2004).

Various corporate governance models exist around the world and the models vary depending on the capitalistic environment in which they exist (www.wikipedia.com [a]). In Anglo-American countries, where the liberal model is common, priority tends to be given to the interests of shareholders and stimulation of an innovative and cost competitive environment. In Continental-Europe and Japan the coordinated model is more frequent and it focuses on the interests of workers, managers, suppliers, customers, and the community as a whole. This model also recognizes and facilitates innovation and quality competition. The Swedish model for corporate governance lays somewhere in-between the Anglo-American and the Continental-European model (www.regeringen.se). Despite that the intent of the proposal is to strengthen the Swedish business environment as an investment alternative for both Swedish and foreign investors, the proposal has been criticized due to the fact that the legislation amongst other things gives a deviant definition to “independent” members of the board of directors than, for example, the British *Combined Code* gives. This will be confusing and may create a competitive disadvantage when comparing rules for investment in other regions (www.regeringen.se).

To make corporate governance more efficient, in the nineteenth century the state corporation law strengthened corporations rights to give boards the power to govern their companies without the conformity of shareholders in exchange for statutory benefits. Since then America’s wealth has been increasingly securitized into corporate entities and the rights of owners and shareholders have diminished. In the past 20 years, according to Banks (2004), many of the governance failures were due to various general factors that often appear including:

- unethical conduct within a company, where directors, executives, and/or employees exhibit poor judgement or behavior
- weak boards that can be influenced by powerful chief executives, and lack the expertise to actively manage and challenge





- inattentive directors who fail to focus on issues of importance, and conflicted directors who derive personal gain from their ties to executive management
- ineffective internal controls that cannot detect or prevent problems
- poor external checks and balances that are unable to set or enforce proper standards

Corporate governance issues are receiving greater attention in both developed and developing countries and concerns of shareholders stock losses has led to more frequent calls for corporate governance reforms. All a result of the increasing recognition that a firm's corporate governance affects both its economic performance and fulfillment of long-term as well as low-cost investment capital. Earlier governance recommendations have not been mandated by law, although the codes linked to stock exchange listing requirements may have had a coercive effect. For example, companies quoted on the London and Toronto Stock Exchanges formally do not need to follow the recommendations of their respective national codes. However, they must disclose whether they follow the recommendations in their reports and if not in compliance, provide sufficient explanations concerning divergent practices. Since then, SOX has been introduced affecting all companies traded on ASE.

Following the introduction of SOX, as a result of the many corporate failures around the world, the need for updated models on corporate governance have emerged. Two main theories of corporate governance have evolved: the "shareholder value" theory and the "stakeholder" theory (Smerdon, 2004). The first demands boards to consider the improvement of their owners' investments as the neglecting objective and the latter crudely says that the shareholder value has failed. Since shareholders lack effective control, strong governance is of importance. If investors cannot exercise proper control, then mechanisms must be created to insure some type of accountability. A framework to oversee and discipline management has evolved (Banks, 2004).

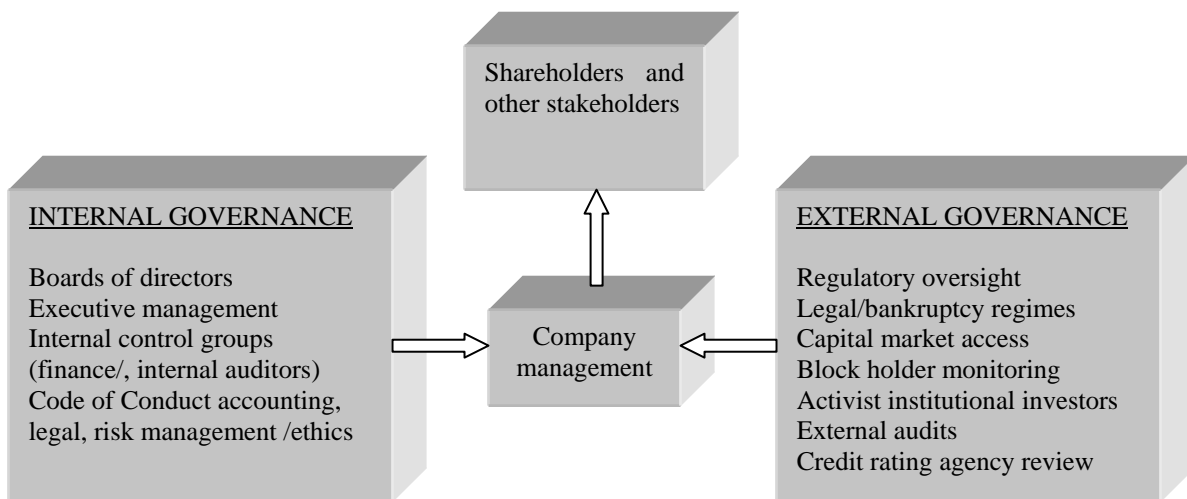


Figure 3.1 Summary of Internal and External Governance Mechanisms (Banks, 2004)



The internal mechanisms are centered: the board of directors, executive management and independent control functions each with its own sets of vital responsibilities. These activities are in many companies reinforced by Codes of Conduct to encourage proper behaviour (Banks, 2004).

### 3.1.1 Agency Theory

The relationship between a principal, the “owner”, an agent, “management”, and how to make the agent act in a way that is in the interest of the principal is known as the agency theory (Messier, 1997). A natural conflict of interest emerges between the owner and the manager caused by the asymmetric information, hidden within moral hazard and adverse selection that exists because of the absence of the owner (Messier, 1997). Having asymmetric information occurs when the manager generally possesses more information about the actual financial position than the owner does. If both parties act in their own best interest, the manager might not act in the best interest of the owner. For example, reports may be manipulated in order to obtain a larger bonus. To make sure that managers perform their responsibilities correctly, reports are usually required to state that the assets have been managed in accordance with the objectives. Still, there is no way to determine the accountability of these reports, therefore the need for internal controls has developed. Key benefits of improved internal controls over financial reporting include (PricewaterhouseCoopers, 2004):

- improved effectiveness and efficiency of internal control processes
- better information for investors
- enhanced investor confidence

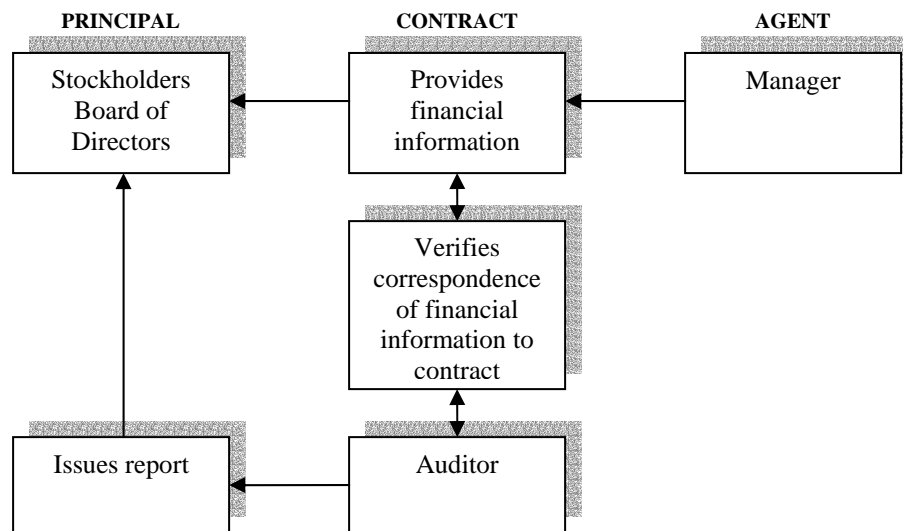


Figure 3.2 Overview of the Agency Relationship Leading to the Demand for Internal Controls (Messier, 1997)





### 3.1.2 Requirements

This segment shortly presents the Act and its contents. How the internal control is required to be adjusted is also stated.

#### 3.1.2.1 The Act

The Act consists of 11 chapters. The figure below shows its key elements.

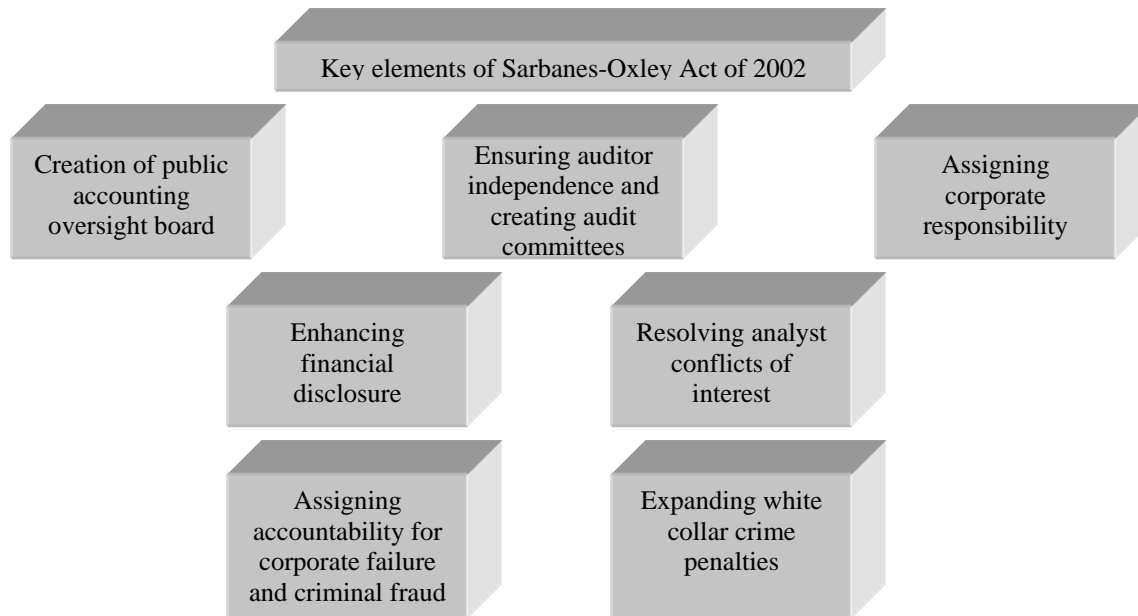


Figure 3.3 Key Elements of the Sarbanes-Oxley Act of 2002 (Banks, 2004)

The legislations major provisions include (www.wikipedia.com [b]):

- Certification of financial reports by CEOs and CFOs
- Ban on personal loans to Executive Officers and directors
- Accelerated reporting of trades by insiders
- Prohibition on insider trades during pension fund blackout periods
- Publicly revealing of CEO and CFO compensation and profits
- Additional disclosure
- Auditor independence, including outright bans on certain types of work and precertification by the company's Audit Committee of all other non-audit work
- Criminal and civil penalties for securities violations
- US companies are now obliged to have an internal audit function, which will need to be certified by external auditors
- Significantly longer jail sentences and larger fines for corporate executives who knowingly and wilfully misstate financial statements
- Preventing audit firms from providing extra "value-added" services to their clients including actuarial services, legal and extra services (such as consulting) unrelated to their audit work



The text below is section 404 of the law itself.

#### **TITLE 4 - ENHANCED FINANCIAL DISCLOSURES**

##### **SEC. 404: MANAGEMENT ASSESSMENT OF INTERNAL CONTROLS**

*(a) RULES REQUIRED. – The commission shall prescribe rules requiring each annual report required by section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) to contain an internal control report, which shall –*

*(1) state the responsibility of management for establishing and maintaining an adequate control structure and procedures for financial reporting; and*

*(2) contain an assessment, as of the end of the most recent fiscal year of the issuer, of the effectiveness of the internal control structure and procedures of the issuers for financial reporting.*

*(b) INTERNAL CONTROL EVALUATION AND REPORTING. –With respect to the internal control assessment required by subsection (a), each registered public accounting firm that prepares or issues the audit report for the issuer shall attest to, and report on, the assessment made by the management of the issuer. An attestation made under this subsection shall be made in accordance with standards for attestation engagements issued or adopted by the Board. Any such attestation shall not be the subject of a separate engagement.*

### **3.1.3 Internal Control**

Internal control is an accounting procedure or system designed to promote efficiency, assure the implementation of a policy, safeguard assets or avoid fraud and error etcetera ([www.dictionary.com](http://www.dictionary.com)). When discussing internal control in the continuation we refer to the definition used by Securities Exchange Commission (SEC). The term is then narrowed down and beholds only internal control over financial reporting, as it is required by the Act. It is defined as a process, designed by the CEO and CFO and affected by the board of directors, to provide assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles (GAAP), (Ramos, 2004).

The many provisions of the Act include a requirement that management provide an annual report on the effectiveness of the entity's internal control over financial reporting. In order to perform an audit of internal control over financial reporting and to help entity management, we will use a structured approach, discussed by both Ramos (2004) and PricewaterhouseCoopers (2004), modified to suit the purpose of this thesis. In doing so, we will achieve an assessment on the effectiveness of the internal control.

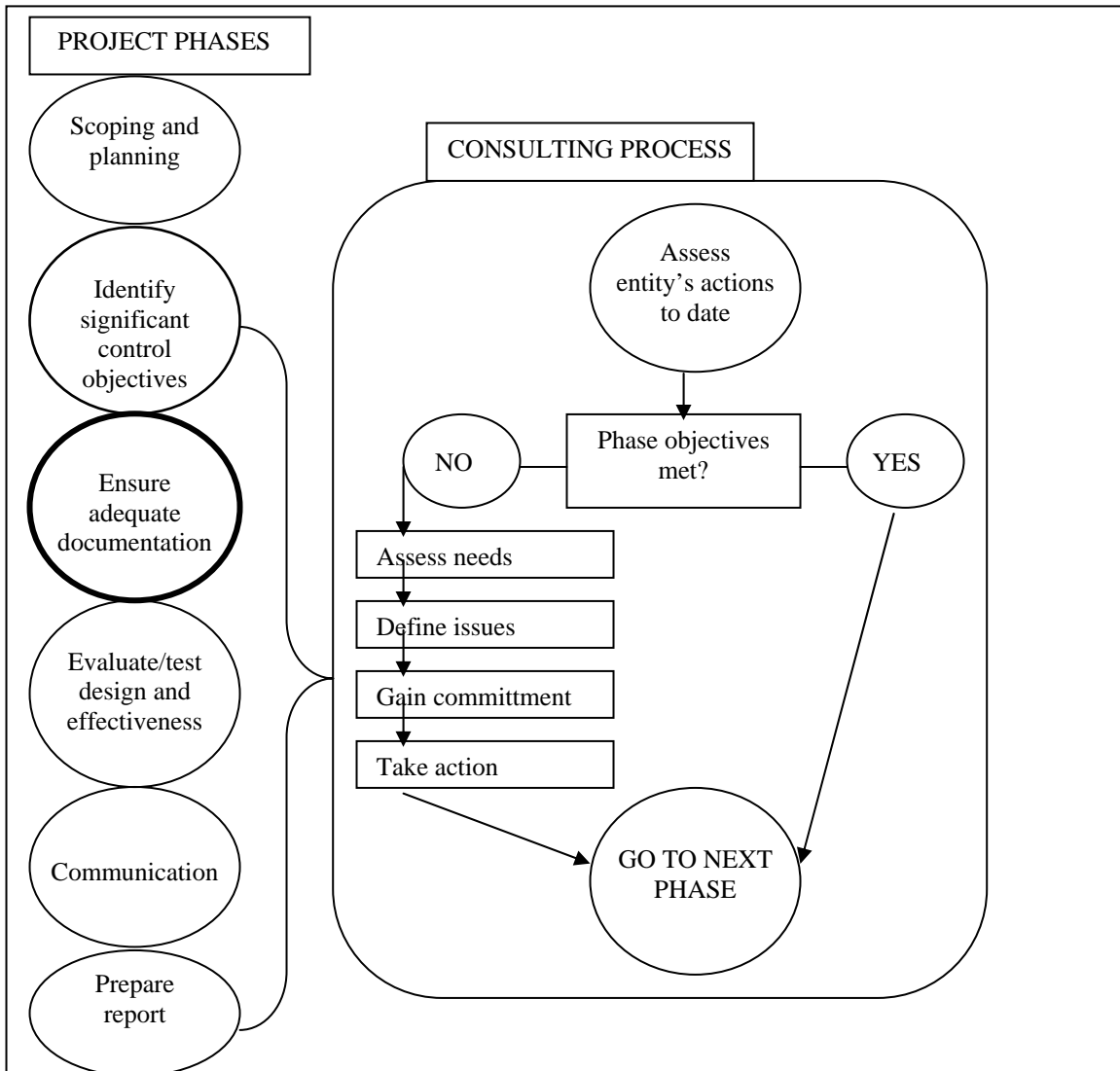


Figure 3.4 Process for Evaluating Effectiveness of Internal Control (Ramos, 2004)

Considering that the company we are to study is in the documentation phase we will concentrate on this area. To meet the responsibility required by management there are four steps that should be followed: determine the scope of documentation, develop process documentation, develop control documentation and assess the design of the controls (PricewaterhouseCoopers, 2004). Depending on how far the company has come in this phase, the steps may need to be performed concurrently in order to meet the deadline. PricewaterhouseCoopers (2004) describes five components of internal control according to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework. These are: the control environment, risk assessment, control procedures, information and communication as well as monitoring. Management determines whether the controls, if operating as intended, will provide reasonable assurance that management’s control objectives are being met. Internal control provides reasonable but not absolute assurance that an entity will achieve its financial reporting objectives. The COSO recognizes the limitations of internal control. Failures can be



experienced due to human error, management override or collusion between individuals. The SEC reporting rules require that material weakness in internal control is disclosed by management.

Once the documentation phase is completed the controls and figures can be fed into the system. The Management of Internal Controls Component (now on referred to as the MIC-tool) enables companies to move toward compliance with the software requirements laid out in sections 302 and 404 of the Act in the program environment used for documenting accounting figures, for example SAP. The MIC-tool allows you to present the control activities in your company that are implemented in the processes having an impact on financial statements ([www.sifysox.net](http://www.sifysox.net)).

Also, information technology (IT) has become a necessity for companies' business processes and controls. IT-related controls must be taken into consideration and integrated with the entity's overall assessment of its internal control. IT serves as an information opportunity for the employees, keeps them update and should be easy to follow. IT also makes it possible for all shareholders to obtain relevant and timely information about the company and enables them to receive tailor-made information.

## **3.2 The “Soft Side” of SOX**

### **3.2.1 Total Quality Management**

TQM provides a important testarea for the academic community concerning several of management theories such as leadership, strategy and employee involvement (Wilkinson, 1998). “TQM is not an approach or philosophy of management which is self-evident” (Wilkinson, 1998). There are definition problems associated with the concept of quality itself. The wide variety of activities, practices and techniques that are carried out under the label TQM makes it difficult to maintain a clear conception of what the term means. Therefore, it does not exist one single clear definition of TQM. The definition of TQM varies all over the world and is often used to refer to any kind of change program that managers want to implement in the name of organisational improvement. There are however some elements that can be considered the core concept of TQM and they are according to Dahlgaard (2000) as follows;

- Strong Management Commitment / Leadership / strategically based
- Continous Improvement
- Focus on Customers / Customer-driven organisation
- Total Involvement / Total Commitment / Total Responsibilities
- Action based on Facts / Scientific Approach
- Focus on Processes
- Focus on employees / Teamwork / Motivation / Empowerment
- Focus on Learning / Training and Education
- Building Partnership between Suppliers, Customers and Society
- Systematic Approach / Building TQM culture



Quality control consists of both the control during an operational process and at the post-process stage (Wilkinson, 1998). The characteristics are control and inspection. The responsibility for quality assurance usually lies on a specialist department. Quality is considered as a business function and includes the quality assurance to every company activity and is characterized by the application of good practice, quality management principles and techniques.

There are two aspects of TQM, one “soft” and one “hard” aspect (Wilkinson, 1998). The hard aspect refers to the production orientation, collection of data and measurement. All activities in a company contribute to the quality according to TQM (Wilkinson, 1998). Even so, it is important that a company’s activities are documented in order to clarify effects on quality.

While solutions to the technical issues of designing suitable systems and procedures often are fully specified, there is sometimes a scarcity of understanding when it comes to the treatments of social factors. Such factors are likely to be crucial given the statement that quality concerns everyone. The soft side focuses on the management of human resources in the organisation and lays particular importance on the need to change culture (Wilkinson, 1998).

### **3.2.2 Change**

Relatively little empirical research has examined the variables associated with the questions of interest to the issues considering corporate governance in change (Chaganti & Sherman, 1998). Recently, there has been an increasing interest in examining the role of different participants in the governance structure on the firm’s ability to implement strategic change.

Studies have discussed and examined factors associated with firms that change strategies. In the studies, shifts in the firm’s strategic orientation or change in the products and services offered by the firm, is defined as strategy. When only absolute inertia, that is whether the firms changed their strategies or not, is examined, it becomes evident that most firms are able to make major changes to their organizational practices in response to significant shifts in their respective environments (Chaganti & Sherman, 1998). A few environmental shifts identified include government deregulation of the railroads, federal government pressure on municipalities to adopt a corporate form of structure and government change in policies toward hospitals. The results can be interpreted as an indication of strength of inertia forces even in the face of dramatic changes in the respective firms’ environments. Roughly, 40 percent of the organizations did not alter their strategies in spite of the presence of tremendous pressures to do so and the passage of three to ten years.

Board diversity measures the degree of differences in occupational backgrounds and boards with greater diversity initiate less strategic change than homogeneous boards (Chaganti & Sherman, 1998). This indicates that greater board diversity causes greater conflict within the board, reducing its ability to come to agreement concerning



organizational goals and policies. However, much indicates that the strategic change process is very different in larger, multi-product businesses. For example, in larger organizations decision making is a shared responsibility and such organizations are also more formal and bureaucratic, which makes information processing more difficult and slows strategic implementation (Chaganti & Sherman, 1998).

The question of governance changes and if they really can work still stands. The answer is still uncertain but it seems improvements in governance will require a mix of mandatory rules and voluntary behaviour (Banks, 2004). Steps have been taken in the US, in the EU and in Asia but it would seem likely that the changes will be evolutionary and may even require yet another round of corporate crisis (Banks, 2004). Many hard choices will be needed and an ending to years of business practices and relationships will take time. Translating best practices into real corporate action is not a simple task. It is fairly easy for a company to create best control criteria but it is far more difficult for a company to focus on the criteria by ensuring that they are part of daily corporate life.

### 3.2.3 Motivation Theory

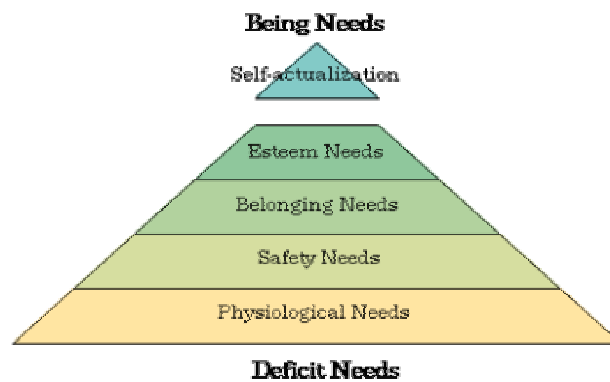


Figure 3.5 Maslow's Hierarchy of Needs (based on Maslow, 1970)

In order to ward off the tendency of employees not acting as wanted in the work situation, it may be a good idea to look at Maslow's Hierarchy of Needs above (Huizinga, 1970). Every person involved must realize the solidarity in a company and feel engaged in the process in order to feel the project worthy their time. The insight that organizational and individual control can work synergistically needs to be recognized (Dalton, 1971). Huizinga (1970) has developed a model of satisfaction contra dissatisfaction in relation to the basic needs.

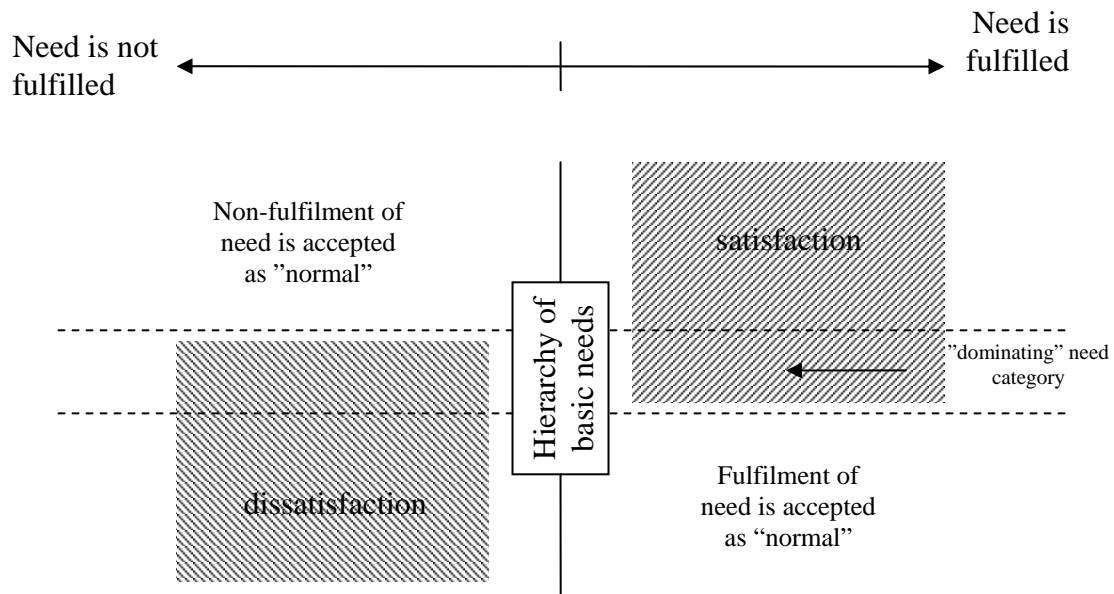


Figure 3.6 The Emergence of Satisfaction and Dissatisfaction (Blücher, 1999)

In order to motivate persons in an organization to act in a desired way, there are general and impersonal rules set as well as behavioural guidelines defined through the formation of a Code of Conduct. Management must be able to stimulate and motivate the employees in the organization, as well as see the opportunities, have a positive attitude and act as support. Once the individuals realize where management stands in an area, certain factors can be called to attention (Blücher, 1999). Management should show respect and appreciation, act cooperatively, bring in employees views, effectively give information, ensure development and designate goals. The outermost important duty is to get the individuals to efficiently work together through motivation and the organizations ethical environment (Blücher, 1999). The following figure shows the intended results of rules (Gouldner, 1953). Measurements of any kind, to enforce the rules, have a motivational effect especially among individuals with a high “need for achievement” (Dalton, 1971). We tend to put greater effort in those objectives where measurement is easily done and thereby excluding those of greater importance but where progress cannot be so easily measured.

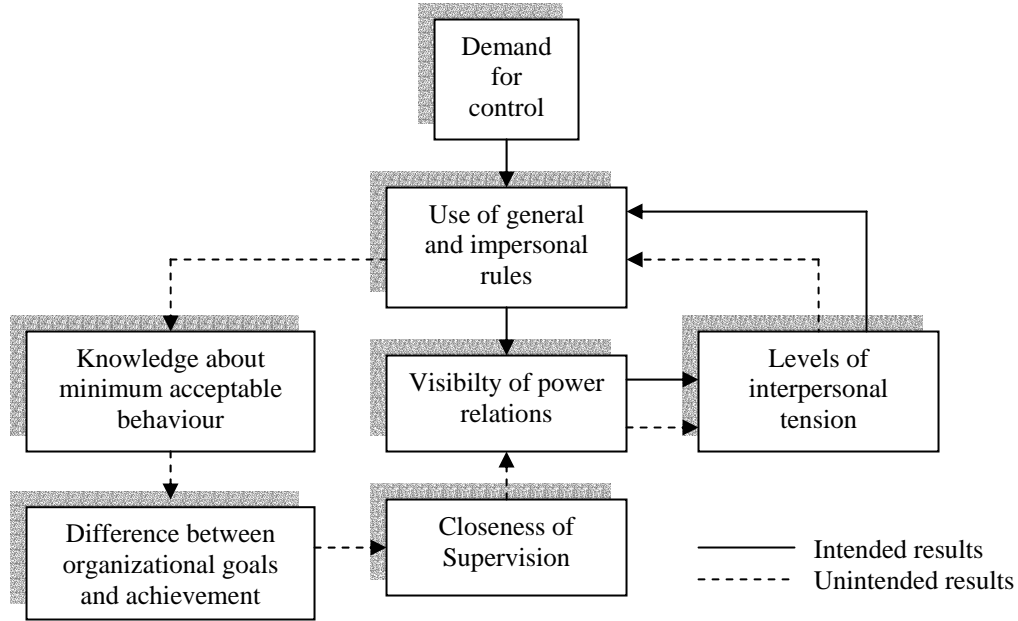


Figure 3.7 The Simplified Gouldner Model (Gouldner, 1953)

### 3.3 *Compilation of Theory in Relation to Effects*

The figure below summarizes the relation between the different areas and the relevant theory connected to them. The review of the requirements is a pre-understanding for management as well as for the employees. They are needed in order to give adequate space for establishing expectations. Management has the responsibility to lay a foundation where the employees are motivated in order to gain approval of actions required. With the help from applicable theories we can predetermine how the areas defined in the problem will be affected. Realization of how change can take place and its effect on implementation will result in the best outcome possible.



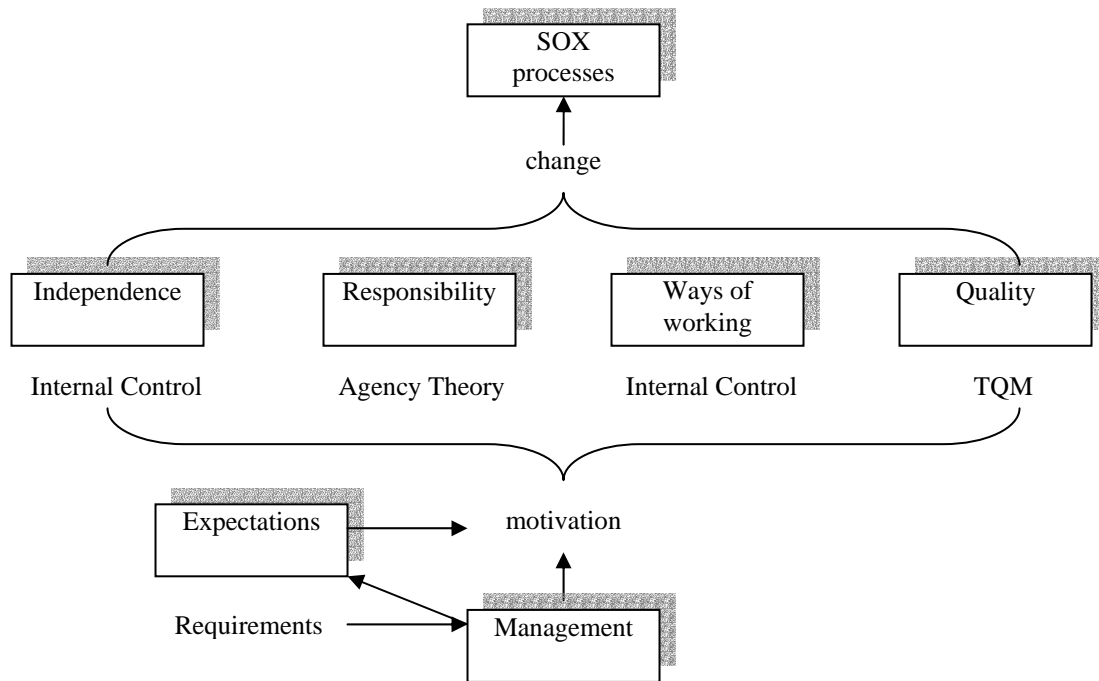


Figure 3.8 Compilation of Theory in Relation to Empirical Findings (own design)

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*Here we have presented the different practices in theories relevant to the framework of this thesis in order to come to an adequate conclusion. In the following chapter, the results of the interviews are presented.*

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## 4 Empirical Findings

*The results of the empirical findings are presented in this chapter. The information is organized into the five areas that were presented in the definition of the problem. The opinions stated are the interviewees' and not the opinion of the company.*

### 4.1 General Remarks

In this segment the results of the interviews are presented. The results are structured into the five areas that were identified in the segment "Definition of the Problem" and they are expectations, independence, responsibility, ways of working and quality. While conducting the interviews we found that there was no reason to ask the questions in any special order and a few of the questions were only included for us to gain a better understanding. In order to more easily analyze the answers, we have categorized the questions into five different areas of interest having to do with the definition of the problem. The interviewees emphasized different aspects of the questions, responded differently in lengthiness of the answer and sometimes would spin-off into other areas. However, we feel that the answers in some instances were similar enough to summarize while for other instances we have presented the differing opinion. As mentioned earlier, the interviewees differ in background, knowledge and experience in the area we study therefore we found it more reasonable to present a general description of the interviewees' answers rather than to include each answer. The interviewees have also pointed out that the answers given are their own personal opinions and not public policies, therefore we present them anonymously. Given that the general view of the issues is more relevant to this thesis rather than each individual answer, we can justify the method used in presenting the answers.

The main problem, "what effects will the implementation of section 404 of the Act have on existing internal control with regard to previous internal control procedures", is of more general nature and it is the categorization into five areas that makes the analysis of the main problem possible. We draw attention to questions concerning expectations, independence, responsibility, ways of working and quality for the purpose of answering our main problem. We found these areas interesting because they all have to do with effects on internal control and the implementation of section 404 of the Act.

### 4.2 Responses

In this segment we will summarize and comment the answers received in the different areas as well as present a few quotations that exemplify the thoughts of the interviewees.

#### 4.2.1 Expectations

All of the interviewees have said that once they understood what SOX was all about, they felt encouraged to perform the implementation. Many of them believe that a greater



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awareness in the organization will take form and that more people will understand the importance of correct figures in the reports. They were, in general, positive about the idea of an improved internal control to help them overlook the processes in a way they have not been able to before.

*“The internal control process will get a big push forward and that should really help everyone involved once it is working.”*

*“It is great that attention is given to internal control but at the same time it may be a burden for many.”*

*“The controls may have been performed earlier but no one has verified that they have actually taken place which is why I believe SOX is a good thing.”*

*“The consciousness of controls is raised for both the economic processes and for the rest of the company. Deficiencies can be identified that might not have been found or even cared about before.”*

Many in the organization worry about the new MIC-tool that is going to be used in compliance with SOX which is obvious in the following quotations.

*“I think there are uncertainties with the tool since it is intended to have many users and they are not supposed to be in it that often.”*

*“What worries me is the way Volvo chose to present the tool when I was at the MIC-education because it really scared me. But it might be because they had completely misunderstood who was there and therefore focused on the wrong areas.”*

Many think that this reformation of the organization can help Volvo to become more efficient and exclude operations that are not necessary. Some of the interviewees have expressed their confusion over why Volvo has not looked over internal control earlier.

Some of the interviewees talked positively about the benefits of improving the internal control processes even in comparison to the cost whereas others spoke of the cost as high and a possibility for the consultants to take advantage of the situation.

*“I hope that the company will be easier to overlook. I already know that in some processes the reaction has been –oops, I didn’t know this and I’m supposed to.”*

*“I think it will produce a greater awareness in the organization about the importance of disclosing correct figures in the reports and that the procedures actually mean something.”*



*“In the long run it will be much better for the external auditors to see that we can handle our internal control processes, that we document them and that we continuously work on the processes in another way than has previously been done.”*

*“I don’t believe the benefits exceed the cost, instead this is something that consultants can take advantage of. We already have good controls and we don’t have the culture here in Sweden where you check on those who inspect.”*

*“The price tag of implementation may be higher than the benefits but it will be around much longer. I also think we will return to the goal oriented governing style in order to get away from having to do checks in the aftermath which in turn may leak out even more cash.”*

#### **4.2.2 Independence**

When we asked if the interviewees thought that the independence would diminish the answers varied. As a matter of fact, we did not get two answers that were alike. Some stated that any change on independence could not possibly be noticed until everything is fully implemented and up and running whilst others said that it will be hard to sell into the organization. Some said that only management would sense that their independence would be less than before. We even got the answer that nothing would change.

*“The more rules there are, the less independence you have.”*

*“There is no way to tell how the independence of each person will be affected until we have launched the system.”*

*“I don’t think that the independence in the daily work will be limited for the ordinary worker. However, for management it may complicate doing things that they are used to and might think that someone in their position should be allowed to do.”*

*“When it comes to the independence of our daily work I think it can become a problem to sell the idea into the organization considering that everything shall be controlled and more structured. Yet, good controls and good governing results in a good company.”*

At first people in the organization did not understand why they should go through their processes since they had done so recently with another perspective. After they had received information and started to see what could come out of it, for example, that they can easily overlook their operations, everyone seemed to take a great interest in SOX. One of the interviewees thought this could have to do with the reasoning that everybody appreciates attention and that this in turn gives the feeling that their work is important. Considering the Code of Conduct, the interviewees mainly thought that Sweden in



general has a good level of moral and that the Code of Conduct should not be altered that much. Yet, some of the employees were aware that changes have in fact been made to make it in compliance with SOX.

*“Many have taken active interest in the project and I haven’t heard anyone disapprove. This probably comes from the fact that people like to talk about their job and enjoy when others show interest in what they do.”*

*“When it comes to the Code of Conduct changes have been made, the Code of Conduct has already been revised twice recently. At the same time, an Audit Committee has taken form subordinate AB Volvo to whom the auditors report. There haven’t been any steps outside its boundaries but it has been revised to be more of the popular version and in full consent with SOX.”*

### **4.2.3 Responsibility**

This area is the one that arouse most opinions of them all. The process owners and the project responsible in the different business areas feel as if they have been forced to push information both upwards and downwards. Another aspect is the misjudgement of how much time this project required.

*“I don’t think that the ones who are in charge see the benefits with the implementation, instead they see SOX as something the cat dragged in and this attitude surprises me. And I think this reflects the entire way of which the introduction to the process owners has taken place. It does not act as a support but instead they just force it on them.”*

*“The internal control process will get a big push forwards and that should really help everyone involved once it is working. The controls may have been performed earlier, but no one has verified that they have actually taken place which I believe is a good thing.”*

*“The resources and time needed was hugely underestimated, we have practically thrown in people to be able to get the work done.”*

*“The responsibilities were a little bit confusing in the beginning, there were no clear directives on exactly what to do. And it took awhile before the example documentation was uploaded.”*

*“It has occurred that employees have willingly taken part of the documentation phase, made sure that those in the assembly have been ready for interviews on short notice and taken the duty of informing others instead of opposing the project. But it is likely that resistance has to do with the lack of resources at hand and that many entities are*



*used to working directly towards the market and not inwards toward administration.”*

*“The first time our internal auditor contacted me about SOX, I told him that I didn’t have time for this new project because I was in the midst of monthly closures. We didn’t understand the purpose of SOX and how important it is until it was right on our desk.”*

*“The project team reports to Bengt Salander who in turn reports to Leif Johansson and Stefan Johnsson since they are the utmost responsible persons that sign the documents.”*

*“When you come down in the organization to perhaps under sub process owners, English is still a big problem within Volvo. That is, again critique towards different management levels that they haven’t been able to maintain the ability, amongst the staff, to communicate in the company language so that they can use it in their daily work and not just understand a movie.”*

All of the interviewees agree that management has not taken their full responsibility. The general opinion is that there has been a lack of both interest and information at the top level. Yet, many of the interviewees perceive that this has to do with their lack of knowledge and their unawareness of the importance because they are so busy with other duties.

*“From the start, the enforcement behind the project was badly steered.”*

*“The CEO hasn’t said anything until just recently but in his position I understand that he needs to delegate some responsibilities. Although, some sort of statement could have been made sooner considering that everyone has expressed how important SOX is and that many have been told to re-prioritize projects.”*

*“I think that the enforcement of the project has been poor, it has taken way to much time to sell the idea even to the top management. The project management had to sell the idea both up in the organization and down.”*

When talking about the responsibility factor, many of the interviewees had opinions and suggestions on what could have been done better. For that reason, some of the thoughts and ideas that came up follow:

*“Start on time, they say that it usually takes 2-3 times longer than planned. The run-up is pretty long until you reach the right state of mind. There is a lot to read and plenty of information to take in.”*



*“It isn’t a game, this is serious business. It shouldn’t take too much time before it gets out into the organization. In 2003, Volvo Executive Committee became aware of SOX but it was not easy for them to know how much time was needed.”*

*“Many things could have been done differently! I think that work should have started with management and more clear information on how important this is. Then, management could have enforced SOX downwards instead of the process owners pushing both up and down. More information on what the Act actually means with responsibilities and so on.”*

*“Start at the top with solid information for management. Let them take the three-day course so that they realize the importance of SOX.”*

*“The information could have been easier to follow.”*

*“I think it’s sad that we use so many consultants for documentation. I’d rather that we allocated more internal resources in the documentation work because we will have to work with it later on anyway and it can then grow with us. In doing so, we have put ourselves in a situation where we have to rely on the consultants.”*

*“A suggestion is that they could have changed the entire basic view. SOX is something good and something that can guarantee that we will not be vulnerable to fraud opportunities. It depends on the chosen project team’s ability to communicate and present things; maybe this was a punch in the stomach which they never got up from. Very experienced people should have this position.”*

*“I think the central group should be more aware of the signals they send out when they say things and I think it is absolutely unacceptable the way they have introduced SOX. You can “throw a stone into an anthill” or you could put it down gently, they shouldn’t have been so afraid of SOX and instead seen the opportunities.”*

#### **4.2.4 Ways of working**

In order to understand how the Act has affected the employees’ ways of working, the interviewees have explained how their work takes place. All interviewees emphasize that the final effect on ways of working will not be noticed until the MIC-tool is up and running. It seems to be the overall thought that benefits have been seen in the processes and they are content that the internal controls have become obvious as well as that they can be used in order to more clearly see certain work elements that can be considered superfluous or are not done at all.





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*“The project should have been completed in November but Volvo said to wait for the examples...that weren’t available until about a month ago, why the process has been delayed. There is no last date but it should be implemented and revised by hard close 2005.”*

*“The examples change constantly and need to be verified. No one can finish until everyone is finished. If any changes are made, then I have to re-evaluate and this in turn means that I’m actually not finished. I have explained this to the central group and they were astounded. If they haven’t even thought of it, then you really understand how complicated it is.”*

*“We will handle detected gaps in each process. Each process owner will be responsible for trying to close them because we are working towards having no gaps.”*

*“When gaps are detected we test the controls and if something isn’t right we flag them, after that we construct a measurement plan. There is possibly, an opportunity to close the gaps through our control goals before completing.”*

There seems to be mixed opinions concerning the homepage. Everyone has used it and found it useful in one way or another but not all of the interviewees have found the navigation logical. For example, the interviewees said they had to click their way around in very many steps before finding the information they actually needed and others said that it was hard to see which examples were published and updated last. Some of the interviewees speak very positively about the homepage as a useful distribution source while others have found the site just satisfactory.

*“The homepage...well, it’s good but there is no order. People work parallel to each other and the processes go hand in hand. One thing, I might add, is that input is processed and might be something another process leaves as output and I have no clue as to how it has changed.”*

*“The homepage has been useful and a good source to spread information.”*

The interviewees do not believe that the work in general will increase. Some of them believe that there lies a risk that documentation will take more time than necessary. Concerning the questions of the increased documentation, we believe they have emerged because they are not used to all of the extra paper work required. One of the interviewees states that the only solution to this would be to hire more personnel.

*“There is a risk that there is a lot that needs to be documented and I don’t think that we have the culture here since we work in a different way than they do in for example, the US.”*





*“Once this is out in the assembly, the work will gain for those maintaining and performing the controls in the tool.”*

*“In the long run the workload shouldn’t be heavier than before, but I’m surprised that AB Volvo hasn’t emphasized internal controls earlier.”*

*“Sure there have been entities with cost or profit responsibility and this is no news but the fact that factory managers and assembly workers are required to understand how the reports are made is certainly new.”*

*“The consultants don’t do the work, we are the ones doing the hard work, they just make sure that we work in the right direction and help us understand since they are more involved.”*

*“I am going to tell my boss that we need to hire more people. Maybe a larger group of internal auditors will take form with the mission to chase others and get the employees to do the work. Of course the workload will be heavier.”*

#### **4.2.5 Quality**

One of the interviewees expresses the importance of understanding the overall picture and how this affects the quality of the processes. The interviewees agree that the overall quality of the financial reporting will improve, how could it not if the entire organization is being looked over and ineffective controls are removed? One of the interviewees cannot see any improvements in quality without hiring personnel.

*“What employees do, or don’t do, actually makes a difference! Not everyone understands this. Plenty of reports are made where they talk about operating income but as a constructor this is not understood. Constructors talk more in terms of – are drawings finished on time? To understand the influence this has on income they need to understand the chain and what happens if they are not on time.”*

*“Lloyds has previously made sure that we have quality controls and certified that they are according to ISO but there is nothing that really can prove that we work this way.”*

*“The quality of the financial information will be better and everyone is given the opportunity to review their processes.”*

*“I don’t think the quality will become any better given that not enough resources will be set aside. The existing staff will have to be enough but maybe someone will be hired to maintain the system.”*



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All of the interviewees question how SOX quality processes of internal control will be managed further along in the process considering that they have other quality systems running. Some of them would like to see that they are integrated into one system which inspects the quality of; financial information, environmental issues and product quality

*“In one way or another, we have to try to integrate the two quality systems, instead of having two distinctive systems which means we have a pretty big job ahead of us.”*

*“The question still stands, should we have two systems or should we try to make some kind of hybrid. But then again, SOX is supposed to be used with the MIC-tool and it is a stand-alone. We are not sure how this will be solved and people are starting to get frustrated.”*

*“We’ve met many reactions such as – we already have a quality system, and they need to know that we need to cover all aspects of quality. In the long run, it is possible that the environmental, quality and financial goals can be built into one system. It is a new way of thinking, having the whole organization involved in things that have to do with accounting.”*

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*The results of the empirical findings, divided into the five areas discussed in the definition of the problem, were presented in this chapter. The empirical findings will in the following chapters be used to analyze and draw conclusions on the effects of the implementation.*

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## 5 Analysis

*This chapter connects and analyzes the frame of reference and empirical findings in order to fulfil the purpose and answer the questions in the definition of the problem.*

### 5.1 Expectations

*“I hope that the company will be easier to overlook. I already know that in some processes the reaction has been – oops, I didn’t know this and I’m supposed to.”*

Most of the interviewees hope that the company’s activity will be more enlightened and that the efficiency will be enhanced as a result of the knowledge that can be gained from the controls when it comes to operations that prove to be superfluous. It seems obvious that the employees we have interviewed, to date see the positive effects of SOX and the opportunities it will bring. These expectations may be tainted by the fact that the persons we have spoken to have received the information necessary to understand the importance of SOX whereas others, further down in the organization and to whom we have not spoken with, are not as well informed or able to see the overall picture nor are they eager to overlook the processes once again.

It seems hard to see any uncertainties which may have to do with the Swedish way of thinking, believers of the government and the acceptance of any legislation that is passed. On the other hand, it may solely have to do with the realization that SOX and improvement of internal controls is in fact in demand. Those who suspect any uncertainties in the future have to do with worries over the MIC-tool and how it will work in practice and not in theory which evidently has to do with the lack of time available. A solution to this would have been to do a pilot study through the tool in advance to make sure that the controls tested what they are meant to test.

Even though compliance is a costly procedure it must be implemented. Different levels of compliance exist and a company can choose to do as little as possible or as much as possible to really achieve something from the implementation (Ramos, 2004). Volvo has chosen to do a little more than the minimum and will hopefully somewhere along the line benefit from this. Perhaps the external auditors will be lenient in the first year and later on become more ruthless and demand more details why they have an advantage in being detailed.

A constantly recurring issue is the differences in culture between European and American corporate actions. Some of the employees have questioned the need to inspect the one who performs the inspection while others have only encouraged and approved of an improvement of the internal controls in accordance to the Act. They seem to agree that the legislation is not going to lead to a more Americanized form of corporate governance but instead a better environment for Swedish firms. Whether the cost of implementing



SOX is worth it or not is irrelevant considering that the legislation in section 404 is cogent and is recommended to take place as stated in segment “Requirements”.

As shown in figure 3.1, *Summary of Internal and External Governance Mechanisms*, corporate governance issues and management can be disciplined with the help of boards of directors, executive management, internal control groups and Code of Conducts. Proper behaviour can then be encouraged as a few of the interviewees have expressed.

Depending on how the change of corporate governance takes place, the employees’ expectations will be affected. If the change is put into practice correctly and adequate information is acquired, the expectations may rise (Blücher, 1999).

## **5.2 Independence**

This problem area was the hardest to analyze because the interviewees had little to say on how the Act has already or will affect the independence of each employee. This may have to do with the fact that the compliance is not fully implemented or running. When asked if the independence concerning daily work will be more limited the answers varied. The respondents had pretty diverse answers to the questions. Some said that it wouldn’t be affected at all and some that it could be a great problem whilst others thought it will only affect management.

The Code of Conduct is of great importance for organizations to make the employees aware of the company’s standpoint regarding ethical issues and to steer them in the right direction. Efficient governance relates to the internal control system and effective risk management. Following the introduction of SOX and in order to declare the importance of the Act revisions were made to make the Code of Conduct in compliance with the internal control requirements. The interviewees agree that if individuals’ needs are taken into consideration and if the Code of Conduct is stipulated in accordance with minimum acceptable behaviours, management can achieve a synergistic effect. This is shown in figure 3.7 *The Simplified Gouldner Model*, where unintended results become obvious if the employees make use of or exploit knowledge about minimum acceptable behaviour.

Motivation has great impact on how employees perceive their independence. If great changes are made to the amount of independence accepted then the employees must be encouraged to take on the changes with the belief that they will benefit from the outcome (Huizinga, 1970). If the independence accepted or allowed changes noticeably, greater conflicts indicate that the ability to come to an agreement will arise.

To conclude, section 404 of the Act has little importance on the independence of the employees. It is only a perception of how much space they are given to act as they would like that stems from the greater workload.



### 5.3 Responsibility

The fact that management very late in the process took actions to speed up the work is particularly strange since the law will affect the CEO and CFO of the organization and they will be the ones who are fully responsible for the reports accuracy. As the effects of SOX are so ample, one would have thought that company management would take a more active role earlier on in the process in order to validate the importance of the changes that were going to take place. This may be due to their lack of knowledge concerning SOX which is why the importance of acquiring correct information is highlighted.

*“From the start, the enforcement behind the project was badly steered.”*

This pretty much sums up all the interviewees opinions concerning the enforcement behind the project. The central group is apprehended to have been formed with little consideration to their experience of delegating responsibility or knowledge of adequately acting as an intermediary between top management and the assembly. To overcome this interpretation the project group could have more enthusiastically enforced the correct actions. Unfortunately, there is no way to tell how the initial process has taken place and therefore conclusions cannot be drawn on why the employees feel this way but it should be taken into consideration in the duration of the implementation.

One of the factors behind the great delays before compliance is due to management's optimistic idea concerning the time schedule. The scope of processes and accuracy in identification could have been performed in a much better manner with the help of everyone involved.

In the process owners haste to achieve compliance they have taken shortcuts that may lead to reconsideration in 2006 and further audit cycles. Considering that the bottom-up approach has been brought into play in some processes, more points of control have been identified than necessary. This makes ongoing compliance more complicated, time consuming and therefore more expensive than it ought to be. Controls and tests may need redesigning to make periodic testing more efficient.

The following figure shows internal control's placement in the agency theory. Its role is more of a supervisory body that insures adequate control by being the principal itself rather than acting as an outside party. With the help of effective and efficient internal control processes, the agent and the principal can work united in the best interest of the organization. Several interviewees explain the relationship as a link between internal controls processes and management i.e. CEO and CFO.

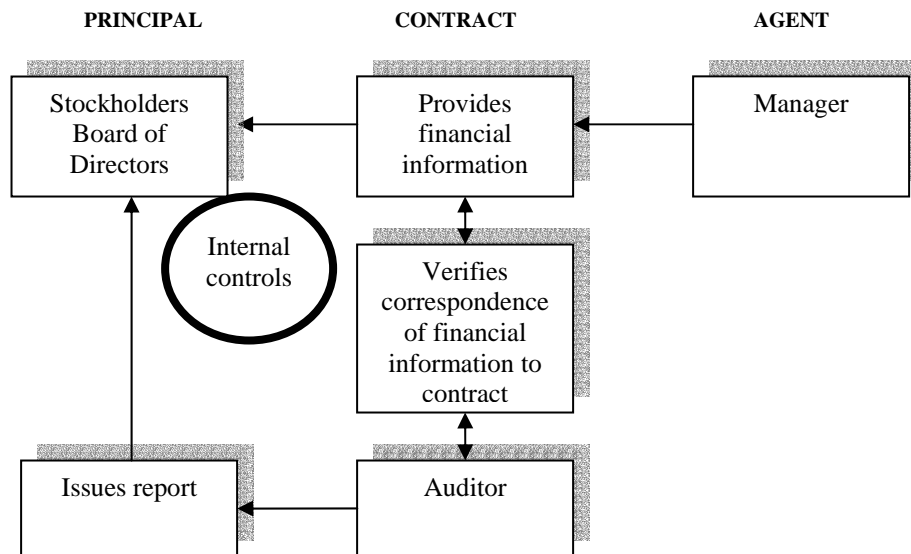


Figure 5.1 Internal Control in the Agency Theory – Based on Messier’s Model (see Figure 3.4)

Volvo is a large organization where decision making is a shared responsibility why information processing is difficult. Yet, given that responsibility is decentralized, the strategic implementation of SOX can be more easily done because the employees are able to take active participation, that is if of course only if they are motivated to do so. When you try to make a change in an organization the best way is to get the employees to work in one direction and to motivate them. In this case it has rather been the opposite through poor steering and lack of information.

#### 5.4 Ways of working

*“The consultants make sure that we move in the right direction and that we don’t go overboard. They don’t do the work, we are the ones doing the hard work, they just make sure that we work in the right direction and help us understand since they are more involved.”*

Processes are only effective if they are followed, and an essential step in compliance is appropriate documentation. The main concern when it comes to ways of working is how Volvo is going to handle the extra workload and actually perform the controls without the consultants. Some business areas had come further along in their independent work and had acquired more inside competence than other areas. The documentation work that is necessary for section 404 of the Act is a major impetus to “getting the ducks in a row” with respect to internal controls. That alone would be a huge contribution but when combined with an extensive series of control self-assessments, which are in turn checked and validated, the control culture is significantly enhanced.

It is evident that the ways of working at the moment have been affected because of the greater workload. In the long run however, it is too early to estimate how the work load will be affected.



When the employees say that they are “*the ones doing the hard work*”, we find this contradictory to some of their earlier responses concerning the reliance on consultants. They stated that too many consultants have been hired and that these newly found resources will later move on and then they will be left without the knowledge. We interpret this as a difference in how willing the employees have been in the different business areas to take on the challenge of implementing SOX. From the start, no one had the experience but it would have helped to have knowledge of how the process in reality works.

The intranet has been of great help during identification of control objectives and as an information source that improves efficiency due to the cut of resources devoted to achieving ongoing compliance. Over time, a more mature control environment will also substantially reduce ongoing costs.

Practically all of the interviewees have mentioned the reactions to the introduction of SOX and they have not been optimistic, at least not initially. As seen in segment “Change”, management should realize the need of ensuring that the control criterion is part of daily corporate life.

Some of the interviewees spoke about motivational concerns. It is of course, as stated in segment “Motivation Theory”, management’s task to stimulate and motivate the employees in the organization, as well as see the opportunities, be positive and act as a support. The “Volvo Way” helps to unify the employees within the organization.

Management can, in situations such as this, where corporate governance and the internal controls thereof face changes take notice of Maslow’s now widely known theory, Hierarchy of Needs, in order to best motivate the organization into acting as desired. The interviewees agree that if individuals’ needs are taken into consideration and if the Code of Conduct is stipulated in accordance with minimum acceptable behaviours, management can achieve a synergistic effect. This is shown in figure 3.7 *The Simplified Gouldner Model*, where unintended results become obvious if the employees make use of or exploit knowledge about minimum acceptable behaviour.

## 5.5 Quality

*“In one way or another, we have to try to integrate the two quality systems, instead of having two distinctive systems which means we have a pretty big job ahead of us.”*

This area is a great problem for the future, most of the respondents expressed concern for how the existing quality system and SOX should work together. As it is now, they run parallel and there is plenty of extra work put into the business. It is important to get people to understand that they actually can influence the result. As discussed in segment “Total Quality Management”, TQM beholds the control of quality both during an operational process and at the post-process stage. It seems as if the ambition is, if possible, to eventually integrate SOX with BMS. So far, there seems to be no other conclusion than





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## ANALYSIS

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that the quality of the controls will only improve and even better become more comprehensive.

As the soft side of TQM has to do with management of human resources and the need to change culture, it is obvious that SOX has great impact on quality because of the great gap between American corporate governance and European or Swedish corporate governance.

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*This chapter has connected the theoretical research and empirical findings together in order to fulfil the purpose and answer the questions in the definition of the problem. In the next chapter the analysis will help to present an answer to the main problem.*

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## 6 Concluding Discussion

*In accordance with the purpose of the thesis, this chapter will present the conclusions that have been made from the analysis. Also, we present advice of importance to other units of the organization or to other organizations on the verge of implementation in order to more easily perform the compliance. The chapter ends with a few suggestions for further research.*

This thesis aimed to clarify the effects of implementing section 404. We had one main question:

- *What effects will the implementation of section 404 of the Act have on existing internal control with regards to previous internal control procedures?*

Based on the interviews we can conclude that the effects on internal control have been several. All of the effects hidden within the problem areas are influenced by the choices made in relation to theory. The potential expectations have to do with the existence of knowledge of the Act and its requirements for each employee. A solution to the worries over how the MIC-tool will work in practice would be to run a pilot study through the tool in advance to guarantee that the controls test what they are designed to test. Depending on how the change of corporate governance takes place, the employees' expectations will be affected. If the change is put into practice correctly and adequate information is acquired, the expectations may rise.

The effects on responsibility have to do with effective and efficient internal control processes, the agent and the principal can work united in the best interest of the organization. Given that responsibility is decentralized, we believe that strategic implementation of SOX can be more easily done because the employees are able to take active participation, that is if of course only if they are motivated to do so. The enforcement behind the project was questionable and a solution would be to more enthusiastically enforce the correct actions. The scope of processes and accuracy in identification could have been performed in a much better manner with the help of everyone involved. In the process owners haste to achieve compliance they have taken shortcuts that may lead to reconsideration. Considering that the bottom-up approach has been brought into play in some processes, more points of control have been identified than necessary. Controls and tests may need redesigning to make periodic testing more efficient leading to a never-ending story of reassessment.

The Code of Conduct is of great importance for organizations to make the employees aware of the company's standpoint regarding ethical issues and to steer them in the right direction. If individuals' needs are taken into consideration and if the Code of Conduct is stipulated in accordance with minimum acceptable behaviours, management can achieve a synergistic effect. Unintended results become obvious if the employees make use of or exploit knowledge about minimum acceptable behaviour. If great changes are made to the amount of independence accepted then the employees must be encouraged to take on the



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## CONCLUDING DISCUSSION

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changes with the belief that they will benefit from the outcome. If the independence accepted or allowed changes noticeably, greater conflicts indicate that the ability to come to an agreement will arise.

The main concern when it comes to ways of working is how to handle the extra workload and perform the controls without the consultants once the consultants move on and the company is left without their gained knowledge. Over time, a more mature control environment with the help of IT will also substantially reduce ongoing costs. The control criterion as a part of daily corporate life needs to be ensured to enforce change.

The existing quality system and SOX run parallel and if possible it would be effective to integrate SOX with any other quality systems. So far, there seems to be no other conclusion than that the quality of the controls will only improve and even better become more comprehensive. The impact of extensive controls is dependent on the culture at hand.

The Act has led to an attempt to harmonize accounting standards and the passing of the legislation threatens other nations bearing competing conceptions of corporate performance and ways to manage, measure, and supervise. The reason to this threat comes from alien, superfluous or conflicting culture and values. Most likely, legislation will be passed outside of US borders and companies will be forced to comply with yet another set of rules within their own nation. The determination to stay or impose effectiveness depends on a finding that non-US registrants undergo adequate comparable regulatory supervision in their home country so that US investor protection goals are deemed satisfied by compliance. The globalization leads to increasing interdependence on national economies in our ever-changing world of accounting and internal control.

An effect of implementing section 404 of the Act may lead to requirements that employees with significant financial or operational responsibility sign letters before the CEO and CFO to certify the filings. This to ensure that CEO:s and CFO:s are attesting correct reports. The purpose of the letters would be to justify stances on questionable reporting issues.

We hope that, with the introduction of SOX, an improvement of the quality of the internal controls will be obvious in order to steer away from manipulation, immorality and even more corporate collapses. According to Smerdon (2004), the new minimum standards, discussed in this chapter, embody what up to now have been non-binding best practices and our opinion is that SOX should bring greater service ability to the financial reports. We expect average auditors will be far more lenient in their first pass, and will raise the bar in successive years, so the standards will be more demanding in subsequent annual audits. This is one of the reasons we recommend organizations and their underlying units to be precise in defining their control objectives. In the next segment, we present advice to have in mind when implementing SOX.

We believe that our conclusions can be of use to any company awaiting a change on internal controls methods. Therefore we will now present some advice to have in mind.



## **6.1 Advice**

- Begin top down and educate management so that they fully comprehend the substance of SOX.
- Make sure that management shows interest and devotion in order to permeate the organization with the same motivation.
- The persons designated responsible should be able to easily communicate, interact with others and be persuasive in presenting the importance of compliance.
- Form the group with competence in presentation technique and knowledge in aspects of internal control, including quality and IT.
- Establish cross functional groups because it is not only the economic and administrative side that will be affected.
- Consider how IT can improve efficiency with automated testing and documentation processes.
- Take advantage of what has already been done. Talk to and invite in those who already have experience with making the project work to get their side of the story and to get help with how to get organized as well as how to arrange the work and the internal assembly organization. Make use of this knowledge to start off in the right way.
- Start early to cut down the starting distance.
- Review the projects in order to determine which have the highest priority and postpone the others to get people to realize how important SOX is.
- Continue to further educate the employees in English.

## **6.2 Suggestions for Further Research**

This thesis has examined the effects of implementation of section 404 of the Act at Volvo. While conducting the research, we have discovered new angles and new phenomena that can be studied concerning internal control. These discoveries have not been studied and are still left to be examined.

- Given that this thesis has investigated the situation at AB Volvo shortly after the documentation phase of the implementation and presented discovered pitfalls and opportunities one might want to investigate the situation once implementation is running and working on a day-to-day basis. When a more significant amount of time has passed, it can be examined if the legislation has fulfilled its purpose and if the internal control processes truly have improved.
- This thesis is written from one company's point of view. It would, therefore, be of great interest to investigate how other companies have been affected by SOX and how implementation has been carried out in their organization. It would also be interesting to perform comparisons to see if similar effects have been noticed and if conclusions can be drawn while gathering input from several firms.



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## Appendix 1

### QUESTIONNAIRE

- What is your position/duties?
- Have you heard of the Sarbanes-Oxley Act, what do you know about it?
- If not, do you know that measurements have been taken to increase internal control?
- Do you know if a project team or disclosure committee has been formed?
  - What are their responsibilities?
  - To whom do the project team report
  - Who is part of the team or committee?
  - Have they reached any conclusions?
- Have you received enough information to carry out the requirements?
- Do you think the information concerning SOX has been adequate?
- Have you used the website?
  - What do you think of it?
- What is your timetable for completing the project?
- Has your daily workload changed in any way?
- Do you think you will have more or less to do?
- What actions have you taken to date to begin assessing the effectiveness of the entity's internal control?
- What do you hope to accomplish with the new rules/what has been required of you?
- Have the requirements affected your independence?
- What concerns you about this project?
  - Any uncertainties surrounding the process for making the assessment of internal controls?
  - Any uncertainties related to the outcome of the assessment and the possible identification of internal control deficiencies? Possible pitfalls?
- Do you see any opportunities with the implementation?
- How will you know that the project has been successful?
- What has Volvo achieved through implementation?
- What are the benefits considering the costs?
- How do you think the quality will be affected?
  - Old versus new quality systems and routines?
- How will you handle detected gaps?
- Do you think that the quality of the process or the company as a whole has been improved?
- How do you think the enforcement behind the project has been?
  - What could have been done better?
- Do you think that the management has been able to motivate the employees concerning the implementation of SOX?
- Has everyone taken an active interest in the implementation?
- Does the company have an internal Code of Conduct? Have there been any violations or waivers of its provisions?
- Can you recommend anyone else that should be suited for this interview?



## Appendix 2

### QUESTIONNAIRE IN SWEDISH FRÅGEFORMULÄR

- Vad har du för position/arbetsuppgifter?
- Har du hört talas om Sarbanes-Oxley Akten, vad vet du i så fall om den?
- Om inte, vet du att åtgärder har tagits för att öka den interna kontrollen?
- Vet du om det har skapats en projektgrupp eller en disclosure committee?
  - Vad har de för ansvar?
  - Till vilka rapporterar de?
  - Vilka är en del av gruppen eller kommittén?
  - Har de kommit fram till några slutsatser?
- Har du fått tillräcklig information för att fullfölja kraven?
- Tycker du att informationen kring SOX har varit tillräcklig?
- Har du använt hemsidan?
  - Vad tyckte du om den?
- När ska projektet vara slutfört? Dvs. när implementeringen ska vara färdig?
- Har din dagliga arbetsbörda förändrats på något sätt?
- Tror du att det kommer att bli mer eller mindre arbete?
- Vilka åtgärder har du tagit till dagens datum för att börja fullfölja effektiviteten vad gäller den interna kontrollen på din enhet i enlighet med kraven?
- Vad hoppas du åstadkomma med de nya reglerna/med vad som har krävts av dig?
- Har kraven påverkat er självständighet?
- Vad bekymrar dig med projektet?
  - Några osäkerheter kring processen för värderingen av de interna kontrollerna?
  - Några osäkerheter relaterade till utkomsten av värderingen och en möjlig identifiering av interna kontroller bristfällighet? Möjliga fallgropar?
- Ser du några möjligheter med implementeringen?
- Hur kommer du att veta att projektet har varit lyckats?
- Vad har Volvo åstadkommit genom implementeringen?
- Vad är nyttan i förhållande till kostnaderna för förändringarna?
- Hur tror du att kvaliteten kommer att påverkas?
  - Gamla mot nya kvalitets system och rutiner?
- Hur hanterar ni uppkomna gap?
- Tror du att kvaliteten på processen eller företaget i sin helhet har förbättrats?
- Hur har genomdrivningen av projektet varit?
  - Vad kunde ha gjorts bättre?
- Anser du att ledningen har motiverat de anställda vad gäller implementeringen av SOX?
- Har alla varit engagerade i implementeringen?
- Har företaget någon intern uppförande policy? Har det varit några överträdelser eller avsteg ifrån dess regler?
- Kan du rekommendera någon annan som passar för den här intervjun?