How does a country's historical development affect a company's accountancy?

A field study of the Hungarian airline company Malév

Kristianstad University
Department of Business Studies
FE6131 - Bachelor Dissertation

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ABSTRACT

When a country is going through bigger social changes, the companies within that country tend to get affected by the changes. Hungary was part of the eastern bloc during the communist era and underwent major social normative changes over time. This study is based on Malév Hungarian Airlines, a company that was established under strict communist control and underwent major changes during its fifty first years.

This dissertation will describe how the accountancy within a company is affected by the historical development of the country it is located in.

The purpose is to provide the reader with basic understanding on what has been influencing Hungary's accountancy within companies, in context to the historical development of the country.

The study is based on a literature review and tested in an empirical study with a qualitative approach. The literature review is based on two theories, namely the *Agency Theory* and the *Institutional Theory*. The theories and the empirical framework are strengthened by scientific articles and books.

The findings indicate that both social normative factors and ownership changes within a company, are two major factors that influence a company's shaping of their accountancy. Further that a regulated, coercive society tends to have an inhibitory effect on a company's accountancy.

Keywords: accountancy, underlying factors, historical development, ownership change, social factors, society, communism, Hungary, Malév, inhibitory

FOREWORD

With this bachelor dissertation we took advantage of our business studies at the University of Kristianstad. Since we study International Business and Economics, and Controller for Public Organizations, we decided to broaden our dissertation topic so that it would match our studies. Therefore we decided to write about a foreign company which has been governmentally owned.

Our tutor for this dissertation has been Bengt Göransson, to whom we would like to show our appreciation for helping us throughout this journey and guiding us in the right directions.

The dissertation was written partly in Hungary and partly in Sweden. We chose to write this dissertation in english so that it will be more accessible.

We would also like to thank Annika Fjelkner for taking the extra time to help us with our English in this dissertation.

Finally we would like to thank all the people who helped us during our writing with valuable information and by opening doors.

Kristianstad, December 2008

Angyal Viktor Lövquist Andreas

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CHAPTER 1
INTRODUCTION

This chapter will give the reader an introduction to the topic of this dissertation and present the problem. Further, the limitations will be presented, followed by the purpose and the research question. At the end of this chapter, the outline of the dissertation will be presented.

1.1 - Introduction and Problem Discussion

It is hard to imagine an efficiently running company without accepted accountancy as a fundamental part of its structure. The purpose of financial reports are to show the economic information for the external and internal interest groups of the company, thereby easing the comparativeness from one company to another.

Leśko (2007) discusses that new regulations of accountancy and financial reporting is a complex process that not only has to adopt to the new economic environment, but also take external influences in consideration. Leśko (2007) describes this situation happening in Poland during the fall of the communism. Poland's movement from planned economy to market economy showed that the transition was not only about adopting a new economic environment, but also get acceptance from the society.

During this time Hungary was in the same position as Leśko (2007) describes with Poland, were they had to decommunize the former accounting principles and adapt to the International Accounting Standards (IAS) and the upcoming EU regulations. A big part of the decommunization was to move away from the socialistic accounting system and the idea of maintaining full employment. Thereby moving towards the so-called "going concern" were the companies become more self reliant with focus on long term solutions, moving away from the certainty of getting funds from the communistic government in case of an economic down period (Leśko, 2007).

Ballas *et. al.* (1998) discusses that Greece changed their general accounting principles so the country would be more suitable for the European Community directives. The change that Greece implemented was an action to be able to join the European Community. In the long run this was a way to modernize Greece and prepare the country for the future within the European Union.

These discussions bring up an interesting question; what factors are influencing a company's shaping of their accountancy? According to Leśko (2007) the shaping of a company's accountancy is formed by the country's historical development. This statement indicates that the outcome of the historical development in different countries will be varied. Therefore this dissertation will discuss the historical development within a single country.

During the communism in Hungary, the Ministry of Finance implemented the so-called General Compulsory Scheme of Accounts which regulated the book keeping systems of all Hungarian companies and public organizations. After the fall of the communism, there was a desire to develop foreign exchange and a will to be a part of the European Union. This led to that Hungary applied the so called Accounting Law of 1991, which was implemented in January 1992 (Illés *et. al.* 1996).

Illés *et. al*. (1996) also discusses that Hungary wanted to achieve common policies for the tax collection, be a part of the European Community (EC) and increase the share of foreign capital investments, thereby increasing the expertise from international audit organizations. These were the determination factors affecting the development and implementation of the Accounting Law of 1991. This new law included very detailed accounting requirements based on the Fourth and Seventh EU Company Law Directives, were all companies in Hungary had to publish a balance sheet, profit and loss account and appendixes. Further the Accounting Law of 1991 required that the external control of the accounts had to be handled by external auditors chosen by the company.

The decision of implementing the Accounting Law of 1991 was a sign that the Hungarian society was now ready to move towards a market economy. Despite the society's time taking acceptance towards a new economy, there is evidence that a movement towards market economy was emerging amongst the country's companies even before the fall of the communism. This indicates a clear change in Hungary's history that affected the accountancy within the companies (Illés *et. al.* 1996). This phenomenon can be related with Leśko's (2007) discussion about external factors influencing the accountancy within a country.

1.2 - Problem Definition

As Illés et. al. (1996) discusses, companies in Hungary wanted to move towards market economy already during the communism, before society's decision on the preparation of implementing the new accounting laws.

Could this create a problem for the transition, as the companies were prepared to move towards a market economy earlier than the society. In this improper transition between the companies and the society itself, different opinions can occur and create disturbance between the two parties. This gives room to study what factors affected the economical development and the accountancy in Hungary.

To be able to make a study, we must explore the relationship between Hungary's historical development and the development of the accountancy within the companies. Thereby we hope to find given situations affecting the shaping of the accountancy in Hungarian companies.

1.3 - Limitations

In this dissertation we limit ourselves to examine one country, namely Hungary. The consequence of this choice is, that this dissertation can not be applied as a generalization of all the former communist countries. Furthermore we have limited our dissertation to a single company in Hungary to represent how a company forms its accountancy. We chose the Hungarian airline company Malév mainly because we had access to the company through a contact who worked there. This choice represents a generalizing view of a Hungarian company that underwent the transition from planned economy to market economy. Therefore this dissertation can not be used when conducting a deeper study of the transition. The contents of this dissertation will discuss the time-span from the start of the company till the beginning of the 1990's. We will not examine the present situation in the company.

1.4 - Purpose

The purpose of this dissertation is to explore and explain what has been influencing Hungary's accountancy within companies, in context to the historical development of the country.

1.5 - Research Question

How, and in what way, did Hungary's historical development influence and shape the accountancy within Malév?

1.6 - Outline

The outline of this dissertation will be presented below:

CHAPTER 1 - INTRODUCTION

This chapter will give the reader an introduction to the topic of this dissertation and present the problem. Further, the limitations will be presented followed by the purpose and the research question of the dissertation. At the end of this chapter, the outline of the dissertation will be presented.

CHAPTER 2 - METHODOLOGY

In this chapter we discuss our choice of methodology and our empirical method. Also the collection of data and criticism of data will be presented. Furthermore the population and interview method will be discussed.

CHAPTER 3 - THEORETICAL FRAMEWORK

This chapter will deal with the theories that this dissertation will rely on. We will start with the Institutional Theory and finally we will present the Agency Theory.

CHAPTER 4 - EMPIRICAL DATA

This chapter will present the empirical data we have collected through our conducted interviews. The chapter starts with introducing how we chose to divide Malév's history into three time epochs. Further it presents the empirical information we got from our interview respondents.

CHAPTER 5 - ANALYSIS

In this chapter we will analyze our empirical findings in relation with our theoretical framework within our set three time epochs.

CHAPTER 6 - CONCLUSIONS

In our final chapter we will present our conclusions. We begin with a short summary of the dissertation, and continue with criticizing the methodology we have used and practical implications. Finally we present our final conclusions followed by our suggestions for further research.

CHAPTER 2
METHODOLOGY

In this chapter we discuss our choice of methodology and our empirical method. Also the collection of data and criticism of data will be presented. Furthermore the population and interview method will be discussed.

2.1 - Type of Study

According to Saunders *et. al.* (2007) there are three ways to classify a research purpose. The study can be explanatory, exploratory or descriptive. An explanatory study emphasizes on understanding a situation or a problem and finding out *why* it occurred. An explanatory study builds on exploratory and descriptive research and goes on to identify the reasons for something that occurs.

An exploratory study emphasizes *what* is happening. Usually an exploratory study starts by creating an overview of a situation or a market leaving much room for flexibility of the research. This type of study does not give precise answers but rather focuses to specify the problem of the given situation (Saunders *et. al.* 2007).

A descriptive study focuses on showing *how* a problem or a situation has occurred by portraying an accurate profile on a person, an even, or a situation (Saunders *et. al.* 2007).

Our dissertation is an explanatory study as we were familiar with the given problem from the beginning, but we wanted to find out *why* it happened the way it did. Our purpose of the dissertation is to determine the reasons to why the situations regarding Malév's accountancy occurred, therefore our type of study is of an explanatory manner.

2.2 - Research Approach

Saunders *et. al.* (2007) discuss that there are two approaches when conducting a research, a deductive- and an inductive approach. The deductive research approach involves the testing of a proposition of theoretical form. An inductive research approach involves developing a new theory based on the observations of empirical data. In other words, the deductive approach is testing a theory, while the inductive approach tends to create a new one (Saunders *et. al.* 2007).

Our research approach is of a inductive manner. We started by collect empirical data which we later analyzed with already written and tested theories. From here we were able to draw our own conclusions, from which we were could design our theory.

2.3 - The Empirical Method

Since the purpose of this dissertation is to analyze the underlaying factors which can lead to changes in the accountancy within a single company. Therefore we chose to adopt a qualitative data analysis as we collected our primary data to get a more interpretive then a statistic analysis.

The qualitative analysis focuses on words, text, symbols and actions rather than numbers as when conducting a quantitative analysis. A qualitative analysis focuses on describing the underlying reasons for a specific situation and describing it in its entirety instead of a specific part of the situation (Christensen *et. al*. 2001).

2.4 - Data Collection

The results of our research in this dissertation is based on both primary and secondary data. We have used secondary data for our theoretical framework and to gain deeper understanding of the historical background of Hungary and Malév.

Secondary data is data which has been collected earlier in another context and for another purpose. The secondary data can consist of both *external* secondary data, which is categorized as public information, and *internal* secondary data, which is categorized as data which is meant to stay within the company and not be available for the public (Christensen *et. al*. 2001).

Primary data is newly collected data about a specific situation collected by the ones conducting the research. Primary data is often collected by mainly doing interviews or surveys (Christensen *et. al.* 2001).

2.4.1 - Collection of Secondary Data

We have mainly used secondary data to form our theoretical framework. To do this we have used scientific articles and books to form the theoretical framework of this dissertation.

The data we have collected about Hungary's historical development and accountancy came from scientific articles and documents from the Swedish Trade Council in Budapest. The data we have collected about Malév's historical development came directly from the company.

We chose to use Leśko's (2007) article as it discusses the historical development of Poland in context to the development of the country's accountancy. As our dissertation discusses what factors that influenced Hungary's accountancy in context to the country's historical development, our research is similar and thereby we were able to gain knowledge about what factors affected a country with similar social structure as Hungary. Our dissertation´s outcome will differ from Leśko's (2007) article as we will use the Institutional Theory and the Agency Theory for our study.

In our theoretical framework we chose to look at two theories which we thought had relevance to our research. We found the Institutional Theory to be an interesting one as it discusses different factors which can influence a company when choosing their accountancy. Since we are going to examine if the historical development in Hungary has had any influence on Malév's accountancy, the Institutional Theory is of interest, as it discusses that the coercive, the mimetic and the normative isomorphisms are factors that influence the shaping of the accountancy.

Further we chose the Agency Theory as it discusses the problematics between the agent and the principal. In our case this reflects the relationship between the owners of Malév and the company itself.

There is an alternative theory to the Institutional Theory, which is called the Positive Accounting Theory. The theory discusses how to foresee the choice of accounting norms and regulations, this could have been an interesting theory to add to our research. But we later chose not to use the theory as it focuses too much on to minimize the capital and contract costs between the principal and the agent. Since our dissertation discusses a more general approach, the Positive Accounting Theory becomes irrelevant.

2.4.2 - Collection of Primary Data

Cristensen *et. al.* (2001) discusses different ways of collecting primary data based on different scenarios. According to Christensen *et. al.* (2001) there are practical aspects you should look into when deciding if you should conduct an interview or not; If the purpose of the questions are of an analytical sort, if the personal contact is of importance, if the questions touch sensitive grounds and if the researcher has limited time.

We chose to conduct personal interviews as we felt that a questionnaire would not be suitable for analyzing the underlaying factors of the changes in Malév's accountancy. Also because it would be impossible to set the answering alternatives in advance.

Semi-structured personal interviews was, in our opinion, the best way to gather information of this kind. Our choice is based on the fact that a structured interview could be experienced as uncomfortable since we would be asking about internal information. Furthermore a semi-structured interview lets the respondent talk more free about the subject in question, which, in our opinion, creates a more relaxed interview.

The interview questions were, as mentioned above, semi-structured and partly individually customized for each interview we conducted, the question sheets and interview guides can be viewed as appendixes 1, 2 and 3.

2.4.2.1 - Semi-Structured Personal Interviews

As we had chosen our purpose and research question we were uncertain if we should conduct personal interviews or interviews using a telephone. Telephone interviews would had been more comfortable and less time consuming. But since we wanted analyze the underlying reasons for specific situations, we decided to conduct personal interviews which would bring more reliable information.

According to Christensen *et. al.* (2001) preparation is a key element when conducting an interview and since personal interviews can be considered as unpleasant for the respondent, we tried to take the necessary precautions to prevent this from happening to be able to get more reliable data.

Based on Christensen's *et. al* (2001) recommendations we notified the people we wanted to interview in advance, either through email or through telephone, and asked if we could interview them.

2.4.2.2 - Population

Our research is mainly based on interviews from which we collected primary data. We limited our interview respondents to former employees of Malév. We conducted three interviews with three former employees of Malév. These former employees worked at three different segments in the company. By doing this, we got information about the accountancy within Malév during our set time-span, and general information about Malév's historical development.

We also chose to get in contact with the Swedish Trade Council in Budapest, to gather information about the accounting laws and regulations in Hungary.

We interviewed one person who had worked for Malév since 1974 till 2000, and was the Auditor of Malév during that time, we will call this person Interview Respondent I. The interview guide for Interview Respondent I can be viewed in Appendix 2.

Further we interviewed one person who had worked for Malév since 1976 till 2008, and was the Quality Manager of Malév. We will call this person Interview Respondent II. The interview guide for Interview Respondent II can be viewed in Appendix 1.

We also interviewed one person who had worked for Malév since 1974 till 1985, and was the Flight Operation Officer. We will call this person Interview Respondent III. The interview guide for Interview Respondent III can be viewed in Appendix 1.

Finally we interviewed one person who works for the Swedish Trade Council in Budapest, and is a controller. We will call this person Interview Respondent IV. The interview guide for Interview Respondent IV can be viewed in Appendix 3.

2.4.2.3 - The Interviews

Before each interview we created an interview guide to help us trough the interviews as they were individually structured.

Before each interview we asked the respondent if we could record the interview. We wanted to do this so that we could go back if anything became unclear and so that we would not take up more of the respondents time as was necessary. We also collected the respondents business cards, so that we could get back to them by telephone or email if we had further questions.

The interview answers are presented in our empirical data chapter in a compiled form with a descending time format.

2.5 - Criticism of Data

One major problem with secondary data is that it is not documented for our particular research but for another purpose. Data is most valuable when it is fresh and while it has not been affected by any circumstances. The secondary data might already be irrelevant when it gets published, because the time difference can sometimes be so long that the data is seen as irrelevant or old because the circumstances have changed (Christiensen *et. al.* 2001).

Our theoretical framework began with three theories, but we later chose to limit ourselves to only two, as we found that the third became irrelevant along the way. We believe that our theoretical framework is good and relevant to our subject, but due to our time-limit we only explored the mostly known theories within this particular problem. This can have had a negative effect on our dissertations validity and reliability.

Primary data is the best way to collect data for the given observation. The negative aspect with primary data is that it is often more expensive to get by and more time-consuming. Another possible problem with collecting primary data is that if you conduct an interview the interviewer has to be competent to perform the interviews to get the right answers for the research (Christiensen *et. al.* 2001).

The primary data we have collected through our interviews and personal contact, can be negatively criticized if the respondents tried to glorify themselves or the company by answering our questions in an untrue matter.

Another negative aspect of our primary data collection can be that we only got to interview three respondents, as these were the only ones available. This problem can be related to the reliability of our conclusions.

Since the topic of this dissertation stretches through a country's and a company's historical development, it can be experienced as a sensitive matter bringing untrue answers and glorification of both the country and the company. This fact could have affected parts of the primary data we have collected both in form of interviews and documents.

2.6 - Summary

In this chapter we have presented our choice of methodology and our empirical methodology. Furthermore, in this chapter, we have given an insight on our data collection and criticism of our data. Finally we present our population and why we chose to conduct personal interviews.

CHAPTER 3

THEORETICAL FRAMEWORK

This chapter will deal with the theories that this study will be based on. We will start with the Institutional Theory and finally we will present the Agency Theory.

3.1 - The Institutional Theory

Scott (1995) discusses that the society is shaped by the rules, the ethic and the morale within the society itself. These rules and attitudes can be identified within three mechanisms.

The regulative mechanism deals with the written laws and rules in the society. These are meant to withhold the order of the society, where not following the set laws and rules can lead to consequences in from of sanctions.

The normative mechanism deals with the general attitudes within the society, pointing out what is right or wrong, suitable and unsuitable and thereby shaping the norms of the society. The norms form the goals in the society, the actions made to reach these goals become the legitimate way to act within the society (Scott, 1995).

If the individuals did not have direct goals from institutions, the individuals would become confused. Social institutions prevent the individuals to take actions fully free, instead the institutions give the individuals guidance and solutions on routine processes supplying a much easier way to create attitudes towards everything around them. The institutions are limiting the individuals actions, but are helping the individuals to reach their goals (Weick, 1995).

The last mechanism is the cognitive mechanism which refers to the way the society should act. The way to act is formed by the regulative and the normative mechanisms, therefore the action becomes natural (Scott, 1995).

Companies do not just compete about recourses and costumers, but also about political power and institutional legitimacy. This because of the social and economic value it brings. The Institutional Theory is a useful tool when understanding how politics is setting its mark on a company (Dimaggio & Powell, 1983).

Bergevärn *et. al.* (1995) discusses that a problem with new norms can be that the normative system (how it is supposed to be) differs from the action system (how it actually is). When new norms are set within companies, the learning process is time taking and the company has to adjust towards the new norms.

When a company chooses accounting principles they are influenced by three isomorphisms (Dimaggio & Powell, 1983). The three isomorphisms show patterns for how the individual should act in the company (Collin *et. al.* 2004). The three isomorphisms are the *coercive*, the *mimetic* and the *normative* isomorphism. These work in different ways which is important when studying how the institutions are influencing the individuals (Dimaggio & Powell, 1983).

3.1.1 - The Coercive Isomorphism

This isomorphism treats laws and coercive rules. The governmental institutions are the ones with most influence on companies, because they are the ones establishing laws and the rules within the society (Dimaggio & Powell, 1983).

The coercive isomorphism involves external partners. The companies are dependent of these external partners although the external partners have influence on the company. The coercive isomorphism is just a explanation for resource dependency. Organizations can influence local subcontractors by forming them in any way. If the organizations do not get as they want, the subcontractors can get left out from the organization (Collin *et. al.* 2004).

3.1.2 - The Mimetic Isomorphism

This isomorphism foresees that organizations tend to choose the same accounting principles as organizations in the same business branch, foremost from the organizations that are highly successful (Dimaggio & Powell, 1983). Organizations also use the same accounting principles because it is much easier to compare the organizations. It can also save money for the organization that is miming, by reduce the unsteadiness (Collin *et. al.* 2004).

3.1.3 - The Normative Isomorphism

This isomorphism handles the ethic and the morale factors, but also the attitudes in valuing questions of how individuals should act or how something should be. Organizations and individuals choices are influenced by social obligations. Universities and professional working roles, such as auditors and doctors create the normative rules and put up norms for professional actions (Dimaggio & Powell, 1983).

There are mainly two different types of professionalism which are important in this isomorphism, they thereby constitute what kind of morale and ethic attitudes the individuals have. One type of professionalism depends on how the education and the legitimacy have been created from university specialists. The second one is how the development and the increasing of professional network, where global organizations with new models have been spreading out fast.

Universities and professional educational institutions are important centers for the development of the organizational normative rules for both the manager and the co-workers. Organizations must be legitimate to the social system as they are depending on it, so they will be able to reach their future goals (Dimaggio & Powell, 1983; Pfeffer & Salancik, 1978).

Normative rules which are based on the experts work, become legitimate and often influence the choice of accounting principles as their expertise is said to be the right alternative. The options that are created from the experts give clarity as the experts are seen to be a reliable part of the community. Every human behavior can be influenced by the community and their experts (Collin *et. al.* 2004).

3.2 - The Agency Theory

The Agency Theory is based on when different actors in the same game have different goals, this can cause a conflict between the owners (principals) and the managers (agents) (Scott, 2003). The theory discusses how the principals lead the agents and how the agent should act to satisfy the principal's interests. The handling of accounting information is an important factor when studying this theory (Smith, 2000).

A principal-agent relationship is stated when one or more principals leave the responsibility of the company to the agent, giving the agent specific tasks for handling the principal's interests. There will be costs for the principal when controlling the agent's work. This kind of costs are called agency costs. One way for the principal to control the agent is to use the information from the accountancy (Scott, 2003).

The possibility for the principal to control the agent depends on how much information the principal has access to. The controlling progress on the accounting actions are different if the company is listed on the stock market or not. In a listed company there are often many principals and there is a far distance to the agents. This means that the principals only have control through public accounting information. Thus, in a non-listed company there are often few principals, which ads to that the distance to agent is not far and thereby the principals have easier access to the internal information (Hatch, 2002).

The Agency Theory discusses that it will be harder for the principal to control the agent if there are many principals. Companies with few owners, and family companies have less precise and more overrating accounting, but companies with many owners and spread ownership have a tendency to have a more precise and detailed accounting (Scott, 2003).

3.3 - Summary

In this chapter we have guided the reader through our theoretical framework. The theories give deeper understanding to the underlying reasons to why the new accounting principles are chosen.

CHAPTER 4
EMPIRICAL DATA

This chapter will present the empirical data we have collected through our conducted interviews. The chapter starts with introducing how we chose to divide Malév's history into three time epochs. Further it presents the empirical information we got from our interview respondents.

4.1 - Empirical Introduction

We have chosen to divide our empirical data into three time epochs;

"The Maszovlet era" is the time from when the company Maszovlet was founded in 1946, till 1954 when Hungary bought Soviet's share and founded Malév.

"Malév during the communism" is the time from 1954 when Malév was founded, till the fall of the communism in 1989.

"Malév after the communism" is the time from 1989 till 1992, this time epoch includes ownership changes within Malév.

We chose to divide Malév's history into these three time epochs as there were major changes within Hungary's historical development taking place during these epochs.

4.2.1 - The Maszovlet Era

Every decision within Maszovlet had to go through Soviet before the company was able to take its own actions. I.e. if an airplane was broken, Maszovlet was not allowed to repair it, even if the problem was small, without getting confirmation from Soviet. At this time the procedure was very time consuming as papers had to be sent to Soviet explaining the problem, then get confirmed by Soviet signing the papers and sending them back (Interviews Respondent II, 2008).

Maszovlet got all their directives strictly from Soviet, which had to be for-filled without questioning and thereby making Soviet the only legit decision maker. During the communism all improvements and new norms had to come from Soviet or it was not accepted. During this time Soviet had control over eastern Europe and was the superior of the communist countries (Interview Respondents II & III). We were told that Maszovlet had came up with new improved ways of dealing with the accounting. An example of this was that the Soviet accounting principles used many different accounts for the resources within the company. Maszovlet made up a new system were the accounts were categorized to improve the overview of the accounting. Instead of getting credit from the principal Soviet or adopting the improvement, Maszovlet got blamed of going outside Soviets norms, which was not acceptable (Interview Respondent I, 2008).

During the communist times, Maszovlet got financial help from both the Soviet and the Hungarian governments who payed for all of Maszovlet's costs and investments. The directives from Soviet were that Maszovlet should continue to operate at any cost. The only demands Soviet had on Maszovlet, was that the company should keep full employment and have a balanced financial status in the long run (Interview Respondent I, II & III, 2008).

In this type of financial management, it was very important that the company could create a reliable prognosis based on the balance sheet and income statement. The profit or loss of Maszovlet had to be within a certain margin to attain the approval from Soviet and thereby getting the financial resources from the governments. Since Maszovlet was highly dependent on the governmental resources, the company tended to follow the directives set by Soviet (Interview Respondent I, 2008).

During the communism all companies in Hungary were forced to use KGST's (Kölcsönös Gazdasági Segitség Tanácsa) accounting plan. This accountancy standard was of the same kind that was used in all of the communistic countries controlled by Soviet. Another forced directive was that the companies within the eastern bloc had to use Ruble as key currency in transactions and the accountancy, while most of the western world used USD. This became a problem when Maszovlet had transactions with countries outside the communist bloc. This type of accounting was legislated in Hungary until the fall of the communism in 1989, but was used until 1992 (Interview Respondent I, 2008).

The main reason why Maszovlet was following all the directives from Soviet without questioning was that the company was too dependent on Soviet and would not have been able to start or run the company by themselves (Interview Respondent II & III, 2008).

4.2.2 - Malév During the Communism

In 1954, Maszovlet got bought up by the Hungarian government and became a 100% Hungarian owned company with the name Malév. Hungary was now officially running the company, although the directives still came from Soviet. The major directives from Soviet were still the same, namely to maintain full employment and keep a balanced financial status in the long run (Interview Respondent II & III, 2008).

Soviet agreed on selling out their 50% share to Hungary for a symbolic sum of one Soviet Ruble. Afterwards Soviet drew back all Soviet personnel from the company to truly show that Malév had become a 100% Hungarian company. This saved a lot of time and work as Malév now only had to report to Hungary and not all the way to Soviet. This increased the efficiency regarding fast decisions within the company. An example of this was in cases when the airplanes had to be repaired; During the Maszovlet era the airplanes were not allowed to be repaired before Soviets approval, which led to long repair times and inefficient usage of the company's resources (Interview Respondent III, 2008).

During the Maszovlet era the company got unlimited funds from the Soviet and Hungarian governments, to be able to meet the directives from Soviet that Maszovlet should be fully operational. Now on the other hand, Malév only got their financial funds from the Hungarian government and a credit limit was set for Malév. This lead to that Malév wanted to show a higher profit so they could keep, or in best case raise the credit limitations and get more funds from the Hungarian government (Interview Respondent I, 2008).

4.2.3 - Malév After the Communism

In 1988, Hungary introduced VAT (value added tax), PIT (personal income tax) and CIT (corporate income tax). At this time new laws and rules were starting to emerge regarding accounting, but the big change came in 1992 as the Accounting Law of 1991 was implemented. The Accounting Law of 1991 required an audit on all companies in Hungary and included detailed accounting requirements. Since then, the law has been continuously updated and has been adopted to the European Community (EC) directives (Interview Respondent IV, 2008; World Bank, 2004).

After the fall of the communism, Hungary wanted to move towards market economy and adopt the western lifestyle. For Malév, the fall of the communism brought both positive and negative changes. The negative change was that Malév did not get any financial funds from Soviet anymore. This led to that the Hungarian government had to find a way to be able to finance the costs of the company. On the other hand, after the fall of the communism, the western market was now accessible for Malév. Since the western market was very limited during the communism, Malév now found a whole new market and was now able to create business connections with the western world.

Malev finally found a way to finance the costs of the company by changing the ownership form. Malév went from being a 100% governmentally owned company to becoming both governmentally- and privately owned. The Italian airline company Alitalia and Simest Bank acquired a 30+5 % share in Malév and thereby brought foreign investors and lenders into the company. The capital flow from the private sector now became important for Malév as the Hungarian government did not get any financial support from Soviet, and the idea of full employment was not the main focus anymore. The ownership change led to that Malév adjusted their accountancy so it should become more suitable for all owners and lenders in the new ownership form of the company (Interview Respondent I, 2008).

The new owner Alitalia helped introducing Malév flights to the United States of America. With the help of Alitalia, the company was able to create new business connections with the U.S.A. This led to that Malév was able to sign a credit contract of $123 million with Barclays Bank, the American Export-Import Bank.

Both Italian Alitalia and the American Ex-Im Bank used FASB (Financial Accounting Standard Board) accounting principles. Since Malév was partly owned by Alitalia and got a credit contract from the Ex-Im Bank, it became a natural choice for Malév to implement FASB accounting principles to replace the old KGST accounting principles. This led to that the accountancy of Malév became more suitable for all the owners and investors of the company (Interview Respondents I & II, 2008; Malév, 2008).

Malév's implementation of the new regulations on the accountancy proved to be a complex process. Therefore, with the help of the new business connections in the U.S.A, a decision was made to conduct a six month audit of Malév to help the company with the implementation of FASB (Interview Respondent I & II, 2008; Malév, 2008).

4.3 - Summary

In this chapter we have presented our empirical data in a compiled form with a descending time format. We have divided the empirical data into three time epochs so that it would be easier to read and understand.

CHAPTER 5
ANALYSIS

In this chapter we will analyze our empirical findings in relation with our theoretical framework within our set three time epochs.

5.1 - Analysis Introduction

Our analysis chapter will be divided into three time epochs in the same way as the Empirical Data chapter. These will contain our analysis of the empirical data we have gathered combined with our theoretical framework.

5.2 - The Maszovlet Era

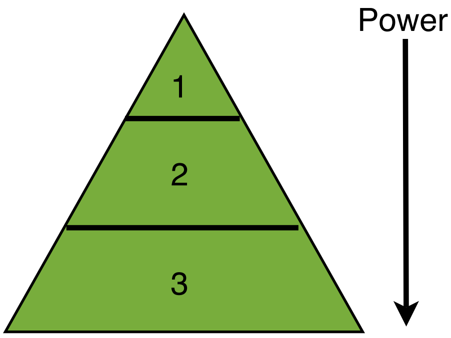
During the Maszovlet era, the relationship between Soviet and Maszovlet can be linked to the Agency Theory where there is a principal who is leading the agent to satisfy the principal's interests. In our case, Soviet was the principal and had total control over its agent, Maszovlet. Our findings show that Soviet wanted to have a balanced financial status in the long run. To achieve this goal, the principal, Soviet chose to view the financial status of the company trough the company's accountancy. A strong link to the agency theory can be seen in this situation as the theory discusses that accounting information has an importing role in the agent - principal relationship.

The implementation of having the same type of accountancy throughout the eastern bloc led to that the agency costs for Soviet could be kept at a lower rate than it would have, if every communist country have had separate accountancy. This forced Maszovlet to use the Soviet currency, Ruble, as key currency in their accountancy. Further, since Soviet was the only legit decision maker, Maszovlet and Hungary had to apply the same type of accountancy as the other communist countries in the eastern bloc.

Our findings indicate that the distance between the principal and the agent is close. As discussed in the Agency Theory, one or few principals results in a closer relationship between the principal and the agent. Since Soviet was the only principal during the Maszovlet era, the distance was very close which was reflected on Maszovlet's accountancy; As discussed in the Agency Theory, a close relationship results in a less precise and more overrating accountancy. This phenomenon was clearly identified in the Maszovlet era, as Soviet's demands on Maszovlet's accountancy was to use the KGST accounting principles, which included the usage of Ruble as key currency, and that the financial status of the company should be balanced in the long run.

Soviet's power and influence on Hungary and Maszolvet can be explained through The Institutional Theory. The social structure within the communist bloc was based on strict laws and regulations, which all came from Soviet. This can be illustrated as a triangle with three sections;

1. Where Soviet is at the top, deciding the rules and creating the norms.
2. Where the countries within the communist bloc have to follow the created norms and regulations set by Soviet.
3. Where the organizations within the communist countries have to follow the directives set by the higher decision makers.



Hungary had a regulatory social structure during the communism, with strict laws and regulations coming from Soviet. According to The Institutional Theory, the normative mechanism forms the general attitudes in the society, pointing out what is right or wrong. Maszovlet was influenced by the strict communistic society in Hungary. The company was forced to report to Soviet, and get the approval before they could act. This strict chin of commands could not be broken, showing the affects on a company in a strict regulative society.

Over time the regulative mechanisms in Hungary, including the forced usage of KGST's accounting norms and Ruble as key currency, formed the norms within Maszovlet through the planned economy set by Soviet and by maintaining full employment. The company had no choice but to follow the directives from Soviet, as Maszovlet was dependent on the governmental funds and resources. Over time the directives from Soviet became routine behavior, thus becoming the norms within Maszovlet. The norms formed the goals the company was supposed to achieve, namely maintaining full employment and keeping the financial status balanced in the long run. Therefore the norms became the cognitive behavior within the company.

The accountancy within Maszovlet was based on KGST, which was the same type of accounting principals used by Soviet. Maszovlet, along with the rest of the communist bloc, were forced to use Ruble as key currency in their accountancy and transactions. This shows a strong link to the Institutional Theory, bringing out the coercive isomorphism as Maszovlet was forced to use the same type of accountancy as Soviet. As discussed in the Institutional Theory the governmental institutions, represented by Soviet, have the biggest influence on the companies. Furthermore the mimetic isomorphism is represented as the entire communist bloc had to use the same set type of accountancy, thereby easing the comparativeness of the countries and making it easier for the principal Soviet to inspect and keeping down the agency costs.

The Institutional Theory also discusses that the companies are dependent of external partners and are influenced by them. Even though Maszovlet had come up with a better way of dealing with the accountancy, the Soviet accounting principles stayed. Since Maszovlet was dependent on the Soviet governmental funds, and the fact that Soviet had become the one institution controlling the laws and regulations within Hungary, the companies within the country had to follow the directives from Soviet showing the coercive isomorphism within Maszovlet.

5.3 - Malév During the Communism

During this era we can see a change in the Principal-Agent relationship within the company. Our findings show that the agent was still Malév (Maszovlet), but the role of the principal had gone from Soviet to Hungary. Soviet wanted to show the world that Malév had become a 100% Hungarian owned company, so they drew back all the Soviet personnel from the company. But since the directives still came from Soviet, the founding of the 100% Hungarian owned company Malév, was just a formal “show” for the world. According to our findings the informal truth was that Malév was controlled by the Hungarian government, while the Hungarian government still was controlled by Soviet.

Hungary as the new principal had no new goals for the agent, Malév since the directives still came from the former principal Soviet who still was setting the goals. This finding proves that Malév becoming a 100% Hungarian owned airline company, was in fact probably just a strategic move from Soviet. This situation also led to that Soviet passed over the responsibility for Malév to Hungary. The directives still came from Soviet but Hungary had became the official principal and now was in charge of that the directives from Soviet were fulfilled by Malév. The main directives from Soviet during this time were still to maintain full employment and to keep a balanced financial status in the long run. As the Agency Theory discusses the handling of the accountancy is an important factor when the principal is inspecting the agent. In our case Soviet had set the directive for Malév to keep a balanced financial status. The easiest way for Soviet to inspect this was trough the company's accountancy.

The distance between the principal and the agent during this era had been shortened, which led to that faster decisions could be made and approved for Malév. The downside was that the costs for inspecting Malév had also been put on the Hungarian government. Thereby the agency-costs became higher for Hungary, who co-responded by tightening Malév's credit flow, forcing Malév to be profitable in the long run.

Soviet's move to draw back the Soviet personnel from Malév and showing the world that it had become a 100% Hungarian owned company, can be explained through the Institutional Theory. The society was still a regulative one with directions coming from Soviet. But as Illés *et. al.* (1996) discussed, normative changes had started to show where the Hungarian society wanted to open up towards the western world. Our findings show that Soviet made a strategic move to ease the situation by officially drawing back all Soviet personnel from Maszovlet and making the company 100% Hungarian owned. Thus Soviet was still giving the directives to Malév, but now through the Hungarian government thereby still having regulative directives coming from Soviet.

In this case the normative changes within the society did not influence the normative behavior within Malév's accountancy. Malév was still forced to use the KGST accounting principles and Ruble as key currency. This shows that the coercive isomorphism within the Institutional Theory still is represented. The mimetic isomorphism in Malév is no longer represented in the same way as in the Maszovlet era. Malév now had to show long-term profitability as their credit now came directly from the Hungarian government. Malév continued to use KGST and the Ruble as key currency like the rest of the communist bloc. The KGST accounting principles and Ruble as key currency were still a mimetic way of dealing with the company's accountancy. However, since Malév now had limited credit from the Hungarian government, the company had to adapt their accountancy to show higher profit and to sustain their credit requirements. Thereby our findings show that Malév's accountancy was no longer a mimetic isomorphism, but still the coercive isomorphism was represented.

5.4 - Malév After the Communism

Our findings show that during this era the role of the principal went through major change. The agent was still Malév, and the directives still came from a principal outside of the company. After the fall of the communism in Hungary, the Hungarian government remained as the owner of Malév. But since there now was no financial funds coming from Soviet, 35% of the company got acquired by foreign investors who, along with the Hungarian government, became the new principals of the Malév.

The Agency Theory discusses that when a company has a spread ownership, the company has a tendency to have a more precise and detailed accountancy as the owners tend to have different goals. Our findings show that the Hungarian government as one of the principals, had a new goal with Malév's accountancy. The goal was to fully adopt the new detailed Accounting Law of 1991 so that Malév's accountancy could be more comparable with the European Community, thereby easing the business relations with western world. Further our study shows that the distance between the agent and the principals was not as close as during the *Malév during the communism* era, as there now was a spread ownership in the company, with multinational principals and a more detailed external accounting through the implementation of the Accounting Law of 1991 and FASB.

The normative behavior in the Hungarian society changed with the fall of the communism as the society now wanted to move towards market economy. Since there were no longer normative restrictions from Soviet, the society formed its own norms based on the western way of living. Thereby the society went from being a strict regulative society driven by Soviet, to a society where the rules and regulations were based on the society's norms. With the new norms forming the laws and regulations of the society, Hungary was on its way towards market economy by implementing VAT, CIT PIT and the Accounting Law of 1991.

Our findings can be linked to the Institutional theory as it discusses that norms form the goals within a society and the actions to reach these goals become the legitimate behavior. This shows that the implementation of VAT, CIT, PIT and the Accounting Law of 1991 was the society's action to reach the goal of becoming more comparable to the western world.

After the fall of the communism Malév's accountancy underwent major changes as-well. Malév came into contact with the American Ex-Im Bank and signed a credit contract. Malév later chose to implement the same type of accounting principles as used by the Ex-Im Bank and Alitalia. This behavior can clearly be identified as the mimetic isomorphism within the Institutional Theory, as it discusses that the companies tend to chose the same accounting principles as other companies within the same business branch, to become more comparable.

Our findings showed that Malév's choice of implementing FASB had its foundations in that both their principal Alitalia, and their lenders Ex-Im Bank used FASB accounting principles. Since the Hungarian society wanted to adopt the western way of living and Malév was creating new business connections in the west, the Institutional Theory discusses that an easy way to reduce unsteadiness is to mime other companies within the same branch. In our case, Malév chose to use the same type of accounting principals as Alitalia who had strong business connections with the west and was in the same business branch as Malév.

Further our study shows that even though Malév had left their former accounting principles KGST, the implementation of FASB was of a complex manner. All companies in Hungary now had to apply the Accounting Law of 1991, that gave detailed directives on the accountancy. But as Bergevärn's *et. al.* (1995) article discusses the implementation of new regulations and norms, the normative system (how it is supposed to be) differs from the action system (how it actually is). The article also discusses that when new accounting norms are implemented in a company, the process is time taking as the company has to adjust to the new norms. This is clearly shown in Malév's case, when the company chose to conduct a six month long audit to be able to fully implement the FASB accounting principles, thereby making the complex implementation process as smooth as possible.

5.5 - Summary

In this chapter we have analyzed our empirical findings and brought them together with our theoretical framework. We divided our analysis into the same three time epochs we have been using throughout the dissertation to make the structure easier to follow.

CHAPTER 6
CONCLUSIONS

In our final chapter we will present our conclusions. We begin with a short summary of the dissertation, and continue with criticizing the methodology we have used and practical implications. Finally we present our final conclusions followed by our suggestions for further research.

6.1 - Summary of the Dissertation

As we wanted to find out what had been influencing and shaping Malév's accountancy since the establishing of the company, our first step was to collect general information about Hungary and Malév. Our problem discussion about what factors are influencing a company's shaping of their accountancy made us gather relevant theories and articles about the underlaying reasons to why new accounting principles are implemented. To be able to strengthen our theories and look deeper into the problems discussed, we needed to gather empirical data. We chose to conduct semi-structured personal interviews on former employees of Malév. The next step was to combine our theoretical framework with the empirical data we had collected and analyze our answers in context to the theories. Finally we were able to draw conclusions on what factors were influencing Malév's shaping of their accountancy in context to the historical development of Hungary.

6.2 - Criticism of Methodology Used

As mentioned earlier in this dissertation we have used personal interviews to gather our primary data. We learned that this way of gathering information can become problematic regarding the trustworthiness of the answers. Since our dissertation touches sensitive subjects such as the communism, it is possible that some answers we got from our interviews might be of an untrue manner. It might have been a good idea to use questionnaires instead of personal interviews. This because interviews tend to be personal and if the subject is sensitive, the respondent might get uncomfortable. Despite following

Christensen’s *et. al.* (2001) accommodations, we maybe should have chosen anonymous questionnaires instead.

6.3 - Final Conclusions

According to our findings and our analysis, Maszovlet’s accountancy was created during *the Maszovlet era.* The accountancy was mainly influenced by the strict Soviet directives. Soviet did not demand detailed accounting but had a general goal that the company should keep full employment and have a balanced financial status in the long run. The forced accounting principles based on Soviet’s KGST were coercive, thereby leaving no other option for the company. The coercive and strict directives from Soviet controlled the Hungarian society, thereby strongly influencing and shaping Maszovlet’s accountancy during *the Maszovlet era.*

When Maszovlet became 100% Hungarian owned and became Malév, the company got a new principal; the Hungarian government. Since Soviet was still controlling Hungary and Eastern Europe, the accountancy within Malév did not change. Although the accounting of Malév now became more important for Soviet. This because Soviet now had to inspect both the agent Malév, and the principal Hungary to make sure that the directives from Soviet were maintained and followed. During the *Malév during the communism* era our findings show no change within Malév’s accountancy, so the coercive and strict regulations from the communistic control, were still the influences that shaped Malév’s and Maszovlet’s accountancy.

The fall of the communism led to changes in Malév’s accounting principles as Hungary wanted to open up towards the western world and become a part of the European Community. The Hungarian government implemented VAT, PIT, CIT and the Accounting Law of 1991 to be able to become more comparable with the countries within the European Community. The implementation of the Accounting Law of 1991 helped the economical development of Hungary by legislating an audit on all companies in Hungary and giving detailed accounting requirements matching the standards used within the European Community. Thereby making Hungary more comparable to the western world.

In addition to these new norms, Malév also implemented FASB’s accounting principles as foreign investors had acquired shares within the company. This implementation was not of a forced manner, but was rather a tactical choice to become more suitable to the owners, lenders and investors. This shows that the ownership change during the *Malév after the communism* era had a big influence on Malév's accountancy as the company was imitating the new owner's and lender's accounting principles. This mimetic action shaped Malév's own accountancy after the fall of the communism in Hungary.

Our findings shows that changing social forms and ownership forms in a country, has a major impact on the companies accountancy. Although other factors may influence, we find that social changes and ownership changes are two of the main factors that affect the shaping of a company's accountancy. We found that one of the major limitations on the economical development in Hungary and Malév during the communism, was the strict regulations set by Soviet. We found that coercive regulations of this form gives an inhibitory effect on the evolving of a company's accounting principles. Further we found that the implementation of the Accounting Law of 1991 had a strong influence of helping Hungary to become more comparable to the Western European countries after the fall of the communism, and thereby helped the country to be able to join the European Community.

Our conclusion can be put in context to the dissertation's purpose through our findings about Malév's accountancy. Thereby it can provide an answer to our research question and our purpose;

How, and in what way, did Hungary's historical development influence and shape the accountancy within Malév?

Our findings show that during *the Maszolvet era* the company's accountancy was created by Soviet. The coercive and strict directives from Soviet controlled the Hungarian society and left no room for improvement or adjustment of the accountancy for Maszovlet. The *Malév during the communism* era had no historical influence on Malév's accountancy since the accountancy within the company did not change from the previous era. During the *Malév after the communism* era the accountancy of the company was shaped by miming the western world. During this time, Hungary was no longer occupied by Soviet and could therefore set new goals for the economic development of the country. Since Hungary wanted to become a member of the European Community and the Hungarian society wanted the western way of living, the shaping of Malév's new accounting principles was influenced and shaped by the new foreign owners and lenders from the west.

6.4 - Practical Implications

In this dissertation we examined what factors has been influencing the accountancy within Malév and if the historical development of the country had any influence on Malév's accountancy. The findings of this dissertation are tended to represent every company in Hungary during the set tree time epochs. This research might be useful when acquiring a company that has went trough the same type of social changes or ownership changes as Malév to be able to forecast upcoming cultural problems within the accountancy. Further the study can be used to examine if the historical development of the country in which the company is located can set any restrictions on the accountancy.

This study can also be useful when studying how to avoid factors which can give an inhibitory effect on a company's accountancy, as in our case, our study shows that a coercive society tends to have an inhibitory effect on the accountancy within the companies of the society.

6.5 - Suggestions for Further Research

As mentioned in our criticism of methodology part it is possible that the trustworthiness of our interview answers might be low. Therefore a suggestion is to make a like-worthy research on Malév by using other methods than personal interviews, for instance a questionnaire might give more information than personal interviews.

Furthermore we encourage that this research should be put in a bigger perspective analyzing more companies in one country or more countries with like-worthy situations as Hungary. We suggest the researching of other former communistic countries in Eastern Europe to se if the results are the same.

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Interview Respondents

Interview Respondent I, Auditor (1974-2000) - Malév Hungarian Airlines LTD.

Interview Respondent II, Quality Manager (1976-2008) Malév Hungarian Airlines LTD.

Interview Respondent III, Flight Operation Officer (1974-1985) - Malév Hungarian Airlines LTD.

Interview Respondent IV, Controller - Swedish Trade Council in Hungary

APPENDIX 1
Interview Guide / Question Form - Malév's and Hungary's History

Interview Respondent II
Interview Respondent III

Purpose of the interview;
To get more background information about Malév's history, to gain more knowledge about what happened in Hungary during the communism and to understand about how the people lived and worked in Hungary and Malév.

Basic Questions:

1. **What was your official title at Malév?**
2. **When between which years did you work for Malév?**

Interwiew Questions:

These questions are based upon questions we had regarding the official information on Malév's web-page.

1. **In 1910, was the Aero joint stock company Hungarian or Austro-Hungarian?**

2. **In 1946, How was it possible that a joint stock company between Hungary and Soviet within the boarders of the communism?**

3. **Why did Soviet agree on having a 50-50 owned company with Hungary? Why not run Maszovlet as a fully Soviet owned company?**

4. **What were the credit terms from the Hungarian and Soviet governments towards Maszovlet?**

5. **In 1954, Why was Hungary able to buy the Soviet share and become "officially" independent from Soviet and start Malév?**

6. **In 1993, why did the Hungarian government sell 35% to Alitalia and Simest?**

7. **In 2004, as Hungary joined the European Union, how did this effect Malév's accounting?**

APPENDIX 2
Interview Guide / Question Form - Malév's Accounting
Interview Respondent I

Purpose of the interview;
To get information and gain deeper knowledge about Malév's past accounting norms and the underlaying reasons to why these have changed over time.

Basic Questions:

1. What was your official title at Malév?
2. When between which years did you work for Malév?

Interview Questions:

Communism era:

3. How was the accounting managed during the communism?
Did it exist?
Did it contain a profit and loss account and a balance sheet?
Who handled the accounting? The state? The company?
Chain of command?

4. Were there any directions regarding the accounting from the Soviet union?
If so, what directives?

5. How did the chain of commands look?
Was it the Hungarian and Soviet governments who were running Maszovlet or was there a CEO?

6. How and why could Hungary buy the Soviet shares of Maszovlet and form Malév?
Was it because Maszovlet was profitable that Hungary wanted to buy out Soviet?
If so, why did Soviet agree on selling their shares to Hungary?

7. What were the the agreed terms and conditions between Hungary and Soviet when Hungary bought Maszovlet?

During the change:

8. How did the fall of the communism affect your job?
Did you have to learn any new ways of doing your job?
If so, was this new way a better way or was it better the way it was before?
What was your opinion towards the new system?

APPENDIX 3
Interview Guide / Question Form - Hungarian Accounting Laws
Swedish Trade Council in Budapest

Purpose of the interview;
To get information about Hungary's laws regarding accounting

Interview Questions;

1. Are there any forcing laws in Hungary which say that a company must show it's financial result in form of any financial reports?
If so, what law?

2. How was the accounting managed during the communism in Hungary?
Did it exist?
Did it contain a profit and loss account and a balance sheet?
Who handled the accounting? The state? The company?