

The Interplay between Management Control Systems and Strategy

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We have in this study looked at how interactive –and diagnostic management control systems interrelate and at their joint effect on strategy. Results from our case study show that there exists an interrelation between the two types of controls when the management has significant influence on the design of the diagnostic controls. It is also shown that they both are adapted to the strategy but also that they have played an important role in giving rise to strategic changes. We have in this study confirmed prior research when it comes to the relationship between MCS and strategy but we have also found indications of an interrelationship between diagnostic –and interactive controls. Diagnostic controls served as the foundation for the use of interactive controls which in turn had reversed effect on the design of diagnostic controls. Thus, an interrelation seems to have been present in our study.

Keywords: Strategic change, Management Control Systems, Diagnostic, Interactive, Organizational change

Tutor: Associate Professor Torkel Strömsten

A study on
Diagnostic –
and
Interactive
Management
Control
Systems

We're a brand development agency currently under development. Like all brands we need to change, adopt and develop. So one day we asked ourselves one very-very-very important question; if we would start our business today, what would we look like?

That was 127 days ago. And since - for each day that passes we will be challenging every truth that we knew was true because we know that if we don't change, the world still will. This is us, creating a new Identity Works - if we even keep the name...

- Identity Works' temporary homepage during the finalization of the change

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1 Introduction

1.1 Prologue

As the environment, in which businesses today are operated, is changing faster and faster for each day, the need for companies to change as well becomes imperative. There are a multitude of case-examples in academic literature of companies losing their position on the market or completely goes out of business. Explanations and solutions often end up in discussions regarding the management team and the different types of control systems put in place to deal with forthcoming problems. Classic literature on management control systems and its relation to strategy often suggests that management control systems are an outcome of strategy. However, more recent literature has started to question this passive relationship and begun capturing a more dynamic reality in which they both are affected by each other. Such a relationship would suggest that management control systems not only are an outcome of strategy but in many instances could aid in the very forming of strategic decisions. Thus, managers in companies undergoing strategic change who embrace such a two-way relation may have a competitive advantage to those who do not.

In even more recent literature, the question of *how* management controls systems are used throughout the organizations has started to gain attention. Such literature uniformly acknowledges that the different ways in which these types of controls are used will have implications for any strategic outcomes. Thus, it is not only important for managers today to understand that there actually exists a relationship between management control systems and strategy but also that the way in which such controls are implemented and used is crucial for staying competitive in the long run.

1.2 Problem definition

Simons' (1990) model of four levers of strategy implementation is widely used in literature and theory trying to map the relationship between management control systems (MCS) and strategy implementation. The two most recognized levers of control are the *diagnostic* and the *interactive*. These two have been the subject of many studies followed by the Simons (1990, 1994, 1995) articles. The study by Kober et al. (2007) for example, presents proof that there is a one-way relation between the interactive control and strategy implementation. They, however, open for future research regarding the relationship between the diagnostic control and strategy implementation since they found some indications of an increased use of diagnostic controls in their study. In addition, there has been little research regarding the very interrelation between diagnostic –and

interactive controls and its joint effect on strategy. The balance between the two types of controls is often discussed and attempts have been made to find a proper balance in relation to organizational strategies. As far as we know, no explicit attention has been given to whether there exists any interrelation between the diagnostic –and interactive controls. If such an interrelation would be present it becomes very important not to disregard it when searching for a balance between the use of them. It thus becomes interesting to investigate this very relationship.

The issue to be dealt with in this paper thus concerns the interrelation between interactive –and diagnostic controls and its joint interrelation with strategy and how one through choosing and applying different controls can align an entire firms' strategy in a revolutionary change process. We will with this case study map these possible interdependencies and add to the literature on how to successfully manage organizational change from a manager perspective.

1.3 Research questions

This paper will study four different relations and search for causality. The first three are based on previous research and the fourth is a hypothesis-based question and they will all be tested on a case study mainly based on interviews but also questionnaires and examinations of archival documents.

1. Strategy → MCS

Do strategic changes have an effect on the design and use of MCS?

2. MCS → Strategy

Do the design and use of MCS facilitate, or give rise to, strategic changes?

3. Diagnostic → Interactive

Do the design and use of diagnostic controls affect the choice of managers' use of interactive controls?

4. Interactive → Diagnostic

Do the interactive controls have an effect on the design and use of diagnostic controls?

These questions will all be dealt with separately in the analysis. If all questions are answered in a positive manner, Fig.1.1 provides an illustration of our results.

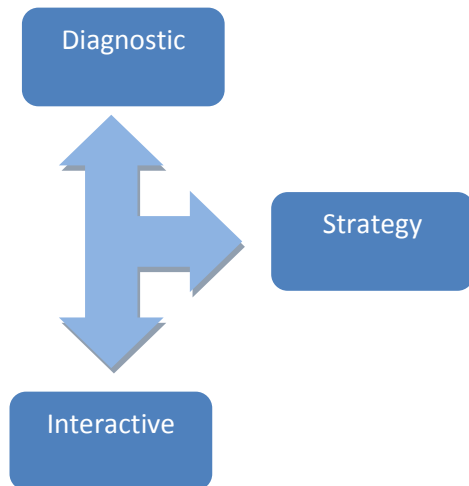


Fig. 1.1 – Visualization of research questions.

Source: Enell & Skogström (2011)

1.4 Disposition

We will start out by, in **chapter 2**, to explain the method used to study the case and clarify how we have obtained the information laying ground for our analysis. In **chapter 3**, we will briefly cover what is meant by organizational change as to better understand what type of change our studied case has undertaken and what type of behaviour we can expect. Thereafter, a similar approach is made towards defining strategy and then we move on to cover what others have written about MCS in order to gain a deeper understanding of its design, use and effect. When such definitions are made, a mapping of previous studies regarding the very relationship between the MCS and strategy will be made in relation to organizational changes. Finally, we will look at what others have written about any interdependencies between diagnostic –and interactive MCS. At the end of each section, a short take is made on the theories described and what role they will play in the continuation of this thesis. In **chapter 4**, a more in-depth description about the case study and what changes that have been going on will be presented. We will cover how the organization has transformed since the initiation of the organizational change in 2006 from both a strategic point of view and also map the changed behaviour regarding MCS. **Chapter 5** will summarize these findings in a table. In **chapter 6**, an analysis of the observations will be made. In **chapter 7**, we will provide the reader with some concluding remarks, an extended discussion and fellow researchers with guidance as how to use this study for further development within the area of MCS and its link to strategy.

2 Method

2.1 Survey Method

In this study, we have chosen to use a triangulation-approach in order to collect and compare data. This method, according to Bryman & Bell, (2007) entails using more than one method or source of data in the study of a social phenomenon. They also state that such approach enables the researchers to cross-check their findings in both a qualitative and quantitative study. The method we have used very much resembles that of an ethnographer using a longitudinal study but with the exception that we already before any data collection had a hypothesis that we wanted to test. This is partly due to the authors' prior knowledge of the studied company which could be regarded as a kind of pre-data set which enabled us to have such pre-hypothesis. One of the researchers also spent one or two days a week at the company which opened up for a deeper understanding of the social -and control interactions at the case study site. It gave access to weekly meetings but also more ad-hoc meetings concerning the implementation –and future issues regarding the strategic change. It should be noted however that time spent at the company only covers a fraction of the entire study period and will therefore not add very much insight regarding actions prior to such stay.

The research method is of the type called *grounded theory* which was initially founded by Glaser & Strauss in 1967. According to Bryman & Bell (2007) their work is the most widely cited book in the social science. The main feature of this approach is that the researchers form their theories throughout the process of the data collection. It thus allows for the researchers to further develop their research question throughout the research process. We have adopted such an approach in the ways of having a non-predetermined plan for interview sessions and other data collection methods but rather complemented the data whenever needed. The analysis has been an ongoing process in this study and has therefore, as Bryman & Bell refers to it, been proceeded together with data collection in a tandem manner. The most important tools of grounded theory will be briefly explained.

2.1.1 Theoretical sampling

Theoretical sampling is the process in which data is collected in the grounded theory. As data is collected and theory starts to emerge, the researchers decide what data to collect next and where to find it. It is also important to realize that it is not only people that are objects for sampling but places and events as well. In our study, especially the interview sessions have been theoretically sampled as to obtain accurate evidence on a specific group or category and complement the data set. After each

interview we analyzed the information gained and thereafter decided on who to next interview as to complete the data set.

2.1.2 Coding

This is the process in which the researchers break down their data set into component parts which are given names. Unlike quantitative research, which usually has predetermined codes in which data to fit, this approach allows for the researchers to interpret the data set and find appropriate codes. We have not in the beginning of our data collection had any preconceived codes but rather developed such as the data set reached saturation. We however used the coding developed in the work of Kober et al. (2007) in a later stage to distinguish between components in the data set and thus, the coding scheme of our data is that sense somewhat preconceived.

2.1.3 Theoretical saturation

This process relates to two phases in grounded theory. The first being the coding of data to the point where there is no need to further review the data to see how well it fits with the concepts and categories. The second being the collection of data to the point where no additional data sheds light on the category in which it is fitted. This process we dealt with by coding the collected data into categories and successively adjusting the continued data collection methods in order to reach saturation. Interview guides have been changed along the process in order to reach saturation and as additional interviews no longer added more data to a specific category, we came to the conclusions that saturation was achieved. In addition, the search for specific archival documents was done in order to complement the data where interviews and the questionnaire did not fully saturate a concept or category. We have also had the opportunity to engage in non-formal interviews, more similar to ordinary conversations with all employees which allowed us to complement the data instantly when needed.

2.2 Data collection

We have mainly used semi-structured interviews with board members, the CEO and other people in the organization with managerial responsibilities, to obtain data. In addition, a questionnaire has been provided to all operational managers and examinations have been made of old documents. The initial interviews were held in order to, together with the knowledge gained from old documents, get an overview of the chosen study period. Interviews in a later stage were very much based on the insights gained from other interviews, old documents, the questionnaire and also experience and insights gained from staying with the company. In this way, we were able to let the interviewees respond to the inputs gained from the questionnaire and thus further expand their discussions regarding the outcome. This further helped develop and improved the quality of the interviews. We

made seven official interviews which lasted between one-two hours each and the questionnaire was responded by ten persons.

2.2.1 Semi-structured interviews

The interviews were conducted in two stages. The first set of interviews had the common purpose of gathering inputs regarding MCS and the strategic change in the studied period. Because all interviewees differed in aspects such as tenure, managerial responsibilities, power to influence the strategic change and knowledge within the linguistics surrounding business research, the interviews were best suited for a semi-structured approach. This allows us to rather see things from the perspective of the interviewee which is, according to Bryman & Bell (2007), preferable in this type of study.

The interviews held at a later stage were still semi-structured but set with another focus. These interviews were more about engaging the interviewees in emotional discussions regarding the development of the strategic change rather than just stating different historical happenings. Such interviews gave us an understanding of the more complex and social context in which the MCS interplayed throughout the strategic change. These interviews also functioned as a way of clarifying ambiguous observations and as a way for the interviewees to give wordings to the answers given in the questionnaire.

Both stages had their own interview guide which was adapted to serve the purpose of the specific interview. The first-stage interviews could be argued to be relatively more structured than the interviews in stage two as they had much more obvious purpose.

2.2.2 The Questionnaire

The questionnaire was created, inspired by the work of Kober et al. (2007), to concretize and capture any changes to the MCS throughout the studied period. It also helped us demonstrate that a strategic change actually had occurred which is somewhat a prerequisite for studying the interplay of MCS. It also had the effect of managers being well-prepared for the interviews which were held at a later stage in the research process, something which in some cases had a positive effect on the interview session. The data obtained from these questionnaires are not tested statistically as they are not used in the sense of answering any hypothesis but rather give us some inputs regarding the course of change in the MCS and how the managers themselves look upon the change that has been taking place during the studied period. The questionnaires were merely used as a means of cross checking and triangulating other facts to improve the accuracy of any findings. Since the studied company is quite small with a rather high employee turnover, it would not have made any sense to use the results from the questionnaires as a means of sole evidence. E.g., the number of employees

who had been with the studied company during all periods was quite low which would make it impossible to use the questionnaire as a means of evidence of the development of the MCS.

2.2.3 Document Review

The studied company has quite an extensive data base where most old documents are being stored. The access to this data base enabled us to cross check much of the findings from the other data collection methods and it was important in other aspects as well. It was for example the only source of information available which had not been affected by the impact of time. Many of these documents had not been updated since their first publishing which enabled us to better understand the history than by simply asking in interviews and questionnaires. It also served as a complement to interviews and questionnaire in the way that it sometimes captured things that otherwise were left out in interviews. Both given interview time and memory disenable the interviewees to mention everything we might have been looking for, something the old documents in many cases corrected for.

2.3 Criteria for the choice of case

This study closely equals what Bryman & Bell (2007) refers to as *a single event case* as our study focuses very much on the specific event of a strategy implementation but with the difference that our time frame extends those used in their example.¹ With this addition, our study is rather a mix of the single event and a single organization case which focuses more on a specific organization which our study does. According to Knights & McCabe (1997), a case study allows for the use of different research methods which further strengthens our use of a triangulation approach.

The arguments for choosing Identity Works (IW) as the organization for our case study are plentiful. Since we are studying the relationship between MCS and Strategy, a long enough **time frame** is needed and a **strategic change** has to have occurred. In addition, Abernathy & Brownell (1999) argues that the use of interactive controls are more prevailing in companies undergoing strategic changes which increases the likelihood of us finding interesting observations. The time frame allows us to look for any interrelationships between MCS and Strategy over time and also in between the components within MCS as such interrelations are not present in a snap-shot perspective. Because of the initialisation of the strategic change in 2006 and with a **new external CEO**, a proper time frame is argued to be present in our case. In addition, the strategic change in itself allows us to identify how the MCS has changed as consequence of the strategic change and vice versa. This argument is further

¹ Bryman & Bell (2007) refers to a study by Vaughan (1999) who studies the NASA space shuttle Challenger disaster and another study by Gephart (1993) who studies the events surrounding a pipeline accident in Canada.

² Even though the plan was to have the strategic change fully implemented in May 2011 it had not fully materialized.

amplified as the finalization of the strategic change was planned to the same month as the submission of this very thesis. Such an occasion enabled us to study the strategic change from the beginning to the very end.² These arguments give us the opportunity to study and answer our first two research questions.

To answer our third and fourth questions, an understanding of the social -as well as the more easy measurable components of MCS is needed. Especially since our fourth question (our hypothesis based question) very much relies on us to come close to the organization and its top managers, IW made the perfect case since a good relationship with the organization was already established which allowed such top access. Also, our hypothesis is based on the assumption that those persons in an organization that set the informal standards and rituals and are lead discussants in meetings also have the power to influence the design of the MCS. In a larger corporation, such phenomena is less likely to be true since there is often a decoupling of the design and use of MCS, e.g. due to stronger hierarchies, more complex communication channels, both physical and non-physical, or simply an inert company culture not welcoming changes in the MCS. IW however, displays none of these settings but rather their opposites. Most obvious is the case with the CEO who has throughout her entire employed period had quite free access to the design and use of MCS and has at the same time been the one person leading the strategic change. Lastly, the physical space in which IW houses is relatively small and there are no strong hierarchies, as in e.g. a traditional manufacturing company, which enables face-to-face communication and meetings which spur discussions and interactions between personnel.

2.4 Time Frame

The time frame that this study encompasses starts in 2006 and continues to the day of publish, May 16th 2011. This time frame has been divided into three periods, 2006/2007, 2008/2009 and 2010/2011. This division was set during an early phase of the research and has been communicated to all interviewees and questionnaire respondents. By making this division, we were enabled to concretise any changes in MCS and strategy in between periods and track its development. Firstly it allowed us to define the type of strategy IW had during each phase which gave us the opportunity to manifest that a strategic change really had occurred. Secondly, the creation of different periods made the comparison of the MCS over time much easier. Lastly, by having a development of both strategy and MCS over time, we were able to search for links and causality relations between the two. Note however that inter-periodic changes still have been allowed for in the final analysis as the

² Even though the plan was to have the strategic change fully implemented in May 2011 it had not fully materialized.

main data comes from interview sessions where this division has not been the focus of discussion. These periods should therefore not be regarded simply as a one-point event but rather as a way of enabling a comparison of variables over time. Thus, they should not be regarded as an absolute truth but rather a way creating structure.

2.5 Trustworthiness and Authenticity

Since the major part of this study is rooted in a qualitative approach, issues regarding reliability and validity are somewhat tuned down since they essentially concern quantitative methods. Nevertheless, Bryman & Bell (2007) suggest some alternative concepts to consider when doing qualitative studies. Referring to the work by Lincoln & Guba (1985), they propose the concepts of *trustworthiness* and *authenticity* when conducting a qualitative research.

2.5.1 Trustworthiness

There are four criteria for trustworthiness which are *credibility*, *transferability*, *dependability* and *confirmability*.

The first criterion, credibility, concerns the issue of feasibility of the social reality in which the study is undertaken. This approach allows for different accounts of a social reality, which the simple application of reliability and validity does not, which stresses the importance of ensuring the reader of an acceptable social reality. The way this issue has been dealt with in this study is by the application of the triangulation approach which cross checks facts to provide as fair reality picture as possible. However, since the number of interviewees is seven and due to the lack of a multitude of questionnaire respondents, the credibility of this study could be questioned. Creating a social reality through time and space which only encompasses a limited number of persons of course lowers the credibility of the study. However, due to the use of a triangulation of data we at least have credibility within the study but the issue of missing data or observations still persists.

The second criterion, transferability, concerns the ability of the authors to describe the milieu in which their study is undertaken. The transferability concerns the issue of transferring the findings in one study and applying them in other situations. By providing the readers with an as thick description as possible of the culture, the database for making judgement about the transferability will be enhanced. The authors of this study have dealt with this issue by providing the readers with as much empirical findings as possible without overwhelming her with pretentious facts. One should note however that the transferability of this study should be regarded quite low in terms of its application in a more general setting as there are some unique attributes which are hard to find elsewhere simultaneously. Three out of four research questions are though replications of the work of others which in some way already accounts for the issues of transferability as they already have been

transferred. The fourth question springs from a hypothesis which is based on some unique elements of IW which could lower the transferability of any findings regarding that very question since it assumes a certain amounts of criteria to be present. This issue will be further dealt with in the final section of this paper when advising on extensions of the research undertaken in this paper.

Dependability is argued to be dealt with by having external actors playing the role as auditors. This entails ensuring that the authors keep records of their field notes, interview transcripts, questionnaire responses and any decisions made and having them accessible to the auditors. These auditors are in turn supposed to validate that these records are congruent with the findings and empirical observations that the authors have made. This approach has not been widely accepted amongst qualitative researchers as it very time consuming, especially since qualitative data usually is quite extensive. We have not prioritized this issue, not saying that records have not been kept, but there have been no explicit external auditing. One could argue that the thesis handler of this paper has somewhat served the purpose of an external auditor as there have been continuous reconciliations regarding the progress of the study. Except for the handler, one of the employees of IW has throughout the study served the role as an informal auditor of any observations made by the authors. Such auditing could also be regarded as a way of ensuring that any theoretical inferences made are done so with a fair empirical background.

Lastly there is the issue of **confirmability** which concerns the objectivity of the researchers. One should realize that complete objectivity is not possible but the authors should have acted in good faith and thus not let any personal theoretical inclinations affect the outcome of the study. Since our study is mainly based on semi-structured interviews, which are subjective in nature, this issue has been carefully regarded. It becomes even more important as one of us spent two days a week throughout the whole study period at the study site which could be argued to influence the objectivity. To ensure the confirmability of this study, we made quite an extensive theoretical background search within the area of organizational change and its relation to MCS before conducting any on-site observations. Such pre-knowledge allowed us to analyze and observe with a more objective perspective than by doing it the other way around and letting personal values affect any observations. Furthermore it allowed us to connect any findings directly to theories, put them in writing and thus not have them affected by the subjectivity of our own human memory. The issue of having one researcher staying at the case-site is partly handled by the other being not. Any findings made by the one researcher could always be checked by the other who could apply a more objective point of perspective. The informal auditor mentioned in above also helped to deal with this issue as

he also served the role as an inside translator. This meaning that he in many cases could decode covert interview answers or help pinpoint the reality behind some observations.³ It should also be mentioned that none of us had made any significant research prior to this study, within the area of organizational change, which ensures no special inclinations towards any specific theoretical areas.

2.5.2 Authenticity

In addition to the trustworthiness criteria, Guba & Lincoln (1985) suggest the criteria of authenticity which are *fairness*, *ontological authenticity*, *educative authenticity*, *catalytic authenticity* and *tactical authenticity*. Fairness deals with the issue regarding the fairness of the representation of different viewpoints in the studied social setting. The other criteria deal more with the impact the researchers have had on the members in the social setting, both in helping them understand their milieu better and whether the research has influenced them to take any specific actions.

The interviews held we argue to represent a fair picture of the social setting regarding the use of MCS. There have been no formal interviews with employees without managerial responsibilities, except for the one held with the accountant, which could be argued to have had biasing effects on our study. However, the purpose of this study has not been to provide a general fair picture of the whole organization but rather the effects that the MCS has had on the strategy implementation process. Therefore, not much would have been gained from letting other inputs into the research as most of the strategic work has been done higher up in the organization. Members of the board, the CEO, and all the sub unit managers have all been interviewed which we argue to provide a fair representation, keeping our purpose in mind. Neither have other stakeholders been heard such as customers and suppliers as this research is basically an internal study. However, since the aim of the strategic change at IW was very much about obtaining a new position, customers' opinions are of course important but have not been taken into account in this study. This is mainly due to the confidentiality of the internal work during the time when this study was being conducted. Even though customers may be important in pinpointing the correct strategic position they provide less, or no, inputs regarding the MCS and especially not on its interrelationship with strategy.

At the date of publish for this thesis, there has been no formal communication about the observations or results of this study to the managers at IW. It has therefore not been possible to gain an understanding of its effect on the members of IW. In addition, we have not used any of our findings as an impetus for members to engage in strategic decisions as it would have clouded any observations about the relationship between MCS and strategy, making it harder to find causality.

³ Such decoding was especially important when the issues discussed in an interview sessions touched upon quite delicate subjects such as vulnerability and internal conflicts.

Some strategic advice has though been given by one of us, but as the role of an employee and not a researcher. Any actions linked to such advice have been left out of the study.

2.5.3 Generalizeability

A case study is by definition not a proper approach when manifesting new theories and making them applicable to other settings. The purpose of this study has not been to state a general absoluteness regarding the research questions but rather test them in different setting from their first creations. In addition, the results regarding the fourth question, which is based on a hypothesis, shall be seen as a way of providing a foundation for future research. Such an approach is similar to the one in the study by Kanter (1977) who argues that the use of a case study enabled her to generate concepts and give meaning to abstract propositions. These were then later tested in another study which emphasizes the attempt a case-study researcher may have of reaching general conclusions. A similar attempt is made with this study.

3 Previous Research

This chapter will start out by giving the reader an understanding of the concept of organizational change as to better understand the actions taken throughout the studied period. It will also serve the purpose of allowing for a distinction between actions taken due to strategic intentions and organizational change factors. Thereafter we will provide the reader with an examination of the different concepts of strategy and thus arrive in the concept of strategic change. We will then go through what other researchers have written about MCS and its relation to strategy. Lastly we will examine prior studies regarding the concepts of diagnostic –and interactive controls.

3.1 Organizational change theory

In the academic literature there are many different perspectives on organizational change which have resulted in several theories, from different authors and in different research fields regarding how change actually occurs.

Van de Ven & Poole's (1995) article has been widely quoted in the organizational change literature. They conducted an interdisciplinary literature review to identify alternative theories used to explain processes of change in the social, biological, and physical sciences disciplines. After series of filtering processes they examined 200 articles and found approximately 20 different process theories that varied in substance and terminology across disciplines. These theories could all be grouped into four

basic schools of thoughts, which each contain a unique approach to change issues. They refer to them as life-cycle, teleology, dialectics, and evolution theories.

Theory 1: Teleology – Planned change

Development according to this theory is a repetitive sequence of goal formulation, implementation, evaluation and modification of the goals whenever new leanings come up during the process that can improve the outcome. This theory does not follow a sequence of events that the organizations will follow in its development as for example in the life cycle theory which will be further described later on.

Once the organizations reach their goals, it does not mean that they will stay in a permanent equilibrium. The external environment and the people within the organizations will affect the goals as they tend to be socially reconstructed which will push them towards new development paths.

A basic feature according to Jacobsen (2010) is that organizations are social systems composed of people who act individually and together. This makes it impossible to exactly predict what the future will bring. A planned change will therefore not always lead to the results that were originally set up.

Theory 2 – Life cycle theory

Structural change in a company is a natural effect of growth. A change is not always due to an adaptation of changes in the environment but instead because the company grows and moves on within the organizational life-cycle.

In the article by Quinn & Cameron (1983) the authors start out with reviewing nine different life cycle models to determine if common stages of development can be identified amongst them. The result is a four-stage organizational life cycle model.

The first stage is called *creativity and entrepreneurship*, which is the stage when a new organization has just started and is under development. The organization is characterized by little coordination, structure and planning. This perspective is also described by Mintzberg (1979) who describes this first stage as an organization with few employees. The founder is also typically the leader and the distribution of work between the employees is unclear and vague.

The second stage of the model is called the *collectivity stage* where the structure and informal communication is getting more distinct and clear compared to the previous one. It

is basically an extension of the first stage in which roles and responsibilities are becoming more apparent.

The third stage is defined by control and emphasize is on efficiency, rules and structure. To control the organization, a hierarchy is usually developed with middle managers controlling their own business units. When the organization grows even more, the hierarchy becomes a problem as the decision-making becomes too slow and inflexible according to Jacobsen (2010).

The fourth stage is the *renewal and adaptation phase* which is characterized by change in the structure due to growth and development. When the company grows in size, the changes in the structures become even more elaborative. Structural reconfiguration mostly often occurs in this stage and when the firm grows in scale, the structure becomes more distinct with divisions and customer being divided into different segments.

According to the life cycle theory, change will follow a certain development pattern with a logic behind of when the organization is about to move on to the next phase. Life cycle theories of organizations often explain development in terms of institutional rules or programs that require developmental activities to progress in a prescribed sequence. In reality, all organizations do not go through all stages of a life cycle as some companies might fall back to a previous stage while others skip one.

Theory 3 – Change as an evolution

Evolution theory focuses on cumulative changes in structural forms of populations and organizations across societies, communities and industries. Change proceeds through a cycle of variation, selection and retention. Organizations operating in the same market have various ways in organizing their business but they still compete about the same customers (Campbell 1969). Selection of organizations occurs through the competition for limited resources which are the customers. The environment selects organizations that best fit the customer base of an environmental niche, this according to Hannan & Freeman, 1977. Retention involves forces such as resistance that will hinder the organization from changing and continue to maintain organizational forms.

Organizations that are less efficient will try to change and copy work processes from best performing organizations within the same industry, according to Jacobsen (2010). Because the organizations, according to this theory are characterized by inertia, most changing processes will fail. The

organizations that are best in producing symbols and signals to the environment saying that they are modern and efficient will be the organizations that get the best support.

Theory 4 - Dialectic change

In dialectical process theory, described by Neal & Northcraft (1991), stability and change are explained by reference to the balance of power between opposing entities. Struggles are status quo between the opposing entities and create stability as long as no one entity has greater power than another. When one entity gains sufficient power, a change will occur.

Theory 5 - Change by a coincidence

Something that has not been brought up in the Van de Ven & Poole's (1995) article is that change also can be regarded as a coincidence, which also is an important view according to Jacobsen (2010). An organization consists of complex entities where a lot of things are happening at the same time without anyone having a complete full overview. Employees bring their ideas and problems with solutions into meetings that they want put forward. Where the people meet and who is attending the meeting will be crucial when determining how a problem is going to be solved and what solution that will be picked. It is not necessarily the best solution that will be picked but rather the one that is available at that point in time. According to this theory, changes appear all the time and they are not interrelated to each other but over time, small changes can create dramatic changes on an organizational level. New employees also bring change to an organization as they want to implement their working style and processes. In this perspective, individuals make rational decisions that are important to them but this does not necessarily mean that these decisions are rational for the organization.

From this section we can conclude that organizational change can both be planned but also be seen as a coincidence and is natural effect when a company grows and mature. This section helps us to understand and identify the strategic change process that IW has gone through, which is a prerequisite when studying the relationship between strategy and MCS. It also gives us the necessary toolbox to comprehend the strategic change as it provides us with answers and explanations to certain behaviours that the interviewees would not explicitly state during the interviews.

3.2 Strategy

3.2.1 Defining strategy

Strategy has been defined in many ways with several meanings of what strategy really is. Mintzberg (1987) identified four ways of how strategy could be described and used in organizations. According

to him, strategy is used as a: *plan, pattern of actions, competitive position* and as an *overall perspective*.

Strategy as a **plan** is made in advance to any actions and is very much in notion with the military where a plan is set up with tactics and instructions of how the orders are to be carried out in the organization. Strategies have two essential characteristics: They are developed *consciously* and *purposefully*.

Strategy as a **pattern** views the manager activity as the shaping of expectations and goals that will facilitate the work and let the organization achieve its goals. Strategy is then a stream of decisions about the organizations future that will be implemented through the organization's processes and structures. The outcome of strategy does not derive from the design, or plan, but from the action that is taken as a result.

The view of strategy as a **position** refers to how a company competes in the market and in what way it differentiates itself from its competitors to gain advantage. It focuses on the economic substance or content in a given strategy. The strategic choices made are independent from the management process.

Strategy can also be viewed as a **unique way of doing things** and it therefore becomes a personality of the organization. If the strategy as a position is outwardly focused, this perspective focuses on the inwards of the organization. Almost every profession has about its unique perspectives that permanently favour the strategies that organizations practicing those professions craft for themselves.

Mintzberg (1987) further states that these four different ways of identifying strategy is used simultaneously in an organization and should all be supported by the management control system. Strategies could be developed by top managers but also, if the structure allows for it, by all employees, something he refers to as the *grass-root strategy*.

From this definition we realize that strategy has different dimensions and they are all part in defining what strategy is. It is not only about what position the company is striving for but internal aspects are considered parts of strategy as well. Strategy is not only the goals that are set by managers but the actions taken within the company to get there is part of the strategy as well.

3.2.2 Strategy typologies

Macintosh (1994) describes how past scholars in general management and business policy have developed typologies, following structural functionalist assumptions, which are valuable when considering the link between strategy and MCS.

Strategy typologies are profiles of generic strategies that can be found in any type of business regardless of what industry the organization is operating in. The typology emphasizes on the integrative components of each strategy. Miles & Snow (1978) defined three potential problems that involve in the decision making in a company. The way these problems are addressed will affect the strategies that arise and what typology these strategies belong to.

Entrepreneurial problem: That involves how the company should manage its market share and decide the strategic management of its product markets.

Engineering problem: Is how a company should manage its market share by creating a system for producing and distributing the organizations products or services.

Administrative problem: Involves how the organization should structure the processes and innovation areas of the firm.

Patterns have been identified of the behaviour in organizations which have been divided into four behaviour archetypes by Miles & Snow (1978). These typologies address the business strategy and focus on the change in company's products and markets.

Defender strategy

The defender is an organization with a narrow product-market domain. It tends to not pay attention to its surrounding environment and does not search for new opportunities as it is more inwardly focused. It strives for internal efficiencies and competes aggressively on either price or quality. The structure of the organization is centralized and functional with task specialization and a high level of formalization. Planning is intensive, oriented towards problem solving, and finalized before any actions are taken. Decision making is often at a central level and conflict is resolved through hierarchy. Key ratios for performance measures emphasize task efficiency.

Prospector strategy

In contrast to defenders, the prospector continually search for new product -and market opportunities and tries to exploit them. This creates change and uncertainty for its competitors as

they try to be first on the market with new products. To be able to respond quickly to the environmental changes they must have a flexible structure that supports product innovation. This is more important than striving for complete efficiency. Task specialization is low as the employees need the skills to move on from one project to another. Information flows tend to be sideways and planning is broad rather than intensive. Decision making is decentralized. Marketing, research and development are the most important functions. Performance measures emphasize effectiveness in exploiting opportunities.

Analyzer strategy

The analyzer strategy is a mix of the prospector and defender and combines the strength from both these strategies to become successful. The organization tries to minimize risk while maximizing the opportunity to find new profit streams. Analyzers work in two types of product-market domains, where one is relatively stable and the other one dynamic. Information flows are both hierarchical and lateral. Planning is both intensive and comprehensive. Decision making is relatively centralized in the functional groups, but decentralized in product groups. Performance measurement emphasize on both efficiency and effectiveness.

Reactor

Organizations that appear to be more inefficient than defenders regarding growth and intensity of the market are a reactor type organization. This is an inappropriate strategy as the strategy never linkages to the structure of the company if there even is a viable strategy. This type of organization is unable to respond to environmental changes effectively because of the lack of strategic direction. Adjustments are not made until absolutely necessary. Miles & Snow (1978) suggest that this strategy appears when one of the three above strategies is improperly pursued.

Miles & Snow (1978) argue that defender, prospector and analyzer are stable forms of an organization. Any of these strategies can be effective and competitive if there is an alignment between the chosen strategy and the organizational structure and process. However, a non-alignment between strategy and structure will result in the firm being ineffective and becoming a reactor. The incongruity of reactors can come from three different sources:

Management fails to articulate a workable organizational strategy.

A strategy is articulated but technology, structure and process are not linked to it in an appropriate way.

Management adheres to a particular strategy-structure.

A number of studies have been done to determine the empirical validity of these generic strategies in different industrial contexts. Snow & Hrebiniak (1980) e.g., study randomly selected firms in four industries and found the existence of each of Miles & Snow's (1978) strategic typologies in each industry.

In reality, business strategic types may not be as clear as Miles & Snow (1978) predicted and the characteristics of each type may vary across industries. According to Hambrick's (1983) study, there were significant differences in the performance of prospectors and defenders where defenders always had higher ROI⁴ except for companies in mature-innovative environments. The difference in performance in mature-innovative environment was almost significant as well. Explanations for this are that development, production and marketing of new products are very expensive which automatically will result in a lower ROI for prospectors.

From this section we understand that typologies are a good way of categorising different strategies, something which is necessary in order to better state that a change actually has occurred. It seems as though the typologies set by Miles & Snow (1978) are the ones most widely accepted and tested among researchers.

3.2.3 Extended research on Miles & Snow's typology

Simons (1987) uses Miles & Snow's (1978) typology and extended the analysis to financial control system attributes. Simons studied a sample of 76 organizations that were split into defenders and prospectors, and he looks at the correlation between control system attributes and financial performance. Significant differences could be found between prospectors' and defenders' control systems.

Simons (1987) concluded that prospectors often use their financial control systems more intensively than defenders. They also have tighter budget goals which are closely monitored with more frequent reporting, and focus is placed on forecasts and outputs rather than cost controls. These results appear quite unexpected as Miles & Snow (1978) argue that prospectors' control systems are more focused on effectiveness in maintaining product-market innovation.

What is expected from previous research such as Ouchi (1979), Govindarajan (1984) is that prospectors would rely less on financial controls and more on qualitative controls as it otherwise could discourage the firm in adapting to the uncertain environment.

⁴ Return on investment.

There are several possible explanations for the inconsistency between Miles & Snow (1978) and Simons (1987), something described in Dent's (1990) article. The arrangement in a prospector organization, with autonomy granted to lower level managers, may be encouraging innovative surplus and too much experimentation. A control system could then be used in a prospector company to limit the risk taking to acceptable limits. One reason for the intensive use of control systems in prospector organizations is argued to be due to the fact that they usually operate in an uncertain environment and have a larger need for financial controls to facilitate strategic implementations and decisions.

Simons (1990) did a case study of top manager's use of control systems in two large companies where one had a defender strategy and the other was a prospector. He concluded that they had similar MCS but used them differently. The results are summarized in a table 3.1.

	Company A	Company B
Competitive characteristics		
Miles & Snow	Defender	Prospector
Management control systems		
Strategic planning review	Sporadic, little debate	Intensive, annual debated
Financial goals	Set by top management	Established by strategic business units
Budget preparation and review	Must meet financial targets	Prepared by market segments, with focus on strategy and tactics
Budget revisions and updates	Not revised during budget year	Rebuilt three times a year
Program reviews	Intensive monitoring of product and process related programs	Programs limited to R&D which is delegated to local operating companies
Evaluation and reward	Bonus on profits over targets	Subjective evaluation in MBO (management by objectives)

Table. 3.1 – Summary of Simons (1990) findings

Source: Hoque (2006)

The takeaways from this section are that the typologies set by Miles & Snow (1978) may call for the different use MCS than initially thought. Thus we realize that the use of typologies should be made with caution and not be generally applied to any company without considering the uniqueness of that company.

3.3 Management Control Systems Theory

3.3.1 MCS

Otley (1980) realized the drawbacks and issues of focusing on only a few controls, either financial or non-financial when studying MCS, which will result in an under-specification of an organization's MCS. It is therefore imperative that we thoroughly define and capture all necessary aspects of MCS to undergo with our study.

Control, in terms of a management accounting tool, was initially coined by Taylor (1947). The former CEO of General Motors, Alfred Sloan, among others further helped develop control as a concept in organizations, according to Hoque (2003). The concept of *management control* emerged as Macintosh (1985) described it as effectiveness in financial control.

Anthony (1965) simply defines control as “[...] *the process of assuring that the organization does what management wants done*”. This definition helps realizing the breadth of control as a concept but adds little guidance in how it should be applied in organizations. In a study by Horngren et al. (2000), control is defined as a process of decisions and actions in implementing planning decisions and the design of performance evaluations and suitable feedback that help future decision making. Rotch (1993) contributes by identifying six different components of management control systems which are: *strategy, structure, performance measures, direction, motivation and incentives*. All of these components reflect management choices but these choices also have implications for the other components. This interdependency is regarded as strength when designed properly but the lack of support among the components is deemed as a weakness.

Horngren & Foster (1991) emphasise the importance of collecting appropriate data to aid and coordinate the process of planning and making control decisions. Merchant (1985) perceives control systems as a means of controlling behaviour within an organization. He reasons that behaviour is affected by different control components, such as *results, actions or personnel* and whether *tight or loose* control is the most appropriate. In his book, Vancil (1978) examines how to structure an organization in order to handle the two conflicting elements of efficiency and the need for adaptability. Two elements that demand centralization versus decentralization respectively. He concludes however that one should not focus on either/or but rather manage them both, thus implying some sort of balance in the MCS.

From this section we conclude that MCS should be looked upon as a process rather than a one-time tool. We also realize that there exists some interdependence between the components of MCS and that some of these work in opposing directions.

3.3.2 Components of MCS

Even though Rotch (1993) mentions structure as a component of MCS, Ouchi (1977) clearly separates structure from the MCS. He defines control as something that can *“be conceptualized as an evaluation process which is based on the monitoring and evaluation of behaviour or of outputs”*. Throughout his article, he exemplifies his arguments by using two extremes of monitoring behaviours and outputs. A production company may not care about what their personnel are doing as long as they fulfil their output requirements, i.e., what they are being measured upon. Their management team could however solely rely on this requirement being fulfilled by monitoring the behaviours of the personnel and thus control the output. This reasoning has its foundation in a 2x2, figure 3.1, matrix using **Availability of Output Measures** and **Knowledge of Transformation Processes** as the factors explaining different control types. It thus becomes quite clear that a MCS is dependent on what the organization is able to measure and what type of structures there are allowing for such measures.

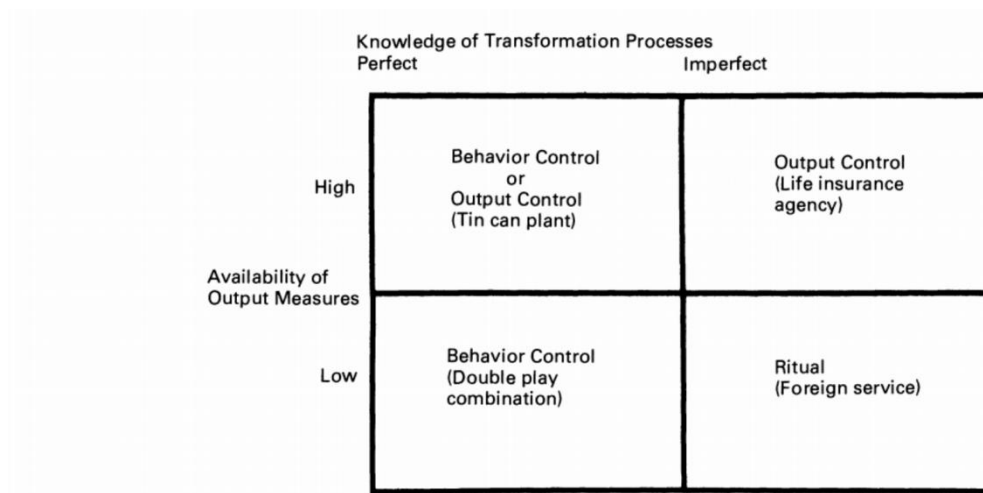


Fig. 3.1 – Control types and its antecedent conditions

Source: Ouchi (1977)

Kober et al. (2007) use nine groupings in which 27 MCS mechanisms have been incorporated. These groupings were derived from the work of Miller & Friesen (1982) and Simons (1987). However, there are control mechanisms concerning culture included in the work of Kober et al. (2007) and the usage of professional controls as well. These components were not derived from these authors. Since Abernethy & Brownell (1999) expressed the need to account for non-accounting controls, and Archer & Otley (1991) and Roberts (1990) expressed a need for informal controls, these two measures have been included to broaden their scope of MCS. In table 3.2, the grouping of MCS in style of Kober et al. (2007) is presented and briefly explained.

Results monitoring: these controls focus on outputs. Pre-defined standards for outputs are set and performance is measured against these standards (Ouchi, 1977)

1. Formal reports
2. Outputs related to inputs consumed
3. Evaluation of performance relative to competitors
4. Written explanations in budget reports for changes between periods
5. Trends between periods closely monitored

Cost controls: these refer to the financial measures used to ensure the efficient and effective execution of operations

1. Cost centres
2. Variance analysis
3. Tight budget goals

Bureaucratic controls: these involve the monitoring of subordinates, the setting of standard operating procedures and rules, and establishing lines of authority within the organisational hierarchy (Ouchi, 1979)

1. Procedure manuals
2. Formal appraisal of personnel
3. Internal financial audit
4. Internal quality audits
5. External quality audits

Communications/integrative mechanisms: these refer to the horizontal and vertical communications that can be either formal or informal

1. Importance of informal communications
2. Interdisciplinary meetings
3. Vertical communications
4. Horizontal communications

Resource sharing: these refer to the control resulting from the working relationships with other divisions/sections

1. Interdisciplinary workgroups
2. Resource sharing

Tightness of controls: these refer to the level of monitoring exerted over operations

1. Adherence to rules, policies, and plans
2. Virtually all activities monitored by management control systems

Professional controls: these refer to the values, judgment, and ethics internalised by members of the same profession

1. Managers have high degree of autonomy/discretion
2. Lower level personnel have high level of autonomy

Organisational culture: these refer to informal social structures that support the other control mechanisms in the organisation (Ouchi, 1979)

1. Shared values, beliefs, and norms
2. Committed to organisation's objectives and values

Tailoring of controls to specific user needs: these refer to the presentation and information content tailored to meet division/section requirements

1. Detailed control reports
2. High tailoring of management control systems

Table. 3.2 – MCS grouping and components of each grouping

Source: Kober et al. (2007)

This table served as the foundation for the construction of their questionnaire, with a question responding to each control mechanism.

From this part we realize that control has a lot of dimensions and could be used differently depending on what the organization is able to measure. It also provides us with the tools necessary in order to distinguish between different types of MCS. Such a distinction is necessary as one intends to study each MCS component over time and find relations with other variables regarding strategy.

3.3.3 Different models of control

There are some researchers that have opposed the traditional ways of looking at MCS as an optimal means-end relationship as it focuses heavily on objective effectiveness. Thus, it has a restricted conception of the social environment and an idea of economical rationality which, according to Chua (1989), is argued to be problematic. One alternative approach is called the open system approach. According to this approach, organizations are looked upon as organisms that process inputs from the environment back as outputs. Ansari (1977) argues that such an approach allows the environment to influence the organizations. Another way of looking at management control is through the cybernetic approach. This approach, according to Otley & Berry (1980), defines management control as a process of ensuring that organizations are adapted to their environment and that they are pursuing actions that enables them to achieve their purposes. Any action taken within the organization affects the environment in which it operates in. That change is then fed back into the organization through the environment in a negative feedback system. Hofstede (1981) creates a model, laying out six different management control types that are applicable to all types of activities that an organization undertakes. The six types are: *routine control*, *expert control*, *trial-and-error control*, *intuitive control*, *judgemental control* and *political control*. It is only the first three management control types that could be explained by cybernetic approaches, the other three demands a more complex model. March & Olsen (1976) designed a model of control, capturing the flow of a cybernetic control pattern. This model is picture in figure 3.2.

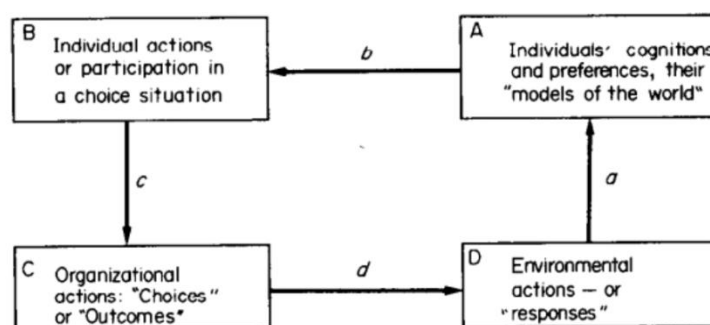


Fig. 3.2 - The complete cycle of organizational choice.

Source: March & Olsen (1976)

Arrow *a* represent the measurement process whereas its corresponding box A compares them against preferences. Arrow *b* is the feedback signal and box B is its reception and translation by individual actors. Arrow *c* represents the intervention in the organizational process whereas the box C is the actual process. Arrow *d* represents the technology of the process and box D its translation into outputs. If all the arrows are intact we are dealing with the first three control types that Hofstede (1981) laid out. However, according to March & Olsen (1976), these processes are often interrupted resulting in the cybernetic approach being obsolete and we are then dealing with the last three control types in Hofstede's article (1976). To deal with the last three control types, Hofstede (1976) argues for models which add *values* as an important factor to consider. "*Values are non-rational, however: they precede the use of rationality*". Values are closely linked to concepts such as *culture* and *rituals* and Hofstede (1976 p.201) has his own definition of what culture is: "*the collective programming of the mind that distinguishes the member of one human group from another*". He also concludes that one cannot expect to succeed in imposing a control system that runs completely counter to its organizational culture. Furthermore he states that it is unlikely that one could transfer a control system from one type of organization to another type of organization, even for similar problems. He later on concludes that "*There are no universally optimal procedure for judgemental and political control, while there are very likely universally optimal procedures for routine control*" (Hofstede 1976 p.202).

From this part we realize that there are different types of actions that require different types of controls. We also further confirm the importance of including more abstract dimensions when defining MCS. Moreover, there exists no universal MCS but rather every organization needs to adapt its own controls systems. It also seems to be some issues that companies can deal with quite universally while some issues are more unique in nature and thus require some other set of solutions.

3.3.4 MCS and its relation to Strategy

It was not until the 80's that strategy became an explicit variable in the research of MCS (Hofstede 1976 p.201). Miller & Friesen (1980) realized that any organizational change will have various impacts throughout the organization and that the effort of trying to balance such changes may create imbalances elsewhere. It therefore becomes imperative for managers to understand any such interrelations as to manage the trade-offs and balances as effective as possible. In a later study, Miller & Friesen (1982) observed that an entrepreneurial organization designed its MCS as to warn against over excessive innovativeness while a more conservative firm designed its MCS to signal the need for innovations whenever needed. With an increased interest in this relationship, critical voices have started to emerge. Emmanuel et. al. (1990 p.36) argues that the traditional ways of regarding

accounting information and accounting controls are not sufficiently broad to capture the more modern ways of control. This issue was also raised by Langfield-Smith (1997) who reasoned it to be a consequence of the era, in which much of the popular studies were conducted, where financial controls were heavily focused upon. These very statements are today, in 2011, even further amplified by time as the concept and complexity of MCS have increased.

Kloot (1997) studies two organizations facing a similar change in the external environment. These two organizations differ in the way they use MCS which in turn leads to these organizations adopting the change differently. The study focuses on organizational learning, which is the concept of an organization's ability to change in accordance with external changes, and the conclusion is that this concept is closely interrelated with the usage of MCS. A well fitted MCS will help the organization to interpret the external changes correctly and thus further facilitate the structural changes, a process which Kloot (1997) refers to as *double loop learning*. This study thus realizes that there exists a two-way relationship between MCS and strategy, both affecting each other.

In the study by Archer & Otley (1991), several important contributions are made. They examine the control and planning procedure in a British medium-sized company and relate these to the emergence of corporate strategy. Their findings suggest that managers' perceptions could function as mediators between MCS and strategy. They also confirm that there is an interrelation between formal –and informal controls and MCS could be either supporting or impeding strategic change. Such findings are further developed in studies by Simons where managers' attention to specific parts of MCS becomes vital for the strategic development. Such difference in manager attention is what is later going to be classified as diagnostic –and interactive controls. Slagmulder (1997) extends the discussions of the effect that MCS has on strategy by specifically looking at strategic investment decisions. It is concluded that, since organizational change is an ongoing process, it is required that the MCS is constantly modified to maintain strategic alignment. The MCS in their study was redesigned as to fit the new kinds of projects that entered the investment proposal stream, e.g., an increase in formality or tightness or an introduction of new control mechanisms. A final remark in this study is made regarding an appropriate and effective fit between the MCS and its adaption to the strategy. If such an adaption is successfully made, a strategic alignment will be made and the investment proposal properly handled. If however, adaptation fails, a strategic misalignment will persist. Therefore it becomes important for managers in charge of the design of MCS to realize any potential problems that environmental changes can give rise to and that such problems could be resolved by proper alignment of MCS and strategy. Govindarajan (1988) further sheds light on such reasoning as he calls for different subunits to pursue their own strategies, thus pertaining to managers, especially of larger firms, to adopt a flexible management style. We regard this as an

extension to Slagmulder (1997) in the sense of not just considering external environmental changes but internal differences as well.

From this part we realize that the strategy is very much dependant on the use of MCS. Different strategies call for different use of MCS in order to achieve a fit between the actual strategy and the aspired one.

3.3.5 Interactive and Diagnostic controls

Earlier research covering MCS and its effect on strategy implementation has paid little attention to the question of *how* MCS should be applied throughout an organizational change, this according to Abernathy (1999), Shields (1997), and Langfield-Smith (1997). Kelly & Amburgey (1991) argue that it is interesting to study *how* changes occur, *who* initiates them, *what* constrains them, and *what* mechanisms to use in order to facilitate them. In the extensive research conducted by Simons (1990, 1995, 2000) four different levers of controls to manage strategic changes are identified. Two of these levers, interactive -and diagnostic controls that deal with the question of *how*, have been given a great deal of attention in literature followed by Simons' studies, e.g., Osborn (1998), Abernathy & Brownell (1999), Davila (2000), Bisbe & Otley (2004), Kober et. al. (2007) and Berland et. al. (2008). However, most of the literature have focused on the separate use of control system; either interactive or diagnostic. There are however some studies that look at the joint use of these control systems, e.g. Haas & Kleingeld (1999); Marginson (2002); Tuomela (2005); Henri (2006) and Adebayo (2007).

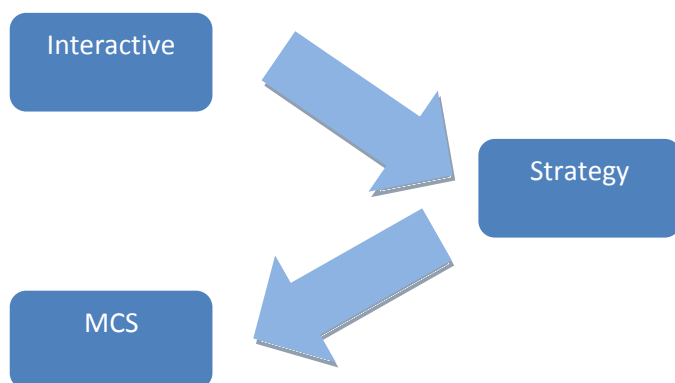


Fig. 3.3 – Results summary of Kober et al. (2007)

Source: Authors interpretation of Kober et al. (2007)

Simons (1994) defines diagnostic controls as “... the formal information systems that managers use to monitor organizational outcomes and correct deviations from preset standards of performance”. In

Simons (1995 p.60-61) it is stated that “*virtually all writing on management control systems refers to diagnostic control systems*”. In another article by Simons (1991), interactive control systems are defined as “*...formal information systems managers use to involve themselves regularly and personally in the decisions of activities of subordinates [...] Interactive Control Systems focus attention and force dialogue throughout the organization*”. Diagnostic controls are intended to help implement strategies while interactive controls are to help formulate new ones. He further explains “*Any diagnostic control system can be made interactive by continuing and frequent top management attention and interest*” (1994 p.171).

Bisbe et al. (2007) further define interactive control systems as “(1) *an intensive use by top management*; (2) *an intensive use by operating managers*; (3) *a pervasiveness of face-to-face challenges and debates*; (4) *a focus on strategic uncertainties*; and (5) *a non-invasive, facilitating and inspirational involvement*”. Berland et al. (2008) comprise these five properties into four dimensions used to clarify and compare diagnostic –and interactive control systems which are: “1) *content and nature of communication*; 2) *use by top management*; 3) *use by operating managers*; and 4) *type of discussion*.”

In **the first dimension**, the authors argue that it is interesting to look at *critical performance variables* and *strategic uncertainties* where the first is controlled diagnostically and the latter interactively. According to Simons (1995 p.63), critical performance variables are “*those factors that must be achieved or implemented successfully for the intended strategy of the business to succeed*.” These factors are measurable while the strategic uncertainties are not, and thus require an interactive control system. In Simons (2000 p.213-215) strategic uncertainties are defined as “*...the emerging threats and opportunities that could invalidate assumptions upon which the current strategy is based... [They] relate to changes in competitive dynamics and internal competencies that must be understood if the business is to successfully adapt over time*”

The second dimension distinguishes between the ways that top management use different MCS. It is the top management that is responsible for interpreting the data, something that otherwise lies with the operational managers. This is clarified by Simons (2000 p. 226). “*Senior managers assume primary responsibility for interpreting the data contained in these systems. The interpretation of data in Interactive control systems is not delegated. Staff groups are used primarily as facilitators in the interactive process*”. This also requires new information structures to spur the use of interactive controls which is captured by Simons (1995 p.92). “*Senior managers must encourage continuous search activity and create information networks inside the organization to scan and report critical changes. Individuals must share information with others*”.

The third dimension concerns the way that subordinates interact with the control systems. Simons (1995) argue that middle managers are especially important in order to make the interactive control process work efficiently. The discussions and meetings created by interactive control systems will lead middle managers to create their own network to gather information. *“In preparation for these meetings, participants learn to call on their own peers and subordinates to help interpret the changing patterns revealed in the data. In this way, participants build their own information systems that inform them of changing patterns and allows them to respond with new action plan”* (Simons, 1995 p.97-98).

The fourth dimension is about the type of discussion created by the use interactive control systems. According to Osborne (1998), diagnostic control systems approaches often leads to meetings being about presenting material while the interactive control approach would lead to discussions and negotiations. In Simons (2000 p.217-218) this type of discussion is further explained. *“interactive debate and dialogue take place at all levels of the organization as new information is studied and analyzed... The discussion surrounding interactive control systems are always face-to-face, involving operating managers directly. Meetings are used to brainstorm and use every possible piece of data to collectively make sense of changing circumstances. The debate focuses on new information, assumptions, and action plans”*.

Simons (1991) studied how top managers in competitive markets decide which of their control systems to use interactively. He concludes that the vision top management has is the most essential ingredient for an interactive control system. He also presents three factors influencing the design and choice of interactive control systems which are: *Technological dependence, Complexity of value chain* and *Ability of competitors to respond to product market initiatives*. A fourth influencing factor is introduced in Simons (1995) which is *Regulation* and the five mostly used interactive systems are: *program management systems, profit planning systems, brand revenue budgets, intelligence systems* and *human development systems*. In Simons (1994), newly appointed top managers were studied and their use of diagnostic –and interactive controls to implement strategic changes. During their first years, they all used diagnostic controls and when they saw that their intended strategy was being well carried out they selected one interactive control.

The study by Haas & Kleingeld (1999) highlights the importance of not neglecting lower managerial levels of an organization when designing the MCS. They argue that a fit is necessary between MCS and strategy and that it is achieved by enhancing the strategic dialogue throughout the entire organization. It is the diagnostic controls that are argued to serve as a basis for such discussion and must therefore be designed taking such level-differences into consideration as to achieve mutual

coherence. Such strategic dialogue corresponds to what Simons (1995) refers to as interactive controls and thus, a linkage between the diagnostic –and interactive control seems to be present. In their case study they propose a change in the role of the traditional accountant, instead imposing him/her of more strategic importance. This becomes especially important as the fit between MCS and strategy has to be maintained, not only during its implementation, but constantly as a change is going on. The authors therefore advocate for the accountant or controller to have managerial responsibilities.

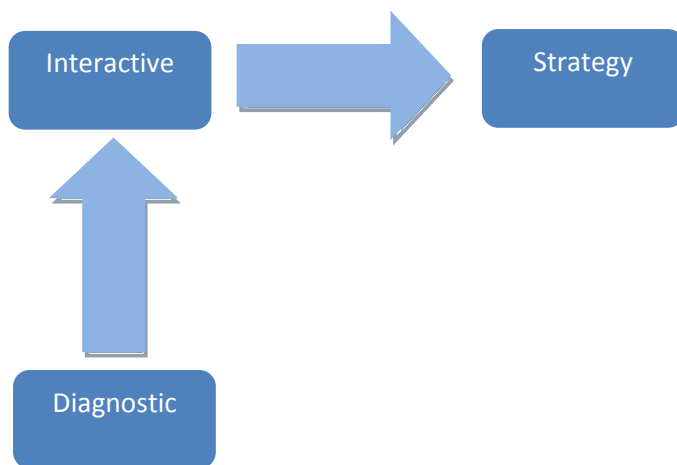


Fig. 3.4 – Results summary of Haas & Kleingeld (1999)

Source: Authors interpretation of Haas & Kleingeld (1999)

Marginson (2002) extends the arguments regarding strategy emergence by explicitly looking at how managers at different levels perceive their roles in the organization. It is argued that such perception is affected by what type of MCS is used and how it is interpreted, one set of MCS may for instance promote strategic initiatives while others may have impeding effects which could lead to polarizations of roles within the firm. Formal controls (which could be either diagnostic or interactive) were pushed down in the organization through different levels of management. However, such a step-by-step downwards implementation would allow for individual interpretations at each level implying that not all ideas had to be in line with top-management initial ideas. This, we argue to be an issue, as it could lead to a misalignment of strategy implementation, if the information channels are not properly controlled.

In terms of our study, what Tuomela (2005) found most interesting was that the use of interactive controls could increase the visibility of management actions and intentions and thus lead to resistance towards the intended strategy. Such a relationship would suggest not only a positive

relationship between MCS and strategy but also a negative one. In addition, Tuomela (2005) argues that interactive controls could be time consuming, both in terms of data collection and the discussions of it. It should be noted though that his study focused on performance measurements and should therefore not blindly be translated to all types of MCS.

What Henri (2006) does is to include both the diagnostic –and interactive controls when investigating the relationship between MCS and strategy. By doing so, he shows that there is not just a moderate relation but a direct one. The interactive (diagnostic) use of performance measures would have a positive (negative) effect on the deployment of capabilities of market orientation, innovativeness and organizational learning. By using them in a balanced manner and thus managing this tension it was shown to have a positive impact on organizational learning when the firm was facing high environmental uncertainties. However, no specific suggestions for how such a balance should look like are presented which we believe is due to the non-universality mentioned earlier in this chapter.

In the study by Adebayo Agbejule (2007), the results from Henri are manifested but a dimension regarding the separation of manufacturing and service companies is provided. It is argued that the environmental –and task uncertainty is higher in service companies, thus demanding for more interactive controls relative to diagnostic ones. The same reasoning is also applied to the perceived state of the environment and tasks at hand for managers. A marketing manager for instance would use more interactive controls when task uncertainty is high to contribute to an improved performance. Thus, it is not only the uncertainty of the company that lays ahead but for every manager's perception of his/hers individual uncertainties as well.

From this section we realize that the explicit notion of diagnostic –and interactive controls is quite new and thus, understandably not fully explored. One such area is the possible effect that the use of interactive controls may have on the use of diagnostic ones. We also see some similarities between the two types of use of MCS and the models described in section 3.3.3. The first three controls in Hofstede (1981) are quite similar to the concept of diagnostic control while the last three are similar to the concept of interactive controls. Thus, diagnostic controls may be universal while interactive controls are more unique and depend more on the situation.

4 Empirics

The following part will mainly be based on the interviews but inputs from the questionnaire and archival documents will be included as well. The three periods will be described separately and the events in each period are described chronologically with the most important components of MCS thoroughly described. At the end of each period, a short summary will be presented and a take is given on the strategic typology.

4.1 Period 1 – Creating a stable company structure

4.1.1 A new CEO

The first period constitutes of the year 2006 and 2007. The period starts with IW identifying the need to hire an external CEO as internal issues had starting to arise. The former CEO was leaving IW and none of the major owners wanted to step in, nor did they want each other to step in, and take the position as the new CEO. The problem was thought to best be solved by hiring an external CEO with a more “*unstained*” perspective. Together with these issues, IW faced bad financials and had quite a narrow position on the market. IW was during this period a product package design company and was more focused in defending such a position rather than looking for new business opportunities in unexplored markets. The kind of services offered and the quality of the projects were not deemed sufficient while the demand, at the same time, for such services, generally had started to decline.

The core issues the CEO had to deal with, starting 2006, was to turn the company from negative growth to once be prosperous again. During this time, the main focus was to obtain a stable company structure and not so much to initiate what is later going to be classified as the strategic change at IW. During the first period at IW, there was no clear structure in terms of communication and most strategic decisions were taken at the board meetings and thus quite centralized, which is in line with an organization in the collectivity phase according to organizational life cycle theory. The communication in such stage is mostly informal but with a few formal systems slowly beginning to take shape. Strong leadership is obtained in this phase and the organization begins to develop clear goals and directions. This was what happened at IW when the new CEO started as she developed clear goals of how to turn around the negative financial situation and to create a more stable company structure. She entered as a strong leader with the ability and personality to move the company forward, something that the previous CEO could not manage to do.

In line with a loose structure, there were also some people who were not considered enough experienced or with the right set of skills for their positions who had to leave IW or be repositioned. Another major decision at this time was to outsource one line within the production in order to obtain a stronger control over the costs which also meant people leaving the company.

4.1.2 Cost control

A first separation between two in-house areas of expertise was made. This separation was initially made in order to locate where in the company that revenues were created and where to allocate costs. The two divisions created were *retail* and *product*⁵, with IW having a tradition of taking on product design projects. They had however expertise within the area of retailer clients, which were on a more corporate level than product projects, and had occasionally taken on these types of projects but without having it as a clear cut business unit. Even though this separation was made, it had no significant impact on the way that IW operated as a business nor were there any changed or tailored management styles for the two units, *“it was more creating a structure on paper, as to be able to allocate costs and revenues, than to actually create separate business units”*.

Another obvious and important cost actions the new CEO undertook was the physical move from an expensive and very big office space to a much smaller and cheaper one. Such a move had a great impact on the income statement and enabled IW to start reinvest its own profits again. Other actions to control for costs and to have a better structure regarding project follow-ups was the introduction of a digital time-sheet system called *Marathon*. It allowed managers to better control which projects that was deemed profitable and which ones they should start phasing out. Along with the cost controls there were also tight budget goals which were revised and updated during the period to make sure that IW was going in the right direction.

The new CEO was also granted the freedom to create her own set of measures (MCS) and evaluate the company in any way she regarded most appropriate. Not to say the initial board members disclaimed any rights or kept their opinions for themselves but as long the new CEO did not do anything “crazy” she would evade any monitoring attempts from the board. This autonomy-like setting is especially true during this period as the issues were very much focused on minimizing the costs and creating a stable growth and not on any future strategic uncertainties.

⁵ Retail was mainly about creating packaging design for FMCG (fast moving consumer goods) whereas corporate includes more brand consulting on a higher managerial level with the client.

4.1.3 Culture and professional controls

According to the questionnaire, the most widely used control systems was cost controls but there are indications showing that the culture played an important role as well. The cultural type of control is not any way as easy to manage as cost controls but there seemed to be a strong set of togetherness within IW during this time. Comparing the three periods, the first one is when IW is the smallest, both in terms of revenues and number of employees but also with the strongest culture. Employees were also given a high level of autonomy in their everyday work and the communication between people with different expertise was high. From the interviews we gleaned that the strong culture at IW was due to the non-intensive use of formal MCS. The questionnaire also captures this as there are indications of a strong use of professional controls the first period, something the interviewees argued to be the cause of the strong culture. Since roles and responsibilities were not explicitly set, IW relied very much on professional controls which seemed to have positive effects on the internal culture as the employees felt that they were more in charge than they would if they had been explicitly controlled.

4.1.4 The strategic change

With the new structure set and with positive profits, the focus shifted towards a creation of a more coherent and clear service offering. This was very much enabled by the separation into different subunits as it allowed IW to package different services separately; product design and retail projects. It is also in line with such discussions that the board, together with the CEO realized that a strategic change was necessary as to maintain profitability over the coming years. As costs were not the number one priority any longer the CEO was gradually very much relieved of issues regarding short-sighted costs which disengaged a lot of time for other issues. It was during this time that IW started to analyze what the future might bring in terms of developments of the branding market and what is required from such a company to become even bigger and not be outplayed in the marketplace. Since the CEO had a background, and is known for her experience within change management, it became quite natural for her to initiate and spur such discussions when the time allowed for it. The final months of this period was very much characterized by discussions and negotiations between board members and the CEO as to settle on a new vision for IW.

After a thorough analysis it was concluded that some major competitors had started to offer a “*whole package*” when it comes to branding, not just design or communication. Such a conclusion is in line with Jacobsen (2010) reasoning about inefficient organizations, undergoing evolutionary change, trying to replicate work processes of others in the industry. In addition, the conclusions was made that some of the client pitches turned down, in favour of such competitors, were due to the lack of a full in-house service system. This was the initiation of the strategic change.

IW has several attribute during this periods indicating that they are what Miles & Snow (1978) would typify as a defender. The strong focus on defending an existing narrow position and an internal focus on issues rather than an external, or environmental, are strong indicators of a defender typology. From the questionnaire, such a typology classification could be triangulated which even further manifest the strategy. We have also seen the introduction and use of many diagnostic controls and basically no interactive controls with the exception of the last months of this period.

4.2 Period 2 – Strategy Formulation

4.2.1 The business plan

During the second period, the organizational structures had been altered, costs had been cut and the profits had turned from negative to positive. As IW was starting to realize that *“it is possible to make this company profitable”*⁶ they also shifted their focus from costs to more forward oriented issues. The board had for a long time realized that a change was necessary but had felt hindered or had not had the strength to pursue a new position but with the new CEO and an external board, a plant was seeded to carry such changes through.

The first manifestation of this period was the creation of a new business plan with a focus on what kind of company IW should be going forward. This business plan is the result from long discussions between the CEO and the board and it was the starting point of what we in this study call the strategic change. As IW realized they needed to become a full-service bureau they began to contemplate what such thing would bring in a more concrete sense, how to turn it from words into actions. Prior to this business plan, IW had not seen any documents describing its current position in relation to competitors, no prints on vision statements or no plan for improvements. *“This was not just a budget, as we always had done it before, but a full scale business plan where a plan for each client was presented”*. In that sense, and together with a clear formulation of the new strategy and position of becoming a full service management bureau, this is regarded as the start of the strategic change. This business plan is thus the first significant bureaucratic control IW more or less had ever seen.

Included in the business plan there is a section regarding strategic goals which in turn is divided into five areas namely *PR*, *HR*, *Client*, *NB*⁷ and *Digital Identity*.⁸ The **PR** goal was set to create an awareness of IW’s intended position as *“the branding bureau that increases your business with*

⁶ Catarina Falkenhav

⁷ New Business

⁸ Public Realtion, Human Relations and New Business. The goals concerning HR are added later during this period and was not part of the first version of the business plan

commercial design". Prior to this statement, the focus on the clients increased profits had not been regarded as a priority. The goals set for **HR** was to become the number one best employer in a specific external poll. The targets for the **Client** were to make them look upon IW as their own branding agency and also to increase their profits, on a yearly basis, by 10%. There was also a goal set to be nominated to "Årets Byrå⁹" in 2009 and to actually win it during 2010. The most interesting goal, in terms of a strategic re-positioning is stated in the **New Business** section where it says "*We shall position IW as a branding agency due to new projects and clients*". In addition there are financial goals for NB to have a share of total turnaround of 15%. Lastly there are goals for the **Digital Identity** to become even bigger, both in terms of turnaround and number of employees, which we will discuss further down in this section. These strategic goals have then been placed upon the different roles throughout the organization to ensure that they are carried through and that there always is someone responsible for the different tasks.

The easiest way of describing the strategic move and new position is by looking at the two extremes in between which IW plays. On the one hand there are pure design firms, the type of organization that IW was during the first period, and on the other hand there are typical management consultancy firms. IW's new position in this setting is visualized in figure 4.1.

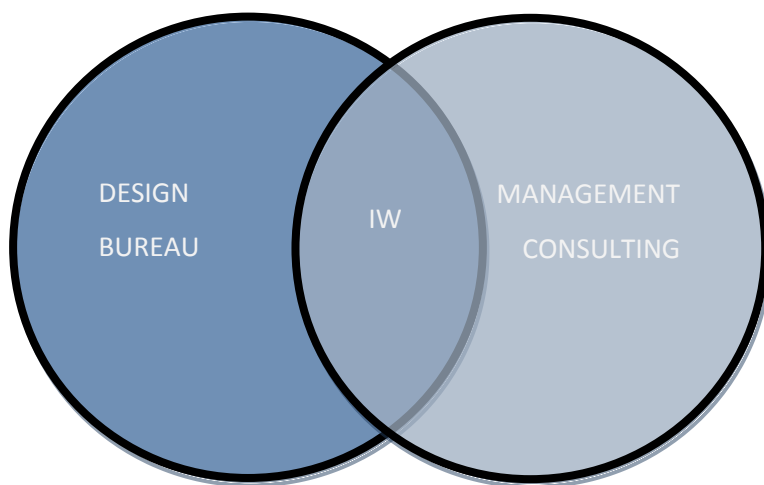


Fig. 4.1 – IW's aspirated position.

Source: Authors interpretation of IW's aspirated position in their business plan 2009

Even though not stated as clearly as this until the third period, this was the intentions with the business plan. The two most obvious reasons for this strategic change according to the CEO was 1) to stay competitive in the long run. The profits and margins in the design market had started to face a

⁹ Bureau of the year

general downturn which made it quite a tough market to be present on. 2) To be able to be an attractive employer by having more challenging and interesting clients. The CEO argued that the clients in the new market were more interesting which would both attract the eyes of the environment and increase the satisfaction of employees as well which would make IW a more interesting company in both aspects.

4.2.2 The digital unit

Even though a first division into different business units was done during the first period, a refinement of it was made during this period. The most important addition to it was the introduction of a new business unit which was called *digital*. It was partly due to coincident and plan, concepts discussed in the theory section by Jacobsen (2010) and Van den Ven & Poole (1995), that this unit was introduced in the structure of IW. *Planned* in the way that it was part of the business plan to become more digitally oriented and by *coincident* that some managers came in contact with a smaller digital firm, Super Strikers, which was looking for a buyer. The appointed manager for the digital unit stated in one of the interviews that the digital unit has been the most important carrier of the new position that IW is striving for as they have had a much more clear business focus¹⁰ than the other units. By adding a third business unit and approximately six persons, IW went from quite a small company to a much larger one. Since Super Strikers was already an established company, they had their own internal structures and culture which made the integration different from just hiring separate people.

Part of the newly set business plan was to create a coherent IW-way with a set of values and beliefs which was partly off-set by the acquisition of Super Strikers. This has not been mentioned by the interviewees as having an impeding effect on the strategy implementation, something we believe is due to the importance this unit has played in manifesting the new position. However, the issue has been lifted many times but never spoken of in a negative way. The management team was very keen on letting “*the youngsters have their own way, not to dampen their creativity and joy*” which at least shows that they were aware of the role that cultural aspects play in different business units. This hands-off policy is even further augmented by the top-management’s view on the acquisition as “*a long-term investment as to reach the envisioned strategic position.*” An example of this is the non-existing financial follow-up on one large customer in the digital business unit. This customer was considered to be a perfect addition to the portfolio of cases that would manifest the new position which untangled the unit in charge from producing positive financials. Another indication of the top-

¹⁰ With business focus we mean an understanding of the clients business model which leads IW to have a more extended relationship to the clients in relation to more design related projects.

management's concerned view of the culture in the digital unit was given by the chairman as he stated that *"with the parting of the founders and the cultural carriers [of the digital culture] we may now be able to set the culture that we want and in that way faster reach our new position"*.¹¹

The allowance of financially negative projects and clients is not only, in theory, applicable to the digital unit but others as well. In the business plan there were four criteria for NB and at least one of them had to be fulfilled in order for a business unit to take on a new client. The four criteria were *fortune, future, fun and fame* which either seeks for financial prosperity during the year, a boost towards the new strategic position, a positive surrounding for the employees or a good PR-effect. In practice however, the only business unit able to use any other criteria than *fortune* during this period was the digital one.

4.2.3 A drop in common culture and professional controls

The questionnaire indicated that there was a general drop in the common set of shared values, beliefs and norms within IW which of course could be linked to the introduction of Super Strikers but this general drop was confirmed by several interviewees. However, they all realized that keeping a common strong culture was both hard and in many ways bad as there were vast differences between people at IW. *"I need this culture in my unit, however, I do not know if it is suited for any of the other units as they certainly have their own sub-cultures"*. Even though there is a loss in this common culture, things such as Friday-beer is introduced by the CEO as symbolic gesture of a united company and to create a feeling of togetherness. On top of this, the commitment by employees to IW's objectives and values seemed to fall quite drastically as well in this period compared to the first one. A common explanation given by interviewees regarding this observation was that it was due to a confusion felt by the employees. *"Some said we are a design bureau, others said management consultants while some did not really know"*. Even though the business plan was set by top management it was not fully adopted by all employees during this period.

There are also indications in the questionnaire showing that the autonomy that creators and other personnel with no managerial responsibilities had, had gone down in this period which implies that professional controls had gone down. This shows that IW was in some aspects very much controlled by top management. One interviewee said that during the first period, when they were more of a design bureau that produced a quantifiable output, it was easier to apply an output control but when focus shifted towards more complex and less quantifiable outputs it became more important to

¹¹ During the last period, the founders of Super Strikers leave IW. This event happened just before the submission of this paper which could have had a biasing effect on some of the interviewees. The knowledge of their intentions to quit could have clouded their answers to be more positive in an attempt to make them stay and therefore not acknowledging the fact that some aspects of Super Strikers integration has been troublesome in a strategy implementation perspective.

control the process in which value was being created. In terms of the model by March & Olsen (1976), a south-east move seems plausible which calls for controls in which managers are more engaged.

4.2.4 Cost controls

During this period we also saw a strong increase in the continued use of cost controls in the separate business units which is of course closely linked to the very creation and recognition of them but also due to the fact that they were successively being treated and used independently from each other. The chairman acknowledged this phenomenon as he explained that *“it was important to make this distinction and separation to be able in the future to unite them. They needed to set their own agendas before any talk about trying to make them work closely together”*. Thus, from a top management perspective, a more strict cost control system was used. Another part of the MCS which was linked to the separation into business units was the way these units communicated and worked. According to the questionnaire it was obvious that both the communication in form of interdisciplinary meeting and workgroups was negatively affected by this separation which is also captured by the previous quote from the chairman.

4.2.5 Strategic slowdown

During the fall of 2008, the financial crisis struck the world which of course had internal effects in a company such as IW as well as external ones in form of worsened customer situations. There are some interviewees who claimed that the strategic re-positioning was off-set by this crisis and that some implementations were undone or delayed. Since a great deal of the new position was objectified in the mindset of new customers, the crisis had a negative effect on the pursuit of the new strategic position. In the revised business plan for 2009 however, there were some light casted upon the crisis as having some positive effects as well as new business opportunities would arise. In this revised business plan we saw a strong emphasise being added on the development of the digital unit as it was argued to become even stronger and more important in the aftermaths of the financial crisis.

During 2009, the CEO also went on maternity leave which by some interviewees were argued to have had a stopping effect on the implementations and carry-through of the new strategic position. However, in her absence, others were given responsibilities and mandate which by some means also meant new insights and methods regarding the every-day work of acquiring the new position. It was the chairman who overtook the formal role as the temporary CEO but another consultant was brought in to have the general responsibility for the clients. The main question that the temporary CEO drove internally was the development of the different business units and to further distinguish

them from each other from a managerial point of view. In late 2009, the consultant in charge of the clients was given successive responsibilities and freedom by the CEO, not just to handle clients but to drive internal questions as well. As she came from a background of a more business oriented mindset, as the one IW was pursuing, she realized that a fourth business unit was necessary in order to reach the aspired position. This business unit will be further discussed in the third period.

Using the wording of Quinn & Cameron (1983), IW entered the third phase in the organizational life cycle theory and also, indications of the prevailing strategy during the second period are that they are in between a defender and an analyzer. Many strategy attributes from the first period are kept while others have been added along with the new business plan which are more similar to those of an analyzer. IW kept defending the design area while adding the digital unit to widen the business scope and search for new opportunities. There is ambiguity in archival documents adhering to this period as there are examples of IW describing themselves as, in some cases a design bureau and in others, as a brand agency. This observation is also confirmed by interviewees as they discuss the uncertainty they felt about the current strategic position during this period.

4.3 Period 3 – Strategy implementation

4.3.1 Increased use of communicative mechanisms

The CEO came back from her maternity leave in late spring 2010 and kick re-started the transformation process that had undertaken a somewhat slower pace during the financial crisis. With the further separation of the business units, many of the employees felt that IW consisted of three separate companies instead of one, and one challenge during this period was to integrate the business units again as to make them cooperate and work together in different projects in a more efficient way. The survey also confirms that the communication *between* the units had decreased steadily from period 1 to period 3, which gives explanations to the feeling some employees express of three companies co-existing in the same office.

The CEO created mandatory Monday meetings where she constantly reminded the employees about the strategic change and what had been done and what should be prioritized in the near future. One often mentioned reason behind these meetings was to amplify the feeling of being one company and not three separate units. During these meetings, the employees got a short brief of what other projects their colleagues were working on at that moment was a place where all business units gathered and got inspiration and learning from each other. These meetings also had the reverse function as the presenters of finished projects got feedback and appreciations from their fellow co-workers. During this period, focus during these meetings, except client projects, was on growth and profitability. The CEO often presented important key figures and their development over time in

these meetings. This is also supported in the questionnaire which indicates that the monitoring of results in between periods had increased with the peak in the third period. Recurring Monday meetings was probably one reason why the employees state in the questionnaire that the informal meetings had increased during the last period.

4.3.2 The strategic unit

According to the client consultant hired during the CEO's maternity leave, an important part in the company structure was still missing. IW could not offer insightful strategy solutions to their clients, something that was deemed necessary in order to reach the new position. A decision was made to start a fourth, strategic business unit that would work crossover the other units as a support function for the corporate, product and the digital unit. The very same consultant was made the strategic director of the unit as she had great experience of working as a planning director and she was granted the freedom to design the unit to her liking. Since there was no prior structure for these kinds of services, the strategic director realized that different forms of procedure manuals and rules were necessary to ensure the quality of the delivered services. Such documents were created successively throughout the third periods and contained different work processes and client models, something we argue to be indications of an increase use of bureaucratic controls. The strategy business unit budgets were revised several times a year as it was operating in a volatile environment where future client were relatively unknown. Result monitoring became therefore an important measure to evaluate if the strategic unit were heading in the right direction.

The strategic director did throughout the third period express some frustration as she had not enough time to drive the internal change and to set up the strategic business unit in a desired way. The main reason behind the slow development she argued to be due to a two-folded role as both a client director and an internal coordinator, to be fulfilled simultaneously. *"With the limited time I have in my role as a consultant and when faced with the question of either work on a client project, where we make money, or on an internal one, the answer is easy"*. According to another consultant in the strategy unit, an additional problem was that there were too many projects going on at the same time, which sometimes affected the quality in the changing process in a negative way or prolonging the implementation process. *"Normally you should have three internal projects simultaneously, at the most, but here at IW we sometimes have up to seven projects concurrently."*

A large part of the revenues in this period still came from the product unit but the aim was that a major part should come from strategy projects. A challenge for the strategy unit was to prove the value of their deliveries to their current customers as to, in the future, be able to charge more. Such increase in price would allow for larger projects which in turn would manifest the new position.

Another issue was to find new projects with a pure strategy focus, as many of the strategy projects were treated as “*selling an add on*” in e.g. a design project. A third issue for this unit, in terms of the new position, was also the importance of gaining access to a client’s top management, as they are the one who can make decisions regarding critical business problems and take action on potential opportunities. Towards the end of this period, the digital business unit had had more projects with top management access compared to the other business units. The aim with the new position as a full service bureau was to get more projects with a closer link to top management.

4.3.3 Functional groups

To find new clients and projects, the formalization of the *new business group* was set which contained members from each business unit. This group had continuous meetings in which new potential clients were discussed and how IW should successfully approach them. The results from new business projects in the past had not been satisfying, something that the *Marathon* indicated, but with the new focus in this unit, the results started to improve. A new business policy was developed in which employees were rewarded monetary compensation for acquiring new clients or having a contact leading to a new project. The premise for getting a commission was that the project yielded at least 500 000 SEK revenue. There was however one exception, and that if the new client was either a fame or future client as such clients were regarded as strategy enhancers.

To get people involved in the transformation process of becoming a full service bureau, the CEO created a group called *The future group* which consisted of younger people at the agency who were regarded as extremely important for the new IW brand and who were able to represent IW in a unique way. The members of the group were the founders of Super Strikers, one of the most promising designer at the agency, one strategist and a designer from the corporate business unit. The future group was a forum in which the members were given time and space to discuss any trends on the market, new influences and changes. The purpose was to create IW’s future with “*consciousness, participation and relevance*”. This group had a great impact in the planning –and implementation process of reaching the envisioned position. One example of such impact was the introduction of the 42-punktslistan¹² and its subsequent follow-up. The main purpose of this list was to enhance the common culture at IW but also to boost the feeling of the strategic change finally coming to an end.

¹² This was a list of 42 different tasks which the employees were supposed to deal with. Examples of such tasks could be bringing employees from other subunits to a theatre or inviting everyone to a party.

4.3.4 Results monitoring

Even though Marathon was necessary from a management point of view it was not fully accepted by the users, or the employees. Some employees used Marathon daily to fill in their hours spent on a specific project while others had a more sporadic update frequency which lowered the accuracy of the system. The systems was supposed to be equally used throughout the whole company which led to some disagreements as some argued that there are differences between people and project within IW which should call for a tailored use in the different units. The digital manager for example did not believe time to be a fair indicator whether a project was enough profitable or not but rather the team spirit and the result while other managers had a more strict view. *"I do not care if my project is a so called loss-project. I know if my team did a good job or not and I do not care if someone spent hours at home finishing it. It is the results that count."* However, this system was successively being used to follow up client projects and these follow-ups were usually the number one area of discussion during the Monday-meetings. In this sense, an increase of the results monitoring seems to have been the case during the third period compared to the prior ones. Another explanation for the increase in result monitoring, is as described above, that IW was operating in an unstable environment where the future clients are relatively unknown. Tight budget -and result controls were therefore a very important measures that was closely monitored on a monthly basis to evaluate if actions needed to be taken in order to improve revenues or decrease costs next month.

4.3.5 Quality insurance

One of the main issues in this period was the recruitment of new competences to fill important key positions to increase internal competences and to ensure quality. One action taken to deal with these issues was the hiring of an external process consultant who was supposed to create better process structures in order to ensure quality and efficiency through all transformation stages. *"The internal working process is a priority at the moment and an external consultant has been hired to help us. With a new working process we can become more efficient but also find ways of how we can assure high quality in each project"*. Low quality in both design and strategy deliveries had occasionally been a problem and there was no control system in place assuring that what was delivered to the client was of satisfying quality. The transformation process of becoming a full service bureau had lead IW to becoming more of a knowledge-intensive organization. According to one interviewee, IW did not fully incorporate this attribute in the management style which created a gap between the envisioned -and the actual state. The CEO however created a system in which employees could apply for funding regarding any education that may improve that person's skills but it was seldom used. One of the reasons behind this was brought up in one interview, stating that it was due to the very fact that you personally had to apply in front of the CEO. The interviewee further

argued that *“IW does not value knowledge in ways that other knowledge-intensive enterprises do such as management consultants. The tradition prevents IW from seeing the individual performance and knowledge in a project. In the future, IW has to start measuring knowledge and quality”* which was one obstacle IW was dealing with to reach the new position.

To maximize knowledge and competences in specific client projects, a CV-database was set up to allow for the project leaders to browse among the employees. This new venue was set up to make it easier for the business units to integrate and cooperate in different projects and to share experiences and knowledge with each other. In that sense it was an example of a communicative mechanism in place to deal with resource sharing across different business units. It was also an important cultural gesture showing that IW had become a new company and a more united one.

In the interview with the CEO, she expressed a need for finding proper KPIs¹³ but at the same time mentioned the difficulties in finding such indicators. Even though such expression was made, no further effort was made in order to find them. Instead, focus was more on dealing with strategic uncertainties and this issue was deemed a secondary problem.

4.3.6 The brand platform

Together with the strategic director, the future group created a brand platform that was presented internally at a conference day. The brand platform was a description of what IW wanted to be and stand for in the future. It was also an internal beacon of what IW did and their way of doing things but also an inspiring description of how IW differs from its competitors. According to the wording of Mintzberg (1987), such a differentiation is a way to create a uniqueness of their new strategy. The brand essence of the platform was *Design Imagination & Design Intelligence* and is a manifestation of their target position. *“We know that creativity drives business. And that analysis provides more breathtaking creations. As we see it, the imagination and intelligence can never be separated. We are confident that it will be better and more fun that way.”*

The brand platform was a way to concretize what IW would become in the future and unify all employees as to ensure they were all heading in the same direction. The brand platform was well accepted among other employees and was regarded as an inspiring starting point of the new identity of the company and the finalization of the strategic change. The plan was to finalize the strategic change by having a change in the visual identity as to further strengthen the feeling of a change actually occurring, not to fall back in old habits and patterns.

¹³ Key performance indicators which is a similar concept to critical performance variables and thus a diagnostic control system.

To get the employees more involved in the finalization of the change process, a contest was set up in which the task was to create the new identity of IW. It included everything from visual elements such as the logo and office material to soft values such as feelings and slogans. The presentation was supposed to be based on the newly made brand platform and the winner's contribution would then be realized. This was appreciated among the employees as they really felt they had a saying and could contribute to the new identity. The questionnaire also captures this observation as there are indications of employees having a stronger feeling of the ability to affect strategy than in the previous periods.

The winning team was announced just before the company went on an inspiration trip to Shanghai in April 2011. This trip was another symbolic gesture to make the employees more motivated, but it was also regarded as a chance to get to know each other better and strengthen and build the company culture. The trip had been planned for a long time to be due in line with the finalization of the strategic re-positioning and the new identity. However, that was not the case.

There are strong indicators of a continued transit from a typical defender towards becoming an analyzer. During the second period there were indicators of IW becoming an analyzer which are further manifested in the third period. The heavy investments in additional business units, with a focus on more long-term projects, together with other internal functional groups, focusing on strategic uncertainties and opportunities are all examples of IW leaving the defender typology and becoming an analyzer. During this period, the general take on the use of control systems are that they were used more interactively compared to any prior period. The MCS has gone from a focus on critical performance variables to strategic uncertainties.

5 Results

In the following section, table 5.1 summarizes the results from the interviews, the questionnaire and the archival documents.

Stable company structure	Strategy formulation	Strategy implementation
<i>Strategic typology</i> Defender	Undecided	Analyzer
<i>Core business</i> Package design	Package design with a business sense	Brand management consulting
<i>Characteristics of period</i> New CEO Financial turnaround Critical performance variables Diagnostic controls	Strategic uncertainties Financial crisis Digital focus Sub-unit creation	A new identity Strategy sub-unit Interdisciplinary workgroups Interactive controls
<i>MCS usage by rank</i> Organizational culture Cost control Professional controls	Cost control Results monitoring Bureaucratic controls	Results monitoring Communication mechanisms Cost control

Table 5.1 - Organization characteristics in the three periods

Source: Enell & Skogström (2011) Interviews, archival documents and questionnaire

6 Analysis

The analysis will be presented in the order of the four research questions. Since the questions rather differs from each other in the way that they are materialized, there is no general structure for analysis for all questions, rather we have applied different methods of analysis to capture as strong links as possible in each question. Each method will be briefly explained in each question.

6.1. Strategy effects on MCS

Do strategic changes have an effect on the design and use of MCS?

The first question will be presented in a chronological order. Since the strategy is regarded as an ongoing process it will facilitate any discussions regarding the impact it has had on the MCS over time. Therefore, we will mainly analyse such impacts that can clearly be connected directly to the strategy which is present at that very moment.

6.1.1 First period 2006/2007

Simons' (1994) research describes that the behavior, shown in first period, of focusing on diagnostic cost controls is very common among newly appointed top managers in their starting phase, as they want to see that their intended strategy is being well carried out. The first period shows clearly how a short-sighted strategic change affected both the design and use of the MCS at IW where cost controls became the most important measurement as a response to the prevailing financial situation.

Simons (1987) research confirms that organizations adapt their MCS to fit the intended strategy and he found significant differences between a defender and prospectors' MCS. During the first period at IW, the questionnaire and interviews indicate that IW's strategy was very much in line with a defender strategy as the organization was characterized by a narrow product-market domain and was only focusing on packaging design. IW did not pay much attention to its surrounding environment and was more inwardly focused on e.g. efficiency, reducing the cost basis and improving the profits. Planning was in the initial stage towards problem solving rather than searching for new opportunities, something that confirms the defender strategy even more. The MCS at IW was however *not* in line with what Simons (1987) found to be typical for a defender strategy. IW focused heavily on cost controls and tight budget goals to improve the profitability and also, they did not have any bonus system based on the achievement on budget targets, which otherwise is typical for a defender. IW did not have sufficient control of their fixed -or variable costs before the new CEO was appointed, which explains why focus had to lie on the financial measures during the first period.

This is in line with the findings in Simons (1994) as a newly appointed CEO usually focuses on the use of diagnostic controls. Simons (1987, 1990) findings regarding typical MCS components for a company with a defender strategy can therefore not be supported but the MCS was still adapted to fit with the strategy. Overall IW used their MCS less intensively during the first period compared to the last period, which confirms the defender strategy even further.

6.1.2 Second period 2008/2009

As been described in the theory by Jacobsen (2010), organizations are social systems composed of people who act individually and together. Especially new employees will bring change to an organization as they want to implement their own working styles and processes. The digital business unit was considered by top management as a long-term investment as to reach the new strategic position and the management team was keen on letting Super Strikers have their own way, not to dampen their creativity and joy by forcing them into a control system which would not fit them. The MCS was adapted to fit the strategy of building a successful digital business unit in terms of financial follow up. An example is the financial follow up on one large customer, where the digital business unit was allowed to spend as much time and resources as required, without any concerns about profitability, to make the project a strategic success. The customer was considered a perfect addition to the portfolio of cases that would manifest the new position, which untangled the unit from producing positive financials. This confirms the management's view of regarding the digital business unit as a long-term investment in their strategy, which is the reason why they adapted the MCS so that these cost would not burden the digital business area overall. The MCS has afterwards been adapted to all business units in the sense of the allowance of having an unprofitable client as long as the client would build the case portfolio and create a good pr effect. Thus, the MCS in the digital business unit has been set individually to fit both the internal structure in the unit but most importantly to fit with the overall strategy. This reasoning has previously been confirmed by Govindarajan (1988) who highlights the importance of subunits pursuing their own strategies and adopting flexible management styles to get an effective fit between the MCS and its adaptation to strategy.

Some parts of the MCS in the second period were very much focused on soft measurements related to PR goals such as creating external awareness and becoming a better employer compared to the first period. The new MCS implemented in the second period related to such goals shows how IW has adapted their MCS to fit with their new strategy.

6.1.3 Third period 2009/2010/2011

The third period was most about implementing the formulated strategy but also to redefine some parts of the strategy as to enhance the new position even further. It is natural, as described in planned change theory, that an organization like IW will, throughout its implementation of any strategy, evaluate, learn and adopt which in turn will alter the initial strategy. Combined with the fact that IW recruited new people whom all came from different backgrounds, with their own set of ideas of how to improve the initial strategy, resulted in some additional changes to the strategy. This, to some extent can be seen as a, what Jacobsen (2010) regards as coincidence as the strategic director was initially hired as a temporary consultant and not as an important strategy enhancer. The purpose of creating a strategic business unit was that IW needed to offer more insightful strategies in their deliveries in order to stay competitive. Bureaucratic controls have therefore been implemented to ensure the quality of each delivery by monitoring and evaluating the working processes. Also to support these processes, procedure manuals was created. Such use of bureaucratic controls together with the tight budget goals and result controls within the strategic unit are in line with the findings in Simons' (1987) article in which he states that a prospector needs quite tight controls to ensure the direction of strategic decisions. Since an analyzer has both attributes from a defender and a prospector, we argue that Simons' (1987) findings are applicable to some extent to analyzers as well.

An important part in the new strategy was to attract new clients and larger projects. Besides creating a "new business group" to approach new clients, the MCS was also adapted by creating an incentive system so to involve other employees in the process of finding new clients. By adapting the MCS to the strategy more employees have been motivated to find new clients than previously, which indicate that the adaptation of MCS has been created as a response to strategic directions.

During all periods, the strategic change has had an effect on the design and use of MCS to create a better fit with the strategy at IW. Cost and results controls have been heavily used from the very beginning but its use has also increased during all periods. Increased cost and results controls are an adaptation and response to the new strategy that has been to grow and expand the business offerings. Since wages is the one largest cost at IW it therefore needs to be monitored closely as to ensure that the growing of the employee stock is a correct strategic decision. A lot of resources have also been invested to develop the corporate and strategic business unit in the third period and results need to be closely monitored to ensure budget goals and targets are progressing according to the strategic plan. Taken together with a high employee cost, results monitoring becomes crucial as to enable action plans in the strategy to be rapidly revised when needed.

6.2 MCS effects on Strategy

Do the design and use of MCS facilitate, or give rise to, strategic changes?

This question will be analyzed using some strong examples irrespective of the strategy at that specific period of time. Occasions in which the MCS has affected the strategic outcome does not necessarily depend on the strategy at that time which calls for more of a non-time based example analysis.

The future group had great opportunities to influence the strategy and this group can be seen as a group created to generate new ideas regarding the strategy, which is similar to what Mintzberg (1987) call the grass-root strategy. The very group in itself is a way for top management to control for strategic uncertainties and should therefore be classified as a MCS. It is also a MCS created as a response to the new strategy which was initially formed during the second period. However, what is most interesting is the impact this MCS has played on the strategy implementation. This group has had a large impact on the strategy, e.g. creating IW's new promise "Business imagination & design intelligence" which was the starting point for the brand platform development. In this sense, the creation and use of the future group confirms that there exists a two-way relationship between MCS and strategy, that is, it is both shaped as a response by strategy and a generator of strategic proposals.

During the last period at IW the CEO and board members found out from marathon that the *new business* work was not working very well in terms of efficiency. Many pitches had been lost and the work of trying to get into new pitches was not made in a structured way and was often very ad hoc. A new strategy was therefore developed with the aim of creating a group who could be in charge of the new business area. This is a great example of how the MCS has pin pointed a problem that has resulted in board members taking action and developed a new strategy with a related incentive system of how *new business* should operate in the future. This group was also in charge of aligning potential clients in the future with the strategy which is another indicator of a two-way relationship existing between the MCS and strategy.

6.3 Diagnostic controls effects on Interactive controls

Do the design and use of diagnostic controls affect the choice of managers' use of interactive controls?

This third question will be analyzed by first providing some discussion as to why we expect to see interactive controls at IW at all. As such discussion has been done, an attempt to explain the existence and use of them will be made with respect to the use of diagnostic controls. Such analysis

will also be based on specific elements from the empirics as most links are not found in between periods but rather within the periods.

6.3.1 A call for interactive controls

The same results that spring from the study by Haas & Kleingeld (1999) that the diagnostic controls serves the foundation for strategic dialogue throughout the organization are very viable in our study as well. Early in the first period, there was basically no talk about strategic uncertainties albeit in board meetings. Throughout the operational parts of the organization, the employees were not part of strategic dialogues, they were more regarded as tasks for the executives. Even though IW was quite small in terms of number of employees and thus quite decentralized, such discussions stayed inside the walls of the board room. Focus in the organization was to do what always had been done, and to do it well. In terms of Simons' interactive –and diagnostic controls, IW did not really have an interactive control system in place during the beginning of the first period. Focus was on diagnostic controls and how to deal with any deviations from set targets, but within the boundaries of the current strategic position (defender). In order for an interactive control system to be properly used, there has to be an organizational structure allowing for such controls. Berland (2008) mentions in two of his dimensions that a criteria for interactive controls to exist is that meetings occur where strategic uncertainties are discussed. Such was not the case at IW throughout the first period as there were no forums in which such dialogues to be held, except for the board room which was rather closed to the rest of the organization. There were neither any communication channels between top management and the operational employees where such information was exchanged which is according to Berland (2008) another criterion. From the interviews it was quite clear that the culture at IW was quite strong which could imply that there were more informal face-to-face meetings where such discussions could take place but since there was no explicit link to executive managers, results from such discussions never became operationalized. There are indications in the questionnaire that informal meetings have decreased over time as well.

The type of behaviour we have seen in IW fit quite well with March & Olsen's (1976) reasoning. Recalling the model they laid out, figure 3.2 *The complete cycle of organizational choice*, it is quite obvious that we are continuously dealing with broken arrows which calls for other solution based models than cybernetics. Hofstede (1981) in such cases argues very much for the use of control models including *values* which are closely linked to the concept of culture. In turn, such models described by Hofstede (1981) are similar to the concept of interactive controls. In terms of March & Olsen's (1976) model, IW has throughout the three periods had disruptions in *a* - measurement, *b* - feedback and, especially during the last period, also *c* – intervention in business process.

The introduction of Monday-meetings could be regarded as a way of increasing the cultural value and as a communicative control mechanism at IW, something that also was brought up during the interviews, but also as a response of the inability to measure, both end-quality and the value creating process. As Ouchi (1977) visualises it in his model, IW has struggled since 2006 to both be able to measure the transformation process and the output. In the first period it was easier to measure outputs as IW was more of a package design bureau but since the implementation of the new strategy and the re-positioning towards a full-service bureau, the output measure has been compromised. IW then ends up towards the south-east square in Ouchi's (1977) model called *ritual* which, in line with the reasoning of Hofstede (1981) and March & Olsen (1976) calls for controls related to cultural aspects. In this sense, *a - measurement* has since period one been an issue calling for interactive controls.

There have also been issues regarding the internal feedback system at IW, both in terms of external feedback from customers but also internally in form of employee appreciation. None of the interviewees were aware of a past explicit personnel appreciation programme and no archival documents suggest such a programme to ever have existed. In this sense, *b - feedback* has also been disrupted in IW. Instead of imposing diagnostic control systems to deal with this issue, it has been thought best solved by strengthening the internal culture and thus allowing for a more informal appreciation system such as the one introduced in the second period. Such an informal control system and the way it was used is very well an interactive control system put in place to deal with a malfunctioning organizational activity.

From several internal meetings, both informal ones and formal ones including external parties, IW came to the conclusion that in order to become a more united and more efficient company, internal work processes had to be formed. These processes were supposed to deal with both issues regarding working patterns within the different subunits but also in between them. Thus, *c - intervention in business process*, was deemed to be an issue worth solving. However, these processes have been dealt with by both diagnostic –and interactive controls. Diagnostic in the form of documents describing such work processes and interactively by the means of increasing the informal communication between and within the subunits as to encourage cross-functional work processes. Also, things such as the re-vitalisation of the Friday-beer are supposed to further create a forum for interactive controls of cross unit communication.

The inability to measure output and the transformation process - and with the awareness of such inability implicitly states that the management have had some sort of diagnostic tools indicating that something is wrong. Thus, this inability or lack of explicit diagnostic controls has given rise to various

forms of interactive controls which could be seen as an indication of the interactive controls being influenced and created by the lack of diagnostic controls.

6.3.2 Analyzing the relationship

As the first period comes to an end and the strategy was being formulated, the diagnostic controls were increasingly being used, not to sort deviations from set targets, but to deal with issues regarding future strategic uncertainties and thus evolving into interactive controls. The most evident action throughout all periods demonstrating the use of interactive controls was the introduction of weekly Monday-meetings. These meetings were initially created as a response to a diagnostic control system indicating a worsened culture at IW. The main purpose of these meetings, according to the CEO, was to try to further unite the company and let everybody be part of any recent developments. In such meetings, all employees in the organization were assembled in the same room with an equal share of voice. After attending several Monday-meetings (and from interviews) it was obvious that much of the time was spent on walking through historical figures and budget targets. It was very much a forum in which diagnostic controls were communicated to the entire organization. In most cases, such presentations evolved into discussions regarding improvements and alternative approaches to future issues which is a strong indicator of diagnostic controls serving as a foundation for interactive controls. Especially in the third period, when everyone in the organization was very aware of the new strategy that was about to be finalized, such discussions were prolonged even outside these Monday-meetings. Since top management had made sure that everyone was aware of the intended strategy, any strategic discussion throughout the organization was held in order to improve –and not oppose it which also indicates that there is a link between the use of interactive controls and also strategy. Even though Tuomela (2005) realizes that there could be negative effects of such visibility of strategic discussions in form of resistance, none have been apparent at IW in neither period. Our analysis is that everyone accepted the strategic change and that management made a good job ensuring everyone of the benefits of a change and we have no reason to question Tuomela's (2005) findings.

The division into sub –and functional units with individual responsibilities could be seen as a stronghold for interactive controls as they serve the purpose of a forum, gathering people with mutual purposes. These subunits made the members aware of their individual contribution to the company which, together with a strategic awareness, contributed positively to strategic discussions being held. From several interviewees and also captured in the questionnaire, it is obvious that the cost controls and follow-ups of the separate business units have increased over time and one interviewee also said that such monitoring has “forced” a strategic mindset which is another strong indicator of diagnostic controls evoking the use of interactive controls.

Because of the strategic change and especially since the introduction of the digital subunit, the CEO was very keen on developing the culture at IW. The digital subunit was regarded by top management as one of the stepping stones in reaching the aspired strategic position, both culturally and businesswise. The culture that the Super Strikers brought with them which also had to be incorporated into the present culture at IW was in many instances the opposite of the culture at IW. Due to such differences in culture, clashes sometimes occurred which gave rise to different areas of discussion. One such discussion regarded the use of the internal follow-up system called Marathon and the way it was used. The somewhat more relaxed culture in the digital subunit would not appreciate such a control system as it was deemed both unfair and time consuming. Since Marathon was a system based upon an individual filling in hours spent on a specific project it was considered to disfavour the group, something which was not part of the digital unit's culture. Thus, this discussion was based on the use of diagnostic control systems and interactive actions were taken within the management at the digital unit to subdue Marathon and find alternative valuation systems. From the interview with the digital manager we understood that projects within the digital business unit were not internally evaluated using Marathon but by engaging in discussions and face-to-face appreciations.

Not directly connected to a specific event in any of the periods but nevertheless something that was discussed in the interviews was the more general belief that diagnostic controls have had effects on the interactive controls. The chairman of the board realises this as he talks about the CEO who at several occasions used diagnostic measures to support arguments which she believed to be of strategic importance. Without at this time giving any attempt on stating the direction of a causal relationship it is obvious that there is a link between the two. The CEO's strategic arguments could both have sprung from, or given rise to the diagnostic controls. In any case, there is a close link between the use of diagnostic controls and the use of interactive controls.

6.4 Interactive controls effects on Diagnostic controls

Do the interactive controls have an effect on the design and use of diagnostic controls?

6.4.1 Hypothesis

This very last research question will be presented by first giving the reader an explanation as to how we have are expected to have this relationship materialized. An attempt is made to create a quite general model but nonetheless based on expectations and then apply it to IW in order to test whether this very relationship exists or not. Thereafter, a second model, based on the first one, will be presented which is more tailored to IW as a unique case as to further validate the strength of our findings.

We have affirmed prior literature in the sense that MCS as a package engages in a two-way relationship with strategy over time. We have also confirmed a one-way relationship in the recent branch-out within the concept of Simon's diagnostic –and interactive controls. As far as our knowledge stretches, there is no explicit prior literature to draw upon when studying a potential two-way relationship between diagnostic and interactive controls. The hypothesis, on which this question is based, is partly inspired by the work of Haas & Kleingeld (1999) who advocates organizations to impose accountants to have an increased amount of managerial responsibilities. We believe that an organization with a centralized accounting function, screened off from any operational activities, will show no tendencies towards a possible two-way relationship between diagnostic –and interactive controls. This is due to the simple reasoning that such an accounting function will not have any contact whatsoever with those dealing with strategic uncertainties and those using controls in an interactive manner and thus not be affected by them. However, in an organization such as IW where no such centralized accounting function exists, the physical distance between those designing diagnostic controls and those using them interactively will be much shorter. In some cases, they could even be the same as is the case for the interactive use of controls by the CEO at IW since she was the one designing most diagnostic controls. The shorter physical distance allows for the two different parts to exchange information and to be affected by the same stimuli. Thus, it is more likely that the two will share values and also opinions regarding the strategic change, especially since those designing diagnostic controls are below the top management team seen from a hierarchical point of view. Not obeying top management decisions would be regarded as resistance and something that would hamper a two-way relationship to persist. However, no such resistance has been observed at IW in either periods and does therefore not portray a threat. The hypothesis is actually two folded and both potential directions will be further discussed.

Firstly, due to the short physical distance between those designing diagnostic controls and those engaging interactively in control systems, it is plausible to assume that they to some extent are affected by each other. Since interactive controls very much entails face-to-face discussions, in which those designing diagnostic control systems occasionally will be part in, we hypothesise that the outcome of such discussions will influence the design of diagnostic controls in the future. The agenda set by discussions regarding strategic uncertainties will be spread in the entire organization which will lead everyone to embrace it and adapt it to their work efforts. Simply put, what is deemed important is what will get measured. This hypothesis is visualised in figure 5.1.

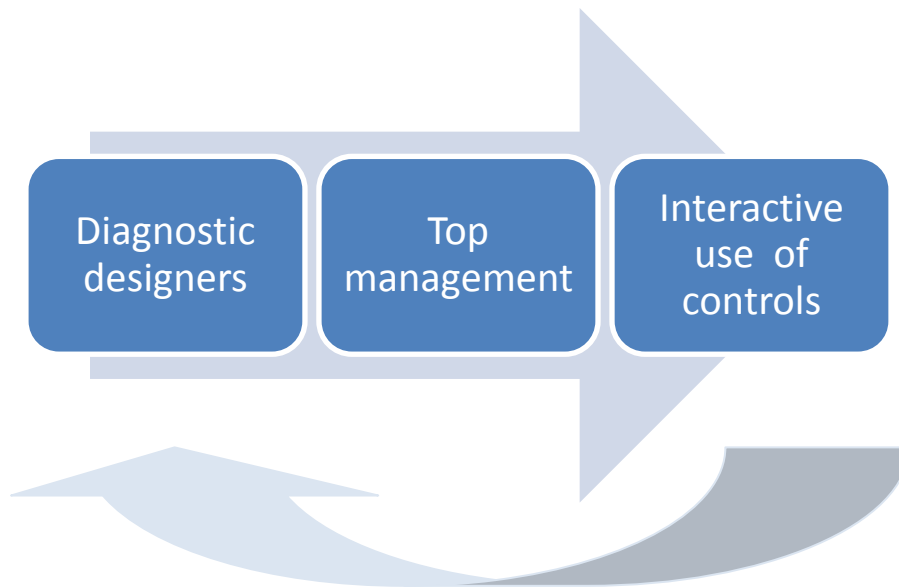


Fig. 6.1 – Hypothesis model one.

Source: Enell & Skogström (2011)

Secondly, the one designing the diagnostic controls at IW is mainly the CEO and at the same time she is a heavy user of interactive controls. It is therefore plausible that the CEO chooses to diagnostically measure what she believes to be of importance and finds interesting. Such beliefs and interest are often the foundation for what type of controls that are used interactively. One of the criteria of interactive controls is personal involvement in a specific issue. In terms of figure 5.1, it would imply that all the three boxes becoming one. Such an occasion would not explicitly indicate a two way relationship but rather a co-existence where both components are sprung from the same source as shown in figure 5.2. It still allows for the CEO's preferences to change as time passes by and she is affected by any external stimuli which implicitly would imply a mutual change to both components.

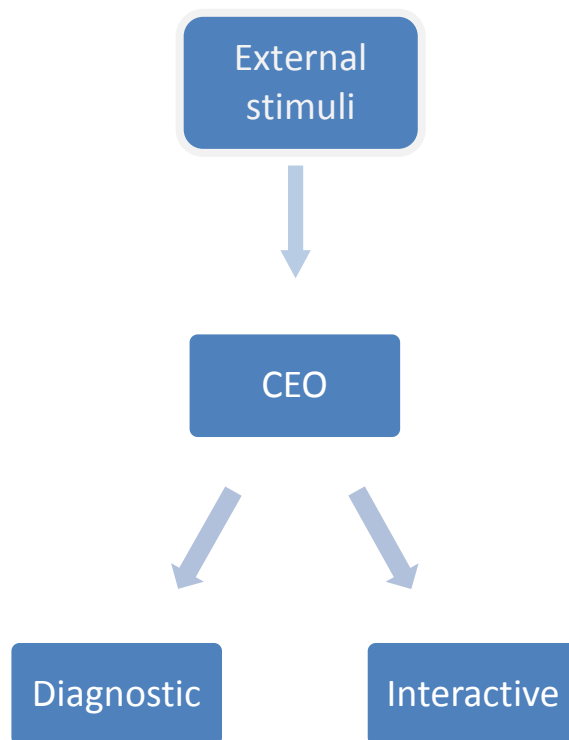


Fig. 6.2 – Hypothesis model two.

Source: Enell & Skogström (2011)

6.4.2 Applying the models

Starting by looking at the relationship described in figure 5.1 and drawing from what has been studied at IW we realize that such a process exists. At IW, it is mainly the CEO who designs the diagnostic controls which then are used interactively by top managers throughout the organization. Even though the CEO has had the final say in the design of diagnostic controls it does not eliminate the possibility for her to be persuaded or affected by opinions of others. This relationship could be compared to the way that the follow-up system Marathon has been used in the digital unit. The digital manager who has actively opposed the use of Marathon has lead to discussions, including the CEO, taking place. Since the introduction of the digital unit such discussions have been growing which eventually, in the third period ended with a promise of the removal of the system. Thus, the digital manager has by means of an interactive use of a diagnostic control system managed to create a change to one of the strongest internal evaluation systems.

A situation like the one described above is quite an obvious and concrete example of when this relationship holds. However, it is also one isolated occasion. Applying a broader perspective including the development of the entire MCS over the three periods would manifest the credibility of this relationship and make it more generalizable. It is clear that the MCS has changed as the new strategy has been implemented and that the CEO has played a very important role in both their individual

developments. One important milestone in the path towards the new strategy was the implementation of the strategy unit. The very creation of this unit is a result of an intensive top management discussion, mainly driven by an employee who today is the manager of this very unit. This manager has been granted the freedom to design the unit to her liking and apply the control system she deems necessary but within the boundaries set by the new strategy. One example of such control system that has been created by this unit is the increased use of resource sharing. The questionnaire indicates that the resource sharing and any interdisciplinary meetings between the different subunits have decreased over time, something that most interviewees agreed upon. In addition, there seems to be a lack of explicit procedure manuals giving directions of how to pursue ones work. The manager of the strategy unit acknowledged this as an issue and began an internal process to deal with it. During the end of the third period, the evaluation of different solution was still going on but was soon planned to be implemented. Whenever such implementation takes place it will have affected the prior control system by means of an interactive use of MCS. This strategy manager has thus since period two been very active in any discussions regarding strategic uncertainties which eventually led her to engage in a reformation of the diagnostic control systems as it would help improve the aspired position set by the new strategy.

A final remark on this relationship regards the one MCS component defined as culture. Most interviewees agreed that the CEO used quite an informal control system and that she was more about creating a pleasant working environment. In other words, it is said that she did not use diagnostic controls to the same extent that she used interactive controls. As she mentioned herself that IW has had a problem with finding proper KPIs, she also implicitly implies that finding such figures was not a first priority. It was regarded as a secondary problem opposed to improving the culture and dealing with strategic uncertainties. Thus we conclude that her overrepresentation of interactive controls is negatively correlated to the use of diagnostic controls which implies that there exists a link between interactive controls and diagnostic controls, but a negative as well. Thus, not only do diagnostic controls serve as the foundation for interactive controls, but the lack of diagnostic controls does it as well.

A good example at IW when the relationship in figure 5.2 holds is the actions taken concerning the future group. The future group was introduced in the third period as a response to the strategic change and it could be categorized as a forum of gathering information in an interactive way. The CEO used the future group mainly as a source of information regarding strategic uncertainties (external stimuli) and according to several interviewees this group played quite an important role in the finalization of the strategic change. Even though this very group was created to be forward looking it managed to come through with some propositions that have been incorporated into the

control systems used by the CEO. This group was the initiator of the internal pitch process concerning the new visual identity and also the so called 42-punktslistan. Thus, they both served as the CEO's source of information regarding the improvement of the diagnostic control interdisciplinary workgroups and also for the interactive approach to enhancing the culture at IW.

Another observation indicating this relationship concerns the new business unit. This unit was given a set of diagnostic controls in the business plan in period two. These targets were set in order to help facilitate the strategic change. The NB unit was used in order to approach the type of companies that the CEO argued would have a fit with the new strategy. In the third period, during one of the Monday-meetings, this group was ordered to approach a specific set of companies within a specific business area. Even though such companies were argued to be the natural next step in finalizing the strategic change it was also decision made solely by the CEO. These set of companies were the type of organizations that interested the CEO the most, not only in reaching the new position but also personally. Thus, she simultaneously changed the diagnostic controls by altering the incentive system for NB and at the same time engaged the organization in discussions regarding the strategic importance of having such companies in the internal case portfolio.

7 Final remarks

7.1 Research summary

In this study we have examined four questions dealing with management control systems and strategy. The two first questions concern the two-way relationship between MCS and strategy while the last two questions deal with the two components of MCS that Simon's labels as interactive –and diagnostic controls. The four questions are tested in a case study setting where the organization studied had experienced a strategic change over a 5 year period. The study is done retrospectively in which changes to the MSC and strategy have been documented and analyzed. In order to track the development of MCS we have used the classification that Kober et al. (2007) used in their study and to track the strategic change we have used the Miles & Hrebiniak (1980) description of different strategy typologies.

This study indicated that the studied organization (IW) experienced a change in strategic typology, going from a defender type during the initial stage and eventually becoming an analyzer type. In addition, indications of a change to the collective set of MCS have been observed. A development

which was in line with the strategic typologies which is a confirmation of the MCS being adapted to fit with the strategic changes. There have also been strong indicators of the strategic change being affected by these very MCS, both in terms of new strategic directions but also in terms of MCS serving as a facilitator of strategic intentions, thus confirming a two-way relationship between MCS and strategy.

From the interview sessions held with top management and board members at IW we were able, not only to track the development of MCS, but also track the development of *how* MCS had been used throughout the studied period. Such inputs allowed us to distinguish between whether a specific component of MCS was used as a diagnostic tool or used in an interactive manner. Mainly we have indications of *resource sharing* (in form of interdisciplinary workgroups), *communication mechanisms* (Monday-meetings and the importance of informal communication) and *organizational cultural* (building a strong coherent set of values for all employees to embrace) controls progressively being used interactively by managers.¹⁴ We then set out to test whether the increased use of interactive controls could be explained by the use of diagnostic controls and also if such use could have had an effect on the design on diagnostic controls. All the three examples of interactive controls that were progressively being used in IW all stemmed from a prior use in a diagnostic manner. The CEO acknowledged all types of controls during all periods and also that they during an initial stage did not deal with any strategic uncertainties but rather the everyday operational activities. When made interactive, they all served the purpose of improving the new strategy and position in the market. Thus, we have confirmed literature suggesting that diagnostic controls serves as the foundation for an interactive use of MCS. Lastly we wanted to test whether there was a possibility that the interactive controls could have had an impact on the design of diagnostic controls. We show in this study numerous examples when such impacts have been realized and thus we add to existing knowledge within the area of MCS and its relation to strategy.

7.2 Extended discussion

Since we found indications of the fourth research question to be true, some managerial implications can be drawn. The first being the implications due to the first model, and especially concerning the feedback arrow from interactive controls to diagnostic. Since manager's use of interactive controls seems to have affected the diagnostic controls, it becomes important for managers to understand this very relation. In cases when the physical distance is greater and when there is a separation between those designing the diagnostic controls and those using them interactively, the

¹⁴ Such use of interactive controls were argued to facilitate the strategic change and is thus a further indication of MCS (interactive) facilitating a strategic change.

communication between them becomes crucial. If say, a CEO¹⁵ uses a specific control in an interactive manner, it will create an atmosphere amongst those in her presence of that specific subject being the most important company issue at that time. Either being a traditional accounting function designing financial controls, or middle- managers dealing with other diagnostic controls, they will all be affected by the CEO and to some extent adjust their control mechanisms. This implies some individual interpretations which could have both positive and negative effects on the organization as a whole. Positive in the sense of middle managers individually being able to adjust their subunit to the general goals of the organization since they are more likely to understand the contribution of their specific unit. However, also negative if managers would misinterpret the information distributed from interactive controls and thus spend their resources on the wrong tasks. This implies that the communication between the CEO and the other managers has to proactively deal with these issues. Thus, the CEO needs to be clear in her communication as to ensure that the rest of the organization interprets the information in the same way. This becomes even more important as Jacobsen (2010) realizes that managers tend to deal with issues in a way they which are rational for them but not necessarily for the organization as a whole.

As we have seen indications of an overrepresentation of the use of interactive control at the expense of diagnostic controls, some implications are worth discussing. If the CEO, for instance, throughout a longer period of continually uses interactive controls and neglecting the use diagnostic controls, some issues could arise. As Tuomela (2005) mentions, that interactive controls could create visibility of manager actions and thus lead to resistance, we believe such could be the case, especially if there is an imbalance between interactive –and diagnostic controls. That is, if the use of interactive controls is not supported by any diagnostic controls, it could lead to the rest of the organization to mistrust the CEO as they would believe she lacks support for her arguments. Therefore it becomes vital for a CEO with a strong tendency towards the use of interactive controls, not to engage too heavily without a proper support of diagnostic controls as well. One should however not only mention the downside of such heavy use but also see it as an inspirer and mediator of what the organization should focus on at a specific point in time. By heavily engaging in a specific subject, the rest of the managers are going to embrace it and deal with it at their very best which, if managed properly, benefit the organization as a whole.

Regarding our second hypothesis model, figure 5.2, some other issues could arise which we should mention. If an organization show tendencies towards this very model it becomes important, not only

¹⁵ Throughout the following discussion we will use the CEO an example of an interactive user. Note however that all managers are capable of using their own interactive manner and the reasoning applies to them as well.

for the CEO, but for the organization as a whole to realize its existence. Since it is very much based on the CEO having strong personal preferences, which are manifested through her use of controls, it becomes crucial for the organization to realize the difference between objective –and subjective decisions. Since both diagnostic –and interactive controls are set by one person, other managers need to understand that some measures and strategic uncertainties do not necessarily support the organization as a whole. Applying the same reasoning as Jacobsen (2010) when he argues that manager's decisions are mostly rational from a personal perspective which does not necessarily mean that it is rational from an organizational point of view one realizes that this model is worth knowing if you are a manager. By acknowledging the model and the reasoning by Jacobsen (2010), managers have a stronger case when going into discussions regarding the control system as they could argue for a stronger objectivity and point towards subjective decisions. From a CEO perspective, it also becomes important to realize that the strategic decisions one take or the controls one apply, often are influenced by personal preferences.

7.3 Limitations

In this study, some limitations must be acknowledged before applying our findings in other settings than the one described in this case. Even though case studies entails rich descriptions of the social contexts and in our case specifically the development of strategies and MCS over time, the generalizability could and should be questioned. We have however, been able to confirm prior research and been able to arrive at the same conclusions as other researchers, which should validate our findings in this study. However, one should use the findings with respect to the fourth questions with more caution as that very relationship has no explicit fortification in previous research. Furthermore, we have not been able to control for external variables concerning the environment in which IW is situated. Even though we realize that such factors may influence both strategy and the MCS, it has not been controlled for. The qualitative aspects of this study along with the retrospective use of a longitudinal study rely on the interviewees to recall facts from their memory. Such recall, especially from the first period, may be clouded and thus to some extent inaccurate which therefore should be seen as an additional limitation to this study. The use of three different time periods may have caused some data to be subject to ambiguity as a specific point of data referring to one period may have several points of origin. E.g. may the indication of a heavy use of cost controls in a specific period be affected by that respondents' most recent recall of that specific component of MCS. Thus, there may be some subjectivity of the respondents answer. Lastly, the very use of time periods may be the subject of such ambiguity. Therefore, the appropriateness of the time periods may be considered.

7.4 Future research

Since our study is made retrospectively, it would be interesting to see future studies where the researchers stay with the company throughout the entire change period and compare such findings to the ones made in this study. A study conducted in this manner would circumvent the issues of memory recall of the interviewees which would increase the validity. Another interesting approach to extend the findings from this research would be to test these relationships in a larger company with more employees. A larger study object would imply more questionnaire respondents and thus increase the accuracy of that method for data collection. As we have seen tendencies of an increased use of interactive controls along with the implementation of the new strategy, it would be interesting to see how top management actually control for such controls. Diagnostic controls are in nature controllable while the use of them in an interactive manner is not and since they both are proven to be part of shaping the strategy, such an understanding could become crucial in successfully managing change in the future. We have also seen indications of an overrepresentation of the use of interactive controls at the expense of diagnostic ones and further studies regarding this observation would be interesting. Such studies could also try to deal with the ambiguity that exists regarding the fit between diagnostic –and interactive controls and try to find an optimal balance as to enhance strategic decisions.

We would like to end by giving our warmest and most sincere gratitude to our wonderful tutor Torkel Strömsten who has been supportive and honest throughout the entire research process. Lastly we would send our warmth to all the employees at Identity Works who embraced us with strong welcoming hearts.

-if they even keep the name...

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9 Appendix

9.1 Questionnaire IW - MCS

Period 1: 2006 and 2007 (Creating a stable company structure)

Period 2: 2008 and 2009 (Formulation and preparation of new strategy)

Period 3: 2010 and 2011 (Implementation of the new strategy)

Please state your position at IW: _____

Part 1

Response scale:

1. Never/seldom

2. Occasionally

3. Half the time

4. Frequently

5. Always

-. If not employed during the specific period or if you do not know, leave blank.

1. Informal communications (e.g., meetings, interpersonal contacts) in passing information up and down the hierarchy.

	Points 1-5
Period 1	
Period 2	
Period 3	

2. Formal reports (e.g., management reports, monthly performance reports).

	Points 1-5
Period 1	
Period 2	
Period 3	

3. Cost control of separate subunits

	Points 1-5
Period 1	
Period 2	
Period 3	

4. Budget variance analysis.

	Points 1-5
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Period 1	
Period 2	
Period 3	

5. Procedure manuals. (e.g. Manuals describing your task at hand)

	Points 1-5
Period 1	
Period 2	
Period 3	

6. Formal appraisal of personnel. (e.g. letters, meetings, bonuses describing one person's success)

	Points 1-5
Period 1	
Period 2	
Period 3	

10. Interdisciplinary meetings (i.e., meetings between people from different subunits or roles to exchange information).

	Points 1-5
Period 1	
Period 2	
Period 3	

11. Interdisciplinary workgroups/teams (e.g., people from different subunits working together on a project/task).

	Points 1-5
Period 1	
Period 2	
Period 3	

12. Management control reports relating outputs with inputs consumed (e.g, output per labour hour, creativity, profit margin per customer in relation to time spent on that customer).

	Points 1-5
Period 1	
Period 2	
Period 3	

13. Evaluation of performance in any period by comparing IW's results with those of competitors in the brand services sector.

	Points 1-5
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Period 1	
Period 2	
Period 3	

14. Written explanations in budget reports for changes between current year results and the results of previous years.

	Points 1-5
Period 1	
Period 2	
Period 3	

15. Resource sharing (i.e., different divisions sharing the same equipment/personnel/contacts).

	Points 1-5
Period 1	
Period 2	
Period 3	

Part 2

Response scale:

1 (strongly disagree) – 7 (strongly agree).

1. There is a strong emphasis on adherence to rules, policies, or plans.

	Points 1-7
Period 1	
Period 2	
Period 3	

2. Management control systems are used to monitor virtually all tasks in your subunit.

	Points 1-7
Period 1	
Period 2	
Period 3	

3. You have a high degree of discretion and autonomy in making decisions and responding to new opportunities or challenges that have not been discussed by top management.

	Points 1-7
Period 1	
Period 2	
Period 3	

4. Creators and other personnel are awarded a high degree of autonomy in exercising judgment in carrying out tasks (i.e., self-regulation, low levels of monitoring).

	Points 1-7
Period 1	
Period 2	
Period 3	

5. There is a strong sense of shared values, beliefs, and norms within IW.

	Points 1-7
Period 1	
Period 2	
Period 3	

6. Employees are committed to IW's objectives and values.

	Points 1-7
Period 1	
Period 2	
Period 3	

7. Information is well communicated from top management to lower levels.

	Points 1-7
Period 1	
Period 2	
Period 3	

8. Information is well communicated across divisions.

	Points 1-7
Period 1	
Period 2	
Period 3	

9. Information included in control reports is always accurate.

	Points 1-7
Period 1	
Period 2	
Period 3	

10. The trend between last period's actual results and the results of the current period is monitored closely by senior managers.

	Points 1-7
Period 1	
Period 2	
Period 3	

11. You are faced with tight budget goals.

	Points 1-7
Period 1	
Period 2	
Period 3	

12. Management control systems are tailored to suit differing individual and divisional/sectional needs.

	Points 1-7
Period 1	
Period 2	
Period 3	

13. What is being discussed intensively by managers and in meetings at IW is always closely linked to measures that have been presented, e.g. during company meetings or formal reports

	Points 1-7
Period 1	
Period 2	
Period 3	

14. What is being discussed intensively by managers and in meetings at IW always concerns future problems and uncertainties that are hard to measure (e.g. future changes in the environment, laws, technical)

	Points 1-7
Period 1	
Period 2	
Period 3	

15. You can by actively interacting in company discussions influence the management control systems (e.g. measures, culture, communication channels, what competitors to benchmark)

	Points 1-7
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Period 1	
Period 2	
Period 3	

16. You can by actively interacting in company discussions influence the outcome and direction of the changes in strategy at IW

	Points 1-7
Period 1	
Period 2	
Period 3	

9.2 Questionnaire IW - Strategy

Please read through the four following types of organisations.

Type 1

This type of organisation attempts to locate and maintain a secure niche in a relatively stable product or service area. The organisation tends to offer a more limited range of products or services than its competitors, and it tries to protect its domain by offering higher quality, superior service, lower prices, and so forth. Often this type of organisation is not at the forefront of developments in the industry—it tends to ignore industry changes that have no direct influence on current areas of operation and concentrates instead on doing the best job possible in a limited area.

Type 2

This type of organisation typically operates within a broad product–market domain that undergoes periodic redefinition. The organisation values being “first in” in new product and market areas even if not all of these efforts prove to be highly profitable. The organisation responds rapidly to early signals concerning areas of opportunity, and these responses often lead to a new round of competitive actions. However, this type of organisation may not maintain market strength in all areas it enters.

Type 3

This type of organisation attempts to maintain a stable, limited line of products or services, while at the same time moving out quickly to follow a carefully selected set of the more promising new developments in the industry. The organisation is seldom “first in” with new products or services. However, by carefully monitoring the actions of major competitors in areas compatible with its stable product–market base, the organisation can frequently be “second in” with a more cost-efficient product or service.

Type 4

This type of organisation does not appear to have a consistent product–market orientation. The organisation is usually not as aggressive in maintaining established products and markets as some of

its competitors, nor is it willing to take as many risks as other competitors. Rather, the organisation responds in those areas where it is forced to by environmental pressures.

Please answer which of these types that fits best with the following periods at IW. If you have not been with IW during any of these periods, leave the answer blank. Only one type per period.

Period 1: **2006** and **2007** (Creating a stable company structure)

Period 2: **2008** and **2009** (Formulation and preparation of new strategy)

Period 3: **2010** and **2011** (Implementation of the new strategy)

Period 1: _____ Period 2: _____ Period 3: _____

Please state your position at IW: _____