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BACHELOR THESIS

Compliance and Cohesion - The Road to Market Satisfaction

Influences on Management Controls Systems in an Initial Public Offering – A Case Study of a Nordic Listing

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ABSTRACT

This bachelor thesis aims to identify changes in a company's management control systems (MCS) from a top management perspective, as a consequence of a private-to-public change in ownership structure, by conducting a case study of SellCo, a newly listed firm on NASDAQ OMX Stockholm. Data was gathered based on interviews according to the analytical interviewing practice (Kreiner and Mouritsen, 2005) with the chief financial officer, as well as business and financial controllers of SellCo. Analysis of the data was conducted through Tessier and Otley's (2012) management control framework to understand the changes in SellCo's MCS. The study confirms that a private-to-public change in ownership structure, as a consequence of an initial public offering, does influence a company's MCS. The influence emerged through the introduction of three aspects, which the company needed to take into consideration: (1) the need to comply with certain requirements imposed on public companies, (2) the external pressure from the market resulting in a need to manage expectations and (3) the external communication of targets leading to internal cohesion of controls. With regard to these new aspects, SellCo introduced a manual in order to comply with IFRS as well as stricter reporting deadlines and disclosure controls. An introduction of four key performance indicators, which are consistently communicated externally, together with the establishment of the corporate story allow SellCo to manage expectations of the capital markets. Lastly, the importance of SellCo's MCS regulating internal and external communication, as well as the cohesion between these controls, have increased.

Key words: management control, MCS, initial public offering, strategy, capital market pressure

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The study has been very interesting and enrichened our knowledge within management control systems, strategy and intial public offerings.

Patrik Larsson-Utas Bixi Li

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1. Introduction

1.1 Background

The concern of this thesis is to investigate management control systems (MCS) and the influence external owners have on these systems. In changing environments companies can have different types of ownership structures with varying levels of ownership concentration, with for example concentrated ownerships held by large institutions, families as well as states. This provides different ways in which management need to relate to external expectations from different types of owners. Institutional owners exist in both private and public companies and are typically viewed according to literature as “sophisticated investors”. It is argued that these types of investors and owners possess greater expertise in analysing financial information and behave differently from less informed, more passive investors, which are common in public companies (Hope 2013).

There are several differences between private and publicly traded firms, where private companies are generally held more closely, have different corporate governance and greater managerial ownership. Furthermore, a critical difference is that the private owners are most likely the major capital providers and in many cases possess insider access to corporate information, allowing them to take a more active role in the management of the company. Owners of public companies do not have this extensive access to information. Due to the differences, which result from different ownership structures, companies of public or private nature will behave differently in relation to their owners with regards to for example information flows and ability to let owners take an active management role (Hope 2013).

Furthermore, previous research has specifically argued that the financial markets have gained considerable influence on the behaviour of public companies due to the importance of shareholder value creation and meeting the expectations of the financial markets. Top managers now, to a larger extent, base their decision-making on the desired reactions of the market and have become more focused on short-term financial results than they were when they were privately owned companies (Ezzamel et al., 2008; Roberts et al., 2006; Kraus and Strömsten, 2012).

Other research has shown that changes in management’s work responsibilities occur due to changes in how external investors make their investment decisions. In the past, investment decisions were mainly based on the historical results and financial stability of a company while an increased focus on future prospects, especially future cash flows have emerged during the recent decades. This results in an increasing importance of a company's management of the financial markets' expectations of the company, adding expectation management to the list of responsibilities of a company's managers (Tengblad 2004). Top management's control in relation to external pressure from financial markets subsequently provides a specific area of interest for a study.

With changed external financial transparency and the changed manner in which information between the company and its stakeholders flows, previous research has shown that changes in managerial behaviour are present when a company goes through a private-to-public transformation. With a change in managerial behaviour driven by external forces (owners) in a new organisational structure, it can be reasoned that changes in MCS naturally follow and occur in coherence with other managerial changes. These ownership changes have on one hand been studied earlier from an MCS perspective, but these studies have primarily examined private-to-private ownership changes (Bruining et al., 2004). As the research of private-to-public ownership changes from an MCS perspective on the other hand is rather limited, this will be the area examined further in this study.

1.2 The Study

Based on the findings from previous research, it is strongly indicated that a private-to-public change in ownership structure will result in a necessity of changes in a company's MCS in order for the company to adapt to the new conditions resulting from the change in ownership.

This study will aim to map out the changes in MCS resulting from the change in ownership structure in a company and analyse the effects of the additional pressure from the external actors in the financial market, which result from an initial public offering (IPO).

The findings of this study will contribute to the limited research of changes in MCS in private-to-public ownership structure change and the emerging literature on the interaction between the management of listed companies and capital markets, and its influence on accounting. With the given background, the research question of this study is:

How does a private-to-public change in ownership structure, as a consequence of an initial public offering, influence a company's management control systems?

The scope of this study will be limited to one company, SellCo. The time span, which will be within scope of the study, is from the completion of the restructuring, including refinancing of the company's debt and hiring of a new top management team in 2010 until May 2014. The reason for this time delimitation is that the company entered a new era with a structure program including several organisational changes that aimed at gradually preparing the company towards an ownership change, which ultimately resulted in an IPO.

In line with the research question, changes in the company's MCS as a result of the IPO will be the area of focus within this time span, where the definition of MCS used in this study is: "systems, rules, practices, values and other activities management put in place in order to direct employee behaviour" (Malmi and Brown, 2008, p.290).

2. Previous Research

The definition of MCS has evolved through time where the classic view comes from Anthony (1965). He defines MCS as: "the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives".

This definition views MCS as a concept between strategic planning and operational control, where strategic planning implies the long-term goal setting for an organisation whereas operational controls aim to ensure the quality of day-to-day operations. By breaking down long-term strategic goals into sub-goals for parts of the organisation, day-to-day operations in all parts of the organisation will be coordinated and lead to the overall long-term goal.

Though this approach provides a broad understanding of MCS, it can be discussed that the approach is too restrictive and does not incorporate some problems such as defining goals and strategies as well as the influence from social-psychological or behavioural issues (Otley et. al 1995). To extend the definition, Otley further defines MCS as "systems, which provide information that is intended to be useful to managers in performing their jobs and to assist organisations in developing and maintaining viable patterns of behaviour" (1999, p.364).

As mentioned previously, the definition for MCS used in this study is Malmi and Brown's, a more recent definition, which defined MCS as "systems, rules, practices, values and other activities management put in place to direct employee behaviour (2008, p. 290). This is the core definition of MCS in Tessier and Otley' theoretical framework used in this study and provides a broad understanding, including systems, such as strategy definition process, goals as set in the strategy, as well as non-tangible social-psychological aspects of culture.

In more recent MCS frameworks, strategy has come to play a key role. Despite the increasing emergence of the field of business strategy in the 1950s, the variable strategy had not been used explicitly in MCS research until the 1980s. Research, which has incorporated this aspect, suggests that MCS should be tailored explicitly to support the strategy of the business to lead to competitive advantage and superior performance (Langfield-Smith, 1997). The four levers of Simons' control framework incorporated strategy as core part, designing the framework to be specifically used as a tool to implement and control organisation strategies (Simons, 1995).

Assumed that strategy influences the structuring of MCS strongly, it is implied that changes in MCS would be a direct consequence given that the strategy of an organisation were to shift. This assumption is supported by a study which examined the relationship between strategy and MCS, where improved performance was suggested to be a result of an appropriate “fit” between MCS and strategy in strategy shifts. There is also evidence that the way controls were used and how much attention was given to these controls by management, could additionally impact the effectiveness of MCS in supporting strategies (Kober et al., 2003). This further leads into this studied strategic process of taking a company from being private to public through an IPO, which is a first sale of stock by a private company to the public.

IPOs can be driven by different strategic objectives and though there are many advantages for a company to remain private, where decision-making control and ownership preservation are the main ones, companies still have great incentives for going public. Previous literature suggests that there are four main reasons for going public. First of all, issuing public shares often lowers a company’s cost of capital and therefore increases the value of the company. Secondly, an IPO allows insiders to opportunistically sell shares in the IPO for personal gain and therefore cash out. The third reason for conducting an IPO is that IPOs may facilitate takeover activity, allowing the possibility of the company being bought at an attractive price. The fourth and last reason for going public is that an IPO broadens the ownership base and can increase the publicity or reputation of the company (Brau and Fawcett 2006).

With the stock market acting as an authoritative institution after an IPO, corporate managers could be powerfully incited to make decisions that create value and wealth for shareholders, resulting in an increased focus for shareholder value creation (Ezzamel et al., 2008).

There are different perspectives on what really provides shareholders with value. According to Aglietta and Rebérioux (2005), shareholder value and corporate health are primarily measured by the company’s stock price performance and the amount of dividends distributed to shareholder. This perspective will provide managers with a great incentive to make decisions based on the potential performance of the stock price, whatever the long-term consequences

(Kennedy, 2000). "Managers everywhere were making decisions on the basis of whether the outcome would spur their stock prices even higher" (Kennedy, 2000).

A study of a company conducted by Ezzamel et al. (2008), showed that senior managers' foremost and primary preoccupation due to the pressure from the capital markets became to raise and support the share price. In order to impress the stock market, bottom line results were improved by squeezing out costs through divestments and outsourcing to mention a few.

The reason for the importance in meeting external expectations and therefore increasing the company's stock price is due to the financial analysts' enthusiastic support for a manager's good work and the harsh criticism a manager meets when failing to deliver. Another risk companies face is the risk of hostile takeovers in case of under-performing share prices, further increasing the importance of shareholder value creation. (Ezzamel et al., 2008).

A common method to ensure shareholder value creation is to structuring MCS in certain ways. For example, Copeland et al. (1990), as cited by Ezzamel et al. (2008), argue that a company's reward systems should reflect the managers' incentives to create shareholder value: "think like owners by linking managers' rewards to behaviour that creates overall shareholder value... High performing companies tend to move swiftly when they find people underperforming, either through retraining them, moving them, firing them, or pushing them to leave through peer pressure. Making the consequences of low performance visible is important so that everyone in the organization realizes the seriousness of not living up to targets".

Previous studies have further shown that the financial markets have gained considerable influence on the behaviour of public companies due to the importance of shareholder value creation and meeting the expectations of the financial markets. The desired actions of the market have been seen to influence top managers' decisions and shifting their focus to a more short term view, in comparison to when the same companies had been privately owned (Kraus and Strömsten, 2012)

3. Method

The study will based upon a qualitative case study investigating the research question from a top management perspective in connection to previous research. A case study is believed to provide the best access to relevant information, with interviews as the main tool for collection of exhaustive information. With the previously limited research of private-to-public ownership changes from an MCS perspective, the study will be aimed at extending previous research.

3.1 Research Design

3.1.1 Object of Study Selection

Studying several objects can usually provide a stronger foundation for building new theory (Yin, 2009), while a single object can make the study more in-depth to describe existing phenomena (Sigglekow, 2007). To make this study more in-depth, it is based on one firm.

In order to have access to a suitable firm on which the case study could be performed, 27 firms listed on First North and NASDAQ OMX Stockholm in 2013 and an additional 15 firms listed in 2012, were analysed. As the study intended to analyse structural changes in MCS as a consequence of an IPO, all listed firms that only had performed a list change were eliminated, for example firms moved from First North to NASDAQ OMX Stockholm and firms that were double listed. Additionally, the size of the firm and the structure of the operations played an important role. What was needed was a firm that was big enough to be able to provide enough interviews, while the study at the same time would gain from a firm with active operations not primarily focused on investments, like a real estate firm.

After having received several positive responses from contacted firms, the final object of study became a company listed on NASDAQ OMX Stockholm in 2013. Studying this firm was reasoned to be particularly interesting as it was a rather large listing. It was also considered an appropriate choice as the size and geographical coverage of the organisation assumed to provide a need of well-structured controls to be analysed. As SellCo previously was majority owned by a private equity (PE) firm before the IPO, there was additional empirical evidence for high likeliness of that structural changes had occurred (Strömberg and Kaplan, 2008).

3.1.2 Time Frame

After having chosen SellCo and discussed the IPO process with the top management within the firm, the point in time that was found appropriate was at the beginning of 2010 until May 2014. This is the point in time when SellCo started a structure program to improve the performance of the business, while changing a majority of the management team to lead the company in this new phase.

3.2 Data Gathering and Analysis

The most common methods to use when performing data collection in a case study is through a combination of document collection, interviews, surveys and observations (Yin, 2009). This study primarily uses interviews, together with some supporting documentation, as observations would require a longitudinal study and a survey would limit the access to information.

To get the most of the interviews, the interview method called the “analytical interview” (Kreiner and Mouritsen, 2005) was practised, instead of a fixed interview guide. The main focus of the analytical interview framework and practice is to emphasise collaborative analysis and construction of new dilemmas and knowledge between the interviewer and the respondent. The analytical interview does in a way redefine the contribution from the respondents, where the aim is not to receive final answers. The aim is rather for the interviewer to give input to an analytical conversation with active engagement, while exploring uncharted territories through constructive violation of good interview manners. Follow-up questions consequently play a crucial role here.

The practical implication of using this analytical interview practice, was that a framework of key areas to be covered was initially written and constantly developed as the knowledge about certain areas of the organisation was deepened. This framework included questions about SellCo's recent history and major changes, internal and external communication, strategy development, business control and financial reporting. Around this framework, follow-up questions were asked. This required a much more intense interviewer participation during the interviews to be able to create a fruitful dialogue through engaging follow-up questions. A stricter interview guide would have stood in the way of attaining new knowledge, as the dialogue in that case would be strictly governed, with little room for learning new things. The key areas to be covered during the interviews were based on the control systems in the theoretical framework used for later analysis.

Interviewees were selected with help from a person within the top management team, well informed on management control within the organisation and how it had been developed since the beginning of the restructuring in 2010. All interviewees have been chosen to provide good coverage from a primary top-down perspective on different areas, across functions and geographies, which directly or indirectly work with MCS or control their design. These interviewees have been not been specified by name, with consideration to their anonymity, but for example included business controllers, financial controllers employees working with internal and external communication (see appendix for detailed overview of interviews)

When all data had been gathered, an all-embracing background portraying the history up to the IPO and three key sections presenting areas directly connected to top management's control of the organisation was put together. An IPO may give the appearance of a before and after scenario in relation the day of the listing. The changes could rather be seen as a process, which affected the way the empirics is structured. To analyse changes in MCS in connection to the IPO, the gathered information was put into the theoretical framework under each control for a direct connection to the different areas affected by each control. Since the focus of the study is on the perspective of the top management and their controls only, we have the excluded external perspective with presentation and perception of controls and focused on the core of the framework with types, objectives and intentions of managerial controls. Changes have then been interpreted to provide analytical remarks on the impact of the IPO on MCS.

3.3 Research Quality

This study has been performed through a qualitative case study, which makes replication difficult. This affects the quality of the research. The primary source for this study has been interviews, implying that parts of the information will be subjective. To increase the quality of the study, the interviews have been recorded and transcribed to reduce the risk that information would be missed or incorrectly presented. By having used a more interactive interview practice instead of an interview framework, the ability to ask follow-up questions and twist previously asked questions to reconfirm previous statements has also increased. The interviews have furthermore been supported and complemented by the IPO prospectus and the most recently published annual reports, all in order to increase the reliability of the information in the interviews.

4. Theoretical Framework

This study is designed around an MCS framework from Tessier and Otley (2012) that defines and separates managerial intentions of controls and employee perception of controls, while dividing managerial intentions in three different levels. Two of these levels are types of controls (social and technical), which are organised as four control systems (strategic performance, operational performance, strategic boundaries and operational boundaries). The controls can further be used diagnostically or interactively, have an enabling or constraining role and can lead to either reward or punishment (Tessier and Otley, 2012). The foundation for this framework is Simons' (1995) four levers of control framework consisting of the levers beliefs systems, interactive control systems, boundary systems and diagnostic control systems, where Tessier and Otley's framework is a conceptual development of this. The four levers of control framework has among other management control literature been criticised for having ill-defined concepts, which propelled the development of this new framework (Tessier and Otley, 2012). To fully understand the reasoning in Tessier and Otley's framework, it is however important to understand the background in Simons' levers of control framework and the criticism it has been subject to due to its vague and ambiguous definitions. Simons' framework will therefore be described in connection to its criticism that led to the conceptual development in Tessier and Otley's framework. Unless a reference is made, with the exception of citations, all information presented in the theoretical framework comes from Tessier and Otley's framework (2012).

4.1 Simons' Four Levers of Control

Simons' (1995) framework is a tool to implement and control organisational strategies, primarily from the perspective of the top-management. The underlying idea of this framework is opposing forces that manage tensions "between freedom and constraint, between empowerment and accountability, between top-down direction and bottom-up creativity, between experimentation and efficiency" (Simons, 1995, p. 4). These opposing forces are managed through firstly positive controls that motivate, reward, guide and promote learning and secondly negative controls that coerce, punish, prescribe and control. Although negative controls might seem to have bad connotations, this is not the purpose. Negative controls are just as important as positive controls, where for example "Boundary systems are like brakes on a car: without them, cars (or organisations) cannot operate at high speeds" (Simons, 1995, p. 41)

Simons' framework does not only consist of positive and negative forces, but these forces are also managed through four levers of control. These four levers are belief systems and interactive control systems which are classified as positive controls, while boundary systems and diagnostic control systems are classified as negative. Belief systems communicate core values of the organisation together with the corporate vision, mission and purpose. Interactive control systems work with strategic uncertainties through information and feedback systems that actively involve managers in the work of subordinates, which can lead to new emergent strategies. Boundary systems are about the risks to be avoided, which are managed through systems with rules and procedures that also set strategic boundaries. Diagnostic control systems are communication of critical performance variables through systems used to monitor organisational outcomes and to optimise predefined targets through performance management.

4.2 Developing the Levers of Control Framework

Simons' levers of control framework has previously been criticised for being vague and having ambiguous definitions. Through concept analysis and analysis of prior literature and field studies that identifies these ambiguities, Tessier and Otley (2012) created their conceptual development of Simons' levers of control framework. The following sections will present key ambiguities within positive and negative controls as well as the four levers of control before the full revised framework is presented

4.2.1 Positive and Negative Controls

Tessier and Otley argue around that the dual role of the controls should not be confused with the quality of controls and the positive and negative labels used by Simons are not neutral and should more appropriately be used when describing the perception of controls. The dual role of controls should be described by enabling and constraining labels, while at the same time separating the dual role and the two objectives of a control being managing performance and managing compliance. As Mundy expressed it, "MCS are used to exert control over the attainment of organisational goals and also to enable employees to search for opportunities and solve problems" (2010, p. 499).

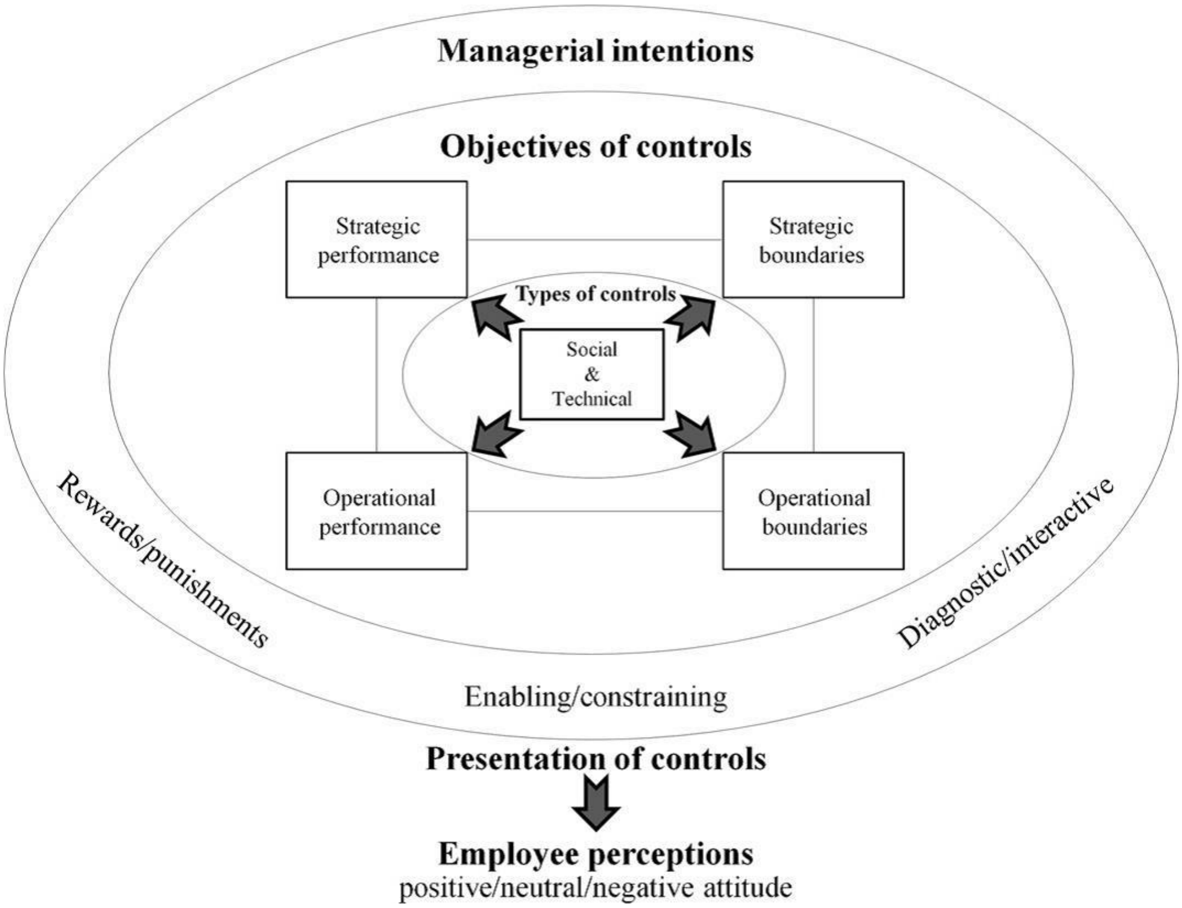
4.2.2 Levers of Control

The vague definitions of the levers of controls cause several ambiguities in this area. One ambiguity is regarding diagnostic and interactive controls, where it is argued about the importance of separating these from being control systems and rather being descriptions of how controls can be used. Another ambiguity is between objectives of controls and organisational levels, where for example Simons' two types of boundaries do not operate at the same organisational level. The solution derived from this is that the revised framework incorporates four types of control systems described in detail later on.

There is also an ambiguity regarding belief and boundary systems. Boundary control systems are for example only described in general terms, making it unclear what controls they constitute of. As belief controls on one hand are based on core values, these do not have an ambiguity regarding the type of controls, but do on the other hand have this with regards to the objectives of these controls. These arguments point to the fact that belief and boundary systems operate at different levels of analysis and that they describe different characteristics of controls. The overall result of this is that the revised framework considers two different types of control that form a part of four control systems, while at the same time acknowledging that specific controls can have more than one objective and be used at different organisational levels.

4.3. Tessier and Otley's Conceptually Developed Framework

Tessier and Otley (2012) have, based on the ambiguities in the literature highlighted above, developed a new framework on the foundation of Simons' four levers of control (1995). The new conceptually developed framework will be presented with the control systems, followed by the different managerial choices that exist regarding these controls and lastly the elements which are external to managerial intentions will be covered.



4.3.1 The First Level – Types of Controls

In the centre of the framework are the two different types of individual controls that are available to managers, the social and technical controls. Social controls are defined as controls that appeal "to the emotional, non-rational, affective elements within employees" (Ray, 1986) cited by Tessier and Otley (2012, p.179) and are constituted of core values, beliefs and norms. Even if cultural symbols are internalised and subjective, external symbols such as cultural artefacts, are observable and social controls are subsequently the manageable aspect of organisational culture. Technical controls are controls that specify how tasks are to be performed and how individuals and groups are organised through rules, procedures and standards. Technical controls also include goal settings, output controls and cybernetic controls in this framework, given that they often are executed through written down procedures.

In this context, the level of formalisation is based on the proportion of social and technical controls in the control systems, where for example "entrepreneurial organisations are likely to de-emphasise formal accounting control while conservative entities place a heavier reliance on formal accounting procedures" (Chenhall and Morris, 1995) cited by Tessier and Otley (2012, p.180). While this makes it possible to simply put controls in either the social or technical control bucket, the interaction between these controls is important. This is illustrated and emphasised by fact that these two types of controls are presented in a single box in the framework illustration.

4.3.2 The Second Level – Objectives of Controls

In the second level of the framework, the main section is presented with its four different control systems with separate objectives. This level is subsequently interconnected to the first level, as the four control systems are organised in sets of social and technical controls. The four control systems are divided into the two performance oriented control systems operational performance control system and strategic performance control system, and the two compliance oriented control systems operational boundaries and strategic boundaries.

The operational performance control systems are the performance variables and controls at the operational level that manage what the organisation needs to do to realise its strategy (Simons, 1995). This control system includes feedback systems through cybernetic controls, values and organisational symbols as well as procedures, such as appraisal processes. Performance targets are designed at operational performance, to for example reach a certain efficiency ratio.

The strategic performance control systems in the revised framework focuses on strategic uncertainties, with close connection to interactive control systems among Simons' four levers of control. This control system is defined as the sets of controls that monitor whether the organisation has the proper strategy to ensure the attainment of its vision. The role of this control system is subsequently "to signal the need to review strategies" (Ferreira and Otley, 2009, p. 274). For example, social controls imply through corporate mission statements what the strategy should be accomplishing. If the firm's performance, despite proper implementation of the strategy is not in line with the mission, the strategy could be inappropriate. External environmental influences that cannot be affected, for example business cycle fluctuations, should also be included in the controls. Performance targets are designed at strategic performance, for example the size of the market share held by the firm.

Operational boundary control systems are defined as the sets of controls that inform the employee of the limits imposed on their actions at an operational level of the organisation. These boundaries are expressed through values, codes of conduct, rules or procedures as part of the social controls, which communicated limits, are set by the organisation, the industry or the entire society.

Strategic boundaries are sets of control that inform employees of the acceptable domain of opportunity seeking at the strategic level of the organisation. One example of this is an organisation that used a system where an initiative would be accepted as long as it would put the organisation among the top five firms in its country, top 20 in its continent and top 100 in the world, the “5-20-100” motto.

In the same way as the social and technical controls are interconnected, synergies are possible between the different control systems given their neutral stance, as represented by the line connecting them in the framework figure. Tuomela (2005) stated that boundaries can be enacted through performance controls, while Adler and Chen (2011) stated that both organisational goals (performance) as well as promotion of accountability (compliance with boundaries) can be informed through cybernetic controls. This does subsequently imply that each of the controls can have the objective to manage performance and/or compliance to different degrees, while being opposing forces and objectives that coexist to create tension.

4.3.3 The Third Level – Managerial Intentions

The managerial intentions are the different choices that can be made by managers in relation to the control systems, divided into three separate areas. The first area is how managers decide to use the controls and whether they want to do this in an interactive way to promote discussions and learning, or in a more diagnostic way, where controls only will be looked at if there is any kind of deviance. The second area is related to the role of controls and whether they are enabling to promote creativity or constraining to ensure predictability. The third area is connected to the consequences of controls and the way they either reward or punish achievements or non-achievements of performance and compliance requirements.

With similarity to the other controls, the different managerial intentions can be applied to each and every control within the control systems. Rewards can be applied to both performance and compliance objectives, at the same time as interactive use of controls can be applied to both social and technical controls. Tensions can also be created here between the different managerial intentions, just as with the different objectives of control.

4.3.4 Presentation and Perception of Controls

At the edge of what managers can have an influence on in the framework are the decisions around how managers decide to present controls and outside of the managers influence are ultimately the employees' perception of how the controls are presented. The decision of how to present controls, comes after the control systems have been designed, where managers have to consider the different channels and the message content itself. The presented controls can subsequently be different from the actual intention, which is specifically present in situations when one control has more than one objective. The potential divergence between intention, presentation and ultimately perception could be intentional by managers to retain some level of flexibility as to how they use controls.

The final perception of controls by employees is external to the design and presentation of the controls, even if both the design and presentation of controls affect the way these controls are perceived. As noted in the method of this study, the external factors will be excluded with the sole focus on top management and their three different levels of controls.

5. Empirics

The empirics will present the background and strategy changes that lead to the IPO, followed by the three key areas communication, business control and financial reporting, connected to management's control of the organisation and affected by the IPO. The background will cover previous history of the company with various ownership changes, struggles in the market during 2008-2009 and the establishment of a new management team that kicked off a structure program in 2010, the start of the time frame for this study. Along with the structure program, the previous private equity owner was looking at several exit alternatives, including the IPO. As an effect of this, there is a floating line for when changes towards the IPO actually started, specifically compared to the ownership change in general. Following this, the presented material in the three key areas connected to IPO will cover MCS related development directly connected to the IPO, as well as MCS changes that have developed along the other changes related to the IPO. Unless a reference is made, with the exception of citations, all information presented in the empirics come from interviews. Due to the large amount of data, where some areas of information constitute from several interviews, there is no running referencing.

5.1 Strategy and IPO Background

5.1.1 History

SellCo is a European development, production and sales company with production facilities in close to 20 European countries and sales in more or less all markets in Europe. It has a history that dates all the way back to the 18th century through its portfolio of local brands. The shape of the current business however originated as a part of a large industrial group that started to consolidate local markets in the 1990s by acquiring local brands throughout Europe. Acquisitions and divestments, market changes and several changes in ownership structure created the foundation for the company that is active today. The new group of local brands was later listed for a short period of time over the turn of the millennium, before it went through a public to private leveraged buyout (LBO) transaction as it was acquired by a private equity firm. In the mid-2000s a secondary buyout was executed, as the firm was acquired by another private equity firm that remained majority owner until the recent IPO in 2013.

Before reaching a successful IPO in 2013, the firm went through a number of challenges in the economic downturn of the markets in 2008 and 2009. With SellCo acting in a market heavily dependent on the GDP development, the revenues and thereby profits declined substantially, which together with a cost structure largely composed of a high share fixed costs, made it difficult to service the existing debt. These circumstances required a refinancing of the bank debt that started in 2008 and was finalised in 2009. At this stage with a new long-term sustainable financing in place, the company was ready for the next phase. Along with the refinancing, a majority of the previous management team was replaced in the beginning of 2010 to start off a change in the organisation through a new structure program. This program aimed to build an organisation with long-term strength that would be able to withstand future cyclical changes in the economy, while delivering long-term value to the shareholder and preparing the company for an exit. As with all companies owned by a private equity firm, SellCo was in a few years' time going to change owner, either through a divestment or IPO depending on what would be considered the most favourable alternative.

5.1.2 Strategy Development from 2010

In line with the new structure program, the management started to formalise the long-term strategy and build upon and update what was previously available. The persons primarily responsible for this work was the CEO supported by two experienced previous management consultants within the new management team established in 2010. Work was initially started to researching and investigating the strengths of SellCo, while also looking at other parts that did not add the same amount of value to the company. What was established from this was that SellCo acted in a very mature and consolidated industry, where market shares tended to be stable over time. This was driven by strong barriers to entry that resulted from the need for strong local brand recognition and strong relationships with stakeholders in the value chain who influence end consumers' ultimate purchasing decision, including wholesalers, retailers and installers. SellCo's strength in this area provided a significant competitive advantage and strong market position for the well-established brands in the local markets in which they operate. The prospectus (2013) specifically pointed out that the sales organisation also was supported by unique specialist know-how and specific manufacturing, design and development experience, which together with the substantial investments required in production facilities provided additional barriers to market entry. Although SellCo was strong in most areas, the organisation still had a cost structure with a too high share of fixed costs and local brands that mostly worked on their own and did not leverage each other's capabilities.

Based on these characteristics of the company and the market it acted in, an overarching business strategy with four cornerstones was developed as later externally presented in the prospectus (2013) and annual reports (2012 and 2013). The four cornerstones of the business strategy were to 1) drive value through innovation and product leadership in the main product area, 2) grow in complementary products, 3) grow in East Europe and 4) work with the One SellCo efficiency improvements initiative. These four cornerstones of the business strategy were further adopted along five long-term financial targets being 1) annual growth rate of 2% higher than the core market's growth, 2) an operating (EBIT, Earnings Before Interest and Taxes) margin above 12% over a business cycle, 3) cash conversion ratio (adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) less investments/adjusted EBITDA) of 70% over a business cycle, 4) net debt/EBITDA ratio below 2.5 and 5) a dividend and distribution policy aiming at distributing approximately 50% of profits over a business cycle. SellCo's targets and accompanied strategy ultimately aimed at realising the vision of becoming a market leader within the main business area and to secure at least a top three position in all markets with active presence (annual report 2013).

As a part of working on strengthening SellCo as an organisation, the key strategic action for structural improvements in the organisation was the introduction of the new "One SellCo" strategy. This strategy and concept aimed at transforming a group of standalone companies successful in their own local markets into an integrated group that combines the ability to serve local markets with local front-end. With One SellCo, the organisation worked to become one organisation on both a cultural and structural organisational level. On the cultural level the work centred on getting people to feel that they belong to and are working for what is best for SellCo and not only their local brand. The most immediate change was on the other hand initially on the structural level. Here, the management decided to look where in the value chain money is made and focus on this to streamline and coordinate processes that were not dependent on the direct connection to the customer and the market.

The importance of the historically known and well-established brands in the local market made it important for SellCo to keep the local connection, while establishing the view of SellCo as a European company. These streamlined processes were started by centralising functions previously duplicated across the different local brands in each country. By integrating back-end processes, such as innovation, design, product development, purchasing and marketing, scale benefits were achieved that provided a long term cost structure. All these costly local functions had been a remnant from the acquisitions and consolidation of the many different brands in the 1990s, when all brands had organisations and local value chains that enabled them to act independently. When being part of a group these local functions were no longer needed and centralising these functions provided a great way of both reducing fixed costs in supporting functions and bringing the organisation closer together.

Bringing the organisation together under one umbrella also opened up the opportunity to improve the use of production and logistics facilities, constituting heavy investments that need high utilisation rates to be profitable. Factories previously belonging to one local brand, could now be utilised more efficiently when shared on a group level.

As the supporting functions were centralised and were bringing improved efficiency across the group, One SellCo also brought together the sales organisation for improved synergies. Since SellCo is in a leading market position in the local markets, it became difficult to grow more than GDP for the main product and growth had to come from other areas. With a more joint organisation, the management benchmarked the different markets and saw plenty of good ancillary products in the different markets. These products could then complement and add extra value to the core product groups, which in turn could create increased sales through a larger share of wallet. This has also become one of the corner stones of future organic growth, by building on current capabilities and knowledge to grow in sales of complementary products.

All these actions were in turn not done on a standalone basis, but were also supported by a new group wide way of measuring profitability. The old measurements were targeted on the local legal entity level, including the whole value chain from factory to sales people, with no clear visibility on whether the profits were made in the production or by the sales to the external market. The replacement measurements examined each step of the value chain, making it possible to track where the profits came from in each individual market. The measurements on the local level were then connected all the way up to group wide measurements of growth, profit margin, cash generation and debt level of net debt/EBITDA, as well as a dividend policy when the company was working towards the listing.

During the entire structure program and introduction of One SellCo, the PE owner was considering and preparing for exit alternatives. The improved position for the capital markets provided an incentive for an IPO exit in 2013. The first step towards this was a bond refinancing of the previous debt, requiring a considerable amount of preparation with a prospectus, International Financial Reporting Standards (IFRS) compliant financial accounts and stricter disclosure rules. With the new financing in place and most of the actions needed already taken, the step towards an IPO had become shorter. A little more than six months later SellCo went public with their IPO plans and not long after finally became listed.

5.2 Communication

SellCo's communication in the past was like its corporate structure, managed in a decentralised way. The subsidiaries were primarily responsible for their own marketing- and communication processes and these were managed on the local market level, allowing the local managers to choose how and what to communicate both externally and internally. Today this has changed. A centralised communication management that works along the new concept and strategy of One SellCo is now in place to further strengthen the group and its brand as a group.

5.2.1 External Communication

Prior to the IPO in 2013, external communication and brand building from SellCo's perspective was of far less importance to the company. The amount and content of the communication towards external stakeholders were also up to the company to decide and was not as strictly regulated as it is today. Taking a look back at the time after the public-to-private LBO transaction in 2001, less and less information was communicated from the company externally as information was no longer demanded from external stakeholders in the same way as when the company was public. The large amount of time and resources that was required for preparing and producing information packages to be communicated outwards was another aspect, resulting in the company prioritising other tasks above the management of external communication.

Following the IPO, the largest change that can be seen is the way SellCo manages its communication as a result of the emergence of new stakeholders, to which the company needed to adapt. It was the thirst for information from these new stakeholders which drove these changes. One of the most drastic changes in SellCo's communication was the shift in the company’s focus towards external communication and an active management of the expectations of these stakeholders. In order to interact with external stakeholders, SellCo communicates through a number of types of publications: press releases, three quarterly reports a year as well as a far more detailed annual report compared to the earlier format. Prior to the IPO, SellCo was only producing the annual report as required by law and local regulations externally, in addition to monthly reports produced for distribution internally and to the single owner.

In order to be able to communicate clearly and consistently, while steering stakeholders’ expectations, four new target key performance indicators (KPIs) were decided by the board and chosen to be communicated externally: growth, EBIT-margin, cash conversion as well as debt/EBITDA. These KPIs had been chosen with care in order to reinforce the company’s predictability by providing information in a consistent way. In relation to communicating clear targets, it was also decided to not give guidance on the future expectations and leave the analysts to do their own forecasts based on communicated performance important not to comment too much on future forecasts, as this increases the risk of not being in line with investor expectations. Apart from a vague note in the annual report, no additional comments were elaborated on the long-term financial targets. Furthermore, a new Communication Policy was introduced, putting in place clear communication rules and regulations for employees and external parties.

An additional KPI, which was not of relevance to the company prior to the IPO, was a dividend and distribution policy. This measure had become of high importance to the company due to the new payout policy resulting from a public ownership structure compared to a private structure. This was also supported by the cash conversion target, which due to the relatively mature nature of SellCo became important to keep track of as the company was seen as a yield case by investors, making it a target for investors seeking constant and stable returns.

Apart from the publishing materials and communication of certain targets and KPIs, SellCo also started to meet with analysts as well as other stakeholders in meetings in order to provide updates on the company. These meetings are held by the Investor Relations (IR) manager, the Chief Financial Officer (CFO) and/or the Chief Executive Officer (CEO) and often aim to comment on newly published press releases or publications in order to clarify uncertainties and answer the market's questions. In order to minimise the number of meetings and therefore save time and resources, an informative and up to date website has become necessary for the company to maintain. The website can target and inform shareholders with a smaller share who do not have the same possibility as institutional investors to meet the management of the company. Through the website, all generic information such as financial information, the corporate story as well as the company's core values can be easily communicated.

5.2.2 Corporate Story to Internal Communication

In connection with the IPO, a corporate story was actively communicated externally, through which SellCo enabled investors and third parties to get to know the company in an efficient way. The corporate story was first developed for external stakeholders in the first public annual report (since the mid-2000s) published in 2012. The development of the corporate story was a part of the transformation of the organisation towards the One SellCo vision. This effort aimed to package each individual local brand into the SellCo group brand and through this, create an image for what the group consists of and stands for. Another effect, which results from the implementation of a corporate story, was how it also created a culture for the company. A well-implemented corporate story allowed employees to identify themselves with the organisation and created a feeling of pride as well as a sense of community belonging. SellCo's management is aware of the importance of the consistency between the messages describing the company externally and internally, in order for the implementation of the communication of the corporate story as well as the company's values to be successful.

"The values and culture have to be connected with what is communicated – this is very important, otherwise the company will lose tempo. People don't want to work for a company that says one thing and does another." (Financial Director)

SellCo therefore had to adjust the way they work with their internal communication in general and how to effectively communicate the One SellCo culture in a formal manner. Internally, the intranet is the most important communication channel when interacting actively with the employees within the organisation. In order to keep employees in the loop regarding newly initiated projects, interviews with the CEO and other members of the top management team were published. Furthermore, an illustration of the corporate strategy was broken down into five simpler parts and published on the intranet for the employees to understand and cope with the abstract meaning of the strategy. This way the intranet also allows strategies to be clarified and allows the employees to be included in what is going on in the organisation.

Another method to create this connectedness and consistency within the group through the intranet is by publishing interviews of employees throughout the organisation. These are regularly published on the intranet in order for employees to feel seen and heard on every level, making everyone feel like they are part of a company group and not just a local brand. This way, the management actively created a more open and less anonymous work environment for the employees at SellCo.

A specific type of interview published on the intranet aims to lift forward internal heroes. These shed light on individuals who have acted in a demonstrative manner or accomplished something which could inspire others. By doing this, individuals feel rewarded for their accomplishments and are incentivised to continue behaving this way. Another effect the management hopes to achieve through this measure is that other co-workers will follow the example, initiating unwritten behavioural patterns within the organisation.

The spreading of the company culture which unifies the employees can also be achieved by using informal channels such as informal communication between superiors and subordinates. If a topic is often talked about by a superior, subordinates may realise the importance of the culture change and in the same way, speak with his/her subordinates and in this way, in an informal manner, spread the word. Furthermore, by providing spontaneous feedback continuously to co-workers and subordinates, behaviour which is in line with the One SellCo culture can be further enhanced. At the same time, behaviour which counteracts the implementation of One SellCo can be also discouraged through feedback.

Another formal measure, which visually strengthened the One SellCo culture was the development of a new design manual. This manual contained instructions regarding how and when the SellCo logo should be used, in order to reach consistency both within and outside of the group. The group logo had become more visible in the local production facilities, where pride and identification associated with the local brand would previously have been present, to reflect the organisation as a joint group.

Regular physical meetings was also introduced, annually with the top 100 managers and monthly with a smaller group of managers on group level (approximately 25 persons), all with the ambition to cascade information within the group.

5.3 Business Control

The new public ownership structure has influenced the way SellCo makes investment decisions in order to fulfil a long-term strategy. The previous PE owners had a shorter-term vision regarding investment decisions. Since the IPO, the management of SellCo investigates investment opportunities, which will provide the company with positive returns within three to four years. The payback time, which the previous owners targeted, was to be no more than two years and the investments that would provide returns within three to four years, were considered to a less degree. Partly due to the public structure of the company's ownership, shareholder value creation in the long run has become more important for SellCo, though satisfactory short-term results such as quarterly performance remain just as important for the company to reach.

"...you still have to deliver the results quarterly, but I think that it [the new ownership structure] gives you a different approach in terms of looking medium to long-term. While I think in private equity, it's more short- to medium-term" (Group Business Controller 1)

5.3.1 Budgeting, Target Setting and Rewards

The budgeting process starts in August/September every year. The board starts by setting a frame for the budget on a group level, which is in line with the 3-year business plan and based on these figures, the operations and functions start planning and setting their own budgets. Thereafter, during the budget week in November every year, the first version of the budget will be reviewed and thereafter updated and adjusted until the final version of the budget will be finalised in December.

The budgeting process of SellCo is rigid and heavy due to the large amount of details in the budget. Partly as a result of this, SellCo is shifting more and more towards a rolling 12-month forecasting model, which would be updated on a monthly basis in order to be more flexible and accurate. This accuracy in future forecasts is especially important since the IPO, when the importance of an accurate management of the investors' expectations increased.

In conjunction with the budgeting process, financial targets for the coming year are also set. Though business controlling units follow a number of different KPIs, three KPIs are followed with extra attention: net sales, EBIT and cash conversion, which follows the main KPIs communicated to external parties. As a result of the emergence of the four externally communicated KPIs, internally measured KPIs had to reflect the external ones in order to reach cohesion within the organisation. This drove the shift of focus from EBITDA to EBIT externally, which also occurred internally within the organisation. The setting of the targets for business units further down within the organisation is mostly done on the top management level of the organisation, though middle-managers in the regions are able to express their opinions.

The financial targets are set at different levels to motivate the businesses. By connecting bonuses to these KPIs, the management were able to steer and incentivise different behaviour of the employees in the desired directions. By having the main internal KPIs (net sales growth, EBIT and cash conversion) determining the bonus, the incentives are aligned with the strategic direction of the company.

In other parts of the organisation, where the main measurements are not directly applicable, other adapted measurements were implemented as a bonus criteria. Within logistics, KPIs such as delivery precision, which indirectly affects the cash, were implemented. This measure was driven the fact that a reduction of the time a product is held within the company results in a more efficient use of capital. Within operations, efficiency measures, such as costs per produced product indirectly affects EBIT. As such, these KPIs are connected to the main targets and subsequently appropriate to base a bonus on.

Historically, Selling, General & Administrative expenses (SG&A) has also been a KPI which the bonuses were based on. This was not aligned with the strategy, as it could incentivise the businesses to cut costs only and the focus on growth may have been disoriented. Other types of bonus criteria, such as soft targets, have also been used in the past. These bonus criteria were commonly used on local levels within the organisation and did not effectively steer the company according to the One SellCo strategy. These were replaced by tangible targets which were measurable and could be found in the financial statements. This change allowed the organisation to activate a more performance-based culture instead of having performance being evaluated based on personal opinions of the local management.

To calculate the bonus, the results for each time period and KPI are compared to the budgeted figure as well as the results from the previous year. Depending on which bonus criteria the bonus is being calculated on, the calculation is made differently. The criteria varies from the lowest level for which justifies a bonus, being the actual result from the previous year. This bonus grows linearly to the highest level for maximum bonus, which is being justified by for example reaching the budgeted target or budgeted target plus 10%.

Since the IPO, an additional improvement of the bonus structure has been initiated. To further use bonuses to create a common goal for all employees and motivate regions as well as brands to work for the interest of the group as a whole, the base for the bonuses is based on both the results of the group as a whole and the local region. One example of this is how the bonuses of a Finance Director of a region and his subordinates are based to 50% on their own regional performance and 50% on the group performance. The further down within the organisation an employee works, the bigger part the regional performance plays, even though the group performance always should be included as a part when determining the bonus.

Since the implementation of the One SellCo strategy and vision, all decisions regarding strategy and tools used to control businesses, have aimed at striving towards reaching this vision, treating the group as the prime focus, rather than each individual brand separately. Managers and employees in different parts of the organisation who were not convinced of this new vision, and who were not willing to work towards it, were gradually replaced in order for the organisation as whole to whole-heartedly strive towards the same vision.

"We are trying to get people to think about SellCo first and region second. In the past it had been the opposite, with the region first and SellCo second" (CFO)

5.3.2 Structural Changes Supporting the One SellCo Strategy

Some structural changes have also been implemented to further form the organisation according to the One SellCo strategy. One observable change is the restructuring of sales organisations' responsibilities. Each region/country is now more clearly responsible for SellCo's sales channels within each country, such as retail, wholesale or Do-It-Yourself (DIY), instead of the local brands, which was the structure in the past. Another important incentive previously mentioned, was to promote the success of SellCo as a whole, is the restructuring of the bonus systems for the employees.

Another on-going change is the implementation of standard costing in all subsidiaries, which forms the base for internal price, which is used for measuring sales performance. Some regions such as the Nordics had already been using standard costing in their expensing earlier, while others had been expensing costs directly in the income statement. In order to standardise the method of expensing, group results and cost structures could be analysed in a more accurate way.

"The more things we can standardise, the more we move towards a One SellCo way of doing things" (Group Financial Controller 1)

5.3.3 Internal Reporting

There are three main internal reports regularly used within SellCo to control the development of its businesses at the top level: the monthly executive- and the board reports and treasury report. The executive report is a large 50-page package of information, while the board report is a summary of the executive report of around 16 pages. While the executive report can be broken down into very detailed levels of analyses such as sales by product, product groups, margins and regions, the board report is an overview of the income statement, balance sheet and sales analyses on group level. A cash flow analysis as well as a headcount analyses can also be found in the board report. Apart from these main reports, around 10 other reports are produced and circulated within the group on a monthly, quarterly and annual basis. The treasury report performance versus financial risks on a monthly basis and well as liquidity forecasts.

The IPO specifically resulted in the addition of the quarterly dimension for both internal and external reporting as external stakeholders demand reports on a quarterly basis. Due to the emergence of such external reports, internal reporting became aligned within the organisation to mirror the external reporting as well. With regards to the reports used within the organisation, they have not changed as a consequence of the IPO per se. These reports were previously used in a similar way and the content of the reports are more or less unchanged prior to the listing of SellCo. A noticeable change is however the reduction of the number of reports which are being used within the organisation. The reports have also been streamlined and simplified, based on a need-to-know basis. This has been done both from an efficiency aspect, as well as from an insider and insider leakage aspect.

As another result of the IPO, the emergence of external stakeholders has brought an increased cautiousness in the distribution of financial information due to the risk of leakage. Prior to the IPO, monthly financial results for the entire group had been sent out to over 100 individuals within the group and to the single owner. Due to insider considerations applicable for listed companies, this extensive group information circulation became unsustainable as it would have created a long insider list, and the list of recipients was consequently heavily trimmed. Information is after the IPO distributed in a more cautious manner, where individuals not on the insider only receive group information necessary in order for them to be able to manage their own businesses in their part of the group. By working in this manner, individuals in different parts of the organisation will not be informed about the financial results for the group as a whole, which reduces the risk of realising unwanted reactions in the financial markets.

5.4 Financial Reporting

In 2010 SellCo followed local GAAP and the interest in the annual report was limited to that it was properly handed in and followed local regulation. The annual report was also complemented with monthly reports to the owner and a separate bank reporting, as required by the financing present prior to the bond refinancing. There was a manual and internal guidelines that had to be followed on how for example subsidiaries all over Europe were supposed to report to into group consolidation level. At this time before the listing, the balance sheet was not detailed in the annual report, leaving room for smaller errors in where items were booked on the most detailed level, as it did not make a big difference when it was consolidated on a higher level. An overall picture on the most important measures on the balance sheet as well as the income statement were valued more internally and by the owners, than a focus on whether a cost was booked in a specific subaccount, as long as the main accounts were correct.

The first steps towards a change in the financial reporting started in 2011, when the process to start complying with IFRS standards primarily started, even if minor steps had been taken earlier. It wasn’t a radical change, as the annual accounts were gradually adapted to IFRS in 2011. This was the first annual accounts audited externally, which was extended to a more complete level in 2012, when the report should be ready for the bond refinancing. A specific IFRS manual with stricter rules was also created internally with interpretations and specifications on certain areas that are developed continuously. One of the effects of implementing IFRS was changed accounting principles with regards to leasing, which reduced the appetite as a result of increased disclosure and on balance sheet treatment. With the bond, SellCo had completely adjusted its accounting according to IFRS and also restated the accounts three years back. At the time of the listing in 2013, the financials were IFRS compliant and most of the material needed for a listing on a stock exchange had already been produced for the bond refinancing, making the IPO in itself a straight forward exercise.

The IPO on the other hand brought other aspects into the reporting procedures. One part was the stricter deadlines as the reporting dates of public information are predetermined and cannot be changed. Internal deadlines were set with a few days margin in order to be 100% sure that no delay in the final publication would occur. In comparison to the earlier reporting, being listed and reporting in accordance with IFRS changed the level of detail and increased the disclosure in the annual report and subsequently increased the importance of correct details. This change made it more important for subsidiaries to report correct information in a timely manner into group.

"It is important that we keep our deadlines, we presume that they will be kept and we prefer to be done shortly before the deadline. We have never asked what would happen if they were not to be met - no, that scenario does not exist for us." (Group Financial Controller 2)

Apart from the collection of data and increased external disclosure, the listing additionally resulted in a more restricted internal reporting to comply with insider trading regulations. Before the IPO, financial information could be sent out internally to a large group of people, as previously mentioned with regards to internal reporting. After the IPO, people having an overall view of group performance had to be on the internal insider list. People not on this list are only allowed to have information on a need-to-know basis, for example income statistics for a region or costs for a local manufacturing plant, as described more elaborately in the last business control section.

6. Analysis

In the following section, social and technical controls will be identified from the information previously presented in the empirics section and classified according to the four types of controls from the second level of the framework. Consequently, the analysis will clarify what MCS and tools of this nature have changed or emerged as a consequence of the private-to-public change in ownership.

It is also valid to comment that many of the social controls and some technical controls which have been identified, have mainly been a result of the implementation of the One SellCo strategy, which was already present prior to the IPO. As result of this, it can be argued that these changes in MCS are not direct implications of the change in ownership structure and therefore of less importance for the research question of this study.

However, the importance of SellCo being united and streamlined has increased due to the importance and necessity of coherence throughout the company. For example, no publically listed company would be able to function in an efficient way if the communication, of for example the corporate story externally and internally, were not to be consistent. Furthermore, external investors are exclusively interested in the performance and results of the group as whole rather than single business units. It is the whole group, in which investors invest. Therefore, in order to manage a profitable and successful company with satisfied investors and owners, a group-benefit mind-set and streamlined organisation is key given the change in ownership structure of SellCo.

6.1 Social Controls

6.1.1 Strategic Performance

Strategic performance controls aim to control the appropriateness of the chosen strategy which a firm has chosen to implement in order to attain its vision. A social strategic performance control fulfils this function by appealing to the employees of the organisation through core values, beliefs and norms. As described in the theoretical framework, missions are commonly used as such a control.

SellCo has however not put any mission statements or any other socially driven measures which indicate the suitability of its strategies in place. The One SellCo strategy has made SellCo a more efficiently functioning organisation, partly by applying a culture, which in turn spreads core values regarding organisational connectedness. It can be reasoned that these efficiency improvements are vital for the company to be able to reach its vision. The three other cornerstones of SellCo's strategy plans mostly involve external dimensions, for example growth in Eastern Europe and in complementary products. As long as these strategies do not counteract on the development and the principles following the One SellCo strategy, SellCo should continue to develop towards becoming a more integrated and efficient organisation, leading it closer in the direction of its vision. Since a strategic performance control should indicate whether a strategy is bringing an organisation towards its vision or not, it can further be argued that the One SellCo strategy can be seen as such a control.

Seen from this perspective, this control would be enabling since it encourages a variety of different measures to be implemented in different parts of the organisation, promoting flexibility and creativity, as long as the organisation develops to be more efficient and streamlined.

6.1.2 Operational Performance

A typical example of how the management of SellCo has designed the social operational performance controls is the implementation and communication of the corporate story and the values of the company. This control is implemented broadly within the organisation in order to realise the company's strategy of creating a more joint organisation, by appealing to employees' emotions through a strengthened company culture. As operational performance controls manage what an organisation needs to do in order to realise its strategy, the above mentioned measure aims to realise the One SellCo strategy. With these controls, the predictability of employee behaviour can be enhanced by making sure that the corporate story is understood correctly by the organisation's employees. This way, management can, together with the rest of the organisation, strive towards implementing the strategy successfully as a uniform group.

The emergence of the internal communication of the corporate story is a direct consequence of the bond refinancing and IPO. This is partly due to the emergence of the corporate story and partly due to the increased importance of consistency between the content of the information, communicated to external and internal audiences, which both are consequences of the IPO. In comparison to SellCo as a privately owned company, which lacked the need of external communication, management of the internal spreading of a corporate story is a great deal more regulated and vital for a successful implementation of the corporate strategy with a public ownership structure.

These controls are of the interactive as well as the enabling and constraining type. Further examples, which strengthen the company culture are the publications of employee profiles. They promote interaction and discussion between co-workers by opening up the environment at the workplace and by encouraging collaboration as well as communication throughout the organisation. These features imply that the managerial intentions are to promote learning and creativity. On the other hand, the articles and information explaining and presenting the corporate strategies and values which are of informative nature to create consensus in the employees' understanding. By making sure that employees fully understand the organisation's strategy, vision and its implications, management can ensure a strong culture and consistency within the organisation.

The specific "internal-hero" interviews are a typical example of how social controls on an operational level can be of a rewarding nature. This control allows the employees to feel appreciated and accomplished, which incentivises others to follow the same behaviour in order to also be rewarded, bringing a control to encourage desired behaviour.

Furthermore, by communicating the formal One SellCo strategy and culture in an informal way through regular conversations, peer pressure can be created, allowing the spreading of the culture to be more of a natural process. This process allows participation from a wider spectrum of the employees and can allow the communication to spread faster and more efficiently. By acting as role models and enduring the cultural change, managers can influence and inspire subordinates to follow and adapt. These behaviours are additionally enhanced by subtle social signals such as the consistent and elaborate usage of a uniform group logo presented together with all communicated material as well as in factories and other facilities. Moreover, by continuously providing subordinates with feedback, certain behaviour patterns which are intrinsically driven can be attained.

6.1.3 Strategic Boundaries

A distinct example of how a social control can be used to inform employees of the acceptable domain for opportunity seeking is the norm which generally applies for publically listed companies when making strategic investment decisions.

As earlier described, the previous owners of SellCo strived to take on investments which generated positive returns within two years. This shorter payback time horizon is generally accepted in the PE industry. However, since the IPO, SellCo has adapted this investment behaviour and shifted towards a partly longer term horizon as a result of the stakeholders' expectations and demands of long-term shareholder value creation.

Due to this norm, SellCo needed to adapt its standards in undertaking investment opportunities. The company now pursues investment opportunities which generate value for its shareholders partly in the long-run, but it can also pursue short-term investments without being criticised by the financial markets. This control is a product of the norm of the markets, a direct result from the private-to-public change in ownership. Furthermore, the control can be classified as diagnostic, constraining and punishing. This conclusion can be drawn since the control regulates any deviations from the desired behaviour, ensures predictability regarding the company's investment decisions and punishes the company when deviations would occur.

6.1.4 Operational Boundaries

The increased strictness regarding deadlines and accuracy in SellCo’s financial reporting is an operational boundary that has emerged as a consequence of the IPO. Operational boundary controls are in place to inform employees about the limits imposed on their actions. The importance of publishing accurate figures in financial reports on time is regulated by technical controls such as official regulations and demands from external institutions. On the other hand it can be argued, that social controls also play a significant role in order to make sure that employees are aware of limits on their actions.

For example, it is presumed and taken for granted by all persons involved in the reporting process, that deadlines will be held and postponements are not tolerated even though internal deadlines are often set with margins in order make sure that a publication to the markets never is to be delayed. This can be considered as a sort of norm, a way of doing things, where the alternative from a social, but not necessarily rational point of view, would not be accepted. What the consequence of such a trespass would be is debatable, but it would arguably most likely be a punishment rather than a reward. This norm is most likely not only a product solely resulting from the corporate culture of SellCo, but rather a norm generally spread and shared by all companies which are publically listed and have external stakeholders to report to.

Another social operational boundary of a constraining nature is how the culture, which followed the One SellCo strategy, has limited employees' behaviour which exclusively benefits business units and not SellCo as a group. Not only is such behaviour controlled by for example an altered bonus system, one can additionally distinguish core values which have resulted from the vision. These values communicate and steer towards a group-benefiting mind-set rather than inter-company competition. For example, it could generally be socially unaccepted, if a mid-manager were to make decisions which would benefit his unit, but harm the group as a whole. The technical consequence of this would be reflected on his monetary bonus, but the social consequence would most likely be negative feedback which could result in experienced negative emotions such as shame or disloyalty. By strengthening these unwritten social rules, employees could be further incentivised to avoid certain behaviour and be more aware of the limits on their behaviour. To conclude, it is reasonable to categorise these controls as constraining, as they aim to ensure predictability in employee behaviour.

6.2 Technical Controls

6.2.1 Strategic Performance

The strategic performance controls at SellCo are very much about the strategic financial performance targets and policy, being the sales growth target, operating margin (EBIT margin), cash conversion, net debt/EBITDA ratio and dividend policy. These targets all aim to ensure that SellCo will remain a company with long-term profitability along business cycle changes, while working towards the SellCo strategy and ultimate vision of being the market leader and securing top three positions in all of their markets. Subsequently, if these targets within MCS were not met over time, the strategy could be seen as unsuccessful. At the same time the opposite could also be the case, where good performance and success can be the result of MCS having a good fit with strategy.

Although some of the targets had been present and developed prior to the IPO, they all would need to withstand external scrutiny in the published prospectus and annual reports post the IPO. The growth target relative to the market specifically provides a component of expectation management, as the company can perform well in comparison to the target, despite challenges in a bad market. As long as SellCo grows faster than the market, even in the case of a negative growth, it acts in a way of confirming the appropriateness of the strategy.

The other targets also take expectation management into account in the way they are formulated and communicated externally in the annual report. They specifically point out that they are set as long-term targets over an entire business cycle, reducing the pressure for reaching a certain target at a certain point in time. Along the dividend and distribution policy, the cash conversion measure was introduced, which additionally provided a target that allows the company to meet investor expectations of SellCo being a yield case. If SellCo were to not generate enough cash, dividends would not be issued according to investors' preferences, making this an important control in that aspect to manage market expectations.

Considering all these targets in the context of the managerial intentions, the key trait is that they primarily constrain in the way they ensure a degree of predictability in order to manage market expectations. At the same time, the targets also provide a framework that can align the strategy's four cornerstones without limiting business opportunity seeking, and in that sense also act as enabling controls. All controls are however diagnostic, in the way they act as controls and primarily are looked at when they deviate from the targets. In the same way as the controls are reviewed when they deviate from the target, the market either rewards or punishes the company and its stock price if the performance were to deviate too much in either a positive or negative direction.

In this context of managing investor expectations, it is also important to point out the importance of having meetings and building trust with major investors, as their opinion of SellCo can be of high importance. If these key investors are satisfied and believe that SellCo is on the right track to reaching its defined targets, this can act as a confirmation of the appropriateness of SellCo's strategy and in turn, its vision.

6.2.2 Operational Performance

With regards to controls for operational performance, these are to a large extent connected to the financial targets in the strategic performance controls, with a different purpose; to assure the realisation of the company's strategy. A typical example of this is the design of the three main internal financial targets that have their equivalent at the top level in the organisation. This resulted in an organisation more aligned than it had been before. Although these targets had been developed prior to the IPO, the connection to the financial targets at group level became more visible with the external communication, which was a direct effect of the IPO and the bond refinancing with the new external reports.

After having made the connection between operational and strategic targets more visible, employees could more easily be connected across the group and aligned in the work towards the group-wide financial targets. This aims to strengthen SellCo’s strategy from a bottom up perspective. The way targets are aligned across the centralised organisation also makes it easier for people in top management positions to track performance across the group, which in turn makes it easier to control and measure different parts of the organisation in different regions.

The alignment of targets was additionally supported by the ongoing structural work of centralising the organisation and specifically replacing the brand "silos". These silos were replaced with an improved sales organisation and local sales people focusing on sales channels, such as DIY, Wholesale and Retail instead of specific brands. This structural change creates a strong structure that supports the realisation of SellCo’s strategy by connecting operational goals through all levels of the organisation.

In this sense, the structure makes these controls constraining and diagnostic in the way they increase predictability and primarily are looked at when they deviate from the predefined target. Similar to the strategic financial performance controls, these operational controls are also enabling as they provide easily understandable targets everyone can work towards, without feeling restricted by controls focusing too much on details. It could also at this level be argued that the controls to a certain extent are interactive, where the sales growth target above the market growth incentivises employees to discuss, and through innovation and creativity, seek sales opportunities in complementary products and areas in line with the strategies.

Considering part of the old internal targets, SG&A as a KPI, was not fully aligned with the strategy as it could sub-optimise certain units with regards to costs, and non-tangible targets would have been inconsistent to implement throughout the group. Without the new targets, it would subsequently have been difficult to communicate a clear and consistent picture of the group, showing the importance of MCS that are aligned with the strategy. Furthermore, the new financial targets are supported by the budgeting process, during which the financial targets are set, that to a certain degree were complemented by the recent introduction of the rolling 12-month forecast.

The rolling 12-month forecast is a good example of how internal operations can adapt to market expectations, even if that process was in place before the IPO. By having these 12-month rolling forecasts updated on a monthly basis, SellCo is able to provide more accurate forecasts that are flexible to changes in external conditions and internal performance. This provides an interactive control that continuously brings up the forecasting and performance to discussion, further contributing to the ability of SellCo to realise its strategy. The group-wide budgeting process is in itself not driven by the IPO, but shows an example of that cohesion within the organisation, through connection between externally communicated financial targets to internally developed budgets, can be strengthened by an IPO.

The targets at an operational level are however of limited use if these are not controlled in a more active manner. These controls are within SellCo from a technical perspective controlled by bonuses based on the budget and targets. This provides a good example of how targets aligned across levels and regions within the group make it possible to incentivise people to perform in line with the organisational targets. The additional component of having varying levels of local and group target fulfilment as a bonus criteria, introduces leverage in the controls.

The leverage in these controls comes from top management's stronger control of local salespeople's incentives through the varying bonus criteria at different levels in the organisation, even when direct bonus targets are only shared to a limited extent. By having regional managers who are sharing bonus targets with both the top management and regional salespeople, they act as a bridge between the incentives in the organisation. As top management want regional managers to succeed with the shared bonus targets, regional managers at the same time drive the regional salespeople who have the same regional bonus targets. This results in that the top management get stronger and indirect leverage of controls with this bonus system compared to a system with no shared bonus criteria across levels in the organisation.

Overall the increased external communication of goals in these aspects enhanced the effect of these controls and their contribution to the realisation of SellCo’s strategy. The bonuses also tie the operational controls together, as it puts a rewarding aspect into these controls that motivate achievements of good performance and desirable actions, bringing the organisation towards the same goals. The bonuses are also very much diagnostic controls through their well-defined criteria for when a bonus is paid, with no presence of non-tangible measures that can be discussed based on personal perception.

6.2.3 Strategic Boundaries

The key example and driver of this control for SellCo is a part of SellCo's vision, where it is stated that SellCo aims to be a market leader and at least secure a top three position in all markets with active presence. This puts a clear boundary on what types of strategic actions SellCo is willing to take on, where options without a feasible top three market position are not worth pursuing. This follows the market characteristics, which include high entry barriers, that to a certain extent require a brand to have a large market share in order to be profitable and worth having in the portfolio.

The four strategic cornerstones represent further clear strategic boundaries, as presented in detail under "Strategy Development from 2010" in the empirics section. The One SellCo strategy specifically limits which opportunities are likely to not negatively affect the continued contribution to the development of efficiency improvements. With the new corporate story emerged from the refinancing and the IPO, these components have become an important part in telling what SellCo represents as a brand and as a company. Internally they act as interactive controls in the way they open up discussion of how strategic actions can act within these boundaries and enable new business opportunities.

An example of a strategic boundary that emerged as an effect of the IPO, is the way IFRS implicates stricter accounting principles in some areas compared to local GAAP, the previous accounting principle followed. As leasing is an area affected by the compliance of IFRS, SellCo became even more restrictive in using this as a financing option. This make these IFRS rules a punishing control, as these rules in the case of a potential leasing alternative not analysed and approved properly, would be seen as negative to the company. This control is further recognised as a diagnostic control, where nothing is remarked until leasing is brought up, while it also acts as a constraining control where leasing only is accepted under certain circumstances.

6.2.4 Operational Boundaries

In conjunction with a listing, a number of operational boundaries arise, primarily as an effect of the requirements that are associated with listed companies concerning disclosure and external reporting. The increased disclosure of details in the annual report following the implementation of IFRS required a stricter control of financial reporting from subsidiaries to the group. This control aims to withstand both internal and external scrutiny at a very detailed account level. In order to control the reporting, an IFRS manual was developed internally, which functions as a rule book and provides strict guidelines to ensure accuracy in the firm's accounting. In this context the controls present very clear examples of diagnostic and constraining controls, in the way they treat undesired deviances and allow the company to report to the financial markets in a standardised manner which enhances predictability.

As a company needs to take the additional dimension of the external reporting into consideration, pressure to deliver reports on time increases. One way to manage this pressure is to implement stricter internal deadlines for reporting of financials. The emergence of the internal, stricter deadlines is an effect of the external reporting dates. A delayed report for a public company would not only lead to an unsatisfied management and the one owner, which would have been the case for a private company, but also negatively affect the entire investor base on the open stock market. By delivering these reports on time, SellCo makes sure to satisfy the investors and not put their trust or investment appetite at risk.

Along with the external reporting requirements for a listed company, internal reporting was also affected by the listing as result of insider regulations. The internal reporting format was streamlined and simplified on a need-to-know basis when information distribution was significantly reduced and put into ruling.

An important reason for limiting the internal reports was to make sure no one unnecessarily became an insider at risk to become sentenced for insider trading. That would have been a very harsh punishment outside of the company’s control, which subsequently made it important to reduce this risk and put this insider thinking into the controls of the organisation when handling information. This control is among the operational boundary controls above, a diagnostic and constraining control that aims to ensure unnecessary distribution of information is avoided and that this is done in a predictable way. This control also clearly implies a punishment in a situation where an employee were to not comply with this rule, both from an internal and an external perspective.

Lastly, another example of changes in MCS controlling the communication of SellCo is the development of the design manual. This manual functions as a rule book, instructing employees about how and when logos and other company representative symbols and texts are to be used. This control can on one hand therefore be seen as a technical control of a constraining nature, since it specifies how tasks are to be performed and ensures predictability. On the other hand, the usage of the design manual aims to create coherence in communication of company symbols, all in order to further encourage the employees of the organisation to adopt the culture and values associated with the One SellCo strategy. This control ensures that the new corporate verbal story is supported by a connected visual story, which strengthens the overall picture of SellCo. In that way this control could also be seen as an interactive, enabling, social control, which encourages creativity.

7. Conclusion

The study finds that a private-to-public change in ownership structure, as a consequence of an IPO and in line with previous research, can influence a company's MCS. New boundaries and performance controls emerged as market forces and requirements influenced the MCS in SellCo. The new aspects following the IPO which lie behind the changes in MCS for SellCo can be categorised in three main categories: (1) the need to comply with certain requirements imposed on public companies, (2) the external pressure resulting in a need to manage expectations of the market and (3) the external communication of targets leading to internal cohesion of controls.

Firstly, a number of formal requirements are imposed on the company when it becomes listed on a public stock exchange, including compliance with IFRS, increased disclosure of accounts, timely reporting and insider regulation. As a response to this, MCS, such as the IFRS manual, stricter deadlines and reporting control came into effect. This was done in order to keep track and ensure predictability regarding organisational activity, which needs to comply with the external requirements. The insider consideration additionally introduced reduced circulation of internal financial reports and increased control of information to minimise the internal insider list and the risk of leakage of price sensitive information to the market, for compliance with relevant insider rules.

Secondly, pressure from the financial markets has made expectation management an important aspect for SellCo to take into consideration. SellCo's MCS have adapted to this additional aspect through the development of the key KPIs with clear definitions, which are to be consistently communicated externally. Other MCS such as the corporate story, which communicates the company image, further allows management to manage the expectations of stakeholders. Furthermore, SellCo was influenced by shareholders' expectations of value creation and adopted a more long-term view on investment opportunities through emergence of appropriate investment decision controls.

Thirdly and lastly, the external communication emerged from the external pressure strengthened the internal cohesion of MCS. With externally visible and internally implemented targets, the internal controls through targets became more efficient as employees down in the organisation could recognise their targets externally and clearly see that they contributed to something bigger. At the same time, the increased external brand visibility from the listing strengthened the employee’s sense of belonging to the SellCo group. The advancement of MCS resulting from the One SellCo strategy further strengthen the controls of the company dedicated to creating shareholder value, although they were not driven by the IPO per se. It can however be concluded that the importance of these MCS uniting the organisation, have increased in the way they help keep the market satisfied by continuously implementing efficiency improvement initiatives that additionally bring all the brands together under one roof.

8. Discussion

This study concludes that a company's MCS are influenced as a consequence of a private-to-public change in ownership structure. However, the findings and conclusions of this study may be debated due to limitations of the study, but at the same time provide areas to develop further in future research.

The fact that SellCo's previous owner was a PE firm could have influenced the quality and validity of the conclusions of this study. The numerous strategic changes SellCo experienced during a relatively short time period prior to the IPO ,which in turn resulted in changes in MCS, makes it difficult to pinpoint changes in MCS as a direct effect of the IPO. These strategic changes could be explained by the general search for suitable exit options, a phase which especially PE owners experience (Strömberg and Kaplan, 2008). The preparation for this exit was not necessarily for an IPO specifically, which together with the nature of SellCo's previous owners, should be taken into consideration when interpreting the conclusions.

Previous research argues that top managers to a larger extent focused on short-term financial results than they had been when they were privately owned companies. The findings of this study is in contradiction with this argument, since SellCo had become more focused on long-term investments since the IPO. One reason for this dissonance, could be the short period of time during which SellCo has been a listed company, where changes in line with previous research still may come. Another reason could be that SellCo maintained a shorter-term perspective already prior to the IPO which could be explained by SellCo's previous owner being a PE firm (Strömberg and Kaplan, 2008).

Furthermore, this study is primarily built on interviews, which imply that the conclusions are mainly based on subjective information. Therefore, it is acknowledged the risk that some of the sources may be distorted and may further jeopardise the validity of the study. With consideration to the above mentioned potential issues, as well as the case study nature of this study, we also acknowledge the limited generalizability of the conclusions and therefore suggest areas for further research.

Since the amount of research covering relationships between changes in MCS and private-to-public ownership structure changes is rather limited, we encourage further research within this field strongly. As this study has shown, the PE owner has acted as a driver of strategic changes, affecting the relationship between the changes in MCS and the IPO. One specific example of this in the study is the One SellCo strategy, which has had an influence on MCS along the IPO. In order to improve generalizability on this area, it is suggested for future studies to cover multiple study objects with different types of owners prior to the IPO. This could allow determination of possible patterns arising in conjunction with IPO preparations, independent of the type of previous owners.

Furthermore, as this study was conducted with a top-down perspective with focus on the top management, the perception of the changed controls down in the lower levels of the organisation was not incorporated. From this limitation, it is suggested future studies incorporate the external factors of Tessier and Otley's (2012) framework in order to study the consequences further down in the organisation.

9. References

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Interviews

Interviews with the following persons ordered chronologically were conducted:

2014-03-17	CFO
2014-03-31	Head of Investor Relations
2014-04-02	Financial Director
2014-04-03	Group Business Controller 1
2014-04-14	Group Financial Controller 1
2014-04-14	Group Financial Controller 2
2014-04-14	Group Financial Controller 3
2014-04-14	Group Business Controller 2
2014-04-14	Legal Counsel
2014-04-14	Group Treasurer
2014-04-16	Head of Corporate Communications
2014-04-28	CFO