The implications of the management accounting change paradox

- A case study on the clashes between FAMCO and PE Inc concerning financial reporting

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Abstract

This paper concerns an in-depth case study on a family-owned company (FAMCO), which was acquired by a private equity company (PE Inc) in 2011. Using paradox theory, this paper investigates how the previously noted relationship between stability and change impacted the management accounting change process following the acquisition. It is shown that PE Inc immediately set out to change FAMCO's management accounting in terms of frequency and content. Being used to base everything on experience and gut-feeling this was however how FAMCO now came to prepare the monthly financial reports. As a consequence, PE Inc did not obtain the change they had aimed for and responded by pushing harder. Not managing the tension between stability and change initiated a vicious cycle (Smith, Lewis 2011) of management accounting change. This cycle, which started out as an issue of only management accounting, ultimately impacted the performance of the entire business. Due to a significant amount of time spent on monthly financial reporting, management did not have time to manage the company. Through these findings, this paper makes two key contributions to previous research. Firstly, a new theoretical perspective is used to explain management accounting change, and it is shown that this is suitable for analysing the relation between stability and change noted by previous research. Secondly, we are able to illustrate the *implications* of that there is a relationship between stability and change within management accounting change. Furthermore, the study also increases the knowledge of management accounting change following an acquisition. That it assesses a private equity company, which is constrained in terms of time, thus constitutes a third contribution.

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1 Introduction

"This was fun to tell you about. It is somewhat therapeutic to try to understand what has happened, because it is so damn strange"

- Partner A, PE Inc

The buy-out fund PE Inc's acquisition of the family-owned engineering company FAMCO in 2011 was believed to be a great investment. FAMCO had leading positions within its markets, each of which had good prospects for growth. The group had a total turnover of SEK 300 million, and the due diligence indicated several options for operational efficiency improvements. With a business plan aiming for revenues of SEK 700 million in 2015, the investment professionals believed that an internal rate of return (IRR) of 50 % would be possible. The conservative case presented in the investment memorandum indicated a slightly lower but, arguably, still high IRR of 40 %.

Shortly after the investment, however, PE Inc realized that the journey with FAMCO would not be easy. Some of the operational efficiency improvements identified in the due diligence proved to be unviable, and FAMCO had noticeable problems with meeting PE Inc's demands on monthly financial reporting. The problem with meeting the demands on financial reporting met with frustration and little understanding from PE Inc. Partner B commented:

"For us as an external owner it [the monthly financial reporting] is normally a first hygiene requirement so we can have continuous control of what is going on"

- Partner B, PE Inc

This view of monthly financial reporting as a hygiene factor however contrasted significantly with the view of the formerly family-owned company.

"It was an extremely large change for everyone that had worked under a family with completely different requirements and that did not have the focus on keeping track of results every month"

- Controller, FAMCO

"I think they [PE Inc] for a very long time had the feeling that 'this is simple. You just have to press the button and it [the financial report] will come out'"

- Current CFO, FAMCO

As implied by the circumstances described, this paper concerns an in-depth case study on FAMCO, which in 2011 was acquired by the private equity firm PE Inc. Despite the fact that management accounting change has been a thoroughly researched area for the past 30 years (Andon, Baxter & Wai Fong 2007), there has been limited focus on management accounting change following an acquisition. This gap is something previous researchers have noted (Granlund 2003, Yazdifar et al. 2008). Despite this, few attempts have been made to fill it thus far.

This paper contributes to the process-orientated approaches within research on management accounting change (Modell 2007). Being influenced by seminal studies such as Burns and Scapens (2000), Powell and DiMaggio (1983), and Dillard (2004), the process-orientated approaches have largely used different institutional theories to explain management accounting change (Cullen, Wanderley 2013). While initially focusing mainly on either old institutional economics or new institutional sociology, later studies have tried to combine the two (Cullen, Wanderley 2013). A key contribution of this institutional strand is thus the fact that one does not see change as a single event but as a continuous and on-going process (Modell 2007). In this on-going process, researchers have identified that change and stability may be interrelated.

The interrelatedness between stability and change was noted already by Burns and Scapens (2000), and has subsequently been exemplified by a range of influential articles (Burns, Vaivio 2001, Siti-Nabiha, Scapens 2005, Scapens 2006, Busco, Quattrone & Riccaboni 2007, Nor-Aziah, Scapens 2007, Lukka 2007, van der Steen 2011). Despite of everyone talking about stability and change, there seems to be a divergence of what researchers actually mean with the concept. While some talk about stability and change as old versus new (Siti-Nabiha, Scapens 2005, Nor-Aziah, Scapens 2007), others talk about stability and change as rigidity versus flexibility (Lukka 2007) or as improvisation versus knowing what to do (van der Steen 2011). Furthermore, researchers have been satisfied with claiming that there is a relationship between stability and change. Little focus has been on what the implications of this relationship are. Due to this conceptual confusion and little focus on implications, the knowledge of stability and change within management accounting change is limited. This is thus despite the fact that the concept as such has been noted by several researchers.

In conclusion, two gaps can thus be identified within previous research. First, limited attention has been given to the management accounting change process following an acquisition. Second, there seems to be a theoretical confusion concerning the relationship between stability and change, and little attention has been on what the implications of this relationship are. With these two gaps in mind, this study intends to answer the following two questions:

1) What are the implications of the relationship between stability and change within management accounting change?

2) How is the management accounting change process affected by a private equity company?

By using a theoretical framework based on paradox theory and a view of management accounting change as consisting of frequency, content, preparation and use for decision-making, it is shown that the private equity company firstly impacted the management accounting change process by being the initiator of change. It is found that the use of leverage and a focus on time created a significant amount of pressure, thus rendering paradoxes more difficult to manage (Lewis, Smith 2014). The private equity model in itself thus appeared to have made it difficult to handle the paradox between stability and change within the management accounting change process. Regarding the implications of this relationship between stability and change it is shown that FAMCO and PE Inc, by not managing the paradox of stability and change entered a vicious cycle (Smith, Lewis 2011) of management accounting change. This cycle turned the monthly financial reporting from a management accounting issue into something that impacted the entire organization. Through these conclusions the study makes three main contributions. Firstly, it adds a new theoretical perspective to management accounting change and shows that this is suitable for analysing the relation between stability and change noted by previous research. Secondly, it illustrates the implications of the relationship between stability and change within management accounting change. Thirdly, it increases the knowledge of management accounting change following an acquisition as it assesses a private equity company that is constrained in terms of time and shows that this impacted the management accounting change process.

The remainder of this paper is structured as follows. In section 2, we outline the theoretical foundation by turning to research within management accounting change. Following this the theoretical perspective will be explained and our theoretical framework presented. The third section presents the research method, including research design, data collection, and data analysis. After this the empirics of our case study is outlined. Finally, the empirics are analysed and concluding remarks are made. As part of the concluding remarks, fruitful avenues for future research as well as limitations of the paper are presented.

2 Theoretical foundation

This chapter is divided into three parts. The first part, section 2.1, synthesises on research within management accounting change and illustrates the gaps intended to be filled by this paper. The second part, section 2.2, presents the foundation for the theoretical framework. Finally, section 2.1 and 2.2 is merged into a theoretical framework outlined in section 2.3.

2.1 Research within management accounting change

2.1.1 Background to management accounting change

Management accounting change is a research area that has been thoroughly investigated during the last 30 years (Andon, Baxter & Wai Fong 2007). Previous research within the topic can largely be divided into factor studies and process-orientated approaches (Modell 2007). As is implied by the name, factor studies concern the *factors* that yield or prevent management accounting change (Modell 2007). Process-orientated approaches, on the contrary, are more concerned with the processes and social aspects of implementing changes (Cullen, Wanderley 2013). These two strands of research will be outlined below to provide an overview of the literature within management accounting change.

Regarding factor studies, this research strand has for example contributed with what Kasurinen (2002) call the *accounting change model*. This model started with Innes and Mitchell (1990), who conducted seven field studies of electronics companies in order to see what factors drive management accounting change. By separating between *motivators* of change, *catalysts* of change, and *facilitators* of change, Innes and Mitchell (1990) showed that critical motivators of change are the competitive market, the organizational structure, and the production technology. Important catalysts of change were shown to be poor financial performance, loss of market share, or new accountants (Innes, Mitchell 1990). Finally, critical facilitators of change were shown to be the authority of accountants, the degree of autonomy from the parent company, and accounting staff resources (Innes, Mitchell 1990). This categorization of motivators, catalysts, and facilitators of change have been further developed in later studies such as Cobb, Helliar and Innes (1995) and Kasurinen (2002). Cobb et al. (1995) added the concepts of barriers to change, leaders, and momentum for change, while Kasurinen (2002) looked further into barriers of change, mentioning confusers, frustrators and delayers as three types of barriers. Despite not explicitly referring to it one can also relate the study by Lawrence and Sharma (2002) to this model. They namely look at the implementation of balanced scorecards and total quality management in corporate universities and claim that "the need to make savings and to be cost effective necessitated the introduction of TQM [total quality management] and BSC [balanced scorecard] in DXL University"

(Lawrence, Sharma 2002, p. 674, brackets added). While "the state's commitment to efficiency and effectiveness" (Lawrence, Sharma 2002, p. 675) arguably can be seen as a critical motivator of change, "the need to make savings and to be cost effective" (Lawrence, Sharma 2002, p. 674) can be seen as important catalysts of change in the case.

Yazdifar and Tsamenyi (2005) is a factor study that takes a quantitative approach towards the factors that drive management accounting change. Through a survey they assess the most important drivers of management accounting change in U.K. companies that are both independent and dependent, i.e. part of a group. Subsequently, the authors report that both independent companies and companies that are part of groups see information technology and organizational restructuring as important drivers of management accounting change. Companies that are part of groups however also recognize that takeover is an important factor that yields management accounting change (Yazdifar, Tsamenyi 2005).

Despite its important contributions to the understanding of factors that yield change, this research strand has been criticized for seeing change as driven by "economic or technical factors, such as growing market competition and changing production technologies, while the wider social processes involved in the diffusion of novel management accounting techniques across organisations is not discussed in any detail" (Modell 2007, p. 343). The process-orientated approaches arguably fill this void.

In contrast to the factor studies the process-orientated approaches namely "share a concern with the wider social and political ramifications of change" (Modell 2007, p. 344). As indicated by the name, these studies thus focus on the actual processes of change. A large part of this research has been based on institutional theory (Cullen, Wanderley 2013). While early studies were conducted either with old-institutional economics or new institutional sociology as main theoretical perspectives, later research has tried to integrate the two theories (Cullen, Wanderley 2013). It has been argued that the main contribution of these institutional papers is their view of change as being a continuous process and not a single event (Modell 2007). At the same time, the institutional studies have been criticized for having "paid scant attention to the role of economic and technical factors, such as those examined in factor studies" (Modell 2007, p. 351). Despite the fact that institutional theories have been influential in this research strand, it should be noted that the process-orientated approaches have been studied from a wide range of theoretical perspectives including structuration theory, actor-network theory and labour process theory (Cullen, Wanderley 2013). Taking actor-network theory as a starting point, and building on Quattrone and Hopper's (2001) concept of drift, Andon et al. (2007) for example developed the concept of *relational drifting,* arguing that management accounting change do not occur in a linear way.

As such it can be concluded that also in studies that do not take an institutional perspective, change has been seen as an ongoing process and not as a single event. Modell's (2007) claim that a critical achievement of institutional studies is their view of change as a process could thus, arguably, be applied to process-orientated approaches in a wider sense.

The outline of factor studies and process-orientated approaches is important to understand what part of the literature on management accounting change that the current paper aims to contribute to. Doing a longitudinal case study on management accounting change the aim is to contribute to the process-orientated strand of management accounting change. Since our case study focuses on management accounting change following an acquisition it is also important for the reader to understand what has been covered within this topic. Hence the next section focuses on research within this area.

2.1.2 Management accounting change following an acquisition

The first studies on management accounting change following acquisitions appeared already in the 1980's when C. Stuart Jones studied the effects on management accounting systems following takeovers (Jones 1985a, Jones 1985b) and management buyouts (Jones 1992). Despite of this early focus later studies have largely been absent and as late as 2003 Granlund argued that "despite the very large number of mergers and acquisitions, we seem to know little about their effects on the technical and social dimensions of management accounting systems" (Granlund 2003, p. 208). On a similar note Yazdifar et al. (2008) argued that little is known about "how a change programme such as change in MAS [management accounting systems] should take place following mergers and acquisitions" (Yazdifar et al. 2008, p. 405, brackets added). Below we summarize the extant literature on management accounting change following an acquisition.

Following an acquisition, the acquirer tends to implement its preferred management accounting systems on the acquired company. In relation to corporate takeovers this has been shown both by Yazdifar et al. (2008), Tsamenyi et al. (2006) and Jones (1985a). Jones (1985a) conducted a survey followed by interviews on 30 companies in the U.K. that had been subject to takeovers. All target companies had been forced to change their management accounting systems to some extent and changes to budgeting and monthly reporting were the most common (Jones 1985a). A similar conclusion can be drawn from Yazdifar et al. (2008) who studied when Omega was acquired by CC from its former parent WW. WW had put pressure "on Omega to adopt the group's systems, including MAS [management accounting system], which were inadequate enough for Omega, but adequate for the parent company" (Yazdifar et al. 2008, p. 414, brackets added). In relation to this, Yazdifar et al. (2008)

even quote the Omega management accountant, who argued that under WW ownership, the company did not report to its managers but to its parent. When the company later was acquired by CC, also CC implemented its own management accounting systems on Omega (Yazdifar et al. 2008), thus further supporting the claim that an acquirer changes the management accounting system after a takeover.

Tsamenyi et al. (2006) show a similar development when the formerly state-owned company Sevillana was acquired by the Endesa Group and thus had to change its accounting and financial information system. The rationale for this change was that one wanted to provide "a 'common language' in all the subsidiaries to speed up decision-making" (Tsamenyi, Cullen & González González 2006, p. 418). Although this rationale, indeed, may be understandable from a group perspective, previous research indicates that also financial sponsors may implement their preferred management accounting systems following an acquisition. This has for example been shown by Aureli (2010). By using Permira's acquisition of Ferretti Group as a case study, Aureli (2010) shows that Ferretti previously mainly was controlled by the accounting information found in annual reports and sales budgets but that "these documents immediately demonstrated their inadequacy upon the arrival of the PE fund" (Aureli 2010, p. 97). She goes on to argue that "while preexistent Ferretti management placed great emphasis on economic aspects such as boats' contribution margins and firm earnings to monitor organizational performance, the institutional investor's information needs were more concerned with financial aspects and variation of the company's assets. Moreover, information had to be provided more frequently and in a more timely fashion" (Aureli 2010, p. 97). Regarding increased frequency Aureli obtains support from Mitchell, Reid and Terry (1995) as well as Bruining et al. (2004). In their case-study, Bruining et al. (2004) show how the involvement of a venture capitalist changed what was being measured, increased the frequency of reporting, and improved the budgeting of the company (Bruining, Bonnet & Wright 2004). The authors argue that this was because "the venture capitalist was focused on governing the business to achieve the exit agreed upon with the management" (Bruining, Bonnet & Wright 2004, p. 166. That financial sponsors drive management accounting change is furthermore supported by Christner and Strömsten (2015) who showed that after receiving funding from HealthCap, a venture-capital firm, IRR calculations became a critical tool used in Pyrosequencing.

When it comes to the actual implementation of the management accounting system following an acquisition, previous research implies an importance of implementing the management accounting system together with the acquired company, despite the fact that it may be the acquirer who decides the system. Jones (1985a) for example notes how consultative practices from the acquirer commonly resulted in post-acquisition success. This is also the approach that CC took in the case study by Yazdifar et al. (2008), when they successfully managed to implement their management accounting system in Omega. After the takeover of Omega, CC namely focused on understanding the taken-for-granted assumptions of the company, as well as its culture and institutions (Yazdifar et al. 2008). This was a time-consuming task where some CC directors were on-site at Omega for six months; interviewing and having informal talks with employees (Yazdifar et al. 2008). The authors quote one CC director saying: "I hadn't realised how much time people were going to take. I was going to go in, put new systems in and that was it as far as I was concerned, but I must have *spent like 30 % on systems and 70 % dealing with people, and their concerns over the takeover*" (Yazdifar et al. 2008, p. 416 [emphasis not added]). All in all, Yazdifar et al. (2008) report that it took about 9 months for CC to implement its systems and almost three years before the change was done.

The approach of implementing the new management accounting system together with the acquired company is also taken by the private equity company in the study by Aureli (2010). When one initially wanted to implement a Tableau de Bord system in the portfolio company one faced resistance due to "the creation of excessive managerial workload and to the fact that the EVA and the underlying financial logic was not part of existing managers' language" (Aureli 2010, p. 106). Therefore, one revised the system and managed to make it work "after a process of trial and error" (Aureli 2010, p. 106). Partly, one can thus say that Aureli (2010) also shows what may occur if one is not sensible of the acquired company when implementing the new management accounting system: one faces resistance. This is something that was elaborated on already by Jones (1985a) who showed five different types of resistance that may occur following acquisitions. Resistance is furthermore a key aspect of what happened when Sevillana was acquired by the Endesa Group in the study by Tsamenyi et al. (2006). Tsamenyi et al. (2006) namely describe how Sevillana employees felt that they had had an accounting and financial information system forced upon them by their new parent company. Employees therefore showed resistance by for example not attending training sessions of the new system, and some employees even refused to use the new system altogether (Tsamenyi, Cullen & González González 2006).

2.1.3 Imposed management accounting change

Due to the scant literature on management accounting change following a takeover, the previous research is here broadened slightly. Knowing that acquirers tend to implement management accounting systems that are suitable for them, we here bring up articles that study management accounting change that is, or is perceived as being, imposed on an organization. Examples of such studies are Siti-Nabiha and Scapens (2005), Caccia and Steccolini (2006), and Nor-Aziah and Scapens (2007). Just as Aureli (2010) and Tsamenyi et al. (2006), these articles to a large extent highlight the fact that different forms of resistance are a key risk with imposed management accounting change (Siti-Nabiha, Scapens, 2005; Caccia, Steccolini, 2006; Nor-Aziah, Scapens, 2007).

Starting with the study by Siti-Nabiha and Scapens (2005), these authors look at the management accounting system change process in Eagle when its parent company wanted it to implement value-based management. Arguing that management accounting change should not only be interpreted as a change of techniques but also of the day-to-day operations, Siti-Nabiha and Scapens (2005) claim that the implementation of value-based management in Eagle largely was a failure. Despite the fact that the key-performance indicators of the value-based management system were implemented and reported to the parent company, tacit resistance still occurred (Siti-Nabiha, Scapens 2005). It is claimed by the authors that this resistance can be attributed to the discrepancy between the value-based management system and the organization. While the value-based management system was financially oriented, the organization was largely production oriented (Siti-Nabiha, Scapens 2005). The authors thus note that "VBM [value-based management] and especially the new KPIs were put in place simply because they were imposed by the parent company" (Siti-Nabiha, Scapens 2005, p. 56, brackets added). As such the authors show how Eagle implemented the new VBM-system *ceremonially*, meaning that they implemented the new system because they had to, but never used it for decision-making (Siti-Nabiha, Scapens 2005). Stability thus remained, and Siti-Nabiha and Scapens note that "change can be necessary to maintain stability" (Siti-Nabiha, Scapens 2005, p.67). Later Eagle however created its own operational KPIs (Siti-Nabiha, Scapens 2005). These were in line with the values of the company, and stability thus resulted in change (Siti-Nabiha, Scapens 2005). Consequently, Siti-Nabiha and Scapens (2005) illustrates a clear connection between stability and change within management accounting change.

Moving on to Caccia and Steccolini (2006), these authors look at the process of management accounting change in the Italian local government Girotondo and explain how the CFO in Girotondo used external events in order to implement changes to the management accounting system. Consequently, the organization perceived the changes as being imposed on them (Caccia, Steccolini 2006). As such the organization resisted the changes, and just as in Siti-Nabiha and Scapens (2005) one continued to make decisions based on the old systems (Caccia, Steccolini 2006). Hence one can, arguably, once again see a relationship between stability and change. Though the CFO in Girotondo pushed for change, the organization made decisions based on the old system. This is largely in line with the Italian local government Clio, as noted by Liguori and Steccolini (2011).

Regarding the study by Nor-Aziah and Scapens (2007), these authors look at the corporatisation process of PSP, a government-owned company in Malaysia. As part of PSP's corporatisation, the company implemented a new budget that was resisted by the organization and became loosely-coupled, meaning that the organization prepared the budget because they had to as part of their corporatization process, but they did not use the budget for decision-making (Nor-Aziah, Scapens 2007). The authors thus argue that the loose-coupling of the budget resulted in organizational stability (Nor-Aziah, Scapens 2007). Once again one thus see authors arguing for a relationship between change and stability.

2.1.4 Stability and Change within previous research

The relation between stability and change is something that has not only been noted by the above mentioned articles. Stability and change has been discussed by several researchers within the management accounting change literature. For example, already in 2000 Burns and Scapens argued that "stability and change can be simultaneously part of the same process" (Burns, Scapens 2000, p. 22), in 2001 Burns and Vaivio (2001, p. 393) called stability and change a "classic dichotomy", and in 2006 Scapens argued that "..it is important not to regard stability and change as mutually exclusive – there can be elements of stability within change; and change may be necessary if things are to remain stable" (Scapens 2006, p. 19). Via a case study on MEGOC, Busco et al. (2007) furthermore showed how a balanced scorecard was implemented slightly differently in different parts of the organization since it was implemented without formal guidelines. As the different units in the organization then could implement the balanced scorecard to their preference, it led to "a smooth combination of change and stability" (Busco, Quattrone & Riccaboni 2007, p. 144). Just as Busco et al. (2007), researchers have however largely been satisfied with claiming a relatedness between stability and change. Thus it currently seems to exist a theoretical confusion regarding the concepts. While for example Siti-Nabiha and Scapens (2005) and Nor-Aziah and Scapens (2007) talk about stability and change as old versus new, other authors have different interpretations of the tension.

Lukka (2007) for example talked about stability and change as rigidity versus flexibility. In his case study on Southlake, Lukka (2007) was puzzled by the fact that a global company that required consolidated financial reports used different management accounting systems in each country but still believed the system worked fine. The author showed that the ones who prepared the consolidated financial reports was put under significant stress and had to be flexible when doing this. Seeing this flexibility as change, Lukka (2007) showed that what puzzled him could be explained by stability and change. He thus argued that "...in line with Burns and Scapens (2000), stability and change co-existed in Southlake's management accounting" (Lukka 2007, p.95).

Van der Steen (2011) provided yet another interpretation of stability and change, seeing it as improvisation versus knowing what to do. By assessing the changes in routines that occurred in Rabobank Groningen, van der Steen (2011) namely differentiated between ostensive and performative aspects of routines. Whereas the ostensive aspects mean how actors interpret and understand the routines, the performative aspects concern how actors perform the routines (van der Steen 2011). Since the ostensive aspects are impacted by how one has done in the past, they yield stability (van der Steen 2011). However, as the ostensive aspects cannot include all possible situations, the performative aspects give rise to change through the use of improvisation (van der Steen 2011). There is thus a reciprocal relationship between the ostensive and performative aspects of a routine as how one interprets the routine impacts how one behaves, and how one behaves impacts how one interprets the routine in the future (van der Steen 2011).

In previous research one can thus see at least three different views of what stability and change could be. While some authors talk about stability and change as old versus new (Siti-Nabiha, Scapens 2005, Nor-Aziah, Scapens 2007), others talk about it as rigidity versus flexibility (Lukka 2007) or improvisation versus knowing what to do (van der Steen 2011). This theoretical confusion combined with the fact that there has been a limited focus on what the implications are of a relationship between stability and change within management accounting change constitute a critical gap that ought to be filled.

2.1.5 Concluding remarks on research within management accounting change

Through this outline of research within management accounting change, two gaps can be identified. The first one is rather straight forward and concerns the limited focus on the management accounting change process following an acquisition. The second one is however more theoretical and concerns the way previous research has conceptualized the relationship between stability and change.

Starting with the first gap, it can be seen as puzzling that so little focus has been given to management accounting change following acquisitions. Despite the fact that Burns and Scapens (2000) mention a takeover as a major external event that may influence management accounting systems; that Granlund (2003) noted that little is known about management accounting change following acquisitions; and that Yazdifar and Tsamenyi (2005) showed that takeovers are considered a key driver of change by practitioners, only a few studies have explicitly focused on management accounting change following acquisitions (Yazdifar et al. 2008, Jones 1985a, Jones 1985b, Tsamenyi, Cullen & González González 2006, Aureli 2010). The majority of these focus on corporate takeovers where the implementation of changes is allowed to take time (Yazdifar et al. 2008). Therefore, even less is known about how the management accounting change process may look after an acquisition by a private equity company. Due to the fact that these companies have a relatively short holding period of three to eight years (Nama, Lowe 2014), there is reason to expect the management accounting change process to differ compared to the management accounting change process following a corporate takeover. Furthermore, as accounting has been shown to be important for private equity companies' decision-making (Nama, Lowe 2014), it can be expected that significant focus will be on obtaining a satisfying management accounting.

Moving on to the second gap, it is clear that the process-orientated approaches within management accounting change commonly touches upon the tension between stability and change (Siti-Nabiha, Scapens 2005, Busco, Quattrone & Riccaboni 2007, Nor-Aziah, Scapens 2007, Lukka 2007, van der Steen 2011). Previous research has however largely been satisfied with claiming *that* there is a relationship between the two concepts. There has been little focus on what the implications are of the relationship between stability and change within management accounting change. In addition to this there appears to exist some confusion regarding the tension. While Lukka (2007) for example talk about stability and change as rigidity versus flexibility, Siti-Nabiha and Scapens (2005) talk about stability and change as old versus new. Furthermore, van der Steen (2011) talks about the tension as improvisation versus knowing what to do.

In order to bridge these two gaps paradox theory will be used as a theoretical perspective. This theory will be operationalized in our case study through the works of Lewis (2000), Sundaramurthy and Lewis (2003) and Smith and Lewis (2011). These papers will be explained further in section 2.2.

2.2 Theoretical perspective

2.2.1 Definition of a paradox

That stability and change can be seen as a paradox was noted already by Poole and Van de Ven (1989) who claimed that stability and change are two elements of a paradox "because each is defined as the opposite of the other" (Poole, Van de Ven, Andrew H. 1989, p. 564). Juxtaposing this quote with the definition of a paradox yields an important insight. A paradox can namely be defined as "contradictory yet interrelated elements that exist simultaneously and persist over time" (Smith, Lewis 2011, p. 382). Since stability, in line with the reasoning of Poole and Van de Ven (1989), can be defined as the opposite of change; and change as the opposite of stability, the two concepts are naturally contradictory. However, they are also naturally interrelated. Finally, since one must always know what is stable to know what constitutes change, stability and change exist simultaneously and this will remain so over time. All criteria implied in Smith and Lewis' (2011) definition of a paradox is thus fulfilled by stability and change. This reasoning obtains further support by Farjoun (2010, p. 216) who argues that "stability and change are not separable and only conflicting, but, rather, they are fundamentally interdependent".

Another distinguishing feature of paradoxes is that the elements of a paradox "seem logical in isolation but absurd and irrational when appearing simultaneously" (Lewis 2000, p. 760). The absurd appearance of the elements in a paradox is, however, largely a social construction (Lewis 2000). In reality the elements are "two sides of the same coin" (Lewis 2000, p. 761). One can therefore not choose between the two elements of a paradox but must strive for having both at the same time (Smith, Lewis 2011). As is brought up by Smith and Lewis (2011), a company can for example not choose between exploration and exploitation, but must have both. "Without exploration, there is no organizational knowledge to exploit" (Smith, Lewis 2011, p. 388). In the same vein, Smith and Lewis (2011) claim that if there is no exploitation, companies do not know what to explore. In this sense, the two authors also argue for the importance of separating paradoxes from other organizational tensions. Particularly Smith and Lewis (2011) mention dilemmas and dialectics as two organizational tensions that a paradox ought to be separated from. Dilemmas are defined as "competing choices, each with advantages and disadvantages" (Smith, Lewis 2011, p. 387). A key distinguishing feature from paradoxes is thus that one can choose between the different aspects of the tension. Smith and Lewis (2011) take the example of whether an organization should buy something or produce it in-house as a typical dilemma. Dialectics on the other hand are defined as "contradictory elements (thesis and antithesis) resolved through integration (synthesis), which, over time, will confront new opposition" (Smith, Lewis 2011, p. 387). A key distinguishing feature from paradox can here be seen as the ability to integrate the two elements. Paradoxes cannot be integrated as they will "persist over time" (Smith, Lewis 2011, p. 382)

2.2.2 Elements of a paradox

In their article *Toward a Theory of Paradox: A Dynamic Equilibrium Model*, Smith and Lewis (2011) developed a model for how to think about, and manage, paradoxical tensions in an organization. The authors here note that paradoxical tensions always arise in an organization, simply from the act of organizing. These paradoxes are however largely unnoticed by the organization (Smith, Lewis 2011). The paradoxes are, according to the authors, *latent*. These paradoxical tensions can however become apparent to the organization as "environmental factors – namely, plurality, change, and scarcity – render latent tensions salient" (Smith, Lewis 2011, p. 390). When the paradoxical tensions become apparent, responses are triggered and reinforcing cycles are thus created (Smith, Lewis 2011). Depending on the response a reinforcing cycle can either be *vicious* or *virtuous* (Smith, Lewis 2011). Smith and Lewis (2011) claim that both individual and organizational factors may yield vicious cycles. The key individual factors they mention are "cognitive and behavioural forces for consistency, emotional anxiety, and defensiveness" (Smith, Lewis 2011, p. 391). By citing Follet (1996) and Lax and Sebenius (1986), Lewis and Smith (2014, p. 133) furthermore argue that pressure makes it difficult to manage a paradox since "actors tend to polarize in the face of pressure". The authors argue that under pressure "actors may narrow their attention to factors most under their control and within their understanding, and collaborate more closely with colleagues applying a similar focus" (Lewis, Smith 2014, p. 134). If the response triggered by the paradox instead is acceptance, meaning that one sees "tensions as an invitation for creativity and opportunity" (Smith, Lewis 2011, p. 391), the authors argue this will instead result in a virtuous cycle which ultimately moves the company into a *dynamic equilibrium* (Smith, Lewis 2011). This means that one constantly moves between the two elements of the paradox and as such, over time, attend to them both (Smith, Lewis 2011). Lewis and Smith (2011, p. 392) call this approach "consistent inconsistency".

In order to further explain some key factors of the model by Smith and Lewis (2011), two other articles by Lewis can be used. These are Lewis (2000), which has fruitful explanations of defences, and Sundaramurthy and Lewis (2003), which shows how reinforcing cycles can be conceptualized. Starting with Lewis (2000), this article noted that if one via either/or-thinking tries to resolve a paradox, one may become trapped in "paralyzing defenses which initially reduce discomfort and anxiety, yet eventually intensify tensions" (Lewis 2000, p.762). The article can therefore be seen as relating to the individual factors which Smith and Lewis (2011) see as drivers for vicious cycles. Six different types of defence mechanisms are brought up by Lewis (2000). These six defences are termed splitting, projection, repression, regression, reaction formation, and ambivalence (Lewis 2000). Starting with splitting, this refers to the creation of us versus them distinctions in the face of a paradox (Lewis 2000). A similar defence is projection which means that one puts blame on someone or something else (Lewis 2000). Repression means that one suppresses memories in the face of paradox, while regression concerns that one goes back to a behaviour or a way of perceiving things that has worked in the past (Lewis 2000). Finally, reaction formation means that one exaggerates the opposite of the element chosen to resolve a paradox, and ambivalence means that one quickly tries to reach compromises, even though these may be suboptimal (Lewis 2000).

Regarding the conceptualization of reinforcing cycles, Sundaramurthy and Lewis (2003) look at the paradox between control and collaboration within corporate governance, arguing that vicious cycles are created if one of the elements become the main focus. If collaboration for example becomes the main focus of the board-management relationship this creates a reinforcing cycle of groupthink (Sundaramurthy, Lewis 2003). The authors claim that this reinforcing cycle starts with that one incorrectly attributes past success to a current strategy. When the company's performance starts to deteriorate this leads to what the authors call *threat rigidity*, meaning that one limits one's information search to primarily include supportive information (Sundaramurthy, Lewis 2003). According to the authors, this in turn results in that commitment to the current strategy increases, which in turn leads to an even stronger focus on collaboration between the board and management. As this vicious cycle continues, it ultimately results in failure (Sundaramurthy, Lewis 2003). A too large focus on control may instead result in what Sundaramurthy and Lewis (2003, p. 404) call *suppressed stewardship, impression management* and *splitting turf wars.* Based on this article one can thus conceptualize reinforcing cycles as whirls that cycle around three or four factors and that, if they are vicious, ultimately lead to failure.

2.3 Theoretical framework

As stated in section 2.1.5 there appears to be a theoretical confusion of stability and change within the management accounting change literature. This theoretical confusion can however be looked upon in new light by merging management accounting change and paradox theory. By assessing stability and change from the perspective of dilemmas, dialectics and paradoxes as outlined in Smith and Lewis (2011), one can namely see a progression. Despite talking about slightly different things when discussing stability and change, the important thing now becomes whether one sees the tension between stability and change as something that can be decided between; something that can be integrated; or something that always will exist (Smith, Lewis 2011). Arguably research within management accounting change has moved from seeing stability and change as an either/or decision into seeing it as a tension that always will be present. This development motivates the use of paradox theory in this paper. The progression will be outlined below.

Starting off with the first step in the progression, it can be argued that factor studies (Modell 2007) such as Innes and Mitchell (1990), Lawrence and Sharma (2002), and Yazdifar and Tsamenyi (2005) viewed the relation between stability and change as a dilemma as defined by Smith and Lewis (2011). The advantages of change and stability are constantly weighed against each other, and as such one can choose one or the other. Seeing new accountants as catalysts for change as in Innes and Mitchell (1990) indicates that new accountants can choose change over stability. When Yazdifar and Tsamenyi (2005) furthermore see acquisitions as a driver for management accounting change it indicates a similar reasoning – after an acquisition one can choose change. Consequently, one does not recognize an interrelatedness between stability and change. One can be chosen over the other. Hence, these studies seem to answer the question of "under what circumstances should management accounting systems change or stay the same?".

With the growth of the process-orientated approaches one however recognized that "stability and change can be simultaneously part of the same process" (Burns, Scapens 2000, p. 22). This has largely led to that one has seen it as possible to integrate stability and change. Thus one appears to answer questions such as "how can stability and change simultaneously be seen within management accounting change?". One sees the simultaneous occurrence of stability and change as a result of actors' decision to integrate the two. As such, this can be seen as a dialectic view of the tension in line with Smith and Lewis (2011). This can for example be seen in Siti-Nabiha and Scapens (2005). When these authors show that Eagle implemented the value-based management system ceremonially this can be seen as a way in which Eagle integrated the simultaneous demands for change, which came from the parent company, and stability, which came from the organization. In a similar way the loose-coupling of the budget in Nor-Aziah and Scapens (2007) can be seen as a way to integrate the demands for change that came from the corporatization process and the demands for stability that came from the operations managers. A similar integration of stability and change can be seen in Lukka (2007) and Busco et al. (2007). In Lukka (2007) the integration of stability and change came from the flexibility of the controllers and in Busco et al. (2007) the integration of stability and change came from the laissez-faire approach to management accounting change.

More recently, one can however see signs of stability and change being viewed as a paradox within previous research. In line with the reasoning of Smith and Lewis (2011) stability and change is then not something which can be integrated but something that is inherent in management accounting change and always will exist. This view can primarily be seen in the writings of van der Steen (van der Steen 2011, van der Steen 2009). In his study from 2009 van der Steen namely looked at how inertia, arguably a driver of stability, can be seen on an individual level when management accounting change occurs. He noted that one form of inertia concerned the fact that individuals interpret new rules using their existing knowledge. Arguably, since the existing knowledge always pull for stability this means that stability and change will always co-exist within management accounting change. They can thus not be integrated. The view on stability and change as a paradox became even clearer in his 2011 study. As stated above van der Steen (2011) outlined the difference between ostensive and performative aspects of routines and claimed that there is a reciprocal relationship between these two aspects, where one continuously pull towards stability and the other towards change. Remembering the definition of a paradox, the ostensive and performative aspects thus ensures that stability and change "exist simultaneously and persists over time" (Smith, Lewis 2011, p.387).

While studies have started to treat the relation between stability and change as a paradox, this has been done without using paradoxical thinking. As it would be logical to study a paradox from the perspective of paradox theory, this study intends to do just this. In order to use paradox theory, the different aspects brought up in section 2.2 becomes important to assess. Particularly it has been identified that four factors may be important to look at. These are those that Smith and Lewis (2011, p. 389) call *cognitive and behavioral drive for consistency*, *emotional anxiety*, *defensiveness*, and *acceptance*. The aspects have been identified as important since they are key determinants for whether a vicious or virtuous cycle is entered into (Smith, Lewis 2011). While acceptance may lead to virtuous cycles, a drive for consistency, emotional anxiety and defences may yield vicious cycles (Smith, Lewis 2011). Vicious or virtuous cycles was furthermore seen as critical to look at since these are the main outcomes of how one handles a paradox (Smith, Lewis 2011). As such they enable a focus on the implications of the relationship between stability and change within management accounting change. They thus allow us to answer our research question and also contribute to previous research, which largely has overlooked the implications of the relationship between stability and change.

In order to look at the implications of the relationship between stability and change in management accounting change, it is also critical to define what constitutes stability and what constitutes change of the management accounting. Here one can draw on previous research within management accounting change and look at the factors: frequency of financial reporting, content of financial reports, how financial reports are prepared, and what is used for decision-making. That the content of the financial reports is important to assess can be seen as implied in most research on management accounting change. For example, Siti-Nabiha and Scapens (2005) look at the implementation of value-based management, something which constituted new content for management accounting within Eagle. The other factors are however picked from different parts of the research outlined in section 2.1. Frequency of financial reporting is something that arguably is emphasised by Bruining et al. (2004) and Aureli (2010). Preparation of financial reports is something that for example Lukka (2007) looks at. Finally, what is used for decision-making is something that is emphasised in Siti-Nabiha and Scapens (2005), Caccia and Steccolini (2006) and Nor-Aziah and Scapens (2007). This focus on frequency, content, preparation and use for decision-making can furthermore also be seen as this paper's definition of what management accounting change is. Based on previous research, management accounting change can be seen as a change regarding frequency or content of financial reporting, how the financial reports are prepared or what information one uses for decision-making.

Based on the above reasoning, figure 1 will thus serve as the main basis for understanding the management accounting change process in FAMCO following the acquisition by PE Inc. The upper part of the framework, which has been termed *levers of change*, is used to understand what constituted stability within FAMCO and what kind of change PE Inc wanted to achieve. These levers of change are also what in our framework corresponds to what Smith and Lewis (2011, p. 389) call "factors rendering tensions salient". Using these levers will lead to that responses occur. These responses are what is captured in the middle part of the figure. This part has been labelled the *determinants of change process* as these are critical aspects for whether one enters into a vicious or virtuous cycle (Smith and Lewis, 2011). The determinants are picked from Smith and Lewis (2011). With regards to these determinants it should however be noted that what Lewis and Smith (2011, p. 389) call "cognitive and behavioral drive for consistency" has been reduced to only *behavioral drive for consistency*. This has been done due to the perceived difficulty in assessing a *cognitive* drive for consistency. Furthermore, the defences that will be used are those mentioned in Lewis (2000) and Sundaramurthy and Lewis (2003). Different kind of defences may thus include *splitting*, *regression*, *reaction formation*, *projection*, *repression* and *ambivalence* as mentioned in Lewis (2000), or *threat rigidity* and *impression management* as mentioned in Sundaramurthy and Lewis (2003). Finally, the lower part of the framework has been termed the *outcome of change*. After the change process one namely ends up with a new kind of management accounting system that can be defined in terms of frequency, content, use for decision-making and preparation.

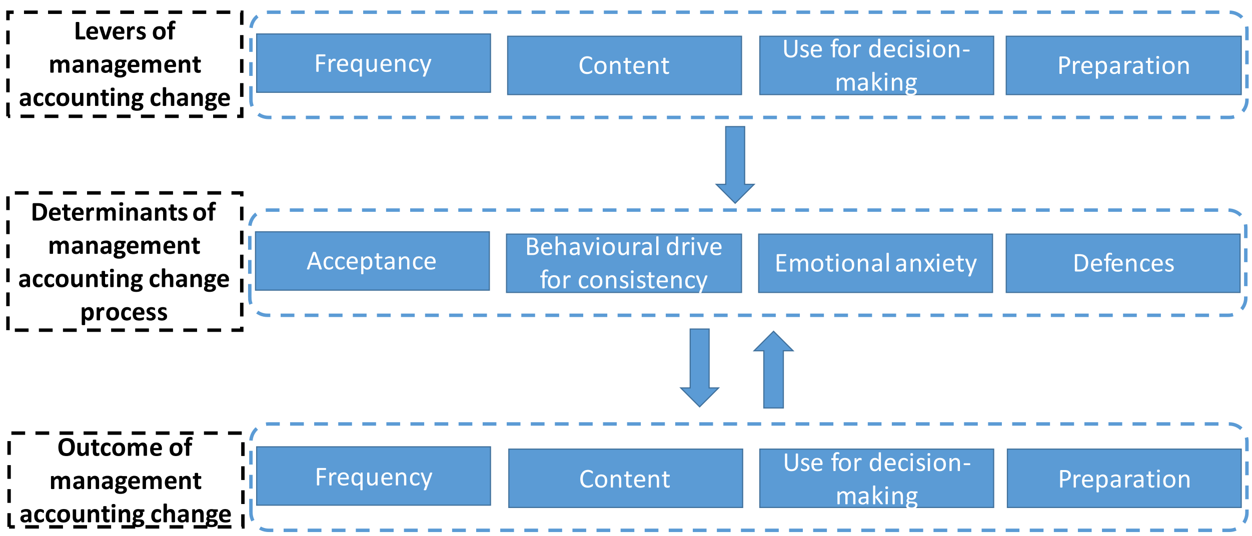

Figure 1 - Theoretical framework

Through this framework, we intend to investigate how the change process unfolded and what implications the change process had. Thus it is believed that the framework is a strong basis to stand upon for answering our two research questions:

1) What are the implications of the relationship between stability and change within management accounting change?

2) How is the management accounting change process affected by a private equity company?

3 Method

Having outlined the theoretical foundations for this paper, the different methodological considerations will now be presented. These include a description of the paper's research design in section 3.1, data collection in section 3.2 and data analysis in section 3.3.

3.1 Research design

3.1.1 The use of a single case study is appropriate given the case characteristics

As shown above, a lot of the research conducted within management accounting change has been qualitative. A qualitative research method is also what has been decided upon in this study. Following the reasoning of Edmonson and McManus (2007) this decision is appropriate as management accounting change following an acquisition has been scarcely covered by previous research. It can thus be seen as a *nascent* research area (Edmondson, McManus 2007). The use of a qualitative method is hence necessary to enable *methodological fit* (Edmondson, McManus 2007). Concerning what qualitative method to use one can in previous research find arguments both for the use of multiple case studies and single case studies. While Eisenhardt (1989) and Yin (2014) primarily argue for the use of multiple case studies, Dyer and Wilkins (1991) believe that single case studies are superior as they enable depth. This is supported by Dubois and Gadde (2002) who, concerning using multiple case studies when studying complexity, argues that "it is difficult to comprehend how a little depth and a little width could contribute to the analysis of any problem" (Dubois, Gadde 2002, p. 558). In this paper a single case study has been decided upon. This is due to two main reasons. Firstly, since case studies arguably are used to create generalization on a theoretical and not statistical level (Dubois, Gadde 2002, Scapens 1990), depth can be seen as highly relevant and it is thus something we want to ensure. Following the reasoning of Ahrens and Dent (1998) we feared that a multiple case-study primarily would yield breadth instead of depth given the time period for the project. Secondly, the case accessed has attributes where it seems to be consensus on that a single case study is appropriate. This consensus can be illustrated by the fact that also proponents of multiple case studies see these attributes as appropriate for single case studies. Yin (2014) namely mentions revelatory and longitudinal cases as two of five occasions where it may be appropriate to use a single case study. Our case has both of these attributes. It is longitudinal (Yin 2014) since we cover a management accounting change process from 2011 to 2014. Furthermore, it can, in line with the reasoning of Yin (2014), be seen as revelatory as we have obtained access to a portfolio company that a private equity company largely has struggled with. This we believe is something which has previously been hard for researchers to access.

3.1.2 The case company was selected using a pragmatic and theoretical approach

While the access thus was a key reason for doing a single case study, it was also a reason for our choice of research site. Since access could be ensured to PE Inc and FAMCO, this was seen as an appropriate research site. This pragmatic line of reasoning is supported by previous research. Scapens (1990, p. 273) for example argues that "the selection of the particular case for study is relatively unimportant. What is needed is a case within the relevant area which will enable the researcher to begin the process of theory development". However, our choice of research site should not only be seen as a pragmatic decision. It can also be supported on theoretical grounds. Maxwell (2013) namely argues that "the feasibility of access and data collection" (Maxwell 2013, p.99) should be taken into account when selecting research site. Our case selection has thus been guided by what Maxwell (2013) call *purposeful selection*, which means that "particular settings, persons, or activities are selected deliberately to provide information that is particularly relevant to your questions and goals, and that can't be gotten as well from other choices" (Maxwell 2013, p. 97). Since our case study concerns a situation where the private equity company tried to achieve a lot of change after the acquisition, it can be argued to "provide information that is particularly relevant" (Maxwell 2013, p. 97) to both the paradox between stability and change and management accounting change following an acquisition. As such, purposeful selection (Maxwell 2013) should be seen as an appropriate way to select research site in this case.

3.1.3 Interviews and internal documents are the main sources of data

As stated by Dyer and Wilkins (1991) a key aspect of single case studies is depth. In order to ensure that depth is reached in the current study it was decided that different sources of data should be used. According to Maxwell (2013), though multiple methods of data collection enables triangulation and the possibility to see new aspects of an issue, the aim with it "is to gain a greater depth of understanding rather than simply greater breadth or confirmation of the results of a single method" (Maxwell 2013, p. 104). This reasoning is further supported by Dubois and Gadde (2002) who argue that several data sources should be used to find new aspects on one's research and not to triangulate. To obtain the benefits claimed by Dyer and Wilkins (1991) it can thus be seen as necessary to use data collected in different ways. We therefore decided to use both interviews and internal documents as forms of data.

3.1.4 The work of Dubois and Gadde (2002) guides the research

In order to connect theory with empirics and the empirics with theory it was decided that *systematic combining*, as outlined by Dubois and Gadde (2002), would be the main approach followed in this study. The main aspects of this approach is that one continuously moves between theory and reality in order to ensure that these two aspects match (Dubois, Gadde 2002). Furthermore, the case study continuously develops as one discovers new things, and consequently the approach is abductive rather than inductive or deductive (Dubois, Gadde 2002). This approach was chosen due to three main reasons. First, it was seen as appropriate since it enables one to handle "...the interrelatedness of the various elements in the research work" (Dubois, Gadde 2002, p.555). Second, it was seen as appropriate since it suits the fact that our research field is *nascent* (Edmondson, McManus 2007). Within nascent theory (Edmondson, McManus 2007), the research process namely reminds of systematic combining as explained by Dubois and Gadde (2002).

"..instead of a sequential process in which hypotheses are formed and data are collected and then analyzed, data analyses often alternate and iterate with the data collection process" (Edmondson, McManus 2007, p.1163).

Thirdly, since this paper concerns the theoretical confusion around stability and change, it was considered appropriate to be able to jump back and forth between theory and empirics to calibrate our analytical framework and ensure that the theoretical part of our study match the empirical part. During the interview process, the use of systematic combining (Dubois, Gadde 2002) proved particularly useful when surprises were uncovered. Two main surprises were seen. The first one of these concerned the limited resistance that initially had been shown by FAMCO as PE Inc tried to implement a new management accounting system. This limited initial resistance was seen as puzzling since resistance arguably is a topic that previous research within management accounting change is focused on. Current theories within management accounting change thus appeared to have difficulties in explaining the empirics in our case. Paradox theory, with its focus on *emotional anxiety* (Smith, Lewis 2011), was however able to explain the situation. This for example became clear when interviewing the production leader, who arguably was heavily impacted by the new owner. He made it clear that he actually preferred the structure, that the new owner brought, over the way the family had run the business. He however also made it clear that people in the organization were afraid of what would happen to the business following the takeover, fearing that it would be moved or shut down. A similar reasoning was provided when interviewing the former CEO. He strongly argued for the fact that the organization was positive to the changes that one tried to implement. The second surprise concerned the significant amount of resources that was deployed into FAMCO following the takeover. This was seen as surprising since it had been expected that resources would be a key difference between a corporate acquirer and a private equity company. Thus it had been expected that PE Inc would use a limited amount of resources in helping the newly-acquired company following the acquisition. Now it was instead seen that a significant amount of money was spent, for example on consultants, following the acquisition. But due to this use of resources, changes were also expected to come quickly, something that heavily impacted the change process.

3.2 Data collection

3.2.1 In-depth interviews were conducted with 17 different people

During the data collection process a total of 18 in-depth, semi-structured interviews were conducted with 17 different interviewees. The interviews lasted between 30 and 80 minutes and were conducted in Stockholm, Ronneby, Karlskrona and Karlshamn between September and November 2016. The relatively long period of conducting interviews was seen as appropriate given the use of systematic combining (Dubois, Gadde 2002). It gave the authors time to discuss what had appeared in the interviews and think about how this impacted the appropriateness of the theory. As the theoretical framework was fine-tuned, the interview questions were updated in order to dig deeper into the concepts seen. This constant updating of interview questions was considered to be in line with the more subjectivist approaches as outlined by Morgan and Smircich (1980). Additional interviews were made to ensure depth in the study and not to triangulate findings and move towards an objective truth. While the first interviews focused on general characteristics of management accounting within FAMCO, the later interviews focused more and more on understanding the problems that prevailed within direct material reporting in the monthly financial statements. Initially it had for example been seen as unnecessary to interview the former production manager. However, it was recognized later that he was critical to interview due to his role in the development of the theoretical product costing calculations. Thus depth was ensured.

As can be seen, the selection of interviewees was therefore based on *purposeful selection* (Maxwell 2013) and by asking interviewees for suggestions on who to interview next. Roughly half of the interviewees were chosen in accordance with the first method and half with the second. By combining these two methods it was believed that the most relevant people for our case study were interviewed. The interviewees held various positions at both FAMCO, PE Inc and external companies. Interviews have for example been made with the former CEOs, CFOs, the former chairman of the board of directors, a production manager, an industrial designer as well as with partners and investment professionals at PE Inc. A comprehensive list of all interviews can be found in the appendix, including date and length of each interview.

Purposeful selection (Maxwell 2013) of interview objects was enabled by one author's experience from working several years in the private equity industry. During interviews this experience proved helpful as trust had already been built with many of the interview objects. As such, it is believed that a greater portion of the interview time could be spent discussing issues with relevance to our study. The author's connection to the private equity industry was however also seen as a risk, especially when interviewing current and former employees of FAMCO. Potentially these would fear that things they said would be shared with PE Inc, and therefore they would not provide truthful answers to questions posed. In order to minimize this risk, it was clearly stated before every interview that the thesis was not guided by PE Inc, that the content was strictly decided upon by the authors and that everything would be anonymized.

Regarding the formalities of the data collection, all interviews were conducted in Swedish since this was the native language of everyone involved. Furthermore, the interviews were recorded, as approved by the interviewees, and later transcribed. In line with Merriam (1994) recording and transcribing was seen as important for the subsequent analysis process as it ensured that everything being said during the interviews could be used for analysis. Both interview recordings and the transcribed documents were stored on a shared server that both authors could access.

3.2.2 Access was obtained to internal documents

In obtaining access to internal documents, one author's experience from working several years in the private equity industry once again proved useful as the close relationship he had with PE Inc enabled access to internal servers regarding the FAMCO investment. As such we obtained a similar type of freedom as experienced by Stergiou et al. (2013). The internal documents partly enabled the authors to gain an understanding of the situation before interviews were conducted. But focusing on ensuring depth, the documents were also used to obtain further understanding of aspects brought up by interviewees. Some of the documents were also discussed and clarified during interviews. Despite of a wide range of documents accessed, the main documents used for analysis were the investment memorandum, monthly financial reports, and relevant consulting reports. Internal emails were also analysed to some extent.

3.3 Data analysis

As stated in the data collection section, all interviews were recorded, transcribed and saved together with the transcribed documents on a server that could be accessed by both authors. In order to analyse these documents both authors read them and together mapped different quotes into an excel sheet. The excel sheet was organized in line with what Maxwell (2013) call categorizing strategies, and therefore included different tabs for what he terms organizational-, substantive- and theoretical categories. As suggested by Maxwell (2013), the organizational categories were decided upon before the interviews. The broad groupings "before acquisition" and "after acquisition" was used as a first step to categorize the different quotes found when reading through the transcribed documents. As oppose to the organizational categories, the substantive categories and the theoretical categories however emerged following the interviews (Maxwell 2013). Substantive categories are largely used to find similarities between what the interview objects have said (Maxwell 2013) and the theoretical categories map "the coded data into a more general or abstract framework" (Maxwell 2013, p. 108). It was thus within this latter category that we had the most use for *systematic combining* (Dubois, Gadde 2002). When realising that paradox theory would be appropriate for our case, we started to map different aspects of this theory into the tab for theoretical categories (Maxwell 2013). We did this in order to know what parts of paradox theory to focus on. Therefore, one can say that even when the main theory had been decided upon, systematic combining (Dubois, Gadde 2002) was used to know what parts of the theory that would be most relevant to our case. For example, we initially only focused on the different defences explained in Lewis (2000). Here we saw that they could explain a lot of the behaviour mentioned by interviewees. They could however not explain all of the actions taken by individuals to meet PE Inc's demands for financial reporting. The most visible example that the defences in Lewis (2000) was unable to explain was the budgeting process in 2012. Here the CEO forecasted a slight increase in sales and demanded that the sellers too would arrive at this number. *Impression management* as mentioned by Sundaramurthy and Lewis (2003) could however explain this behaviour. Hence it was included as a theoretical category (Maxwell 2013). When doing this it was also noted that this concept could explain other aspects in the empirics such as the constantly increasing length of the monthly financial reports. Thus, even when we had decided upon a main theory, we jumped between theory and data to know what parts of paradox theory to focus on.

Simultaneously with the process above, we wrote memos on thoughts and ideas to ensure that nothing would be lost on the way. This is something that also is stressed by Maxwell (2013). The memos consisted of different documents saved on a shared server and that thus could be accessed by both authors. The memos proved especially useful when going through the large amount of internal documents we had access to. As these were unsuitable for the above mentioned excel sheet-analysis we instead wrote what we found from these immediately in the memos.

Since we looked at a process of management accounting change we also took note of the analytical methods suggested by Langley (1999). Given our use of a single case study we identified what she calls *narrative strategy* as particularly useful, and therefore constantly focused on making sense of the data by creating a story. While this often is a first step of making sense of the data (Langley 1999), we used it as an integral part of our analysis in order to move from memos and excel sheet tabs into an understandable case study for the reader. This was considered appropriate given the fact that our research is within a nascent field where "effective papers present a strong, well-written story to make sense of compelling field data" (Edmondson, McManus 2007, p. 1163).

4 Empirics

4.1 Background - stability within FAMCO and the change PE Inc wanted to achieve

FAMCO is a Swedish-based engineering company with headquarters in the southern parts of the country. The company was founded in 1959 and managed by the founding family up until 2011 when the company was acquired by PE Inc. At this time FAMCO also acquired a smaller entity, via a share issue in kind, in order to complement its product offering. As a consequence, the entity now became Sweden's largest company within its niche with total sales of more than SEK 300 million.

Before the acquisition by PE Inc FAMCO's operations had been concentrated around the founding family. This concentration meant that decisions were made by a few trusted individuals. The organization at large had limited knowledge about how the company performed. This was instead considered the sole interest of the founder, his wife and their oldest son. These people's deep involvement in the company, active interaction with employees and long experience of running the business enabled them to manage the company without many management accounting tools. In terms of content and frequency of management accounting the company only prepared one type of report on a monthly basis. This was a sales report including the difference between receivables and payables as a proxy for liquidity. Comprehensive financial reports were created semi-annually, and due to the lack of systems, the preparation of these was largely a manual process. The limited use of financial reporting and management accounting meant that experience was the main tool for running the business and making decisions. The CEO and sales staff set prices according to rules of thumb, decisions on investments and product development projects were taken based on customer wishes and available cash. Emphasizing the importance of the customers furthermore meant that customization was the focus of production. Customers could decide to have almost whatever they wanted in their products. Regardless of how much stress this put on the organisation, it was up to production to make sure the customer got what it wanted.

"The customer could get almost any fabric he wanted, and then we had to order it from England. Sometimes we had to order 200 meters [of fabric]. But if the customer only wanted 10 [units] we would get almost 100 meters over."

- Production leader, FAMCO

As indicated by the above quote, the clear focus on customers had resulted in that many other parts of the business had been neglected. For one, production was largely manual and a systematic thinking in terms of line production or warehouse management was absent. Each product was produced in one spot in the work-shop and workers had to walk from the product and into the warehouse to collect parts. While this arguably resulted in low efficiency in production, follow-up of efficiency was non-existing. No measurement of direct material or direct labour was carried out, and FAMCO did not have a system for keeping track of its inventory. As a result of this the company had little knowledge about how the business went before one prepared the semi-annual financial reports.

When PE Inc took over the company it saw all of these inefficiencies as a reason for doing the investment.

"If you are this bad and still have liquidity, then there is only upside. We perceived the running business to be the low case. It was really low, low case. There is a base case that's better. And there is an upside case that is absolutely even better"

- Former Associate PE Inc

In order to come to the base case, PE Inc had identified a large number of improvements for the company during the due diligence process. In total, 75 different activities were to be undertaken until 2015, when the business was to be exited at an assumed IRR of 50 %. The different activities included re-organization of the company, installing a new management team, re-organizing production and initiating competitive purchasing. Most of the initiatives had both deadlines and targets. One had for example, with the help of consultants, calculated that FAMCO could save 10 % of its production time in 2012 just by introducing a production line and an additional SEK 14 million by introducing competitive purchasing. No major investments were perceived to be needed.

Management accounting in the form of monthly financial reporting was expected to serve a critical role to follow these change initiatives. PE Inc intended to change financial reporting in terms of three aspects: frequency of reporting, content of reports, and the use of reports in decision-making. One wanted monthly financial reports at least consisting of income statement, balance sheet and cash flow statement. This was urgent to put in place as the reporting was needed for PE Inc and the board of directors to follow-up the development in FAMCO and make decisions. In the 100-day plan one had therefore stipulated that tools and routines for reporting would be in place within six weeks; that the internal reporting and reporting to the board of directors would be defined within three weeks; and that product costing models would be defined within four weeks and completed within eleven.

"For us as an external owner it [the monthly financial reporting] is normally a first hygiene requirement so we can have continuous control of what is going on"

- Partner B, PE Inc

A lot of change therefore needed to occur quickly within FAMCO. One was to move from the stability of preparing financial reports twice a year and basing decisions on experience and gut feeling into preparing comprehensive financial reports every month and basing decisions on data and data-driven analysis. PE Inc had demands on decision-making, content and frequency of reporting. Little focus was however on how the management accounting numbers were prepared. Output was what mattered.

"We expect that there are people capable of delivering those kind of things [financial statements] and if there aren't they will have to deal with it."

- Partner A, PE Inc

The process of changing the management accounting within FAMCO was to become much more difficult than initially anticipated by PE Inc.

4.2 Phase 1: PE Inc takes over FAMCO and initiates its change agenda

Immediately following takeover PE Inc started to focus on its change agenda. With an expected holding period of around four years, no time could be lost. Already before the closing of the deal a temporary CEO had been recruited. His mission was now to implement the 100-day plan and its requirement for monthly financial reporting to PE Inc and the board of directors. When the new demands for frequency and content came, the management accounting change paradox between stability and change quickly became *salient* (Smith, Lewis 2011) for the actors of the organization.

"It was an extremely large change for everyone that had worked under a family with completely different requirements and that did not have the focus on keeping track of results every month"

- Controller, FAMCO

PE Inc did not however have much choice but to push the organization towards quickly implementing reporting of financial statements. Due to the use of leverage to finance the deal, the bank was namely also keen for change to occur quickly. One had given the company five months to put reporting in place as one wanted to see how the company performed against the covenants set up. Given the use of EBITDA to net debt and cash flow after investments to interest payments as covenants, income statement, balance sheet and cash flow statement was required. A significant amount of consultants was brought in to help the company prepare these more extensive reports.

"There ran around a lot of elves in suit and tie. That's what we saw, but nobody understood what they did. There was no information, and they failed to create an understanding [for why the consultants were at the company]. It just ran around a lot of elves in suit and tie."

- Industrial designer, FAMCO

Despite being brought in to help, the consultants were thus largely seen as strangers, and spread uncertainty in the organization. People became aware of that a lot of change would occur but did not know how it would impact them. Fear, speculation and uncertainty therefore permeated the daily life of the workers following the acquisition. This *emotional anxiety* (Smith, Lewis 2011) meant that rumours started to float.

"The nervousness for a long time in the beginning about where we are going. 'We are going to be sold abroad', 'we are going to be shut down', and all of that"

- Industrial designer, FAMCO

The consultants set to work had been given the task of helping the company in preparing the monthly financial reports, with specific tasks such as working with product costing and the implementation of various reporting routines. The purpose was to give the board of directors a picture of product profitability, and its development over time. This would be an important part of the content in the monthly financial reports, both as a tool of controlling the development of different segments and as a tool for decision-making. Consequently, it would also serve as a critical tool for follow-up of cost reductions and efficiency improvements identified in the due diligence. During this process the absence of efficiency reporting and data driven analysis under family-ownership however revealed itself. The numbers demanded from the consultants did not exist, and as such the organization had no choice but to estimate them. A production leader was for example asked to give the consultants numbers on how long it took to produce various products in 2008, 2009 and 2010 respectively. Not having numbers on this he looked at how long time it took today and modelled a slight improvement over time. People in the organization thus seemed to recognize the shortcomings of how the previous owner had run the business and were now willing to change, but they had difficulties in knowing how to change.

"All these consultants that were brought in and all demands that came. They [PE Inc and the consultants] took for granted that people were going to do certain things that they had never done before and maybe didn't have competence or knowledge for."

- Current CFO, FAMCO

Despite of the difficulty to obtain data, the first monthly financial report was delivered to PE Inc already in September 2011. In terms of content the report included an income statement for the month on group level. It however lacked cash flows statement, balance sheet and details about sales and expenses per segment. Just as a lot of the other data obtained, the income statement included had largely been based on estimation. For example: to obtain direct material, FAMCO knew its purchases but had to estimate the change in inventory.

"The CFO at the time went a lap around the courtyard. He had an excellent feeling for the company. So he was the one who had everything in his head, his experiences and his knowledge. So he went a lap... 'hmm... the inventory is this big'. That was how he assessed it"

- Current CFO, FAMCO

In response to the new demands for frequency and content the organization had thus gone back to what it was used to and what had worked in the past. One based everything on experience and gut-feeling. Hence, the push for change was met with *regression* (Lewis 2000). Noticing the low reliability of the financial numbers, PE Inc however put additional pressure on the temporary CEO. When trying to explain the difficulties for the company in obtaining the material the board of directors wanted, he was however largely met with further push for change. "This is not a management meeting; it is a board meeting" they scorned.

During this initial period, it could also be seen that PE Inc was focused on time. A former associate at PE Inc commented:

"And there people say 'we cannot measure the inventory. Then we need an ERP system' or 'we must have bar codes so we can scan things'. And then you know that that process takes three years. We don't have that time. Then it is better to just say 'OK, estimate so we get it 80 % right so we can make decisions'"

- Former Associate, PE Inc

4.3 Phase 2: Monthly financial reporting creates strained relationship between the board and management

By the end of 2011, the board of directors found a permanent CEO that started at FAMCO in January 2012. The man recruited for the job came from previous management positions in large Swedish engineering groups. Following his appointment, he inherited the list of activities that had been established by PE Inc and was therefore expected to continue the change process initiated under the temporary CEO. The new CEO immediately started to focus on the monthly financial reporting to the board and PE Inc. A change in content could immediately be seen as the new CEO changed the layout of the report and included more details about market developments and comments by business unit. The report increased in size from three to six pages. Balance sheets and cash flow statements were now included in the reports each quarter.

Coming from large engineering groups, the CEO recognized the importance of being data driven. Under the slogan *"know your numbers"* he therefore implemented initiatives to improve the quality of the monthly financial reports during the spring of 2012. One notable change included the implementation of improved product costing calculations, which thus impacted the preparation of the monthly financial reports. No longer was direct material going to be based on estimation, one was going to calculate it. Initially the CEO himself led the work on product costing calculations, but later he handed it over to the production manager. With the support of a production leader and the logistics manager the production manager started to look historically at what had been sold and tried to group products into different base products to find the average material consumption for these different base products. By knowing what different base products FAMCO had sold in a month one could then calculate the average material consumption. The distribution between the different base products became known as the product mix, and based on this product mix material consumption was assessed. Instead of the former CFO going around and estimating the inventory and hence arriving at the material consumption, the process for following inventory and thus calculating direct material in a month was now significantly more rigorous. When articles were bought purchasers or someone from the finance department added articles into a system. At the end of the month the production manager then reduced articles in line with production. The withdrawal of articles built on the product mix in the month and the believed material consumption given this mix. The amount of inventory and the cost for direct material in the monthly financial reports were thus largely theoretical and calculated manually based on experience. Once again *regression* (Lewis 2000) had thus occurred regarding preparation. It would later be shown that this way of thinking about material consumption would cost the company dearly. The calculations made theoretical but not practical sense.

Despite the organization's work with improving the quality of the financial numbers, PE Inc and the board of directors still perceived the reporting to be of low quality with profitability of the different segments varying significantly from month to month.

> *"Every meeting it was like 'we need to change this and look at different things and improve the reporting'. So it was an ongoing process to continue to improve the reporting"*
>
> \- Investment manager, PE Inc

According to partner A at PE Inc it had however still not dawned on them exactly how poor the numbers actually were. But the reaction at this point was still to put more and more pressure on the organization to quickly deliver qualitative financial numbers. If this could not be done, PE Inc could not analyse the business and drive value creation. Already before the acquisition, PE Inc had a clear plan for what to do with FAMCO and it needed measures to follow up on this plan and, potentially, re-evaluate it. One perceived the monthly financial statements to lack the quality needed to act as a basis for decision-making. The management of FAMCO however started to see PE Inc's demands as unrealistic.

> *"There was a very large gap between PE Inc's perception of the business and the status the business actually had. […] PE Inc was not interested in the improvements we did to obtain control of these things"*
>
> \- Former CEO, FAMCO

> *"I think they [PE Inc] for a very long time had the feeling that 'this is simple. You just have to press the button and it [the report] will come out'"*
>
> \- Current CFO, FAMCO

As management became frustrated with PE Inc's limited understanding for how difficult it was to drive the changes in management accounting, PE Inc too became frustrated. Not only did it take time for the company to come up with qualitative financial reports, but management also spent too much effort on it.

> *"The CEO spent too much time trying to understand the numbers, which he did not understand"*
>
> \- Partner B, PE Inc

> *"And then he [the CEO] sits there himself and fiddles with everything between heaven and earth and digs down in the details. So you have a CEO for a relatively large company that sits and*

finesses in a product costing calculation. By doing that he reinforces the old behaviour that 'we who work in the middle of the organization, what we do the boss will anyhow sort out, and thus we can skip doing it'"

- Former Chairman of the Board, FAMCO

Splitting (Lewis 2000) between the Board of Directors and the management at FAMCO therefore started to be seen. Board-management cooperation deteriorated and an us-vs-them rhetoric started to emerge. As time progressed the monthly financial reports were however continuously developed in terms of content. In the end of 2012 the company managed to include income statement, balance sheet, cash flow statement and liquidity forecast on a monthly basis. One had also recruited a new CFO and stated in the monthly financial report for October that the system for keeping track of the inventory worked well. As of December 2012 the monthly financial report consisted of 21 pages. In one year FAMCO had therefore seen a sevenfold increase in the length of the monthly financial reports, indicating that management wanted to show that they had control of the situation and could answer the questions they thought PE Inc might have. During this period the business had namely started to diverge from the budget set by PE Inc. Both in terms of profitability and revenue growth FAMCO performed under expectations. Following write-downs of inventory, EBITA for the period came in at SEK –4.1m. All of this put further requirements on management to report to PE Inc. At the same time, the clock was ticking.

4.4 Phase 3: The business develops poorly and monthly financial reporting takes up a significant amount of management's time

In the end of 2012 the CEO had put together a budget for 2013. By raising the price per unit he expected sales to increase by 3.3 % to slightly over SEK 300 million and the EBITA-margin to go from 1 % to 7 %. Though this was significantly lower than the revenue of SEK 500 million that had been estimated in PE Inc's investment memorandum, it was still considered a stretched target at this point. Even though representatives from PE Inc questioned the budget, seeing it as too stretched, the CEO was determined. He wanted to take the company back on track and told the board the target would certainly be met. In retrospect it appears he might have been the only one who thought so. Just as the constantly increasing length of the monthly financial reports this could be seen as constituting *impression management* (Sundaramurthy, Lewis 2003).

"One tried to do a budget with the sellers, but they did not come up in [SEK] 300 million. Far from it. They did not see the reasonableness in it. But then it was only 'you have to do this again. It is

supposed to say 300 million here'. So it did not become a budget that was anchored. It was done up here. A paper product really."

- Current CFO, FAMCO

When the year started it was immediately seen that it would be difficult to reach the budgeted figures. Already in January revenues were 50 % below budget. But it was believed that the volumes would catch up later in the year. Still seeing the numbers as shaky, PE Inc continued to push for the reporting they wanted. The new CFO, who started in November 2012, commented:

"We were required to deliver comprehensive financial statements as if we were fully up and running. But the basics in the form of an ERP system, information for calculations and competency among personnel did not follow. And still we were expected to deliver."

- Former CFO, FAMCO

The constant drive for better financial reporting forced management to continuously focus on this topic. When the board thought things did not change quickly enough, both the CEO and the CFO had to spend a lot of time working on the monthly financial reporting and could hence spend less and less time with the business. The CEO largely became detached from the organization, which instead lived its own life.

Sales in certain segments continued to focus on customization. This customization led to frustration in production, and put pressure on the product costing calculations that were based on a set of base products and hence assumed standardization. With little time to spend on ensuring that workers followed their routines, assemblers had also reverted to their old ways of doing things. When customized products were to be built, the assemblers did not report the diverging material consumption that followed. Instead they walked into the warehouse and simply took the components they needed, just as they had always done.

"It was quite a lot of resistance against change. It became quite many informal groups. People continued as before. They did more or less the same job that they had always done and then they did not care about what large projects the management had going on"

- Former CFO, FAMCO

Despite working hard towards the budget, the budgeted increase in sales did not materialize and as of May, management had to withdraw from the initial budget, both in terms of sales and EBITA, and make a new forecast for 2013. This was a process that would be repeated later during the year.

"The board of directors lost faith in us when the results became worse. And they felt that things did not occur fast enough"

- Former CFO, FAMCO

The perceived loss of faith led to a further deterioration in the board-management relationship, and reinforced the us-vs-them-mentality, also referred to as *splitting* in Lewis (2000). This for example became obvious when PE Inc, in the spring of 2013, purchased a market analysis from a consulting firm as one felt that management could not give a sufficient explanation for the low sales figure. Since the due diligence had shown significant potential for growth, PE Inc wanted to understand why growth never materialized. The use of consultants was however resisted by the CEO, who thought that the company would manage to do a market analysis and develop a strategy on its own. At one point the CEO even cancelled the consultants, but following a reprimand from Partner A at PE Inc, he was forced to hire them again.

"The tighter the situation got, the more he [the CEO] tried to protect himself from the board rather than seeing the board as a resource."

- Former Chairman of the board, FAMCO

"He [the CEO] did the best he could, absolutely. And it was never the case that he blamed someone else internally before the board. He wanted to keep a united front, and stick together, 'we against them' kind of."

- Former CFO, FAMCO

Despite the large amount of resources deployed in understanding the market, sales lagged behind the forecast made in May and FAMCO had to revise that forecast downwards three more times during the year. At the same time staff in leading positions, as well as in the finance function, noticed the CEO sitting more and more for himself and focusing on reporting to the board. The monthly financial reporting continued to develop in terms of content and increase in length. By October the monthly financial report reached 45 pages. In less than two years the length of the report had thus increased fifteen fold and a lot of new content, e.g. market and segment descriptions, had been included.

In the last months of 2013 FAMCO's sales collapsed and staff lay-offs were initiated. Two and a half years into the holding period sales had decreased from SEK 300 million in 2011 to SEK 230 million in 2013. In addition to this, when the books were being closed for 2013 it was shown that the inventory was significantly less than previously reported. Something had gone awfully wrong in the monthly financial reporting of direct material and it now turned out that the EBITA for 2013 was SEK –22 million. The budgeted number for the year had been SEK 21 million.

The write-down of inventory came as a complete surprise both for management, the board of directors and PE Inc. Following the disappointing sales development, one had prepared for a poor result, but not for a catastrophic one like this. Before the write-down management had started to feel in control of the situation, and comfortable with the numbers presented. This perception was now completely casted aside and chaos followed. Stock-taking was done at least two times to ensure that the write down was not due to miscalculations; the CFO resigned but was forced by the chairman of the board to continue; and one even started to speculate that someone must have stolen from the inventory. What was seen as a surprise by management and the board of directors was however not so surprising for others.

"Yes [we knew that the numbers were wrong], but we were on a too low level in the organization. I was completely ignored until the last week when he [the production manager] came to me and asked what had gone wrong in his matrix."

- Industrial designer, FAMCO

"It should not have been surprising at that point that it [the write-down] came, because you should have seen it on the gross margin. I did that with a quite simple analysis and noticed that it seemed to be the case. It looked very weird at least. But they had arguments for why. 'yes, but we have raised prices', and 'we have a better business' and so on"

- Auditor, Big Four Company

In order to resolve all issues concerning the write-down PE Inc involved a forensic group from one of the big auditing firms. This group concluded that the main source of the write-down was that the company had calculated with a too low use of material. As such both the gross margin and the inventory had been too high in the monthly financial reporting, especially in October, November and December. It now became clear that the push for change had failed. Over a two-and-a-half-year period, PE Inc had not managed to obtain a monthly financial reporting that served its information needs. Although the first monthly financial report had been delivered already in September 2011, and reporting had been a key focus area in the 100-day plan one still did not manage to report correct numbers. Both the frequency and content of the monthly financial reports had changed, but the reports could still not be used for decision-making. What needed to be in place quickly had taken more than two and a half years to implement. To PE Inc this was shocking.

"This was fun to tell you about. It is somewhat therapeutic to try to understand what has happened, because it is so damn strange"

- Partner A, PE Inc

4.5 Overview of empirics

When looking at the empirics from the theoretical framework outlined in section 2.3 it can be seen that PE Inc immediately following the acquisition set out to change the management accounting in terms of content and frequency. Thus the paradox between stability and change became *salient* (Smith, Lewis 2011) and triggered responses from different actors. Seeing the reporting they wanted as a hygiene factor, PE Inc clearly showed a *behavioral drive for consistency* (Smith, Lewis 2011). A strict focus on change, combined with emotional anxiety, appears to have resulted in different kinds of *defences* (Lewis 2000) in response to the implementation of monthly financial reporting.

These responses impacted how the monthly financial reporting developed. For example, as the former CFO had to handle the paradox between stability and change he used *regression* (Lewis 2000) and estimated the material consumption based on his gut-feeling and experience. This was done so that FAMCO would be able to give a monthly financial report to PE Inc. The defence thus impacted preparation. In the second period *regression* (Lewis 2000) once again impacted preparation as the production leader and CEO based product costing calculations on theoretical reasoning and experience of staff. Alongside this, *impression management* (Sundaramurthy, Lewis 2003) constantly impacted the content of the monthly financial report as one started to include more and more things in order to please the board and PE Inc. From the beginning of 2012 until the end of 2013, the monthly financial reports increased from three to 45 pages, indicating a significant change in the content of them. There thus seemed to be an interrelatedness between the different aspects of management accounting change. PE Inc's demand for frequency and content also put new demands on FAMCO in terms of preparation of the monthly financial reports.

The implication of the management accounting change process was therefore that PE Inc and FAMCO from the time of the acquisition until the write-down of inventory in the beginning of 2014 appeared to be stuck in a *vicious cycle* (Smith, Lewis 2011). This cycle seems to have been initiated by a push for consistent change from PE Inc. Due to the fact that change had to occur quickly, organizational actors went back to what they were used to and what had worked in the past. Since this did not create the change PE Inc had in mind they became frustrated and pushed harder, which resulted in *splitting* (Lewis 2000) and an us-vs-them situation both between themselves and management and between management and the rest of FAMCO. With the reprimands from the board, management felt a need to regain the lost trust and hence started to provide longer and more detailed monthly financial reports. As the reports did not become more qualitative they still did not meet PE Inc's hygiene requirements. Management thus became more and more focused on reporting. Hence they did not have time to focus on other internal aspects in the organization. For example, they could not ensure that the internal reporting routines were followed by assemblers. The organization at large had thus gone back to its old ways of doing things. When customized products were produced, assemblers did not report the additional material that had been used compared to the product costing calculations. Ultimately this resulted in an unexpected write-down of inventory. Hence, monthly financial reporting had increased in content and consumed a large part of management's time, but at the same time management had lost touch with the same organization it was supposed to report the development of. Just as in Lewis and Sundaramurthy (2003) this ultimately resulted in *failure*.

5 Analysis

With the aim of comparing, contrasting and going beyond previous research, the focus will now shift slightly. Instead of explaining the empirics, the focus will now be on gaining new insights into the field of management accounting change. In order to enable clear contributions, the analysis will be structured around the two gaps illustrated in section 2.1.5. Firstly, an updated version of the theoretical framework will however be outlined. This will be done in section 5.1. After this, section 5.2 will regard the first gap seen in previous research and thus discuss management accounting change following an acquisition. The third section, 5.3, will regard the conceptualization of stability and change. In both of these latter sections connections to previous research as well as new contributions are provided. Through this we intend to explore the overall research questions of our study:

1) What are the implications of the relationship between stability and change within management accounting change?

2) How is the management accounting change process affected by a private equity company?

5.1 Revision of the theoretical framework

As seen in section 4, the theoretical framework used in this paper proved fruitful in explaining what occurred over the two-year period following PE Inc's acquisition of FAMCO. By having four clear categories that defined management accounting change, the framework facilitated a structured assessment of what PE Inc wanted to change, but also what it did not manage to change. While the different aspects of management accounting change in the original framework, based on previous research, was seen as four independent levers (Siti-Nabiha, Scapens 2005, Nor-Aziah, Scapens 2007, Lukka 2007, Aureli 2010, Bruining, Bonnet & Wright 2004, Caccia, Steccolini 2006), this case study has however shown that they rather should be seen as highly interdependent. When one lever is used, for example frequency of financial reporting, this can be seen as making the tension between stability and change apparent in terms of the entire management accounting system. If not handled well, defences (Lewis 2000) may then impact any part of the management accounting system, for example preparation or content as was noted above. As such, through the determinants of the change process all the elements of management accounting change become interrelated. Frequency may impact preparation. Preparation may impact use for decision-making. And use for decision-making may impact content. As all of the elements are interrelated in terms of outcome, this must also be understood when using the different levers of change. In order to have sound expectations on the change process one has to understand that all levers are affected by changing one lever. This may arguably make it easier to accept the paradox and thus initiate a *virtuous cycle* (Smith, Lewis 2011). In this case study, PE Inc wanted to use the monthly financial reports for decision-making and, hence, tried to change the content and frequency of reporting. However, this put large demands on the preparation of financial reports, something that was not understood by PE Inc. While PE Inc thought the change would be a small one, finalized by a simple push of a button as indicated by the quote from the current CFO at FAMCO, it was perceived as large by staff within the acquired company. Based on this reasoning an updated version of the theoretical framework can be suggested for future research. Research ought to investigate management accounting change based on the notion that there is an interdependence between the levers of change.

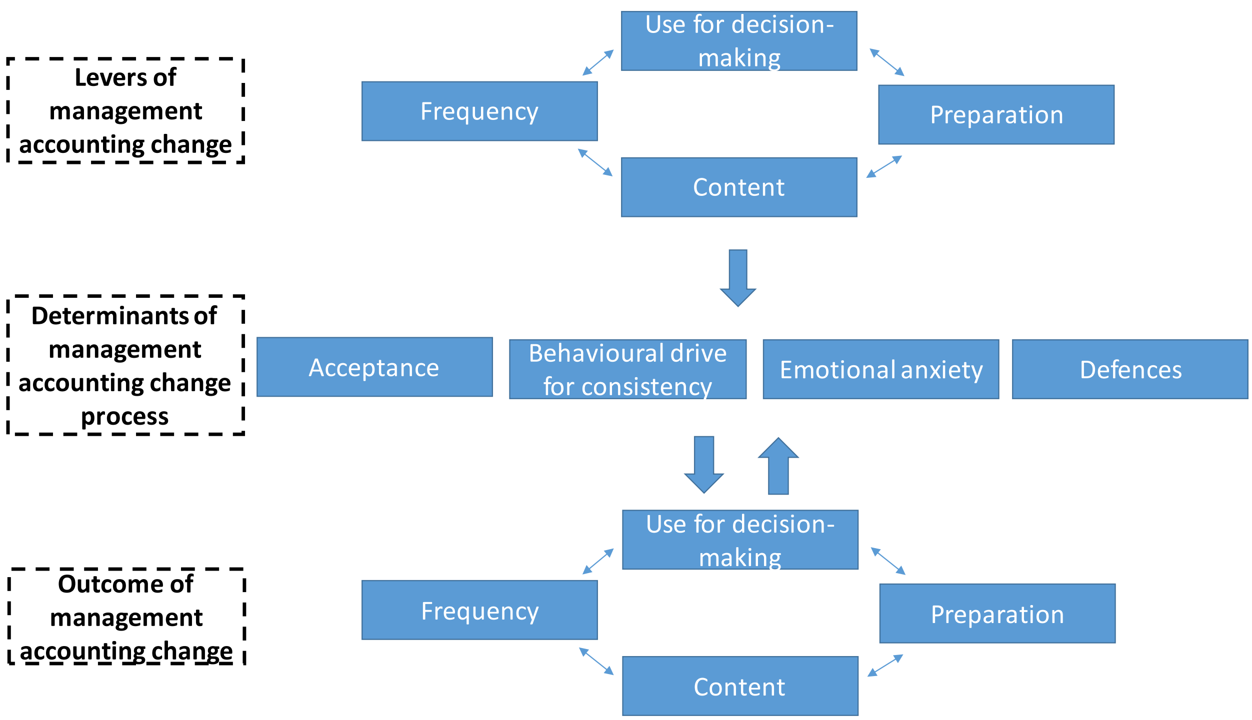

Figure 2 - Updated theoretical framework

5.2 Findings in relation to management accounting change following an acquisition

With regards to the management accounting change process, it was hypothesised in section 2.1.5 that there would be a great focus on management accounting change following the acquisition since Nama and Lowe (2014) had shown how important accounting is for decision-making within private equity. Furthermore, it was hypothesised that the short holding period in private equity would affect the change process. It turned out that both of these hypotheses could be supported with data from our case study. Consequently, while institutional papers within the process-orientated approaches have been criticised for their limited focus on economic factors (Modell 2007), this study is able to look at both economic factors and social factors as part of the management accounting change.

Regarding the strong focus on management accounting change following the acquisition, the private equity company had financial reporting as one of the first bullets in the 100-day plan that followed the acquisition. PE Inc made an effort to have a monthly financial report in place as soon as possible, and financial reporting was even seen as a hygiene factor for them. Thus in line with previous research such as Yazdifar et al. (2008), Tsamenyi et al. (2006), and Aureli (2010), it was shown that the acquirer, PE Inc, to a large extent tried to implement a management accounting system that suited its own preferences. As PE Inc was not part of the daily operations it needed a report in order to follow FAMCO's development and have a basis for decision-making. As was seen in Bruining et al. (2004) and Mitchell et al. (1995) the frequency of financial reporting thus increased for the target company. Previously FAMCO reported comprehensive financial statements semi-annually, but after the acquisition it had to report them on a monthly basis.

Moving on to the short holding period, this arguably resulted in a great focus on time, just as is seen in Christner and Strömsten (2015). This time focus could for example be seen in PE Inc's clear exit horizon already by the time of the acquisition, and the fact that IRR calculations served as a main rationale for the investment in the investment memorandum. Due to the limited holding period and the significant change agenda, a lot of change needed to occur quickly. In addition to what was hypothesised in section 2.1.5 it was however seen that not only the short holding period drove for this quick change. The drive for quick change in FAMCO was namely further increased by the bank. Due to the use of leverage the bank wanted reporting on covenants and gave FAMCO five months to put this in place. Reporting covenants required comprehensive financial statements including income statement, balance sheet and cash flow statement. Consequently, it can be noted that both the short holding period and the use of leverage appears to have impacted the management accounting change process. This is interesting to note for example due to the fact that Strömberg and Kaplan (2009) mentioned leverage as a critical component within private equity. Furthermore, since Nama and Lowe (2014) identified a usual holding period within private equity to be between three and eight years and that "...most PE firms expect to hold their investments for approximately five years." (Gompers, Kaplan & Mukharlyamov 2016, p. 456), the planned holding period of PE Inc can be seen as a common one for private equity companies. It can thus be argued that the private equity model itself impacted the change process. Driving for quick change it created a significant amount of pressure on PE Inc and FAMCO. From Lewis and Smith (2014) it is known that paradoxes are more difficult to manage under pressure. This could thus, arguably, explain the difficulty of handling the paradox between stability and change, seen in the case study. Noting the significant pressure that came from the use of leverage and the short holding period, one can think that our case study highlights a potential challenge with management accounting change following the acquisition by a private equity company. This is the challenge of managing a paradox when a lot of change is needed to reach the outcome defined in the investment hypothesis. The problem does not seem to be one of resources. PE Inc put in significant resources in trying to change FAMCO. Rather the problem appears to be in the model itself. The use of leverage and the short holding period was what created the significant pressure. Hence, the case study of PE Inc and FAMCO has illustrated that management accounting change may be difficult to pursue for a private equity actor if a significant amount of change is perceived as necessary. Time may quickly become a scarce resource, which may result in pressure.

5.3 Stability and change: Conceptualization and Implications

In line with previous research such as Busco et al. (2007), Siti-Nabiha and Scapens (2005) and Nor-Aziah and Scapens (2007) we find both stability and change in the management accounting system after PE Inc's change efforts. Just as is the case in Siti-Nabiha and Scapens (2005) and Nor-Aziah and Scapens (2007), change could be seen in many of the observable aspects of management accounting. For example, PE Inc almost immediately following the acquisition started to receive monthly financial reports. In the beginning these were short and income statements were the only source of financial information in them. As time progressed the reports however became longer and longer and towards the end of 2013 the report was around 45 pages long and included income statement, balance sheet and cash flow statement as well as liquidity reports. In terms of frequency and content a lot of change could therefore be seen in the management accounting. Stability on the contrary was mainly seen in the more tacit aspects of management accounting, namely how the reports were prepared. Under family ownership, experience and gut-feeling had been the main tools for running the business. Now that monthly reporting of financial statements was to be prepared, experience and gut-feeling became the main tool for preparing these. Even though numbers were prepared and sent to PE Inc on a monthly basis the numbers were not representations of reality but largely based on experience and estimations. This thus constituted a main source of stability in the management accounting change process. If decisions were to be taken based on the monthly financial reports provided, these decisions would automatically be based on experience and gut-feeling since this was the basis for the numbers prepared. As such both stability and change could be seen in the management accounting change process in FAMCO, and in the monthly financial reporting that came to PE Inc.

As stated in section 2.1, previous research has largely stopped at concluding that this relationship between stability and change exists (Burns, Vaivio 2001, Siti-Nabiha, Scapens 2005, Scapens 2006, Busco, Quattrone & Riccaboni 2007, Nor-Aziah, Scapens 2007, Lukka 2007, van der Steen 2011, Burns, Scapens 2000). By using the theoretical framework outlined in section 2.3 this paper is however able to go one step further. First, via the ability of posing new questions to previous research and, second, via the ability to focus on the implications of the relationship between stability and change. Starting with the former, one can for example see our study as being able to pose new questions to the findings in van der Steen (2011). When van der Steen (2011) distinguishes between ostensive and performative aspects of a routine he namely states that the performative aspects give rise to change through the use of improvisation. He is however unable to answer such questions as: how do people reason in a situation where they must improvise when preparing management accounting; or how does improvisation differ between different situations? These kind of questions can be answered through the theoretical framework used in this paper. Based on this it can namely be argued that when actors are forced to improvise, the paradox between stability and change becomes apparent to them. If this is combined with *emotional anxiety* and a *drive for consistency* (Smith, Lewis 2011), improvisation may be based on different defences (Lewis 2000). In our case study this can for example be seen when the original CFO of FAMCO was forced to implement monthly financial reporting in 2011. In order to have this in place already by September, merely two months following the acquisition, he needed to improvise. As such he went back to what he knew and estimated the numbers based on his long experience of FAMCO. What van der Steen (2011) call the performative aspects of the routine therefore came in the form of *regression* (Lewis 2000). Thinking of the reasoning by van der Steen (2011) in this way yields another insight. If what he calls the performative aspects of the routine may come in the form of what Lewis (2000) call regression, it may be so that although the performative aspects of the routine always drive for change of the ostensive aspects (van der Steen 2011), they may in some cases drive for stability in the overall management accounting system. Following *regression* (Lewis 2000), what van der Steen (2011) call the ostensive aspects would arguably have been updated, whilst the overall management accounting system would be stable. The extent to which improvisation drive for change or stability in the overall management accounting system, one can therefore think, depends on how the individual reacts in the situation of improvisation.

Moving on to the implications of the relationship between stability and change, it can be argued that two main implications can be seen in our case study. The first implication concerns that one should expect there to be examples of both stability and change during a process of management accounting change even if no resistance initially can be seen. While previous research largely has found resistance to change as something which resulted in both stability and change (Siti-Nabiha, Scapens 2005, Nor-Aziah, Scapens 2007), this could initially not be seen in FAMCO. Most people understood the reason why monthly financial reporting was needed, and most people also recognized the limitations of how the old owner had run the company. That the change efforts still ended up in the coexistence of change and stability is thus indicative of that the two elements, in the terminology of Smith and Lewis (2011), constitute a *paradox* (van der Steen 2011) and not a *dialectic* (Siti-Nabiha, Scapens 2005, Busco, Quattrone & Riccaboni 2007, Nor-Aziah, Scapens 2007, Lukka 2007), or a *dilemma* (Innes, Mitchell 1990, Lawrence, Sharma 2002, Yazdifar, Tsamenyi 2005). As is predicted in Smith and Lewis' (2011, p. 382) definition of a paradox the two elements - stability and change - *persisted over time*. The behaviour by actors in FAMCO largely drove for stability. Importantly this was however not because people at FAMCO resisted the change, but because they had to handle the paradox and thus used *regression* (Lewis 2000). When the original CFO estimated the size of the inventory in order to obtain the direct material for the monthly financial report, or when the production manager calculated an average material consumption based on different base products, this was not ways for them to resist the changes demanded by PE Inc. It was rather a way to accommodate the changes. But despite a will to accommodate, the actions by them led to stability and thus came short of the expectations by PE Inc. PE Inc received their monthly income statements and ultimately also their monthly balance sheets and cash flow statements but they never obtained the kind of change they wanted. They were never satisfied with the quality of the monthly financial reports. By demanding better reporting and pushing even harder for change, management updated the financial reports over time. The updates however mainly came in the form of reiterations of calculations based on experience and reporting that became longer. As such the second implication of the relationship between stability and change can be seen.

The second implication seen in our case study is namely that the relationship between stability and change, if not handled properly, can lead into a *vicious cycle* (Smith, Lewis 2011). Seeing the reporting they wanted as a hygiene factor, PE Inc pushed for change and put pressure on FAMCO to create the kind of monthly financial reporting they wanted. Ironically, PE Inc thus set out to change an organization without being the least willing to change its own way of operating. As already noted, this push for change by PE Inc may have been greater than they themselves recognised, creating a more significant demand for change in FAMCO than anticipated. The simultaneous occurrence of a *behavioral drive for consistency* from PE Inc and *emotional anxiety* among staff at FAMCO appears to have driven PE Inc and FAMCO into this *vicious cycle* (Smith, Lewis 2011). This cycle was reinforced by different kinds of defences (Lewis 2000) that drove the development of the management accounting system. Through this process, management accounting change became a central tenet in an organizational shake-up that ultimately resulted in poor performance for the entire company. Monthly financial reporting namely started to take up more and more of management's time. As management felt the board's distrust, the goal of reporting became to satisfy the board and PE Inc. This was mainly done by altering the content and creating longer and longer financial reports. Instead of being a tool for managing FAMCO, monthly financial reporting thus became an end in itself. The goal of financial reporting was to report, and management spent a significant amount of time on reporting. The case thus illustrates that when having entered a vicious cycle (Smith, Lewis 2011) concerning management accounting change, the negative impacts of the cycle can start to spread to other areas than only management accounting. For FAMCO the cycle meant that management accounting change started to affect the entire organization as not only the CEO and CFO, but also the production manager had to spend a significant amount of their time on monthly financial reporting. As such they had difficulties attending to other aspects of the organization.

6 Concluding remarks

6.1 Conclusion

This study contributes to existing research within management accounting change by investigating management accounting change following an acquisition and by applying a new theoretical framework for understanding management accounting change. Regarding management accounting change following acquisitions, this paper sheds light on how a private equity company may affect the change process. In line with previous research (e.g. Yazdifar et al. (2008)) it was found that the acquirer tried to change management accounting in accordance with its own preference. A short holding period, combined with the use of leverage however created a significant amount of pressure, something which according to Lewis and Smith (2014) makes the management of a paradox more difficult. The private equity model in itself may therefore, in this case, be an explanatory factor for the strong push for change, which eventually resulted in a *vicious cycle* (Smith, Lewis 2011).

Regarding the new theoretical framework this was seen as necessary in order to take the next step in the understanding of stability and change within management accounting change. By synthesizing on previous research it was namely shown that one had started to move towards seeing stability and change as a paradox. Researchers had however not incorporated paradoxical thinking in their frameworks. By suggesting the use of a new theoretical perspective, where paradoxical thinking was an integral part, additional questions could be posed to previous research and a focus on the implications of the relationship between stability and change was enabled. Regarding the additional questions to previous research it was shown how van der Steen (2011) could not answer questions of how actors reason when they must improvise to create the management accounting, or how improvisation may differ from case to case. These kind of questions could however be answered with the use of the new theoretical framework. As such we suggested that the framework outlined could further the understanding of performative and ostensive aspects of routines as defined by van der Steen (2011). Even though the *performative aspects* drive for change of the *ostensive aspects* of a routine (van der Steen 2011), they may in some cases drive for stability in the overall management accounting system. In FAMCO the performative aspect (van der Steen 2011) came in the form of *regression* (Lewis 2000). Hence, the ostensive aspects (van der Steen 2011) would arguably have been updated, whilst the overall management accounting system would be stable.

Regarding the implications of the relation between stability and change, we find two particularly important. Firstly, one implication is that one should expect there to be examples of both stability and change during a process of management accounting change even if no initial resistance is seen to the change. While previous research such as Siti-Nabiha and Scapens (2005) and Nor-Aziah and Scapens (2007) largely has found resistance for change, this could initially not be seen in FAMCO. That the change efforts ended up in the coexistence of change and stability is thus indicative of that the two elements constitute a paradox as defined by Smith and Lewis (2011). The behaviour by actors in FAMCO drove for stability, not because they resisted the change, but because they had to handle the paradox and thus used regression (Lewis 2000). Connected to this, the second implication is that neglecting the paradox between stability and change and only pushing for change may lead to a vicious cycle (Smith, Lewis 2011). This cycle was in our case reinforced by defences such as *regression*, *splitting* and *impression management* (Lewis 2000, Sundaramurthy, Lewis 2003). The further down into the cycle FAMCO and PE Inc came, the more of management's time was spent on monthly financial reporting. Ultimately monthly financial reporting became an end in itself instead of being a tool for control and decision-making. Subsequently this also had effects on other parts of the business. In the end of 2013, sales decreased sharply in a short period of time and as customized products continuously were sold it turned out that the theoretical way of calculating inventory grossly had overestimated its size. The management accounting change had for a fact failed.

6.2 Limitations

The main limitation of our case study concerns the fact that it takes a longitudinal perspective but is based on events that occurred in the past. As such it is heavily reliant on the memory of interview objects. This is believed to cause two problems. Firstly, interview objects may have forgotten key aspects of the process that started with PE Inc's takeover in 2011 and ended with a large write-down of inventory in the beginning of 2014. Secondly, even when they remember, it is not certain that their memory corresponds with their perception of reality at the time or that they remember the actual progression of events in the correct order. To one extent, this can be seen as impacting our analytical process as we as part of our analysis used a narrative strategy as suggested by Langley (1999). In this kind of analysis, the chronological order of events is arguably important. In order to overcome this limitation, we have to the extent possible tried to map quotes around things we know for sure. For example, we know that the former CFO interviewed was hired in the end of 2012 and quit in mid-2014. The majority of what she says therefore concerns 2013. Furthermore, we know from the monthly financial reports that the work on product costing calculations started in the beginning of 2012. Thus we could put quotes concerning this into that period. Still, it cannot be disregarded that the reliance of interview objects' memories constitutes a main limitation of our case study as interviews concern the main source of data. It should however mainly be seen as a limitation concerning the chronological order of certain events. The main findings and the general trend of the empirics should not be seen as heavily impacted by the actual chronological order of events. That PE Inc pushed harder and harder for change, that top management spent more and more time on reporting to the board and that the relationship between the board and top management and between top management and the rest of the organization became strained is something most interview objects report and is not something that is impacted by the chronological order of events.

A second limitation with our case study is the extent to which interview objects, even if they remember correctly, share with us their honest perceptions of reality. As stated previously there is a risk that current and former employees of FAMCO saw us as representatives of PE Inc. Thus they might have given us a more rational explanation for their actions and provided a more positive picture of PE Inc than they actually have. Potentially this behaviour could be exacerbated by the fact that we have been two interviewers interviewing one interview object. Some interview objects may have perceived this situation as threatening and as being cornered. As mentioned above we have been aware of this during the interview phase and thus taken measures to counteract it. Every interview has been started with a clear statement that the paper is not written for PE Inc and that everything will be anonymized. While some interviewees have had follow-up questions on this, most interviewees have not. As such it is believed that the risk of being seen as representatives of PE Inc was minimized. It was perceived by the authors that good trust was built with the interview objects and that they shared their honest perceptions of reality. A key challenge however concerned the fact that three of the interviews were conducted via telephone. Although the same measures were taken as in all interviews to make the interview objects feel comfortable with the situation, it should be recognized that it may be more difficult to build trust via telephone than when meeting someone in real life.

6.3 Future research

Several interesting areas for future research spring from our case study. Since it has been shown that stability and change in management accounting change fruitfully can be studied as a paradox, more research ought to build on this perspective. Specifically, it would be interesting to conduct the same type of research on a setting where there has not been an acquisition. Our case namely illustrates a lot of *emotional anxiety* (Smith, Lewis 2011). This arguably impacted the management accounting change process. Can the same type of anxiety be seen even when management accounting change is not triggered by a new owner?

Another suggestion for future research is to further the knowledge within management accounting change of what Smith and Lewis (2011) call vicious and virtuous cycles. Our study has illustrated how a vicious cycle of management accounting change may be created, but since Smith and Lewis (2011) looks at both vicious and virtuous cycles, it would be interesting to see how companies create virtuous cycles of management accounting change. Since it has been shown that the use of leverage and a focus on time created a lot of pressure in our case study and made it more difficult to manage the paradox between stability and change (Lewis, Smith 2014), it would be particularly interesting for future research to contemplate how a virtuous cycle (Smith, Lewis 2011) can be created in a similar context that we had. Another way to further the knowledge within management accounting change of what Smith and Lewis (2011) call vicious and virtuous cycles would be to alternate on the research design and potentially conduct a multiple case study. This could be particularly interesting if one manages to find one group of companies that struggle with their management accounting change, and another group of companies that has succeeded with a similar kind of change. It would then be possible to compare and contrast the different cycles of management accounting change, thus further adding to the understanding of these.

Finally, with regards to management accounting change following an acquisition an interesting aspect would be to study what kind of change occurs to the management accounting in a secondary buy-out. Admittedly, in a first time buyout of a formerly family-owned company as is studied in this case, the change in information need may be particularly large. Companies previously owned by buy-out funds may already have much of the expected reporting in place, why it can be hypothesized that the management accounting change needed is much smaller in a secondary buyout. Furthermore, it may be so that since the acquired company is used to having a financial owner, the *emotional anxiety* (Smith, Lewis 2011) following the acquisition is smaller which too may impact the management accounting change process. This would thus be fruitful for future research to look at.

7 Reference list

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8 Appendix

#	Function	Date	Location	Duration
1	Partner A, PE Inc	2016-09-16	Stockholm	35 min
2	Partner B, PE Inc	2016-09-16	Stockholm	30 min
3	Investment manager, PE Inc	2016-10-11	Stockholm	55 min
4	Former CEO	2016-10-14	Stockholm	65 min
5	Founder, FAMCO	2016-10-14	Phone	48 min
6	Former chairman of the Board, FAMCO	2016-10-17	Stockholm	52 min
7	Associate, PE Inc	2016-10-17	Stockholm	54 min
8	Current CFO, FAMCO	2016-10-19	Ronneby	65 min
9	Production leader, FAMCO	2016-10-19	Ronneby	53 min
10	Industrial designer, FAMCO	2016-10-19	Ronneby	80 min
11	Controller, FAMCO	2016-10-19	Ronneby	60 min
12	Auditor, Big Four Company	2016-10-20	Ronneby	55 min
13	Former CFO, FAMCO	2016-10-20	Karlshamn	47 min
14	Partner A, PE Inc	2016-11-02	Stockholm	53 min
15	Production manager, FAMCO	2016-11-02	Phone	51 min
16	Temporary CEO	2016-11-02	Phone	59 min
17	Business unit manager, FAMCO	2016-11-03	Stockholm	78 min
18	Consultant, Big Four Company	2016-11-08	Stockholm	39 min