

MAKING SENSE OF THE NEED FOR CONTROL

**THE PROCESS OF FORMALIZING MANAGEMENT CONTROL
SYSTEMS WHILE TRANSITIONING FROM BIRTH TO GROWTH
IN THE ORGANIZATIONAL LIFE-CYCLE**

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Making sense of the need for control: The process of formalizing management control systems while transitioning from birth to growth in the organizational life-cycle

Abstract:

In this paper, we examine the process of formalizing management control systems (MCSs) while transitioning between birth and growth in the organizational life-cycle. We draw upon empirical data from a US-based growth firm and use process theory to extract micro-level details by examining how activities, events and choices impact the formalization process. Our findings contribute to previous MCS life-cycle literature by highlighting risks inherent in a MCS formalization process, demonstrating why it can be perilous and more complex than what may be deduced from Moores and Yuen (2001). We find that a triggering event, culminating in a perceived need for formalization, is the starting point in formalizing MCSs. Furthermore, we find that formalization in general does not necessarily improve the level of control. Instead, we introduce the concept of MCS problem solving consistency and argue that there must be a consistency between the implemented control system and the problem(s) creating a need for formalization. Lastly, we propose that sensemaking plays a vital role in achieving such consistency, as the suitability of the implemented control system is contingent on the organization's ability to accurately make sense of its situation.

Keywords:

Organizational life-cycle, management control systems, triggering event, problem solving consistency, sensemaking

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1. Introduction

“I am not much of a control guy, I have never worked like that in my life which makes me incredibly ill-suited to build up a system in the company. It was not that I felt that we were lacking a system, it was rather ‘okay how long can we do this without a system and still get by’. But finally, it was getting too expensive and I realized we had to have a system” - **CEO**

Growing the business is any entrepreneur’s dream, however, with growth comes complexity, resulting in a greater need for control. The above quote symbolizes how the founder and CEO of a fast-growing company eventually realized that there was a need to act against an increasing lack of control over personnel and performance. As the CEO found himself ill-suited to design and implement a system to deal with these challenges, he sought help from an external consultant. Initially, the CEO’s response was to enhance the company’s marketing efforts, hoping to mitigate the damage caused by disorderly personnel. By chance, the external consultant hired to help with marketing was also competent within management control, and planted the seed that systems were required to regain control. Thus, an effort to formalize and improve the company’s management control systems (MCSs) was initiated, and despite utilizing a standardized control package, the process was more challenging and tedious than anticipated. This can be put in contrast to previous literature on how MCSs evolve over time, which has investigated inter alia the prevalence of MCSs during different stages of the organizational life-cycle (hereafter referred to as OLC) (see e.g. Moores & Yuen, 2001; Kallunki & Silvola, 2008). Researchers and practitioners examining this research may extract from it an illusion that the evolution of MCSs happens linearly, as it is so neatly defined by stages in models like Moores and Yuen (2001). Our findings indicate that the reality for organizations in the process of formalizing their MCSs can be very different from that illusion.

Aside from Moores and Yuen (2001), other researchers have examined what drives the adoption of MCS in young firms (e.g. Davila, 2005; Cardinal et al., 2004; Sandino, 2007) as well as the effects of organizational context on existence and success of MCSs (e.g. Chenhall, 2003). In addition, there is a plethora of previous literature regarding what MCSs should be composed of in different stages of organizational development (Simons, 1995; Otley, 1999; Sandelin, 2008). Thus, the emergence of MCSs and differences in MCS formality over a company’s life-cycle has been examined by multiple accounting researchers over the past decades. However, the transitioning between life-cycle stages and associated formalization of MCSs has gone largely unproblematized and under-researched, constituting a gap in previous literature. Therefore, this setting, in which a company is undergoing a transition from birth to growth in the OLC model developed by Miller and Friesen (1984), creating a need for increased formalization of MCSs (Moores & Yuen, 2001), provides a unique opportunity to shed light on what the actual transition process looks like. Considering the gap in previous research identified above, and the

opportunity to gather empirical data from a company currently transitioning birth and growth, we seek to answer the following research question: *How does a company formalize its management control systems while transitioning between birth and growth in the organizational life-cycle? Why can it be perilous to undertake such a formalization process?*

To answer our research questions and contribute to the domain of MCS life-cycle literature, process theory is used to guide the empirical study. We use Langley's (1999) recapitulation of process theory based on Mohr (1982), as well as the strategies for sensemaking of process data outlined in Langley (1999) to facilitate theory generation. Process theory allows the capturing of empirical data down to the smallest detail, which is necessary to grasp how the case company's transition from birth to growth progressed, and the concurrent impact on MCSs. The process theory model illustrated in Langley (1999), outlining how activities, events and choices steer the process of strategic change, allows us to examine the formalization process on a micro level. In light of the identified gap in previous literature, namely the lack of problematization of the transition between birth and growth in the OLC, the process perspective is seen as particularly relevant. Our inquiry problematizes, and highlights the intricacies of, a MCS formalization process, demonstrating why it can be perilous and more complex than what the reader may extract from e.g. Moores and Yuen (2001). Furthermore, we use the Greiner Growth Model (Greiner, 1998) to better understand how and why organizations initiate a MCS formalization process. Lastly, Sandelin's (2008) view of management control practices as a package, using Merchant and Van der Stede's (2007) object-of-control framework, is adopted in order to theoretically categorize the MCSs and their development in the case company.

The aim of this paper is to contribute to the management accounting literature in general, and MCS life-cycle literature in particular, by focusing on three aspects of the domain field of research. Firstly, we seek to examine what causes the initiation of a MCS formalization process. Secondly, we seek to investigate the transition process in detail, in contrast to previous research where MCS formality has been examined in light of static life-cycle stages, as opposed to the transition between them. Lastly, we seek to shed light on the risks inherent in a MCS formalization process, which to our knowledge are relatively unproblematized in previous research.

The remainder of this paper is structured as follows: Section 2 comprises a literature review of relevant previous research and develops the theoretical framework, which is used to contextualize and analyze the empirical data. Section 3 outlines the methodology used in the study, describing the case company and the data collection process in detail. Moreover, Section 4 presents the empirical data of the study, while section 5 discusses the case findings and presents an analysis that contrasts our findings with previous research. Lastly, Section 6 encompasses the conclusions of the study and suggested areas for further research.

2. Theoretical Development

In this section, relevant areas of previous research within the field of management accounting in early-stage growth firms are outlined, with a focus on the OLC perspective. In section 2.1., previous MCSs life-cycle literature is reviewed, as well as research on MCSs in early-stage firms, culminating in an outline of gaps identified in previous research. Section 2.2. outlines previous research on process theory and sensemaking theory, which are used as method theories in order to add to our domain area of research. Section 2.3. proceeds by presenting the theoretical framework through which the empirical data will be analyzed.

2.1. Management Control Over the Organizational Life-Cycle

2.1.1. The Organizational Life-Cycle and Its Impact on MCS Formality

In 1984, Miller and Friesen introduced viewing organizations through a life-cycle lens with the distinguished Birth, Growth, Maturity, Renewal and Decline stages. This life-cycle model has since been used to various extents in several research domains, including management control. Arguably, the most prominent usage within that domain is by Moores and Yuen (2001), who used the five-stage life-cycle model to analyze how management accounting systems (MAS) differ throughout the life-cycle stages of organizations. In short, Miller and Friesen (1984) outline that the birth stage is characterized by firms less than ten years of age with an informal structure that are dominated by an owner-manager while firms in the growth stage are described as having sales growth above 15%, with a functionally organized structure and beginning to have early formalization of policies. As this paper focuses on the transition between the birth and growth stages, the remaining stages are not described in further detail. Using the Miller and Friesen (1984) model, Moores and Yuen (2001) found that MAS attributes do indeed differ between life-cycle stages and that the growth stage dominates the other stages in creating a need for more formal MAS. Most importantly for this study, Moores and Yuen's (2001) findings indicate that firms in the birth stage have MAS that are much less formal than firms in the growth stage. Some support for this finding has been observed in literature on MCSs in early-stage firms (see e.g. Cardinal et al., 2004; Davila & Foster, 2007). A weakness in Moores and Yuen's (2001) study is the lack of respondents representing the early stages of the life-cycle model. Only two birth firms and four growth firms are included in the study out of a total sample of 49 firms, which may somewhat limit the conclusions that can be drawn about the level of MAS formality in those firms. This emphasizes the need for more research into the MCSs of firms in the early stages of the OLC.

While general literature on MCSs in early-stage firms provides support for Moores and Yuen's (2001) findings on the difference in MAS formality between the birth and growth

stages, it is surprisingly hard to find support in the MCS life-cycle literature. This is likely because, as Auzair and Langfield-Smith (2005) highlight, the life-cycle variable, or perspective, is more widely researched in organization, or management studies than in MCS studies. Similar observations have been made by Moores and Yuen (2001), Silvola (2008) and highlighted by Granlund and Taipaleenmäki (2005), illustrating the seemingly limited application of the life-cycle perspective in management accounting research. Nevertheless, there are some studies, in addition to Moores and Yuen (2001), that adopt the life-cycle perspective in their analysis of management accounting practices, such as MCSs. These studies support the fact that MAS formality differs between life-cycle stages, but contain little or no evidence regarding firms in the birth stage. For instance, the studies find that the use of advanced cost-accounting systems, in this case activity-based costing, is influenced by firms' life-cycle stage and that it is more common in maturity and revival firms than in growth firms (Kallunki & Silvola, 2008). Furthermore, the previous studies find that firms' life-cycle stage impacts whether a focus on Simons' (1995) diagnostic or interactive use of controls is productive or counter-productive to organizational performance, and that firms in the growth stage are favored by a focus on interactive controls (Su et al., 2015). Lastly, previous research has found that the usage of business planning, budgeting and various MCSs differs between life-cycle stages, and that, in contrast to Moores and Yuen (2001), firms are most bureaucratic, or formal, in the maturity stage (Silvola, 2008). Common for all studies mentioned above is that they have disregarded firms in the birth stage of the OLC, indicating an inclination for MCS research applying the Miller and Friesen (1984) life-cycle model to favor the stages beyond the birth stage.

One potential reason for the lack of research on birth firms using the Miller and Friesen (1984) model is the existence of different life-cycle models, where some may be perceived to provide more nuance in the context of early-stage firms. An example of that is Victor and Boynton's (1998) corporate evolution life-cycle model, which outlines five stages that are more detailed than those in Miller and Friesen (1984). As an example, Granlund and Taipaleenmäki (2005) studied a sample of firms that would have been covered only by the birth and growth stages in Miller and Friesen's (1984) model, but were scattered over all five stages in the Victor and Boynton (1998) model. Granlund and Taipaleenmäki (2005) chose to apply Victor and Boynton's (1998) model when analyzing new economy firms (NEFs), i.e. high-growth, high-tech and knowledge-intensive firms. Despite applying a different life-cycle model, Granlund and Taipaleenmäki (2005) provide some findings relevant to this study. Firstly, they find that NEFs' life-cycle stage has an impact on their inclination to adopt MCSs. Secondly, they find that there is a mutual relationship between life-cycle stage and MCSs in NEFs, which lends some support to Foster and Davila's (2007) findings that growth and MCSs are mutually reinforcing in growing firms. Thirdly, Granlund and Taipaleenmäki (2005) also highlight the importance of corporate culture in the adoption of MCSs, as well as the fact that accounting systems, or MCSs, shape culture by establishing a common financial

vocabulary, which is increasingly emphasized as the firm moves forward in its life-cycle. Lastly, Granlund and Taipaleenmäki's (2005) found that *"even in cases that indicated a direction towards more formal MAS, we observed that the path was not a straight one, but rather a set of winding trails, shortcuts and wrong tracks"*, highlighting the complexity of a formalization process. This makes sense in light of Kasurinen's (2002) findings on accounting change, which illustrate the difficulties of completing a change process due to, among other things, barriers to change that may exist in an organization, which contribute to the complexity of the process.

In summary, the previous studies reviewed have found that a firm's OLC stage has an impact on its management control practices (Moores & Yuen, 2001; Kallunki & Silvola, 2008; Su et al., 2015; Silvola, 2008). Furthermore, extant literature seems to support the notion that firms categorized in the birth stage rely on more informal ways of control, while firms in the growth stage have a higher degree of formality (Moores & Yuen, 2001). It also indicates that the stage between birth and growth is the stage that creates the greatest need for an increase in formality of MAS or MCSs (Moores & Yuen, 2001), and that achieving accounting change is challenging (Kasurinen 2002).

2.1.2. The Control Package View and the Role of Internal Consistency

In order to meaningfully analyze MCSs from a life-cycle perspective, a model, or framework, must be selected that can define what MCSs are and establish how they should be used to conceptualize empirical findings. Moores and Yuen (2001) use a rather formal definition of MAS, including items such as monthly profit and loss statements, balance sheets and cost accounting, as well as capital budgeting and long-term forecasting. On the other hand, it has long been the consensus that early-stage firms are generally characterized by more informal management controls (e.g. Chenhall, 2003; Davila & Foster, 2007), which complicates finding an appropriate model, given that the focus on this study is to investigate firms in the early stages of the OLC. However, perhaps due to an increasing body of literature indicating that growth in fact tends to increase the formality of MCSs (Moores & Yuen, 2001; Davila, 2005), more research has emerged that aims to study formal systems and procedures in these early-stage firms (e.g. Davila & Foster, 2007; Sandino, 2007; Granlund & Taipaleenmäki, 2005). Furthermore, numerous studies argue that different types of control packages, including chiefly informal ones, can function well as long as they are internally consistent (e.g. Sandelin, 2008; Collier, 2005).

Sandelin (2008) brings nuance to the above-mentioned literature on formal control in early-stage firms by examining control systems as a package consisting of both formal and informal modes of control, thus taking a broader perspective on control by including informal elements. Malmi and Brown (2008) highlight that management control, or MCS, have mostly been studied as specific systems in isolation rather than as a package. In reality, it is highly likely that there is an interplay between control systems which supports

the package “view” (Malmi & Brown, 2008) adopted by Sandelin (2008). Viewing management control as a package is considered particularly relevant in early-stage firms, where informal controls are likely to play a larger role than in more mature firms. As Sandelin (2008) seeks to examine the whole spectrum of control practices, his study uses the Merchant and Van der Stede (2007) object-of-control framework, which outlines cultural, personnel, action and results controls. Sandelin (2008) highlights that the object-of-control framework is more suited to capture the full spectrum of control practices than alternatives such as Simons (1995) and Otley (1999) that are more narrowly focused on formal forms of control. The object-of-control framework is applied by Sandelin (2008) in a growth-firm context, examining two different control packages in the same firm, that led to the same end results in the face of similar contingencies. Based on his findings, Sandelin (2008) introduces the concept of equifinality, which holds that the same final state can be achieved by very different-looking control packages, as long as they are internally consistent, conditioned on the complexity of operations. Regarding internal consistency, Collier (2005) provides further support for the importance of internal consistency with a 10-year longitudinal study of TNA, a case organization that is able to create a functional control package using just a spreadsheet model and social control, largely thanks to the fact that the control package was internally consistent. Moores and Yuen (2001) also highlight another angle on the importance of this concept, stating that an organization’s MAS must be internally consistent with its life-cycle stage, implying that it may be internally consistent with their life-cycle stage for birth firms to use less formal control systems.

Thus, it could be hypothesized that the phenomenon of internal consistency may be an explanation for how some, but not all, early-stage firms achieve satisfactory control and performance despite a lack of formal structures. Hence, it deserves significant attention in studies of MCSs in early-stage firms. Somewhat contrary to the view that satisfactory control and results can be achieved as long as there is internal consistency, a growing body of literature supports the idea that MCSs are in fact a crucial part of achieving growth in early-stage companies. For instance, Foster and Davila (2007) found, *inter alia*, that growth and the adoption of MCS are mutually reinforcing. Furthermore, Davila et al.’s (2009) findings support the “emergence of a new control paradigm”, and indicate that MCSs are a vital part of startup growth and that in early-stage companies, control systems are seen to aid in sensemaking, provide stability that helps navigate through rapidly changing environments, and capture learning over time. Hence, conclusions regarding MCSs or control packages in early-stage firms seem rather ambiguous. Nevertheless, based on existing research in the context of early-stage firms, Sandelin’s (2008) way of using cultural, personnel, action and results controls, and the couplings among them, to analyze control practices as a package appears to be the most appropriate practice for the purposes of this paper. This is largely because it combines the concept of internal consistency with the assumption that control packages, what we refer to as MCSs, do not necessarily have to be of a formal nature for firms in the birth stage of the OLC.

2.1.3. Identified Gaps: Insights on the Transition Between Birth and Growth

The preceding review has led to the identification of certain gaps in the existing literature. While there is a substantial body of research that investigates and confirms the idea that organizations' use of MCSs varies throughout their life-cycle stages (Moore & Yuen, 2001; Kallunki & Silvola, 2008; Auzair & Langfield-Smith, 2005; Silvola, 2008), there is little research on the actual process of formalizing MCSs while transitioning between stages. For instance, Moore and Yuen (2001) thoroughly studied the existence and extent of MCSs at different stages of the OLC, but, intentionally, paid little attention to the transition between those stages. For users of research, especially for decision-makers in early-stage firms, the lack of insight into this important change process may cause additional uncertainty in an already uncertain environment.

One potential explanation for the lack of research on the actual process of going from one stage to another and the implications of such a transition is the established presence of contingency theory in MCS research. Contingency theory holds that there is no one best way to develop or grow an organization because the best practice is contingent on the individual characteristics of each organization (e.g. Ginzberg, 1980; Chenhall, 2003). In extension, this could be interpreted to suggest that the micro-level findings from one case organization could not be applied to the context of another. As such, previous research has potentially neglected a deeper investigation into the process of formalizing and transitioning MCSs between life-cycle stages in favor of seeking to identify common characteristics with more generalizability. Such analysis has provided an abundance of useful data, but it forgoes potential nuggets of information that could be gathered if the actual process of implementing and formalizing MCSs was studied on a micro level. While common characteristics may provide potential for decision-makers in early-stage firms to benchmark, they may contribute little in the form of actionable insight. This view is supported by Innes and Mitchell (1990) who strike a blow for more in-depth case study research in the conclusion of their study: *"These additional factors [...] add weight to the dubiety with which contingency theory has been regarded as an adequate means of comprehending the dynamics of management accounting change. The direct investigation of change through field studies at the micro level of the firm provides a potentially more insightful approach for explaining observed differences in practice and for understanding the process by which management accounting develops."*

In summary, research exists that illustrates what MCSs, or more generally, what control tends to look like in companies that would be categorized in the birth stage according to the Miller and Friesen (1984) life-cycle model, although not explicitly in the context of life-cycles (see e.g. Cardinal et al., 2004; Sandino, 2007; Davila & Foster, 2007). Furthermore, there has been a significant amount of studies on MCS practices in firms that would be categorized in the growth stage in Miller and Friesen's (1984) model (see e.g. Granlund & Taipaleenmäki, 2005; Kallunki & Silvola, 2008; Su et al., 2015). In addition, it can be deduced that the progression into the growth stage is important from a

MCS standpoint as Moores and Yuen (2001) highlight that it dominates the other stages in creating an increased need for MCSs, which is logical due to the increased complexity of operations that firms often experience when they move into the growth stage (Moores & Yuen, 2001). Since this transition constitutes the greatest change in MCSs, insight into the process as well as the risks and challenges associated with it may be of great importance to users of research, especially decision-makers in early-stage firms. Lastly, research has indicated that the formalization of MCSs is usually a complicated process (Granlund & Taipaleenmäki, 2005) and that achieving accounting change in general is subject to numerous obstacles (Kasurinen, 2002). However, surprisingly, extant research has provided very limited insight into the transition between the birth and growth life-cycle stages and the challenges that may occur along the way. Thus, this paper intends to contribute to the MCS life-cycle domain by using process theory to extract meaningful insights from a case company that is undergoing this transition. In addition, sensemaking theory will be used to better understand the underlying drivers of the formalization process and how firms deal with the high level of uncertainty associated with such a process. Case insights on this crucial transition in the OLC may help other researchers better understand key happenings involved in firms transforming their MCSs and may also provide guidance to early-stage firms regarding what to expect and look out for when embarking on similar journeys involving the formalizing of their MCSs.

2.2. Method Theory

2.2.1. Examining MCS Formalization in Detail by the Use of Process Theory

Research shows that strategic change can be viewed and studied in multiple ways (Mohr 1982), and the process of formalizing MCSs is conceivably a form of strategic change. When studying a MCS formalization process, a model, or theory, can facilitate the capturing and analysis of the entirety of data. Arguably, such a model has been developed by Mohr (1982), who highlights and argues that there are essentially two approaches to explaining strategic change. Firstly, there is variance theory, which explains strategic change based on identifying attributes in firms that may explain why strategic change occurs and its outcome. Secondly, and more importantly for the purposes of this study, Mohr (1982) highlights process theory as another way of explaining strategic change. The process model aims to look at the activities, events, and choices taking place throughout a process of strategic change, to better derive micro-level details from that process. Events could be anything from a bad year or a merger, to a decision or simply a handshake. Activities and choices take place throughout the process and are often what may lead to, and result from, events. Altogether, these three aspects are what define the process of change and ultimately lead to its outcome.

An example of how a process model can be used in a detailed case study setting can be seen in Mähring and Keil (2008). While their study examines a project that is more related

to information technology than management accounting per se, it provides case insights that can be just as relevant when using process theory to examine the formalization of MCSs. Mähring and Keil (2008) particularly focus on the concept of escalation, defined as the tendency for decision makers to persist with failing courses of action, and develop a process model for escalation. The model outlines three phases: Drift, unsuccessful incremental adaptation and rationalized continuation. It also highlights “within-phase escalation catalysts” such as conflicts concerning project goals and direction and “transition triggers” that initiate a shift between phases. Examples of transition triggers are problem emergence, increased problem visibility and imminent threats to project continuation (Mähring & Keil, 2008). These triggers, as well as the escalation catalysts, can be used to better understand events, activities and perhaps particularly choices, that shape the outcome of a process according to Mohr’s (1982) process theory model. Furthermore, the Mähring and Keil (2008) model can help illustrate why formalization processes can be cumbersome and even have negative consequences.

Researchers have increasingly questioned simple process models that assume neat and linear progressions of well-defined phases that lead to well-defined outcomes (Langley, 1999). According to Langley (1999), the central challenge in using process data lies in *“moving from a shapeless data spaghetti toward some kind of theoretical understanding that does not betray the richness, dynamism, and complexity of the data but that is understandable and potentially useful to others”*. Langley (1999) thus introduces seven generic strategies, termed sensemaking strategies, that may facilitate the achievement of this daunting task. In order to define what forms of theory which are likely to be developed when using different strategies for sensemaking, Langley (1999) utilizes three categories to measure certain characteristics of that potential theory. These categories are generality, accuracy and simplicity. In short, generality is the applicability of the theory to other situations, accuracy is characterized by staying close to the original data, and simplicity relates to the number of elements or relationships in a theory. Accuracy and generality are often inversely related (Langley 1999), which may explain the lack of truly in-depth research, even within process studies, as researchers tend to strive for generalizable findings.

According to Langley (1999), there are a few strategies that are suited for one detailed case, namely the narrative strategy, alternate templates strategy and the temporal bracketing strategy. In the context of a formalization process taking place over time, the temporal bracketing strategy stands out as the most appropriate since it enables examination of the recurrence and accumulation of progressions that are key to the outcome of the formalization process (Langley et al., 2013). In addition, it facilitates the analysis of how the changing context from previous temporal phases impacts subsequent events in the following phases, also in line with Langley et al. (2013). temporal bracketing strategy is further seen as relevant because the concept of time is such a central issue in most process research.

2.2.2. Initiating MCS Formalization: Insights from Management Research

Life-cycle models for organizations such as Miller and Friesen (1984) and portrayed in Moores and Yuen (2001) run the risk of creating an illusion that the progression between life-cycle stages is linear and natural. However, in practice, it seems like the progression is much more chaotic and certainly not linear (Granlund & Taipaleenmäki, 2005). Indeed, the reviewed literature is rather light on highlighting the risks associated with a MCS formalization process and the issues that firms can run into along the way. One explanation is that the vast majority of studies taking an OLC perspective are from the organizational or management field of research. Interesting insights can be gathered from these studies even though they have not investigated MCS formalization processes specifically. One example is the Greiner Growth Model (GGM) (Greiner, 1998), which illustrates two different stages of organizational growth, evolution and revolution. Evolution is a state of growth and represents the progression of the organization within a life-cycle stage in the GGM. Interestingly, revolution is a state of crisis that often occurs before an organization is able to progress from one stage to the next. Such crises could be a leadership crisis, an autonomy crisis, or a control crisis, among other types. These crises are thus often the trigger that pushes an organization from one stage to the next in the GGM. It seems more congruent with the perception of organizational practice that a shift between stages, or a formalization of MCSs, is preceded by a perceived crisis in the organization, rather than happening linearly. Thus, this paper intends to use the crisis element, or “triggering event”, that is described in the GGM (1998) and integrate it with the life-cycle model used by Moores and Yuen (2001).

2.2.3. Sensemaking in Uncertain Contexts

While the concept of the triggering event, as described earlier and illustrated in the GGM (1998), is important in itself as a nudge or something that leads to action, it is arguably even more important which action it leads to. Logically, that is guided by the conclusions that an organization or a decision-maker draws from the occurrence of the triggering event, or rather, how they make sense of the triggering event in an uncertain environment and retrospectively form an opinion on what caused it. The same type of triggering event occurring in multiple organizations could spur a range of different actions, since the way an event is made sense of is influenced by context, which is bound to differ between organizations (Weick et al., 2005). Hence, sensemaking is an important factor in the initiation of a formalization process in early-stage firms, and continues to be so throughout the process, as outcomes constantly have to be made sense of and decisions about formalization are re-evaluated. In addition, as Brown et al. (2015) highlight, Weick’s (1995) theory of sensemaking is especially important in organizations that are subject to considerable uncertainty or ambiguity.

An increasing body of literature has studied the influence of management accounting and MCSs on sensemaking. For instance, Tillman and Goddard (2008) investigated strategic

management accounting (SMA) and sensemaking in a multinational company and found, among other things, that sensemaking activities were largely dependent on the internal and external contexts and influences present in the organization. Their findings also indicate that attention should be paid to the ability of a set of SMA techniques and information to enable sensemaking to take place in the organization, highlighting the importance that systems can have on sensemaking. Most likely, the same can be applied to the usage of MCS techniques. Furthermore, research has been conducted on sensemaking and management accounting in connection with corporate strategic actions. Moilanen (2016) studied sensemaking in light of changes in control in a post-acquisition context, emphasizing the importance of emotions in creating frames for sensemaking and thus shedding light on the role of emotions in the sensemaking process. In addition, Kraus and Strömsten (2012) investigate the role of accounting and sensemaking in the context of IPO processes. The study showcases, among other things, the role of restricted sensemaking in forming the specified and extracted cues that Weick (1995) argues that people in highly uncertain situations need to draw on to initiate and sustain action. Restricted sensemaking is described as a situation where top managers engage in high levels of sensegiving, consulting only key stakeholders for input, which results in a narrow, dominant, interpretation of the issue at hand (Kraus & Strömsten, 2012).

Heidmann et al. (2008) study the role of MAS in sensemaking and how different MAS dimensions of information and system quality contribute to that role, in a sample of seven large corporations. Their findings indicate that both MAS information and system quality dimensions contribute positively to the use of MAS for strategic sensemaking. One MAS quality dimension highlighted as contributing positively to the use of MAS in sensemaking is formality, which is an interesting finding for the purposes of this study, where formalization is a focal point. Furthermore, Maitlis and Sonenshein (2010) build on Weick's (1989) article on sensemaking in crisis situations by, among other things, also exploring sensemaking studies related to change. Maitlis and Sonenshein (2010) suggest that two actions, namely updating and doubting, are essential to enabling an adaptive rather than destructive role for sensemaking during crisis and change. The concept of adaptive sensemaking is viewed as desirable in order to facilitate the production of favorable outcomes by adjusting sensemaking based on new information, facilitated by doubting old truths and constantly updating the organization's sensemaking (Maitlis & Sonenshein, 2010). Similar to Moilanen (2016), Maitlis and Sonenshein (2010) also highlight the highly important role of emotions and their ability to be both productive and counterproductive to adaptive sensemaking during times of change or crisis. Their findings indicate that the most prominent and impactful emotions that affect sensemaking are negative emotions such as fear or panic, which may be more common in times of crisis but also exist during times of change (Maitlis & Sonenshein, 2010). Lastly, Monin et al. (2013) showcase how sensemaking can favorably be paired with process research in their study of sensegiving and sensemaking in a post-merger integration setting.

Thus, extant research on sensemaking seems to indicate that the way organizations make sense of certain events is dependent on their contexts (Weick et al., 2005; Tillman & Goddard, 2008). It also indicates that sensemaking is particularly important in organizations where uncertainty is high (Brown et al., 2015; Weick, 1995), and that an important part of MAS design is their ability to enable sensemaking (Tillman & Goddard, 2008). In addition, it has highlighted the importance of emotions in sensemaking (Moilanen, 2016; Maitlis & Sonenshein, 2010) and illustrated how sensemaking can be used by organizations to initiate and sustain actions in uncertain times (Kraus & Strömsten, 2012). Furthermore, it has shown that the formality of MAS is positively correlated with the usage of MAS for sensemaking (Heidmann et al., 2008). Lastly, previous research has showcased that sensemaking and process research can productively be used together (Monin et al., 2013).

2.3. Theoretical Framework

In this section, a theoretical framework is outlined that will guide the empirical inquiry of the MCS formalization process in the transition between birth and growth in the OLC. The early-stage firm setting is considered an interesting context for this study, as this is where the greatest need for MCS formalization is foreseen (Moore & Yuen, 2001). Furthermore, the setting may be particularly relevant due to the fact that early-stage firms tend to be the least represented in the survey-type studies (see for example Moore & Yuen, 2001; Kallunki & Silvola, 2008; Silvola, 2008) that have to some extent dominated the MCS life-cycle research to date. This has created gaps in previous literature, namely a lack of investigation into the transition between the birth and growth stages in the life-cycle model used by Moore & Yuen (2001), and the risks associated with making that transition. Thus, we believe that an in-depth study of an early-stage firm currently making that transition will provide insights that have been foregone in previous studies on the topic of MCSs from a life-cycle perspective.

In an attempt to contribute to the MCS life-cycle literature, we apply Moore & Yuen's (2001) adoption of Miller and Friesen's (1984) life-cycle model as it has been widely used in a number of different contexts and is increasingly used in connection with MCS research. While Moore & Yuen (2001) use MAS and MAS attributes, conceptualized as formality of routines and procedures with greater use of computers, technical staff and financial modeling to evaluate how firms' formality differs between life-cycle stages, this paper applies Sandelin's (2008) adoption of Merchant and Van der Stede's (2007) object-of-control framework. The cultural, personnel, action and results controls that make up the object-of-control framework are used to establish a theoretical foundation on which the MCS formalization process in the case company can be analyzed.

Based on the gaps identified in previous literature, we have elected to adopt a process theory perspective in order to facilitate answering the research question. We do so by

applying the process theory model for explaining strategic change, as highlighted in Langley (1999). We would argue that the most appropriate way to examine the MCS formalization process is by studying activities, events and choices that take place throughout that process, just as outlined by the process theory model in Langley (1999). We also adopt the concept of a triggering event, often a crisis, as illustrated by the GGM (1998), to better understand the crucial initiation stage of the transitioning process and what continues to drive formalization throughout the process. By adopting this theoretical lens, we aim to paint a vivid picture of the happenings and challenges that ultimately shape and define the outcome of a MCS formalization process, adding nuance to the existing literature.

As Langley (1999) highlights, a key challenge in using process data is making sense of it without betraying its richness and complexity. Thus, in an attempt to find that delicate balance, we adopt one of the sensemaking strategies proposed by Langley (1999), namely the temporal bracketing strategy, to make theoretical sense of the empirical data. The temporal bracketing strategy uses phases as the key anchor point and is well-served by one or two detailed cases (Langley, 1999). By viewing the empirical data in terms of distinct temporal phases, we may better understand the formalization process and how activities, events and choices taking place in the organization accumulated and evolved over time. Our study contains four distinct temporal brackets: The pre-formalization, the initial formalization, the second wave of formalization and the post-formalization phase. In the context of the three categories highlighted by Langley (1999), this sensemaking strategy will enable high accuracy paired with moderate simplicity and generality.

Furthermore, during the abductive process of analyzing empirical data, sensemaking theory emerged as a complement to process theory. We apply sensemaking theory with the purpose of better understanding the decisions that are made throughout the formalization process as well as what leads to its initiation, and to facilitate our comprehension of the triggering event and its effects. In addition, sensemaking theory is used to grasp how the organization dealt with the substantial uncertainty present throughout the formalization process and how that affected the diagnoses and decisions that were made before and throughout that process. By viewing the activities, events and choices in light of sensemaking theory, we aim to not only understand what happened throughout the process, but also *why* it happened, magnifying the relevance of our analysis.

Based on the previous research reviewed above, a theoretical model has been developed, highlighted in Figure 1 below. The model is built on the OLC model used by Moores and Yuen (2001) and is complemented by process theory as outlined in Langley (1999) as well as the crisis element based on the GGM (1998). The model presents an alternative view of the evolution of MCSs over the OLC, where formalization is not linear and natural, but rather characterized by a long, eventful and challenging process. In contrast to the original OLC model adopted by Moores and Yuen (2001), where the transition

between stages is linear, our proposed model assumes that a triggering event initiates a formalization process, characterized by activities, events and choices, with a less linear progression.

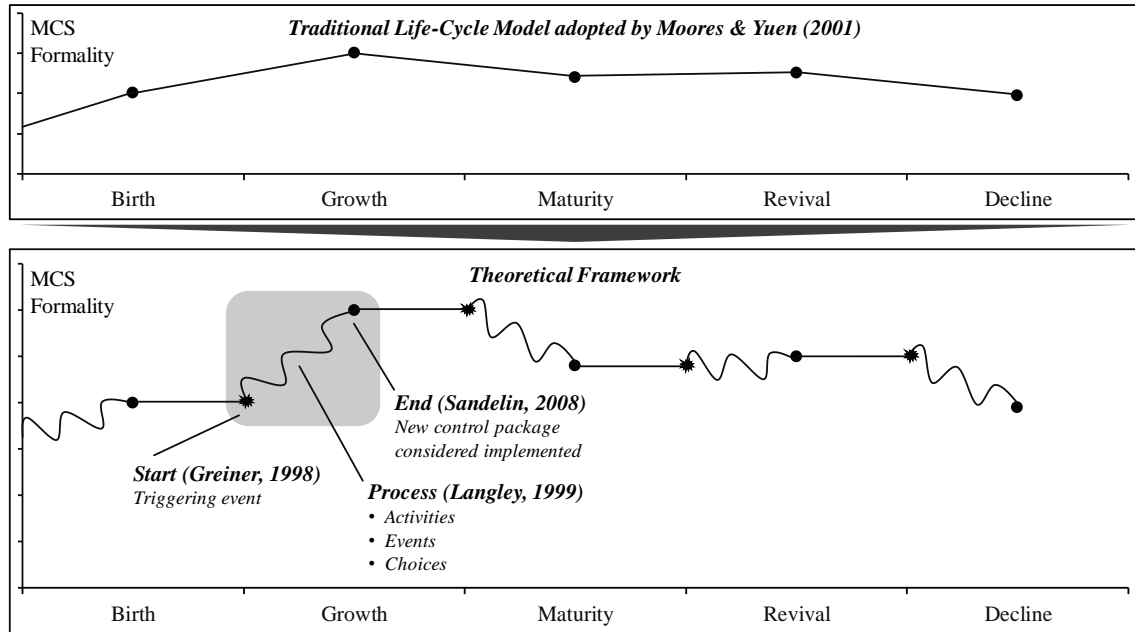


Figure 1: Theoretical framework

Based on the object-of-control framework utilized by Sandelin (2008), we seek to understand how the formalization of the company's control package was initiated, and how activities, events and choices defined the process and shaped its outcome. As the level of MCSs has been deemed low at the birth stage according to previous literature, the process of implementing formal systems is presumed to be challenging and risky. By utilizing the above theoretical framework, we aim to identify and illuminate potential risks and challenges, seeking to understand what the process looks like on a micro-level. The framework will guide the collection and interpretation of empirical data, and will ultimately help answer the research questions: *How does a company formalize its management control systems while transitioning between birth and growth in the organizational life-cycle? Why can it be perilous to undertake such a formalization process?*

3. Research Methodology

In this section, the chosen research methodology is described. Section 3.1. presents and motivates the research design of the study, while section 3.2. outlines the research setting and case company in detail. Section 3.3. and 3.4. present the data collection and the following analysis processes, and lastly, section 3.5. discusses the research quality.

3.1. Research Design: A Single Case Study

The literature review in Section 2 highlighted a gap in previous research on MCS from a life-cycle perspective, being the lack of nuance on the process of formalizing MCSs while transitioning between life-cycle stages, and between birth and growth in particular. This gap guides our study and affects what constitutes an appropriate research design. Edmondson and Mcmanus (2007) discuss the concept of methodological fit, and argue that in order to reach high-quality field research, there must be an internal consistency between the research question, previous research (work), research design and the theoretical contribution. Especially important is the research design's alignment with previous research. As our study is characterized by a low level of nuance in the domain of research, or nascent in the words of Edmondson and Mcmanus (2007), a single case study is deemed suitable due to the exploratory approach where open-ended data needs to be interpreted qualitatively. A single case study allows for a comprehensive and deep view on the phenomena studied, providing rich insights (Ahrens & Dent, 1998; Bryman & Bell, 2011). Dyer and Wilkins (1991) also argue for the usage of single case studies by stating that such studies allow for deeper and more meaningful insights compared to multiple case studies, responding to Eisenhardt's paper from 1989 where the usage of rather 4-10 studies is proposed. Dyer and Wilkins further argue that multiple case studies risk neglecting tacit and less obvious parts of the phenomena studied. Ferreira and Merchant (1992) distinguish certain features of case studies, proclaiming that they allow researchers to have a direct, in-depth contact with the organization through interviews and observations, ensuring that the study focuses on real tasks and processes rather than situations artificially created by the researcher. This fits well with the domain that we seek to further explore. Aiming to investigate a less nuanced area of research on MCS, taking an in-depth approach to reach rich and insightful conclusions, a single case study is deemed more appropriate than utilizing multiple case studies which naturally would be a plausible alternative. It should also be noted that several other management accounting researchers have conducted case studies on similar domains of research for the same reasons, including Sandelin (2008), Collier (2005) and Cardinal et al. (2004).

3.2. Research Setting and Case Company

Moore and Yuen (2001) mention that a limitation to their study is the number of sample firms within the birth and growth stages. This motivates the studying of a company currently transitioning from birth to growth, allowing us to investigate the process of formalizing MCSs while undergoing that transition. Even though a selection process has not been carried out based on a predetermined set of criteria, as advocated by Bryman and Bell (2011), we have gained access to an organization that fits well with the intended scope of the study. The company is a US-based growth firm specializing in the sale of a polymer-based pervious concrete that is used as a base material for ground profile construction. The company was founded in 2012 and currently employs just over 10 people, generating a yearly revenue in the range between USD 5m and USD 10m. In the end of 2018, the company initiated a transition process, where the intention was to increase control and formalize its overall management control setup. The company has specifically asked for anonymity and is therefore labeled ConcreteCo in this study.

3.3. Data Collection

Primary data was collected between February and April 2020, and consists mainly of interviews with company representatives. These interviews have been complemented with observations made at the company headquarters, as early as the end of 2018 when the formalization process was initiated. As the study focuses on a company transitioning from birth to growth in the OLC, the company investigated is small compared to what has been the case in most previous MCS research. Therefore, interviews were held with all key individuals in the company that have been involved in the transition process, but also externals, such as a MCS consultant and the Chairman of the Board, possessing insights on how the transition evolved. To complement interview data, observation sessions were conducted, where one of the authors participated in weekly meetings, as well as more formalized MCS implementation sessions. Interviews conducted are summarized in Table 1 below. Further details can be found in Table 3 in the Appendix.

Interviews		
Interviewee	Referred to as in text	# of interviews
CEO & Founder	CEO	4
Business Controller	Controller	3
Operations Manager	Operations Manager	3
Sales Manager	Sales Manager	3
External Consultant	Consultant	3
Chairman & Investor	Chairman	3
Total		19

Table 1: Interview data

All interviews were conducted anonymously, and all interviewees were informed about this prior to the interviews in order to protect the interviewees' integrity. Furthermore, all interviewees were informed about the scope of the study, to facilitate more productive discussions. Interviews were held over a video conference system, as opposed to meeting the interviewees in person, since the office location was deemed too far away from the authors' location. All interviews were held in English, and all interviews except those with the Chairman and one introductory interview with the CEO were recorded and transcribed. During the four non-recorded interviews, extensive notes were taken instead. In total, 19 interviews were conducted, averaging 35 minutes, and both authors were present during all interviews.

A first, longer, interview was held with the CEO of the company to get a more in-depth view of the process. During that interview, detailed questions were asked about the actual process, in order to fully comprehend the situation. This interview, along with studies of secondary data described below and the theoretical framework of the study, allowed us to develop an interview guide based on the situation in the company. The interview guide with a predetermined set of questions was thereafter continuously adopted for different interviews in order to adjust for the role and experience of the specific interviewee, in accordance with Dubois and Gadde (2002). The interviews conducted have been semi-structured in their nature, allowing interviewees to elaborate freely on their experiences, while allowing us to ask additional control questions in order to reach a more in-depth and comprehensive understanding (Saunders et al., 2007). Moreover, questions were open-ended, allowing us to explore new and emerging lines of enquiry during the interviews (Ryan et al., 2002; Bryman & Bell, 2011), even though certain structure was in place to ensure that the same topics were discussed during each interview, promoting consistency. During observational sessions, no specific questions were asked. Instead, notes were taken to get additional insights and observe more informal conversations between employees, externals and the CEO, complementing interview data.

In addition to primary data collected through interviews and observations, secondary data has been collected by the study of documents. Documents include (but are not limited to) notes from observation sessions, financial performance and targets, as well as a handbook for the MCS control package being implemented (EOS).

3.4. Data Analysis

An abductive reasoning process was used to analyze the data collected in the study, implying that the empirical findings and the associated theoretical development materialized iteratively over the entire research project based on findings in the empirical data (Dubois & Gadde, 2002; Lukka & Modell, 2010). Such a process was used in contrast to an inductive approach where the same starting point is used in the empirical observations, but where an inductive reasoning has more of an automatic generation of

theoretical findings (Lukka & Modell, 2010). This choice allowed us to start assessing the empirical data based on our theoretical framework, and to constantly develop the framework as new insights appeared while assessing empirical data through the lens of previous research. Moreover, this further facilitated the process of refining the research question, in a desire to constantly reach an optimal methodological fit (Edmondson & Mcmanus, 2007).

The process of analyzing data started with an immediate discussion between the authors after each interview, where main conclusions and insights were gathered, based on our abductive approach. Thereafter, interviews that were recorded were transcribed, and interviews not recorded were instead reviewed while notes taken during the interview were refined and organized. Thereafter, all gathered data was coded and structured around the theoretical framework of the study. In the coding process, a number of categories were created, harmonizing the different answers received during interviews (Taylor et al., 2015). These categories were based on both the theoretical framework and the empirical patterns that emerged during the study. Furthermore, in the process of transcribing data, certain patterns and keywords emerged, and by relistening and revisiting each interview, these aspects could be interpreted more accurately by incorporating the context in which the interviewee was in.

3.5. Research Quality and Criticism

Quality of research is often determined based on two main criteria, being validity and reliability (see e.g. Dubois & Gadde, 2014), however, the usefulness of these criteria in the qualitative spectrum of research has been questioned, as opposed to quantitative research where the criteria were initially developed. As an alternative, Lukka and Modell (2010) developed a different set of criteria that could be used for qualitative research, being authenticity and plausibility, and other scholars have developed similar ideas, such as credibility and authenticity. The authors define authenticity as trustworthiness, implying that the researcher appears trustworthy in his or her description of empirical data, drawn conclusions and suggested contributions to the domain of research. Authenticity is said to increase with the richness and in-depth description of empirical data and showing inconsistencies and tensions, as well as highlighting the complexity of the study and the materials on which it builds on. This gives the reader confidence that the authors have “been in the field”. Moreover, plausibility focuses on the arguments brought forward in the study, and whether these seem convincing and make sense (Lukka & Modell, 2010). Thus, plausibility increases when the reader feels that the researcher underbuilds the theoretical interpretation being made.

In this study, the major risk with regards to authenticity is the fact that the sample size of empirical data is limited, not only in the number of interviews and observations conducted, but also due to the fact that the method is a single case study. A single study

was chosen as opposed to a multiple case study as proposed by Eisenhardt (1989), making the sample size lower which in itself can limit the authenticity. However, the reasoning was to increase authenticity by providing rich and nuanced descriptions of the empirics by combining in-depth interviews with observational data. The intention has been to highlight details, inconsistencies and tensions in the empirics, in line with what Lukka and Modell (2010) propose. Furthermore, all quotes and key observations have been approved by interviewees before any conclusions were drawn upon those. It should also be mentioned that the exact same type of study has not been conducted in previous research, at least to our knowledge, which limits our ability to utilize previously successful methods and interview structures. This risk has been mitigated by utilizing the same interview guide during all interviews, with some exceptions, and thereafter coding the empirical data in a structured manner, in accordance with Taylor et al. (2015). To increase plausibility, a description of the abductive analysis process utilized in the analysis phase of the study has been compiled.

Lastly, the theoretical framework of the study partly builds on Moores and Yuen (2001), and in their conclusions, they proclaim that limitations arise “*where the data obtained were mainly from CEOs’ self-reported measures of all the constructs*”. They further write that the majority of firms studied were not large, implying that the CEOs have had very broad and complete knowledge of the systems used in each firm. This certainly applies to this study as well, where one single person (the CEO) has a large impact on the company, therefore lowering the generalizability of the study. Even though there are some limitations, we believe that the method and the overall study is generalizable for similar companies, being birth and growth companies within the industrial segment.

4. Empirical Findings

This section presents our empirical findings, based on our theoretical framework. Section 4.1. provides an empirical background, and section 4.2. highlights the state of the MCSs at the birth stage. Section 4.3. provides an overview of the formalization process, including the triggering event and a detailed description of the process outlined by activities, events and choices. Lastly, section 4.4. highlights the state of MCSs post the formalization process.

4.1. Empirical Background

ConcreteCo is a privately owned company with its origins in Sweden. The company was founded in 2012 and has since then established itself as the market leader for construction of golf bunkers and other sports fields. The company is characterized by a high degree of innovativeness, inspired by the founder and CEO of the company who invented the product being sold. All interviewees highlight how the company is very entrepreneurially driven, affecting both the culture and the way of working.

“The CEO for me is a product developer and a visionary and that is what his strengths are. He not only understands and enjoys creating new products and innovations, but I think he understands intuitively, maybe less statistically, the potential of new products” - **Consultant**

The visionary way of leading the company comes with consequences, and all interviewees highlight a lack of structure and definition of responsibilities.

"The CEO leads the company with a vision of creating a world-leading product that revolutionizes an industry, more so than with the intent of following a strict budget and delivering according to a predetermined process" - **Chairman**

By the end of 2018, the company decided to initiate a process of change where the intention was to improve the control of the company with the usage of more formal MCSs. A consultant who was an expert in both marketing and a specific MCS package was brought on. The MCS package is termed EOS, Entrepreneurial Operating System, and consists of six key elements intended to help organizations achieve better responsibility definitions, processes for information sharing, monitoring of data, as well as structuring the cultural aspect of a control system. The system is broad in the sense that it captures all elements described in Sandelin's (2008) definition of a control package, and the CEO decided to utilize the Consultant and the EOS system to enhance control of the company.

4.2. Management Control Systems at the Birth Stage

Prior to the initiation of a change process, ConcreteCo was relying primarily on informal modes of control, if any. The Sales Manager, who joined the company in conjunction with the initiation of the formalization process described what the situation looked like when he commenced his position.

“Before any changes were made, we did not have any structure at all” - **Sales Manager**

The CEO had relatively similar thoughts when thinking back to the control situation before the formalization process, also hinting at the hands-on and informal nature of feedback and information flows.

“We have not had systems, we have not had bonuses [...]. It has been more relying on me to pick the right people for the job, and the employees have all been motivated, basically on a daily basis, without much plan to it” - **CEO**

In terms of the control package as defined by cultural, personnel, action and results controls, not much was in place. As indicated by the above quote, there was some presence of informal personnel controls, with an emphasis on selection of employees and relying on motivating people's desire to do the right thing. While many of the interviewees mentioned that culture was an important influence for the employees, the Consultant described it as a friendly family-feeling culture, but that there was no indication of cultural controls being spelled out or being formalized.

“There was no purposeful cultural control system. There is a culture, but whether you can use the culture is the question. There was not a purposeful system to evaluate the culture and tweak it where needed to help achieve the results desired” - **Consultant**

Regarding the remaining control elements, action and results controls, essentially nothing was used for control purposes. A budget existed, but it was based largely on estimates from sales personnel that did not take it seriously, and it was not used for decision-making or control purposes, but rather as something that just had to be submitted to the Board, explained the Operations Manager. It was also clear that a lack of action controls was causing trouble for the company by creating a large amount of uncertainty regarding margins on projects.

“There was a major lack of structure and constraints. There was just very little from the pricing process, to inventory tracking, there was nothing. It was just a lot of verbal handshake type operations, with very little accountability” - **Controller**

Control was initially achieved through the entrepreneur and CEO. This “social control” worked satisfactorily while the company was in its early stages and consisted only of a few people. However, well before any change process was initiated, a geographical

expansion and increased headcount had led to a greater complexity of operations, making it difficult to successfully run the organization using social controls. It then became clear that the entrepreneur and CEO was not a manager per se.

“He is the tinkerer, thinker and the builder behind the company. He needs people surrounding him to keep him focused and to manage the team” - **Sales Manager**

“He is the CEO and inventor, but he does not have the personality of a true manager. Thus, the sales personnel did not do what he wanted them to do but rather what they thought was right” - **Operations Manager**

As hinted at by one of the quotes above, this led to control issues that were obvious to some of the personnel but not immediately obvious to the CEO himself.

“I am a difficult person to work with, meaning I do not set any rules, but I have strong ideas. So, sometimes it can be hard to know when you are doing something that I would not approve of. I just kind of assumed everybody has a feel for that, but I learned the hard way that people do not have a feel for that all the time” - **CEO**

Thus, the management of the company at the birth stage was, and was perceived as, very informal, which contributed to the lack of structure and made apparent the lack of formal control practices in ConcreteCo.

4.3. The MCS Formalization Process

4.3.1. Triggering Event Causing the Initiation of the MCS Formalization Process

The lack of a control package in the birth stage of ConcreteCo was evident, and all interviewees highlighted that this started to have negative effects, all from their own perspectives. The Operations Manager highlighted a lack of structure in general and that formal procedures had not been outlined on how various tasks should be managed.

“There were no broad ideas on how to improve and grow the company. Before, it was just getting up to your daily tasks to keep the company running” - **Operations Manager**

The Controller shared this view, and mentioned that there was a lack of information, something that is important for him in his role. From the Board’s perspective, there was also a lack of information, as the Chairman specifically mentioned a desire to have more financial measures in place to analyze and understand company performance.

"Being a controller, I want to have good documentation, I want to have control, good detail, and there was a lack of detail just everywhere" - **Controller**

Interviewees explained that these aspects triggered a desire to improve the overall structure, but the most evident problem was the lack of control over certain employees,

something mentioned by all interviewees as the main problem in ConcreteCo. The CEO expressed how he felt a frustration over the sales personnel, as he had tried numerous times to control their behaviors, without satisfactory results. The company was divided into two teams, the HQ team and the sales team, managed by the former Sales Manager. Everyone shared insights evidencing that there was an underlying conflict between the CEO and the former Sales Manager, something that was even discussed on Board meetings.

“When I first came on board, there was a very divided team atmosphere. There were two teams, one with the sales personnel and one with the office staff, and that is just not going to work in an organization” - **Sales Manager**

The Chairman explained that a recurring topic on Board meetings was how to enhance control of the former Sales Manager and his sales team, both when it comes to controlling what they are doing and how they perform. Both the Chairman and the CEO expressed that they did not know how to deal with the situation, and this was further supported by ongoing observational data. On one hand, the Sales Manager in question was deemed important for the company, due to his established network and association with the brand of the company, but on the other hand, he was causing problems and did not adhere to what the CEO advocated in terms of constraints and guidelines, making the CEO continuously contemplate what to do to regain control.

"I had tried everything from daily calls and quality control protocols to implementing a CRM system, but he was basically running his own show, and, in the end, I just did not know how to handle the situation. [...] The problem was that he was so important to the business, but also the biggest problem that I had to deal with” - **CEO**

Employees involved on a day-to-day basis had seen this problem grow over a long period of time, but it became especially clear for the Consultant and the Chairman that the CEO suddenly realized that this problem was causing such severe issues that more drastic measures were necessary, even though he did not know what those measures should be.

“Oh yes, we were having to go back and replace installations because procedures were not followed, and there were a lot of things that were costing us money. [...] and I felt like we have got to find a model that we work according to and where everybody buys in and is part of that model” - **CEO**

Even though the underlying control problems had been a recurring topic on Board meeting agendas, the Chairman explained that the problem was pushed forward until a moment when the CEO started to see how the business suffered, including the fact that the 2018 budget was not reached. The Consultant shared this view and highlighted that there is always a triggering event, meaning that people will have to come to a realization, also explaining that the current trajectory did not work based on where the CEO wanted the company to be. However, the Consultant shared the Chairman’s view that the CEO

did not fully grasp how to deal with the situation, as he initially recruited the Consultant to help with the company's marketing efforts. The Consultant himself understood that it was rather the company's control practices that were not sufficient, and that the company needed systems to gain control of its performance, long-term planning and culture.

"I must have started asking him about his management system and felt like he would benefit from the EOS because we obviously had to go from marketing, which he was very-very focused on to begin with [...]. So, there had to be a conversation about that and there had to be things said that made him say, *'those are problems I'm dealing with'*" - **Consultant**

4.3.2. External Influences and the Outset of the MCS Formalization Process

Building a formal MCS control package was something that the CEO had never done before, considering his more entrepreneurial background. He further expressed that he did not fully grasp what the right solution would look like. This may explain why he came to the conclusion that the company needed to enhance its marketing efforts, intending to improve overall company performance by growing the business rather than dealing with control problems that increased costs, as highlighted in section 4.3.1. The process started when the CEO engaged the Consultant, who in turn made the CEO understand that the EOS system would be a more appropriate solution to the frustration he felt. The Consultant was influential on the CEO, as he quickly started to advocate the ideas of formalizing the company's control systems.

"When [the CEO] wanted to implement the EOS system, that evolved very quickly. I knew there were issues in terms of managing people, but I believe that [the CEO] suddenly realized that a change was needed, which in turn triggered that change" – **Chairman**

Even the CEO admitted this, however, he also made it clear that he did not feel a lack of systems, only a lack of control, and that he had tried to wait as long as possible to formalize operations. However, he eventually came to the conclusion that it was inevitable, attributing his understanding to the Consultant's advice.

"I am not much of a control guy, I have never worked like that in my life which makes me incredibly ill-suited to build up a system in the company. It was not that I felt that we were lacking a system, it was rather 'okay how long can we do this without a system and still get by'. But finally, it was getting too expensive and I realized that we had to have a system" - **CEO**

Everyone except the sales team led by the former Sales Manager were happy about initiating a formalization process, based on the EOS system, explained all interviewees. The Consultant mentioned that the team was more welcoming than most groups that he had worked with.

“I was most certainly [welcoming towards a formalization], the inside [HQ] staff was, we knew that we had to put these in place, however, the three sales guys were totally against it because they knew that they were having more accountability put on them and they were 100% against any policies and procedures put into place” - **Sales Manager**

The CEO later added to his view of not wanting to build a system, by stating that he is not opposed to a system per se, but rather being the one coming up with one and implementing it, as he neither knew what it would look like, or what it should consist of.

“And I do not oppose having a system, but I am really bad at coming up with a system and implementing a system, I do not fit very well in a system” - **CEO**

Furthermore, the CEO explained that “*most people are not like me*”, and that he felt that the employees were not following his way of thinking, thus believing that they would appreciate a system. Even though everyone in the HQ team was welcoming on an individual basis, some inconsistencies were noticed between the interviewees in terms of whether they thought others were welcoming or not.

“I do not believe anybody else, honestly, was in agreement with it, or I think most people thought it was a waste of time. Some aspects they might have been on board with, but in general, I think they were not on board, per se” - **Controller**

These inconsistencies likely appeared due to the Consultant’s way of working with the group. The Sales Manager felt that meetings could last for days without accomplishing anything, which the Controller added to by mentioning that some people were frustrated by his process. This was also observed by one of the authors participating in two of these meetings, where two days were spent mostly talking about the underlying principles behind having a system, rather than implementing the actual system, which became more and more theoretical, rather than practical and actionable. This in turn made it troublesome for employees to recognize what the process would lead to and the future role of the system in the organization.

“We all stepped out of those quarterly meetings thinking ‘why are we paying this guy’, we just sat in this room for 16 hours for him to be a moderator, we can do this all on our own” - **Operations Manager**

“[Consultant quoting how he imagined that ConcreteCo employees felt] ‘Is there any end to this process? I am working harder than I ever have, is there any end to this process or is this what it is going to be like for the next year, two, three years?’” - **Consultant**

No interviewee said that there were any moments of despair, even though there was a clear frustration at times amongst the HQ team. The CEO even expressed that he had

trouble seeing the light at the end of the tunnel, and eventually, he started to question the results of the implementation, as the company was still lacking profitability.

“I think a lot of people in the organization were absolutely doubting along the way, wondering where this was leading” - **CEO**

Furthermore, interviewees explained that the Consultant was a moderator providing guidance. The Sales Manager explained that he managed to make the company focus on a couple of things, rather than 50, however, others problematized the fact that he was not in charge of the actual implementation. This was also observed by one of the authors, as it was clear that it was not spelled out who in the organization was owning the implementation process. All the components were rather discussed in-depth once a quarter, and thereafter left until the next implementation session, a view shared by the Controller.

“My personal problem with it was that it was done once a quarter, and then it disappeared. It was not maintained during the time. It lacks all value if you do it once and drop it” - **Controller**

4.3.3. MCS Formalization Process Outlined by Activities, Events and Choices

The Consultant proclaimed that systems like the EOS system take years to implement, and the system is therefore implemented one part at a time, based on quarterly implementation meetings when everyone involved is gathered for a two-day session (activity 1). The system is based on six key elements, where the first being implemented was the Vision component, including cultural control¹ aspects such as core values and long-term goals. Concurrently, the Traction and Issues components were implemented, which resemble action controls¹, structuring how people should raise ideas and issues, and how these are translated into to-do's and focus areas for employees. During the second meeting, the People and Process components were implemented, where the Process component is also an action-related control element, outlining key processes in the company, such as quoting processes, pricing processes, to make sure that people are following the same processes. The People component relates to personnel controls¹, and is about defining people's responsibilities and accountabilities, as well as structuring the hiring process for future employees to fit the needs of the organization. Lastly, the Data component was not introduced until in the fourth meeting. This component focuses on results controls¹ and includes items such as scorecards and defining KPIs for the organization and employees to constantly track leading and lagging indicators, but also to enhance accountability. The Consultant explained that it was his decision to implement the items in this way, based on what he saw that the company needed most urgently.

¹ The categorization of EOS components into the object-of-control framework (Merchant & Van der Stede, 2007) is done by the authors to facilitate the reader's understanding of the EOS system

Moreover, the Consultant also conducted interviews with key individuals to better grasp the situation prior to initiating the implementation process (activity 2).

“For me, EOS is an overall system to help an organization take a direction and begin to put elements in place to have the organization execute at scale” - **Consultant**

In addition, in the beginning of the process, everyone was given the book “Traction”, outlining key elements in the EOS system, and prior to the first implementation meeting, everyone had to read it (activity 3). On top of that, the Operations Manager explained that weekly meetings were held internally, without the Consultant, where the HQ team attempted to keep elements of the EOS system active (activity 4). Such meetings had never been held before, according to the Sales Manager, and all interviewees seemed to find these meetings valuable.

“We also had weekly meetings in the office with the management staff, which had never been done before, and that was to find out what everyone was doing, as well as seeing how we progressed, helping us remain focused” - **Sales Manager**

As it emerged quickly that the sales team led by the former Sales Manager was not buying into the system, the first critical choice in the process took place, which was to let go of the two Sales Representatives working under the former Sales Manager, and replace them with two new individuals, in an attempt to gain control over the sales team (choice 1).

“The sales employees were an obstacle because of their negative attitudes to the change. Also, the previously relaxed culture in terms of lack of structure was also working against the change” - **Operations Manager**

This change had an immediate positive impact, and what is described as the HQ team gained more control over the company’s activities, especially the CEO. Shortly thereafter, it was decided to let go of the former Sales Manager as he was working against the system being implemented (choice 2). All interviewees explained that this employee had been important for the company, but also been the origin of problems for a long time, and that all changes being implemented triggered the decision to let him go.

“Yes, we had to make changes, and finally get rid of this guy. He was not buying into the system, he was just kind of doing his own thing” – **CEO**

"The people that welcomed it with open arms are still employed here, and those that were saying ‘this is dumb, why are we doing this’, do not work here anymore" - **Operations Manager**

Moreover, the Controller explained that one reason for the former Sales Manager to work against the system was that they were not fully included in the implementation process, increasing their frustration. This is a likely explanation for why some interviewees mentioned that a key risk inherent in a formalization process is personnel.

“There are risks of having some people fall off the wagon, like in our case, and that might cost you. You must be careful not to lose the people you need, but some simply will not fit into the system.” - **CEO**

Now that the most crucial underlying control issue was eliminated, it started to emerge that the company was lagging behind on the budget. The company was ~20% behind on revenues halfway through the year, and all of the activities that had taken place had caused the company to lose sight of profitability (event 1).

“Things certainly improved, especially when we finally decided to fire the [former Sales Manager], but I was still missing financial measures and analysis. We were once again lagging behind on the budget, and it became clear that the system that was implemented did not capture the most fundamental purpose of a company, profitability” - **Chairman**

However, the CEO explained that there was a lack of execution and underlying analysis going into the budget for 2019, implying that the budget was not even realistic, a view not shared by the Controller. Ongoing observations made by the authors confirm the CEO’s view, after investigating budgeting documents, where no in-depth analysis or assumptions were found.

“It was a lack of realistically assessing every single situation. There was a lot of talk about what people's ideas were, what their feelings were about the budget, and where we could be or could not be. But there was not enough research done, and there was not enough data within the model” - **CEO**

As a consequence, the Chairman expressed that the Board saw a need to conduct an extensive review of the business. During the interview, the Chairman expressed a lack of financial measures and analysis numerous times, and as it emerged that there was a big discrepancy between the budget and the outcome, the Board decided to let one of the Board members conduct a Full Potential Review of the business (event 2).

“I still saw a need for more financial controls. I have constantly felt a need to understand the underlying business to a greater extent, profitability on a project-by-project basis, and why we did not manage to live up to our expectations” - **Chairman**

During this review, three key findings emerged, both the Chairman and the CEO explained. The first one was that the liquidity in the company started to dry up, partly as a consequence of negative financial results. The second finding was the lack of results from the EOS implementation. As a consequence of the first two findings, the third was a need for the management team to be complemented, explained the Chairman.

“So, I was struggling with the fact that we were not getting any results. It is hard to measure results and we never really got to implement the model quite fully the way I wanted to do it” - **CEO**

As the quote above indicates, a frustration emerged over the lack of impact from the implementation of the EOS system (event 3), which was further observed by one of the authors. However, there was a clear discrepancy among the interviewees regarding how successful the implementation of EOS and formalization of their MCSs had been so far. The Consultant and some interviewees expressed that the team accomplished a lot over the first year, whereas the CEO reacted to a lack of follow-up and ownership of what had been implemented. One problem observed by one of the authors, participating in a number of weekly meetings, was that information flows somehow remained informal. The CEO expressed that even though some of the EOS system's key elements are pre-defined flows of information, these were not always followed. The Controller expresses that after the 1.5 year process, the company still has a way to go, especially in terms of information gathering and sharing.

“I would say the majority is still informal. ‘Has it become more formalized?’ Yes, but it has farther to go” – **Controller**

Later during 2019, the company continued struggling to meet financial results, and the lack of liquidity became more severe (event 4). The Controller explained how he had to spend a majority of his time on cash flow management, and as a consequence, the Board was compelled to conduct a share issue to strengthen the liquidity in the company (event 4, cont'd). Thus, the CEO once again felt a frustration, something that could be referred to as a second triggering event. However, this time, the frustration was associated with the EOS system's incapability of facilitating the improvement of financial results in ConcreteCo.

“Yes, profit and cash were a crisis throughout [the year of 2019], and that created a lot of stress from the top, which then just trickles on down” - **Controller**

The company carried out the share issue, and while entering 2020, the Board decided to implement some changes based on the Full Potential Review. The CEO felt that even though they had taken on the process of formalizing control systems and implementing EOS, financial results did not improve. The most important change, as expressed by the Chairman, was that the person carrying out the Full Potential Review entered more of an operational advisory role, helping and complementing the CEO (choice 3).

“We needed to improve our analytical capabilities and take control over our financial results in order not to risk a new liquidity crisis. We also needed to implement more financial measures and be more proactive in our decision making” - **Chairman**

Even though it was primarily the CEO who felt the lack of results from EOS, the rest of the interviewees in the company started to feel a frustration over the contribution from the Consultant. The authors could furthermore see this frustration during the last quarterly implementation meeting where one of the authors participated.

“So, I feel that we all thought the content was good and the results were going to be good based on the system. But we did not think that we needed the Consultant himself at those meetings, and that we could take this process on just within our company.”

- **Operations Manager**

As a consequence, the CEO made the decision, jointly with the Board member supporting operationally, to pause the usage of the Consultant and take on the rest of the implementation process internally (choice 4). This was appreciated by the employees, as they all felt some level of frustration over his contribution and way of working. There was a consensus that the implementation reached new heights when the continued implementation of EOS, alongside additional results controls, was conducted internally. This was partly attributed to one of the Board members’ ability to influence the CEO with the Board’s perspective, helping him understand that the Data component in the EOS system was not sufficient from a financial analysis and control point of view.

“The EOS system, I think it was great to implement it. And it was a great decision to get the Consultant out of it and a great decision to keep it going within our company”

- **Operations Manager**

“All changes that happened were good, especially since the former Sales Manager was let go, but that did not help improving our analytical capabilities and understanding of financial performance, something that we were truly missing” - **Chairman**

Process Summary			
	Activities	Events	Choices
1	Quarterly implementation meetings	Lack of profitability and budget underperformance	Replacement of Sales Representatives
2	Interviews with key individuals	Full Potential Review	Replacement of former Sales Manager
3	Reading of the EOS book	Lack of impact from EOS implementation	Complementing management with Board assistance
4	Weekly follow-up meetings	Liquidity crisis and share issue	Paused use of consultant and in-house implementation

Table 2: Summary of activities, events and choices

4.4. Management Control Systems at the Growth Stage

4.4.1. Overview of Control Package

Roughly one and a half years after the initiation of the change process, ConcreteCo had progressed relatively far into their formalization process and transition to the growth stage in the life-cycle model. The outcome seemed to be viewed positively by all employees who are still employed at ConcreteCo, which is attributed both to the new personnel and to the implementation of new systems.

“With the new people on board and the processes that have been implemented, including among other things the EOS system, the company is in a better place than ever before” - **Operations Manager**

“It is a totally different environment. All are working as one unit, we are now structured as one team with one goal” - **Sales Manager**

The changes and new systems were perceived to have generally formalized the company and its control practices.

“I would say that there is more structure in place, and we have much greater knowledge of what is going on in the business financially by tracking and analyzing more financial data. We also have a more carefully developed budget in place and salaries are dependent on delivering on the budget” - **Chairman**

In terms of the four control elements, cultural controls had been improved by strengthening the reward structure, building a more results-oriented culture. The Sales Manager mentioned that sales personnel had gone from previously being paid a high base salary to now having a better incentive structure. Personnel controls now consist of more structured hiring processes, where people are hired based on better role descriptions. Interviewees also mentioned better segregation of duties and definition of responsibility.

“Prior to [the changes] we had sales staff that was all over the country and did not really know where they were going. Now, we have divided up the country so that the sales personnel that is out there know that they have to focus on a specific area” - **Sales Manager**

Action controls have seen a significant development relative to the situation before, when there were essentially no action controls in place. Major constraints have been implemented as part of the EOS system, including processes for sharing issues and ideas and allocating to-do's and quarterly focus items to employees, in addition to clear boundaries regarding expenditures and travel guidelines for sales personnel, unrelated to the EOS.

“[Before], they could go out and eat expensive meals, stay in expensive hotels and nobody really made an effort to look at those things. Now they have a daily budget on food, hotel prices and that sort of thing” - **Operations Manager**

In addition, sales personnel are no longer allowed to give quotes in person without receiving approval from the HQ, allowing margins to be reviewed prior to closing new deals, enabling a better overview of profitability on a project-by-project basis. These constraints are aimed at increasing financial awareness, promoting a more results-oriented culture, and avoiding further surprises relating to liquidity and financial performance, explained the Chairman.

In terms of results controls, a number of items have been implemented. Both the Chairman and the CEO explained that a much more rigorous process was carried out in conjunction with the 2019 budgeting process. Moreover, there is a monthly forecasting procedure in place, as well as a weekly scorecard that highlights quotes, purchase orders and financial results from the past week. The Operations Manager highlighted that everyone is now more aware of what is going on in the business. Most importantly, the CEO explained that he felt that the work that was carried out in the end of 2019, as a result of the Full Potential Review, has enabled him and the company to enter 2020 with a much greater financial plan and understanding of what it will take to deliver on the 2020 budget.

“We have been looking at each job individually each month and each quarter, compiling spreadsheets on forecasts. I think we have all been more involved in that process now” - **Operations Manager**

4.4.2. Internal Consistency and Appropriateness of the Implemented System

As the company had moved into the growth stage, most interviewees had a general perception that ConcreteCo had become more uniform as systems were implemented, implying a higher level of internal consistency.

“I think we are definitely a lot more aligned now than we were, there is no doubt about that. You can take control on the sales personnel, we have a strict budget, we know we cannot spend too much and those control measures that we have in place right now, they reflect our budget” - **CEO**

However, while control and seemingly also internal consistency had improved by the time of the interviews, there was an initial phase during the formalization process where both aspects seemed to have suffered. The cause of this appeared to be twofold. Firstly, information flows remained informal, and did not always follow the outlined structure under the Traction and Issues components of EOS, as highlighted in section 4.3.3. Moreover, the previously dominant source of control according to most employees, the company’s cultural controls, was seen to become less influential as a more formal

structure was being implemented with increased focus on behavioral constraints and financial measures. This initial lack of clarity seemed to cause some confusion among the employees, which negatively impacted the effectiveness of the new structure being implemented. It was not until the external stakeholders stepped in, by way of the Board, and acted to establish a results-oriented culture based on stricter financial monitoring, as highlighted in section 4.3.3., that the uniformity in controls began to materialize.

In addition to the issue of uniformity in controls, some discrepancies were observed between the problems the organization was facing and the actions taken to improve the situation. Two key problems appeared to be present in the company before the formalization process was initiated. Firstly, there was a lack of control of the former sales personnel, causing numerous other problems. Secondly, the company was not profitable. Thus, it is interesting to reflect on whether these issues were remedied by the implemented system. Most interviewees explained how the path to better control begun when the decision was made to replace the previous sales personnel, but also pausing use of the Consultant.

“I would say it is 80% the people and 20% the system that helped dealing with the handling of [the former Sales Manager]. The system was just support for [the CEO] and I think we knew what needed to be done, and it took a year to judge the degree to which that action would have a negative impact on the company” - **Consultant**

The system facilitated in solving the personnel problem indirectly, but it was not necessarily the system itself that solved the problem. This is something that the Sales Manager also shed light on.

"I do not believe that the EOS system solved what was necessary. I believe it helped structure us and helped us stay focused, but no, I don't believe it solved what we were stuck with at the very beginning” - **Sales Manager**

Hence, as most interviewees expressed, the path to better control may have begun with the implementation of the EOS system and the following personnel changes. However, the Chairman held that it was far from sufficient as a remedy to both of the organization's problems. As illustrated in section 4.3.3., the second problem, profitability, was not solved until the very end of 2019. As the Chairman further expressed, this seemed to stem from a neglect of results controls prior to the liquidity crisis and share issue. The response to that crisis, a review of the business and operational engagement of one of the Board members to assist the CEO with more financial capabilities, yielding an increased focus on results controls, appears to have been what was required to achieve uniformity and improved control in the organization.

5. Discussion

In this section, the case findings are analyzed. In section 5.1, we contrast our findings with previous literature on MCS from a life-cycle perspective and MCSs in early-stage firms. In section 5.2, we analyze our key findings extracted from the MCS formalization process using process theory. Section 5.3 elaborates on the linkage between sensemaking and the process of formalizing MCSs. Finally, in section 5.4., we conceptualize our findings and build on them to develop a model for MCS formalization processes.

5.1. Personnel and Internal Consistency in MCS Formalization

There exists a consensus within previous MCS life-cycle literature that the presence of MCSs, and their formality, tends to change as firms progress through the OLC (Moores & Yuen, 2001; Kallunki & Silvola, 2008; Su et al., 2015; Silvola, 2008; Granlund & Taipaleenmäki, 2005). Furthermore, previous research has established that firms in the birth stage are often characterized by relatively informal control packages (Moores & Yuen, 2001; Cardinal et al., 2004), that the transition to the growth stage creates the greatest need for formalization of MCSs (Moores & Yuen, 2001) and has a mutually reinforcing relationship with MCS existence (Davila & Foster, 2007; Granlund & Taipaleenmäki, 2005). Our findings support the consensus that the life-cycle stage influences the adoption of MCSs and that firms in the birth stage tend to rely on informal controls, in line with e.g. Moores and Yuen (2001) and Cardinal et al. (2004). Prior to the formalization process, the source of control in ConcreteCo was largely its culture, impacted by the CEO and entrepreneur, complemented by informal elements of personnel controls. However, somewhat in contrast to what was observed in Collier (2005), the CEO's influence, or social control, did not suffice as the firm grew and expanded geographically, resulting in a lack of control. Thus, as the firm moved towards the growth stage, formalization and an establishment of systems appeared necessary. Hence, our findings also support that the movement to the growth stage creates a significant need for change and formalization, in line with Moores and Yuen (2001).

As ConcreteCo initiated a process of formalization, the EOS system that was introduced centered around cultural controls and supported by personnel- and action controls (Sandelin, 2008). Our findings support the relevance of the "control package view" in line with Sandelin (2008) and Malmi and Brown (2008), as control elements had to complement each other to achieve control. Cultural controls were the primary mode of control, but initially, the package did not function as intended because of issues with personnel, which undermined the entire control system. This situation persisted for some time, as the organization had trouble understanding and deciding on how to deal with the personnel in question. The CEO expressed frustration after having attempted multiple remedies to no avail, which increased uncertainty and further diminished the

organization's ability to gain control of the situation. In turn, this created an information flow issue, as the problematic sales personnel could continue disregarding the channels of information that were put in place as part of the EOS system, forcing the company to continue depending on informal flows of information. At this stage, the company appeared to be in an even worse control situation than before the formalization process started. Hence, our findings suggest that personnel compose a key risk in a MCS formalization process, as their willingness and capacity to contribute to the transformation can have a significant impact on the length and outcome of it. This could constitute a significant barrier to change in a formalization process, in line with Kasurinen's (2002) model for accounting change, as was the case in ConcreteCo. The Consultant in charge of implementing the EOS system highlighted that the system is 80% about the people using it, accentuating the importance of selection and training of personnel, a key component of personnel controls according to (Merchant & Van der Stede, 2007). In extension, it could be proposed that firms which have sufficient personnel controls may pre-emptively deter such control crises as the one observed in ConcreteCo by facilitating the right selection of employees. Our findings thus suggest an elevated importance of personnel controls compared to Sandelin's (2008) findings, as it is seen to function as a hygiene factor in the control package.

Eventually, the company made the decision to lay off the three employees that were working against the change, while also strengthening its personnel controls by reworking its hiring process, more clearly defining job responsibilities, and implementing an incentive structure that, using rewards, would improve alignment and avoid similar problems in the future. Simultaneously, action controls in the form of constraints, reducing the autonomy of the sales personnel, were put in place. Together, the newly added personnel and action controls facilitated the role of cultural controls as the primary mode of control, and eventually also allowed information channels to be used as intended, formalizing the information flow within the organization. The company's control package became more internally consistent, which had a clear positive impact on the organization, emphasizing the importance of internal consistency in the control package, in line with Sandelin (2008) and Collier (2005). However, an internally consistent control package was seemingly not sufficient to yield satisfactory control. While the extant control package was perceived by the interviewees to serve the company well, profitability continued to be a problem. This emerged as a key topic for the company in the latter part of 2019, as it became clear that performance was not in line with the budget. Had the control package in ConcreteCo been more geared towards results controls, the impending profitability and liquidity crisis could have been foreseeable, and thus could have been avoided. Hence, in contrast to Sandelin (2008), our findings indicate that control packages that are internally consistent are not always sufficiently functional regardless of their composition. Based on our findings, it seems that it is not the (in)formality or composition of an organization's control package per se that lays the foundation for success, but rather how well it corresponds with the issues that the organization is facing.

5.2. MCS Problem Solving Consistency in MCS Formalization

The purpose of this study is to use process theory as illustrated by Langley (1999) to facilitate the understanding of a MCS formalization process. The theoretical model developed in section 2.3., combining the OLC with the process model looking at activities, events and choices and integrating the triggering event from the GGM, has helped outline such a process in ConcreteCo on a micro level. This model has helped further the understanding of what defines and potentially prolongs the formalization process, contributing to the MCS life-cycle literature in general, and Moores & Yuen (2001) in particular. Langley's (1999) temporal bracketing strategy for sensemaking from process data has been used to divide the formalization process into four temporal phases, namely the pre-formalization phase, the initial formalization phase, the second wave of formalization phase and the post-formalization phase. Langley describes how such a strategy can aid in moving from the rich and complex process data to some theoretical understanding. In fact, several hypotheses about the process, including the process being long and eventful rather than linear, were confirmed, but also proven to be very high-level and general, compared to the more in-depth empirical findings actually generated.

In the pre-formalization phase, ConcreteCo was informally controlled and struggling in terms of both control and performance. The change process in ConcreteCo, and the initial formalization phase, was initiated by a triggering event, being the CEO's lack of control over certain employees, in line with Greiner (1998). Greiner argues that a company needs to enter a revolution stage, or experience a crisis event, before it can naturally transition into the next phase of the OLC. Even though the GGM does not relate to MCS research specifically, the empirical findings in ConcreteCo suggest that a similar concept of a triggering event could be used to explain why a MCS formalization process is initiated. This furthers the domain field of research, including Moores and Yuen (2001) and Kallunki and Silvola (2008), where the general sentiment seems to be that a company naturally formalizes MCSs as the company progresses through its life-cycle. Surprisingly, while a lack of control triggered action, the initial response to the crisis from the CEO was to initiate an effort aimed at strengthening the company's marketing efforts. The CEO expressed that he was not opposed to a formal system per se, but after unsuccessfully attempting to implement CRM systems and quality control mechanisms, he simply did not know what to do. Thus, he instead resorted to something that he better understood and was more in line with his personality and competencies, which was marketing. This finding strengthens the idea that a company does not naturally formalize its MCSs as it grows, as even in cases where there is willingness, there might be a lack of capabilities to execute such formalization, as evidenced in ConcreteCo.

The key element in understanding the formalization process in ConcreteCo is that two problems existed in the company in the first phase of the process. Firstly, there was a lack of control, as explained above, with a divided team atmosphere and an underlying conflict

between the CEO and the former Sales Manager. Secondly, there was a lack of profitability, and a lack of understanding of how to achieve profitability, even though it was not identified by the company initially. In light of the lack of control, the marketing response illustrated that ConcreteCo had trouble understanding how to deal with its situation. Therefore, when the Consultant was engaged to help with marketing efforts, he became influential. After some time, he helped the CEO realize that marketing efforts would not solve the company's issues, and instead proposed the EOS system, of which he would lead the implementation. Due to the Consultant's influence, the CEO decided to implement EOS, a system built primarily on what would be deemed cultural, personnel and action controls, rather than results controls. As it turned out, the sales team did not buy into the system, eventually leading to the former Sales Representatives and Sales Manager being replaced. After those replacements, ConcreteCo was perceived to be doing well. However, the second problem, something that the Chairman described as the most fundamental part of a company's existence, profitability, had gone relatively unnoticed but became painfully apparent when a severe budget underperformance caused a liquidity crisis and forced the company to conduct a share issue. This led the company into the third temporal phase, the second wave of formalization, which was driven by requirements from the Board to bring financial performance into focus, resulting in an increased emphasis on results controls. To implement these additional controls, new competencies had to be brought in due to the CEOs incompatibility with systems. Together with the influence from the Board, the new competencies helped to propel the company through the second wave of formalization and into the fourth temporal phase, the post-formalization phase. Thus, it was not until over a year after the initial triggering event that the key issue, being the lack of profitability, was acted upon.

The key findings, contributing to Moores and Yuen (2001), Granlund and Taipaleenmäki (2005), and Cardinal et al. (2004), are thus that formalization does not happen naturally, but tends to come in waves and be driven by triggering events. Secondly, a lack of consistency between the problem triggering the formalization process and the actual solution implemented by the company can significantly prolong or derail the formalization process, contributing to Sandelin (2008) and adding to the concept of internal consistency. Reflecting on the object-of-control framework used by Sandelin (2008), there was a clear lack of, and need for, results controls in the company, but the initial formalization of the MCS package rather strengthened the cultural, personnel and action controls, leaving the real issue unsolved. This discrepancy is hereafter referred to as problem solving consistency. Interestingly, Mähring and Keil (2008) build on the concept of escalation, which is the tendency of decision makers to persist with failing courses of action. They propose that rather than being caused by a collective belief that the project itself is infallible, escalation is often a result of the firm not being able to cope with the problems that arise during the project. In fact, one of the key issues highlighted in their process model of escalation is the *"continued mismatch between underlying problems and attempted remedies"*. This is very much in line with the findings on the

formalization process in ConcreteCo, where the company on multiple occasions failed to identify the appropriate course of action, hinting at the escalation model's potential relevance in an accounting context. Moreover, the present study contributes both to the MCS life-cycle literature and MCS literature in general, including Sandelin (2008), by finding that personnel can be at least as critical to successful control as the systems themselves. The empirics support this both from the perspective that people either adhere to new systems or not, and due to the fact that certain competencies may be required to even understand how a problem can be remedied, which is crucial in achieving MCS problem solving consistency. The usage of process theory has thus facilitated in understanding the in-depth richness and length of a MCS formalization process, which enabled the identification of the MCS problem solving consistency concept and its importance in successfully formalizing MCSs. In the following section, we propose how sensemaking can mitigate or lead to such inconsistencies.

5.3. Sensemaking and Its Role in MCS Formalization

By adopting process theory, the aim has been to extract micro-level findings that have been overlooked by previous MCS life-cycle research. One such key finding is the concept of a triggering event, i.e. how organizations tend to be jolted into taking action, such as formalizing their MCSs, by a triggering event or a crisis, rather than naturally getting to that point based on their life-cycle stage, contrary to what e.g. Moores and Yuen (2001) may cause users of research to believe. By using a process model to study the processes surrounding the triggering event(s), focusing on the choices and activities that stem from such key happenings, it became clear that it was not the triggering event per se that led to action, but rather how the organization made sense of it. Thus, sensemaking emerged as a complementary method theory, as highlighted by e.g. Weick (1995).

The CEO had attempted to deal with the perceived lack of control for a long time, and felt frustration over not knowing how to successfully do so. When ConcreteCo came across its initial triggering event, i.e. when the CEO truly realized that the lack control started to become costly for the company, it spurred action. Based on the CEO's experience and understanding of formal systems, his way of making sense of the situation culminated in an attempt to enhance the company's marketing efforts. As some of the interviewees revealed, the control problem and unsuccessful remedies had taken their toll on the CEO, who had in a sense "pulled away", and just let the organization run itself. In line with Maitlis and Sonenshein (2010) and Moilanen (2016), this illustrates the important role of emotions in sensemaking. By chance, the Consultant who was hired to assist with marketing was also knowledgeable in management control. With influence from the Consultant, the CEO was able to make more accurate sense of the situation and insisted on implementing the EOS system. Thus, the Consultant emerged as a key stakeholder in the formalization process, which seemingly allowed him to almost single-handedly control the sensemaking process. Thus, he became the sense giver for the CEO,

which extended to the organization as a whole. This resulted in a narrow and dominant interpretation of the issue, incorporating only the Consultant's view, in line with Kraus and Strömsten's (2012) findings on restricted sensemaking. However, the Consultant rather quickly seemed to lose some of his status as a sense giver, as the organization began questioning his ability to facilitate the implementation of EOS. One problem observed was that the implementation sessions became too theoretical, rather than practical, making it hard for employees to make sense of what the Consultant tried to implement. Thus, with time, the Consultant's stature as a key stakeholder diminished. In fact, the organization showed a level of adaptiveness, as they both doubted and updated their interpretation of the situation as it progressed, leading to adaptive sensemaking, a desirable mode of sensemaking according to Maitlis and Sonenshein (2010). In turn, this led to the company taking on the implementation internally.

As ConcreteCo's second triggering event occurred, i.e. the liquidity and profitability crisis, the Board seemed to take over the Consultant's role as a key stakeholder. It made the decision to conduct a Full Potential Review, and also to engage one of the Board members operationally to assist the CEO. This helped the CEO understand the crucial role of financial control, implying that the Board became the key sense giver to the CEO. As an example, the Board member demonstrated how the Data component of the EOS system was not sufficient from a results control standpoint. Throughout the interview with the Chairman, he expressed a lack of analytics and financial control, and eventually, the Board decided to take further action to implement such elements of control. In line with Tillman and Goddard (2008), this highlights the important role that external stakeholders and influences, such as an advisor or consultant, can have on the sensemaking process.

The process in ConcreteCo illustrates how the occurrence of a triggering event can be a double-edged sword. In some cases, it serves an important function by leading organizations to take necessary action that is beneficial, such as a successful formalization of MCSs. However, as observed in ConcreteCo, the initial triggering event was not related to one of the key issues within the organization, profitability, as it rather directed attention away from that issue, significantly delaying necessary measures within the organization. Thus, just as sensemaking can lead to misguided actions, a triggering event can be deceiving as it is not always what "makes the most noise" that is truly the key issue. Interestingly, the lack of profitability and associated liquidity crisis was in many ways similar to the budget underperformance in 2018, but culminated in very different sensemaking and resulting actions. Langley's (1999) temporal bracketing strategy provides an opportunity to examine the recurrence and accumulation of progressions (Langley et al., 2013). The fact that the CEO interpreted the budget underperformance differently in the two temporal phases is likely explained by the learnings encountered between those phases. Thus, as a result of the second profitability and liquidity crisis, the organization concluded that more formal results controls were needed, which likely would have been equally appropriate at the time of the 2018 budget underperformance.

Firms in the birth stage, such as ConcreteCo in the first of the temporal phases identified in our process study, the pre-formalization phase, are usually characterized by a high level of uncertainty and lack of formal structure. In ConcreteCo, this was evidenced by the fact that the CEO was not able to grasp how to handle the prevailing control crisis and by not having the systems in place to guide him through that uncertainty. This places such firms in somewhat of a perfect storm when it comes to sensemaking and strategic change. Our findings indicate that sensemaking is increasingly important when uncertainty is high, in line with Brown et al. (2015), as the status quo is often not an option in such organizations, meaning that critical decisions have to be made continuously. Sensemaking, in turn, is not only most crucial when uncertainty is high, but also more difficult to conduct productively under such conditions. As mentioned by Davila et al. (2009) and illustrated by Heidmann et al. (2008), sensemaking is aided by the existence of MASs, or MCSs, as the information that such systems produce is often relevant to sensemaking and can thus make the sensemaking process less subject to emotions. Based on our observations and these connections, our findings are in line with the view of Granlund and Taipaleenmäki (2005), that the process of formalizing MASs, or in our case MCSs, is not a straight path, but rather a long and eventful process. Seemingly, this is to a large extent caused by the fact that sensemaking is difficult to do productively in the highly uncertain context of firms transitioning between birth and growth. This results in a low level of problem solving consistency, which in turn leads the organization on time-consuming de-tours that prolong the formalization process. This is illustrated in Figure 2 below.

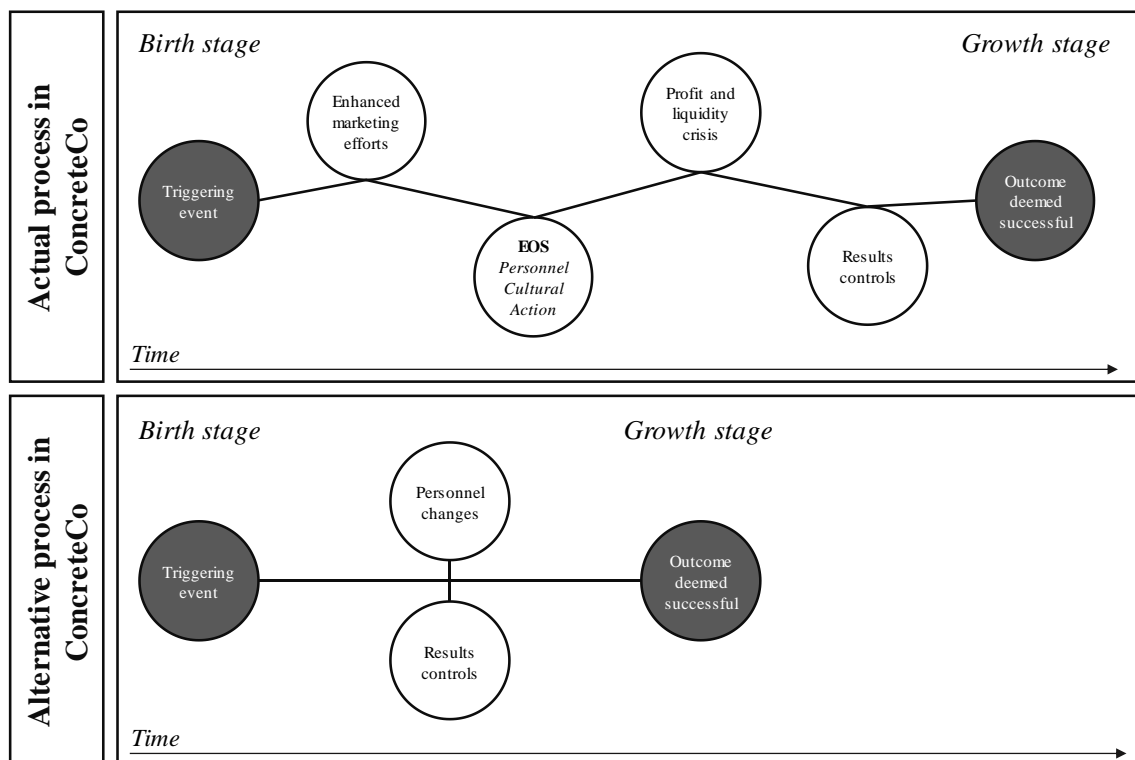


Figure 2: Actual and alternative sensemaking processes in ConcreteCo

5.4. Conceptualization of MCS Formalization

Process theory has aided in contributing to the MCS life-cycle literature, shedding light on the transition process being anything but linear or natural, in line with Granlund and Taipaleenmäki (2005), and uncovering the concept of problem solving consistency. To conceptualize these findings, a model has been developed that builds on the object-of-control framework used by Sandelin (2008) and empirical findings in this study, illuminating key stages in a MCS formalization process. The first stage of the model builds on the finding that a stand-alone event or a problem in the organization culminates in a perceived need for formalization of MCSs. In ConcreteCo, this event was a growing lack of control over certain employees. The second stage of the model draws upon sensemaking theory (e.g. Weick, 1995), and highlights that sensemaking is a vital part of the formalization process, as it can both facilitate and mislead an organization in the understanding of the underlying problem or weakness in the existing control package. The central question in this step is which object(s) of control is weak, or even missing, as this should ideally be understood before the third stage is initiated, which did not necessarily happen in ConcreteCo. Based on the sensemaking in stage two, the third stage contains the selection of an appropriate control system and assigning an appropriate owner of it. As evidenced in ConcreteCo, a prolonging factor of the process was the lack of ownership of the system. The empirical findings suggest that the appropriate owner is contingent upon the selected control system, and, as evidenced in ConcreteCo, the key competencies required to be an appropriate owner may not always exist within the organization. The last stage of the model sheds light on the outcome of a MCS formalization process. Building on the findings in this study, we propose that the success of a formalization process is determined by the level of MCS problem solving consistency and the level of internal consistency, emphasizing not only alignment between the problem and the solution, but also within the system itself. Thus, the model problematizes whether formalization enhances control, and suggests that it depends upon implementing a solution that is congruent with the organization's control problems.

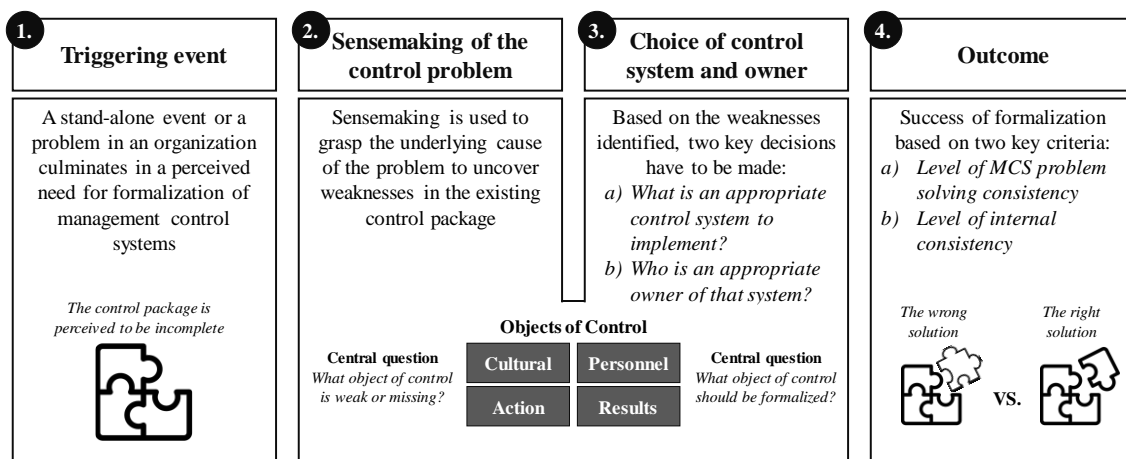


Figure 3: Conceptual model of MCS formalization processes

6. Conclusion

The aim of our study is to contribute to a more granular understanding of the MCS life-cycle domain by shedding light on the MCS formalization process that firms go through as part of their organizational growth and evolution. By drawing upon the process theory framework highlighted by Langley (1999), a theoretical model was developed in section 2.3., enabling an in-depth investigation of the activities, events and choices that constitute a process of strategic change. Thus, we have been able to provide new insights on the formalization of MCSs in firms transitioning between birth and growth in the organizational life-cycle, also identifying key risks inherent in such a process. Where previous MCS life-cycle studies have been general in the sense that findings are high-level and can be applied to a broad set of cases, the usage of process theory and Langley's (1999) temporal bracketing strategy has enabled the generation of empirical data that is higher in accuracy than generality. Despite taking a different approach, our findings support previous MCS life-cycle research in establishing that the life-cycle stage has an impact on the formality of MCSs (Moores & Yuen, 2001; Kallunki & Silvola, 2008; Su et al., 2015; Granlund & Taipaleenmäki, 2005). Our empirical findings further support the consensus that firms in the birth stage rely mostly on informal modes of control (Moores and Yuen, 2001; Davila & Foster, 2007). However, most importantly, we contribute to the MCS life-cycle literature with three key findings that problematize the formalization of MCSs during the transition between birth and growth.

The first key finding, contributing to the MCS life-cycle literature, is that a MCS formalization process tends to commence with a triggering event, furthering the understanding of how, and why, formalization of MCSs occur as the company transitions through the organizational life-cycle. This somewhat contrasts existing MCS life-cycle literature, including Moores and Yuen (2001), where the reader may extract an illusion that a company naturally formalizes its MCSs on a linear basis. Our findings are more in line with Granlund and Taipaleenmäki's (2005) view that the formalization process is complicated and often prolonged by de-tours. Moreover, our findings are in line with the Growth model developed by Greiner (1998), which implies that an organization enters a state of revolution, or crisis, before transitioning to the next stage of the organizational life-cycle, which was a spiraling lack of control in ConcreteCo.

This naturally leads in to the second key finding of the paper, being the vital role that MCS problem solving consistency plays in a MCS formalization process. We observed how the CEO of ConcreteCo had difficulties grasping how to respond to the triggering event. The company was facing two key problems at the time, namely a lack of control over certain employees and a lack of profitability. The triggering event was associated with the first of the two problems, which left the lack of profitability unnoticed. The control package implemented, the EOS system, was thus geared towards the lack of control over employees, building primarily on what would be classified as cultural,

personnel and action controls, based on Merchant and Van der Stede's (2007) object-of-control framework. Employees that did not buy into the new system were initially undermining the change process, highlighting how personnel is a key risk in a formalization process. When those employees were replaced, the system was allowed to improve control. However, while control improved, financial performance did not. The system implemented was only consistent with one of the problems, which resulted in poor profitability and ultimately a need for a share issue. This provoked a reaction from the Board, which then insisted on making profitability a priority. Through the ensuing second wave of formalization, with a focus on results controls, MCS problem solving consistency was finally achieved with both problems present in the company, leading to better financial performance and control. These findings contribute to Sandelin (2008) by introducing the concept of problem solving consistency, which constitutes a key risk in the formalization process, and by lending support to the control package view. The findings also contribute to literature on the emergence of MCSs (Davila, 2005; Cardinal et al., 2004; Sandino, 2007). Finally, the concept draws on and confirms Mähring and Keil's (2008) study of escalation, showcasing that the mismatch between underlying problems and attempted remedies is also a factor in MCS formalization processes.

The third finding and contribution, drawing on Weick et al. (2005), is that sensemaking plays a vital role in understanding the cause of a triggering event, impacting the level of MCS problem solving consistency. The empirical findings suggest that it is not the triggering event per se, but rather how a company makes sense of it, that prompts the consecutive actions taken by a company, evidenced by the CEO of ConcreteCo initially resorting to increased marketing efforts when faced with a lack of control. Moreover, the triggering event is a double-edged sword, as it can either prompt an organization to take necessary actions, to its benefit, or direct attention away from an even larger underlying problem, posing a risk of significantly delaying necessary remedies. The outcome thus depends on the organization's ability to make sense of the problems it is facing. In an attempt to contribute to the MCS literature (e.g. Sandino, 2007; Cardinal et al., 2004; Davila & Foster, 2007), we therefore propose that the success of a formalization process stems from the level of problem solving consistency, where sensemaking plays a vital role, and the level of internal consistency within the system itself.

To conclude these three findings, the conceptual model highlighted in Figure 3 outlines four key stages in a MCS formalization process. Our findings indicate, and the model suggests, that formalization of MCSs does not necessarily enhance control in an organization. Rather, we see that formalizing MCSs, without undergoing the steps outlined in the model, can be counterproductive. Thus, we propose that it is the process of identifying weaknesses in the control package, and remedying them with a system that strengthens the necessary object(s) of control, that successfully enhances an organization's level of control. This adds nuance to the existing MCS life-cycle literature by highlighting risks inherent in a MCS formalization process, demonstrating why it can

be perilous and more complex than indicated by Moores and Yuen (2001). The first key risk identified is resistance from personnel, undermining the implemented systems. Moreover, personnel resistance may exacerbate the second key risk, a diminished internal consistency in the control package. Lastly, and most importantly, a low level of MCS problem solving consistency can yield a false sense of security, delaying remedies critical to enhancing control. Our findings further yield meaningful practical implications. The conceptual model developed may, despite contextual differences, guide practitioners pondering or undergoing a MCS formalization process, reducing uncertainty.

The findings are subject to limitations based on contextual factors, indicating that they may not hold true in empirical settings that differ from the present study. This single case study favors accuracy over generality by staying close to the original data, which may further reduce the applicability of our findings in other contexts. Lastly, we acknowledge that interviewees may have been biased in their re-telling of the conditions in ConcreteCo as the interviews were held ex-post the main formalization process.

We recommend future research to continue adopting a process theory perspective in studying MCS formalization processes. Ideally, such studies would be conducted in a setting where researchers have the possibility to observe the process from start to finish, in order to reduce dependence on interviewees' recollection of the process. Lastly, we see that studies could favorably be conducted using the life-cycle context in investigating other management accounting processes.

7. References

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8. Appendix

Interviews					
Interview #	Interviewee	Context	Length	Recorded	Date
1	Business Controller	Video	35 min	Yes	20-mar
2	Business Controller	Video	40 min	Yes	27-mar
3	Business Controller	Video	35 min	Yes	03-apr
4	CEO & Founder	Video	65 min	No	21-feb
5	CEO & Founder	Video	25 min	Yes	18-mar
6	CEO & Founder	Video	35 min	Yes	24-mar
7	CEO & Founder	Video	30 min	Yes	01-apr
8	Chairman & Investor	Phone	30 min	No	08-mar
9	Chairman & Investor	Phone	35 min	No	15-mar
10	Chairman & Investor	Phone	25 min	No	29-mar
11	External Consultant	Video	35 min	Yes	17-mar
12	External Consultant	Video	40 min	Yes	24-mar
13	External Consultant	Video	25 min	Yes	30-mar
14	Operations Manager	Video	25 min	Yes	20-mar
15	Operations Manager	Video	45 min	Yes	31-mar
16	Operations Manager	Video	35 min	Yes	03-apr
17	Sales Manager	Video	25 min	Yes	19-mar
18	Sales Manager	Video	45 min	Yes	27-mar
19	Sales Manager	Video	35 min	Yes	02-apr
Total Interviews: 19		Average duration: 35 min			

Table 3: List of interviews