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The Control Mechanism of Trust

A qualitative case study on the role of management control in serial acquisitions

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Abstract

Over the last decade, there has been an observed increase in the number of completed mergers and acquisitions (M&A). However, there is an ongoing debate about whether these are value-creating or not. While some research points to low value creation in the overall M&A market, the niche of serial acquisitions seems to constitute an exception. Year after year, Nordic serial acquirers have succeeded in generating high levels of growth. This thesis aims to understand what control mechanisms a serial acquirer deploys to manage its portfolio companies and how these are combined. This is examined through semi-structured interviews with employees from the Swedish OMXS30-traded serial acquirer "Tech Corp."[1] and its portfolio companies. Tech Corp. is known for being a highly decentralized organization with largely independent entities, and they describe their management control on the portfolio companies as highly limited with minimal interference. On the contrary, this study found that Tech Corp. does deploy several control mechanisms to create alignment. However, these control mechanisms are characterized by more indirect control rather than actual steering, and trust appears to play a vital role in Tech Corp.'s relationship with its portfolio companies.

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Keywords: management control systems; control mechanisms; serial acquirers; m&a; qualitative case study

[1] The firm has been anonymized in this paper and the authors refer to it as "Tech Corp."

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1. Introduction

1.1. Background

Company growth is either organic or inorganic. By reinvesting cash flows into their existing businesses, companies grow organically. This strategy is often seen as a more traditional and unconventional way of expanding businesses (Mognetti, 2003). Inorganic growth, on the other hand, arises from acquisitions of other companies (Hammer et al., 2017). Instead of reinvesting resources into the existing operations, the resources are used to fund an acquisition of another company in order to grow (Hammer et al., 2017). Growing through the acquisition of another company is a commonly deployed strategy for expanding companies inorganically and creating shareholder value (Bauer & Matzler, 2013). This strategy has received more attention during the last decade, with an observed increase in the number of completed company acquisitions. In 2021, the mergers and acquisitions (M&A) market reached a record high level, with around 63,000 M&A deals being accomplished worldwide (KPMG, 2021). Caused by good market conditions in terms of easy access to capital, low interest rates, and a recovering global market, the M&A market amounted to a value of 5.1 trillion dollars (KPMG, 2021).

According to Berkovitch & Narayanan (1993), synergies are the primary motive for an M&A. The concept of synergies suggests that the individual value of two independent firms is lower than the combined value of the two, also known as the “2+2=5 effect”. This includes cost synergies attributable to operational efficiencies and revenue synergies caused by more efficient use of assets. In addition, there are financial synergies, including tax benefits, increased debt capacity, and diversification capacity. Moreover, M&A facilitates growth by eliminating competition, capturing an increased market share through consolidating the market, and exploiting the benefits of economies of scale. All the above-mentioned examples of synergies can be argued to create value in an M&A (Corporate Finance Institute, 2022).

Actors with different strategies define niches within the M&A market. Generally, the M&A market can be divided into two types of actors; the strategic buyers, like industrial and trade companies, and the professional investors, such as private equity (PE) firms. These are two types of organizations performing M&A transactions but with vastly different strategies and approaches. A strategic buyer, acquiring another company, often aims to expand into new product markets or regions and exploit synergies between the two. On the contrary, professional investors acquire companies with potential growth opportunities generating a great return. Professional investors hold their investment for a limited period before it is sold or introduced to the stock market. In contrast, strategic buyers intend to hold companies indefinitely. A serial acquirer resembles the strategic buyer. On an annual basis, it acquires multiple companies with the purpose of expanding into new product markets or exploiting synergies (Corporate Finance Institute, 2022).

Over several decades there has been an ongoing debate about whether M&A is value-creating or not. Despite research pointing at low value creation overall in the M&A market (Chatterjee, 2009), the niche of serial acquisitions seems to be an exception from this. Nordic serial acquirers, such as Lifco and Lagercrantz, are just two examples who have, year after year, succeeded in performing high levels of growth. During the past five years, Lifco has had a growth rate of 220%, while Lagercrantz has had a growth rate of 315%. Over the same period, OMXS30 grew 32% (Nordnet, 2022).

Management control is used to manage an organization in line with its corporate strategy and generate goal congruence throughout the entire organization (Svensson & Funck, 2019). Researchers argue that when combined into management control systems, it liberates top managers' attention from redundant processes while providing employees with direction and necessary competencies (Flamholtz & Randle, 2000). Hence, it is claimed to reduce information asymmetry and align the objectives between employees and top management (Merchant & Van der Stede, 2003). Not least in large organizations with highly decentralized entities, like serial acquirers, management control serves as a crucial constituent in creating goal congruence and ensuring that managers of the portfolio companies are appropriately awarded, thereby increasing the probability of company success (Merchant & Van der Stede, 2003).

Otley (2016) states that prior studies on management control systems have failed to conceptualize the overall control system properly. He argues that researchers often isolate the elements instead of looking at the entire management control system. Therefore, the technical components of management control systems, their interactions, and how managers use and develop them are still relatively unknown (Otley, 2016). Furthermore, Thomas & Ambrosini (2015) argue that management controls need to be recognized as a strategic tool rather than a management tool used to monitor individuals, as scholars and practitioners see them today.

The emergence of management control systems constitutes a critical transition point in an organization’s life cycle and is crucial for the organization's growth (Sandino, 2004; Dello et al., 2020). Despite this, there has been little research into the management control mechanisms used to monitor and steer portfolio companies (Dello et al., 2020).

1.2. Problematization and Research Question

The control mechanisms of serial acquirers are interesting to investigate further for these main reasons: first, with a record high level of company acquisitions accomplished annually, the M&A market has received increased attention. The decade-long debate about whether M&A is value-creating or not makes it worth examining since existing research fails to produce a unanimous answer to the question. SThird, despite its importance for organizational growth, there has been limited research into the management control mechanisms used to monitor and steer portfolio companies (Dello et al., 2020). Prior research on serial acquirers often focuses on the integration of new firms or learnings from prior deals rather than the management control systems deployed to manage the portfolio companies (Chatterjee, 2009; Bauer & Matzler, 2013; Colman & Lunnan, 2022; Vermeulen & Barkema, 2001; Aktas et al., 2009; Chao, 2018).

Given this identified gap in the current literature, this thesis aims to explore serial acquirers’ usage of management control systems towards their portfolio companies. Therefore, the research question is formulated as: *What is the role of management control in serial acquisitions?*

1.3. Contributions and Delimitations

The contributions of this paper are threefold: firstly, it contributes to existing research on the field of M&A by examining what control mechanisms a successful serial acquirer deploys. Secondly, it adds to the research on management control systems by categorizing identified control mechanisms into a management control framework. By applying prior research to the niche of serial acquirers, a rather under-investigated area, we broaden the research on the field of management control systems. Thirdly, the study investigates what control mechanisms large decentralized organizations should employ, as it is conducted in the context of a successful firm with highly independent entities.

The chosen methodology is a single-case study on the Swedish serial acquirer Tech Corp. For this methodology, three main delimitations have been derived. Firstly, focusing on the niche of serial acquirers means that one can only draw conclusions for some parts of the M&A market, as there may be differences between the different niches. Secondly, by delimiting the research scope to the Swedish stock market, this paper excludes foreign markets, meaning that the findings may not be applicable internationally. Lastly, while a single-case study provides a more in-depth understanding of the chosen subject, the findings should not be generalized to the entire market.

1.4. Disposition

This paper is built on eight chapters. The literature review in Chapter 2 highlights prior studies on the areas subject to the thesis question. It presents research within the chosen fields of M&A, serial acquirers, management control, and trust, which are all relevant to the issue of consideration. Next, the research methodology is described in Chapter 3. Here, the choice of research method is defined and motivated. The empirics from interviews are presented in Chapter 4 and analyzed in Chapter 5. Lastly, Chapter 6 contains a conclusion of the analysis, an answer to the research question, and suggestions for future research. The final Chapters, 7 and 8, contain references and appendices, including a list of interviewees and the interview guide used.

2. Literature Review

To analyze the management control systems of the chosen serial acquirer, this thesis draws on prior research within the field of M&A, serial acquirers, management control, and trust. Moreover, in this literature review, the authors explain the theoretical frameworks upon which the interview guide and analysis are based.

2.1. Prior Research Within the Field

The record high level of completed M&A the last decade has contributed to an increased attention for the M&A market. For this paper, the authors have decided to investigate the relatively unexplored niche of serial acquirers. The ongoing debate, whether M&A is value creating or not, has also contributed to the relevance of the topic. It is proved that, in order to succeed with an M&A, a well-functioning management control system needs to be in place. Despite the improatance of management control system, limited research has been done into the management control mechanisms used to monitor and steer portfolio companies (Dello et al., 2020). Prior research on serial acquirers have described the integration of new firms or learnings from prior delas rather than the management control systems deployed to manage the portfolio companies (Chatterjee, 2009; Bauer & Matzler, 2013; Colman & Lunnan, 2022; Vermeulen & Barkema, 2001; Aktas et al., 2009; Chao, 2018).

2.1.1. Value Creation in M&A

Over several decades, there has been a discussion about whether M&A is value-creating or not. With a high historical M&A failure rate, Chatterjee (2009) states that "acquisitions are an important strategic tool for management – one that seems to fail more often than not" (Christensen et al., 2011). Furthermore, the performance and riskiness of deals made by serial acquirers compared to those of single acquirers also constitute a debate. Previous studies performed in the UK, US, and Australian markets find that serial acquirers generate lower shareholder returns than single acquirers (Conn et al., 2004; Ismail, 2008; Hossain et al., 2021). Moreover, research shows that serial acquirers tend to engage in riskier acquisitions than their counterparts (Hossain et al., 2021). The riskiness is built over time as the acquirer's deal-making capacity increases, resulting in overconfidence and even hubris (Rovit et al., 2003; Hossain et al., 2021).

On the other hand, contrasting research shows that serial acquirers are more likely to succeed with their acquisitions than those performed ad hoc, especially if the serial acquisitions are part of an acquisition program (Rovit et al., 2003; Chatterjee, 2009). The learning hypothesis states that acquiring managers' skills are developed as they make serial acquisitions, thus being more successful in the future (Rovit et al., 2003; Aktas et al., 2009).

Christensen et al. (2011) emphasize the importance of selecting the right target, integrating it properly, and achieving economies of scale to ensure a successful acquisition. In several studies, the integration process is often claimed as an essential element for profitable M&A (Larsson & Finkelstein, 2009; Kenny, 2020). However, integration is seldom an issue for firms with a successful acquisition program, as they can identify and exploit market inefficiencies, strive for a win-win deal, and avoid deviating from the established processes (Chatterjee, 2009). Another common practice is to target small and privately-owned firms, as these are easier to integrate. Chatterjee (2009) further states that if the acquirer identifies an inefficient market, this can help them make a successful acquisition since the inefficient markets are less attractive to acquirers. The reduced competitive pressure gives the acquirer more time to perform better due diligence, hence presenting more favorable chances of a successful acquisition. Some large serial acquirers, such as Trader Publications and Invacare, can study the target market for years before making a bid (Chatterjee, 2009).

2.1.2. Management Control Systems

The management control (MC) phenomenon was first defined by Anthony in 1965 as "the process of assuring that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives." For this research, we will use a relatively recent definition of management control systems (MCS) by Hartmann et al. (2020). They define the concept as "a combination of control practices designed and implemented by top managers to increase the probability that lower-level managers and employees will behave in ways consistent with the organization's mission, goals, and strategies." Merchant & Van der Stede (2003) state that good management control is when "the management can be reasonably confident that no major unpleasant surprises will occur."

About 45 years ago, the concept of management control systems was characterized by relatively simple forms of control based on cybernetic processes (Chenhall & Moers, 2015). Today, it entails much more complex and open controls, fulfilling the needs of organizations that operate in an increasingly uncertain and challenging setting (Simons, 1995). While simple management accounting may use a budget to assess the efficiency of internal operations, advanced management control systems use budgets for product planning or link them to other controls, including both financial- and non-financial data together with evaluation and incentive systems. Most organizations use both formal and informal controls (Chenhall & Moers, 2015). A previous study conducted on private equity (PE) firms found that common control mechanisms aimed to align shareholders' and managers' interests include: the replacement of directors and auditors; formal and regular board meetings; frequent informal meetings or calls with non-executive directors; and lastly, steady financial data flow (Di Toma & Montanari, 2017).

Merchant & Van der Stede (2003) explain that there are three causes to why management control systems are needed in organizations. First, lack of direction, the employees do not know what is expected of them. Second, motivational problems, the individual’s and the organization’s objectives do not coincide. Third, personal limitation, the employees do not have the right information, knowledge, or experience. Merchant & Van der Stede (2003) argue that these issues can be solved with a management control system that provides the employees with direction, aligns objectives, and provides the employee with the necessary training and resources.

Flamholtz & Randle (2000) further state that management control is essential to organizational growth as it liberates top managers’ attention from redundant processes and provides the managers with information when necessary (Flamholtz & Randle, 2000). Merchant & Van der Stede (2003) argue that without proper management control systems, companies risk experiencing financial losses, restrained growth, reputation damage, and organizational failure.

In contrast, other researchers claim that control systems focus more on finding problems than solving them (Langfield-Smith, 1997). Merchant & Van der Stede (2003) explain that adding more control does not necessarily induce better control, as it may suppress creativity and innovation. Therefore, companies need to balance the right amount of control for them (Merchant & Van der Stede, 2003). The suitable amount varies with the size of the firm. In the firm’s early stages, the control and coordination materialize through frequent and informal meetings. At this stage, the cost of formalization outweighs its benefits (Davila, 2005). The informal type of management requires direct employee contact and is the most efficient in small firms. Company expansion generates a need for formalized systems that anchor the previously informal interactions (Davila, 2005). In settings where innovation is important, the traditional use of financial controls may be insufficient and even ineffective. These should therefore be complemented with broader controls, like non-financial metrics that can encourage and evaluate innovative efforts (Chenhall & Moers, 2015).

When designing a management control system, the creator needs to recognize the type of environment in which the organization operates, both in terms of specific factors and overall trends (Otley, 2016). Management controls are proactive rather than reactive and should be tailored to support the firm's business strategy (Merchant & Van der Stede, 2003; Simons, 1987). Throughout the years, management controls have been categorized into various systems. For example, administrative and social controls (Hopwood, 1978), output and behavior controls (Ouchi, 1977), market bureaucracy and clan controls (Ouchi, 1979), and formal and informal controls (Anthony et al., 1989).

2.1.3. Trust in Organizations

Since the mid-1990s, the construct of trust has been referred to as the foundation of quality interpersonal relationships and generates competitive advantage for organizations (Tan & Lim, 2009). Mutual trust is defined as "a shared psychological state characterized by an acceptance of vulnerability based on expectations of intentions of others in the team" (Cummings & Bromiley, 1996; Rousseau et al., 1998). Moreover, research finds that trust is positively related to the performance of inter-organizational collaborations in terms of goal fulfillment, quality, timeliness, and flexibility (Zaheer et al., 1998). When an individual acts as a link between a team and a network, they help build trust between the two groups (Gibson & Cohen, 2003).

Lencioni (2002) states that trust is a critical part of building a team, probably the most critical, and refers to it as "the foundation of real teamwork." Furthermore, Lencioni claims that members of great teams admit their mistakes, weaknesses, and concerns without fear of reprisal. If the team members do not trust each other, they will not achieve desirable results. To build trust, the team must therefore overcome its need for invulnerability and open up to one another. Additionally, the team must hold each other accountable for what everyone has signed up to do. Lencioni explains that many executives struggle with this, especially regarding a peer's behavior, as they want to avoid interpersonal discomfort. With that said, building a functioning, cohesive team is impossible without a foundation of trust (Lencioni, 2002).

Research on trust in large organizations shows that the element of trust is more important for ensuring cooperation between strangers or people who encounter each other infrequently than for supporting the cooperation of people who interact frequently (La Porta et al., 1996). In the latter situation, the threat of future punishment is enough to support cooperation even when the level of trust is low. In large organizations, the employees interact with each other infrequently, which therefore demands a larger need for trust (La Porta et al., 1996).

2.2. Theoretical Framework

2.2.1. Merchant & Van der Stede (2003)

Merchant & Van der Stede (2003) argue that management control systems are vital to ensure that employees act in line with the company's objective, making them a key element in all businesses. Management control systems shall serve to avoid undesirable actions and encourage good behavior. This is accomplished through the practice of different control mechanisms: result controls; action controls; personnel controls; and cultural controls.

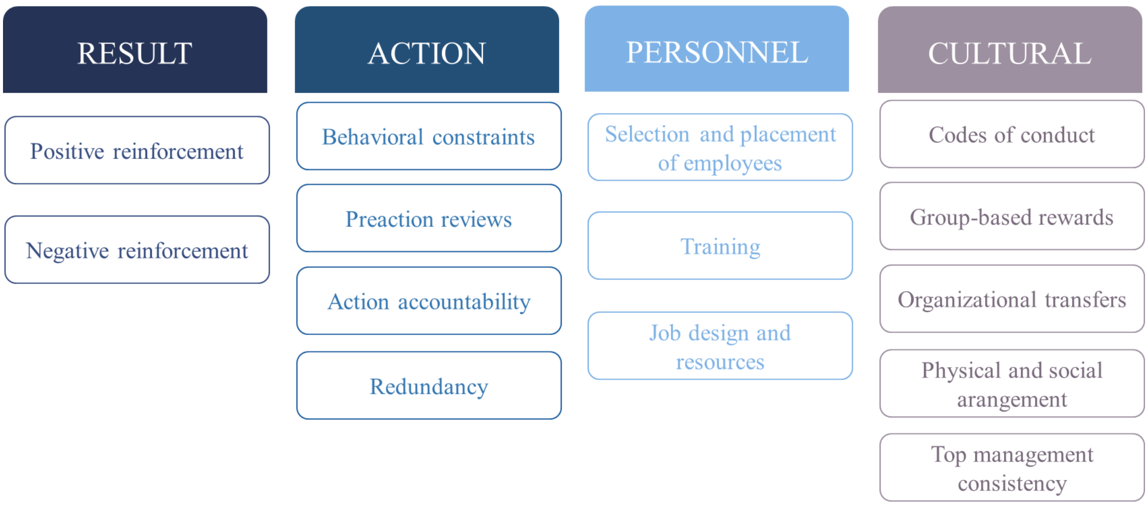

Figure 1. Merchant & Van der Stede's Management Control System (2003).

Result Control

Result controls are control mechanisms aiming to strengthen desirable behaviors for employees in an organization. This is done by either rewarding the employees for generating positive results or punishing them for performing the opposite. Result controls are an effective tool to align employees with the overall company strategy as they link performance measures to rewards (Bonner & Sprinkle, 2002). They also help employees understand what is expected of them, how to prioritize, and what the consequences of their actions will be. In smaller firms, employees’ motivation is often tied to the founder’s. However, as the firm grows and the founder cannot audit every single employee, employees often desire more tangible rewards and systems, which requires formalized processes (Davila 2005). The most common example of result control is a performance-based salary or various bonus programs. While result controls are important in all organizations, they serve as a key element in decentralized organizations, such as serial acquirers with numerous independent companies.

Action Control

Action controls are the most direct form of control mechanisms. They refer to controlling employees' actions to ensure that they align with the overall company objective. The control mechanisms of action controls can be divided into four groups; behavioral constraints, preaction reviews, action accountability, and redundancy.

Behavioral constraints contain different control mechanisms that limit or hinder employees from acting in a certain way. Preaction reviews are the second type of action control which refers to auditing the employees' action plans. Managers approve the outlined action plan if it coincides with the company objective. Preaction reviews can be executed more formally through organizational planning and budgeting. Action accountability involves holding employees accountable for their actions. Lastly, redundancy ensures satisfactory results through an increased number of employees working on the same task. This will increase the probability of the tasks being completed in line with the company objective.

Research on PE firms shows that it is unlikely that investors can change how action and personnel controls are structured if they only spend a small amount of time at the portfolio company (Davila, 2005).

Personnel Control

Personnel control builds on employees' ability to control and motivate themselves. This control mechanism builds on more soft values like ethics, morality, trust, and loyalty, increasing the employees' self-motivation to perform tasks well. There are three key methods for implementing personnel controls: selection and placement of employees, training, and job design and provision of necessary resources. Selection and placement involve finding the right person for the right job based on capabilities, interests, and motivation. Training can positively affect the employees' ability and willingness to align with company objectives. It provides helpful information regarding expected results and how they can best be achieved. In addition, training can have a positive motivational effect on employees. Lastly, job design and the provision of necessary resources are vital in ensuring the appropriate use of employee resources to maximize company success.

While an entrepreneur's characteristics can be suitable for managing a young startup with informal personnel controls, they might not necessarily be fitting for leading a larger, more structured organization (Davila, 2005; Greiner, 1989). An entrepreneur's psychological characteristics and temperament might be incompatible with a formalized organization, and as the company standardizes its processes, it is natural that the founder is replaced (Greiner, 1989). As the founder is no longer in the firm to motivate the employees by communicating the company's vision, the organization realizes its need for formal management control systems as these would then remind the current employees of the organizational objectives (Davila, 2005). The formal personnel controls help ensure that new employees are properly introduced to the company's culture (Davila, 2005)

Cultural Control

Flamholtz et al. (1985) define organizational culture as "the set of values, beliefs, and social norms which tend to be shared by its members and, in turn, influence their thoughts and actions." Cultural controls are designed to ensure that employees act in line with company norms and values. There are five critical methods of shaping company culture in Merchant & Van der Stede's framework. These are the implementation of codes of conduct, the provision of group-based rewards, the practice of organizational transfers, the introduction of physical and social arrangements, and, finally, the need for top management behavior to be consistent with the company statements. Research shows that cultural fit can influence the chance of a successful acquisition (Bauer & Matzler, 2013). However, culture might also cause productivity losses in M&A as the cultural adaptations tend to lag behind the structural changes post-acquisition (Bijlsma-Frankema, 2001). Additionally, company culture can provide a sense of belonging and understanding among employees. This is important for building trust and encourages employees to speak up in instances of suspected wrong-doings, which contributes to the success of organizations (Lencioni, 2002).

2.2.2. The Combined Framework

While Merchant & Van der Stede (2003) delve into each aspect with examples from organizations, Malmi & Brown (2008) provide a more nuanced and extended picture of the management control system an organization deploys. For this paper, the authors have complemented the framework of Merchant & Van der Stede with elements from the Malmi & Brown typology, resulting in a combined framework. First, the Malmi & Brown typology (2008) is described, then the combined framework.

Malmi & Brown (2008)

Similar to the Merchant & Van der Stede study, Malmi & Brown (2008) package the management control system into five groups: planning, cybernetic, reward and compensation, administrative, and cultural controls. Malmi & Brown's (2008) cybernetic controls include budgets, financial-, and non-financial measurement systems. In the Merchant & Van der Stede framework, the control mechanism for budgeting is included in action controls, while the measurement system is incorporated into result controls. The category of reward and compensation is also covered in Merchant & Van der Stede's result controls. Additionally, Malmi & Brown (2008) present the control mechanisms of planning, administrative and cultural control. Planning controls are used to set an organizational goal to clarify the expected behavior and level of effort. Administrative controls refer to internal governance structure, organizational design, and policies and procedures. Cultural controls use value-, symbol-, and clan-based controls to regulate behavior. These aspects are not fully covered in the Merchant & Van der Stede framework, and fragments of planning, administrative, and cultural controls are therefore added and integrated into our new combined framework.

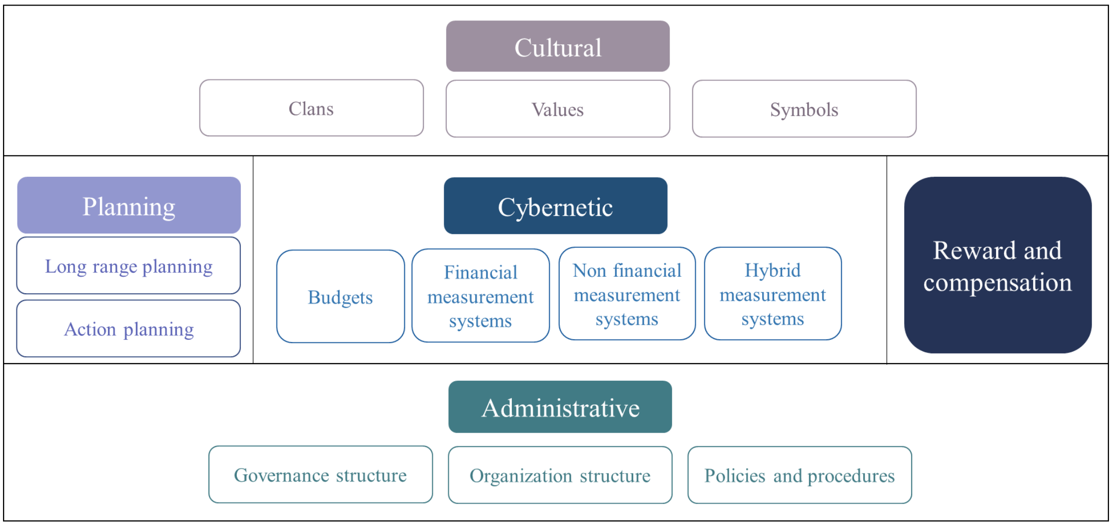

Figure 2. Malmi & Brown's Management Control Systems Package (2008).

The Combined Framework

The framework developed by Merchant & Van der Stede excludes the important aspect of how management control can be deployed by using a set organizational- and governance structure within firms. In this specific case study, this aspect appears particularly interesting since the chosen serial acquirer is known for being a largely decentralized organization with minimal interference with its portfolio companies. Therefore, it was decided to complement the Merchant & Van der Stede framework with Malmi & Brown's element of administrative controls. This serves to give more insight into the subject of management control as well as disclose hidden facets of the subject.

Secondly, Merchant & Van der Stede present four types of control mechanisms that have a cultural impact on organizations. These are action-related and exclude more intangible aspects of culture such as clans, values, and symbols, something that is, on the contrary, elaborated on in Malmi & Brown. Moreover, recurring themes in the interviews are trust, openness, and transparency, which relate to the more intangible aspects of culture. Therefore, complementing the former frameworks with the aspect of cultural controls from Malmi & Brown contributes to a more nuanced picture of the study. Furthermore, the authors have decided to move codes of conduct, a straightforward formal process, to administrative control, where it would fit better in the combined framework.

Thirdly, the planning aspect is of utmost importance for the chosen firm. The assessment before finalizing an acquisition can take several years for serial acquirers.

Therefore, Malmi & Brown's element of planning control was added and incorporated into the preaction reviews under Merchant & Van der Stede's action controls.

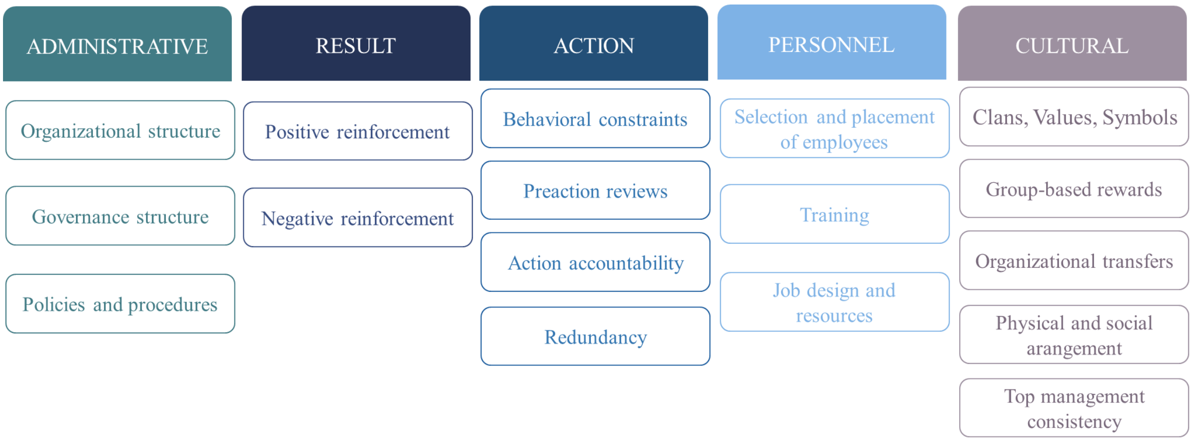

Figure 3. The Combined Framework.

3. Research Methodology

This section presents the research methodology and the rationale behind the choice of the applied method. First, the research approach is explained. Then the data collection in terms of primary and secondary data is described and motivated, together with a description of how the data was analyzed.

3.1. Research Approach

This thesis investigates the management control system that the Swedish serial acquirer "Tech Corp." adopts for its portfolio companies. The purpose is to describe the employees' understanding and experience of the concept of management control systems. This is best realized through an in-depth qualitative method, as it gives a descriptive understanding of the context and allows the researcher to gain a deeper understanding by exploring different nuances of the concept (Bell et al., 2022).

Qualitative research originates from studying complex human behavior in a determined setting. Through the usage of qualitative research, the author can give deeper meaning to the daily life experiences of the behavior and the environment subject to the study (Bell et al. 2022). Cresswell et al. (2016) described the qualitative case study as follows:

Qualitative research is an inquiry process of understanding based on distinct methodological traditions on inquiry that explore a social or human problem. The researcher builds a complex, holistic picture, analyzes words, reports details of informants, and conducts the study in a natural setting.

In terms of the methodology, it could be argued that a multiple-case study across several firms, allowing to generalize the findings better, would be preferred. A multiple-case study provides a more multifaceted description of the analysis (Vaivio, 2008). However, time and resource constraints were factors considered in the study's choice of method and scope. It was argued that, in this instance, it would be preferable to conduct a detailed, in-depth analysis of one company rather than a more high-level analysis of multiple companies. For this thesis, a single-case study was therefore selected based on the rationale that it would provide a more in-depth understanding of the chosen subject.

3.2. Data Collection

3.2.1. Primary data

The Swedish serial acquirer Tech Corp. is a public company investing in mid-sized companies within various industries. The company's size provides excellent access to people at different levels within the organization, allowing for a multitude of insights and perspectives into the topics studied. Regarding the subject of management control systems, Tech Corp. is interesting since it has an elaborated strategy for managing its portfolio companies and has proven to do so successfully. Since 1978, Tech Corp. has performed numerous acquisitions every year and today has a portfolio consisting of 200+ companies. Therefore the company holds exceptional experience with regard to the subject, which is considered favorable for the study. The fact that the company is publicly traded on OMXS30 also facilitates the gathering of research material, as access to information on topics like company performance is more easily gained. Based on these criteria, Tech Corp. was deemed an appropriate company for this thesis.

The study aims to understand what control mechanisms a serial acquirer deploys to manage their portfolio companies and how these are combined. Thus, it was important to obtain information from different parties, both Tech Corp. and its portfolio companies, to gain a greater perspective of the process. The choice of portfolio companies was based on their accessibility and fit for the study. With advice from Tech Corp. on the question, the manufacturing portfolio companies "Alpha AB", "Beta AB", and "Gamma AB"[2] were decided upon.

The data has been collected through nine semi-structured interviews with employees at Tech Corp. and the selected portfolio companies. The respondents were chosen based on their relevance and potential contribution, which is, according to Bell et al. (2022), described as targeted selection. Therefore, the interviewees were selected on the premise that they held a key position with regard to the management control system, either from an Tech Corp. perspective or from a portfolio company perspective. Thus, the sampling included employees from the M&A department, business area functions, and the management of the different companies. Through snowball sampling, the interviewees continuously contributed to further expansion of the sample by providing contact details to other relevant people (Goodman, 2004).

The interviews took a semi-structured approach, consisting of in advance prepared questions on different themes. For our study, these were based on the chosen theoretical frameworks. Kvale & Brinkmann (2009) state:

The semi-structured interview enjoys its popularity because it is flexible, accessible and intelligible, and, more important, capable of disclosing important and often hidden facets of human and organizational behavior.

The semi-structured interview provides an opportunity to elicit deep insights regarding the various topics covered during the interview on an individual level. The questions were deliberately open-ended, allowing the interviewee to expand on the relevant aspects of the question. This approach also allows the interviewer to use follow-up questions to gain additional insights and, thereby, deeper understanding. The semi-structured interview is an effective way to gather information since it allows the interviewee to focus on their perceived most relevant aspects of the topic. Furthermore, the free context enables the interviewees to express values and feelings that drive their behavior in a particular setting, providing an additional dimension to the study. In the context of management control systems, the semi-structured interview facilitates the creation of meaning and sense-making of values and

[2] The portfolio companies have been anonymized in this paper and the authors refer to them as "Alpha", "Beta", and "Gamma".

behaviors at Tech Corp., which contributes to the purpose of the study (Kvale & Brinkman, 2009).

The questions asked during the interviews were based on the two frameworks serving as a theoretical foundation for this paper, namely Merchant & Van der Stede (2003) and Malmi & Brown (2008). Depending on the interviewee, changes in the interview guide were made. When interviewing employees at Tech Corp., the focus was on their view of the management control system used and how it governs the portfolio companies. On the contrary, when interviewing the portfolio companies, the ambition was to get their perspective on the control systems Tech Corp. uses for its portfolio companies. This contributed to more depth and nuance to our analysis. The questions covered different themes based on the frameworks to explore the concept of management control systems, seek new insights, and reveal hidden facets of the subject studied. This aimed to, as far as possible, fill the identified research gap.

3.2.2. Secondary Data

Secondary data, in terms of the company website, annual reports, and company documents, was also used in this study to gain further knowledge and deeper understanding. Initially, it was relevant to become familiar with Tech Corp. as a potential case for our study, which was easiest done by investigating the company website thoroughly. This was also of importance for the interview guide design. Researching beforehand allowed for interviews covering the more relevant parts of the research question, leaving the most basic information outside the interview. This contributed to a more efficient interview focusing on the interesting aspects of the subject. In addition to the information provided on the company website, stock data on Tech Corp. was analyzed.

3.2.3. Data Analysis

After conducting the interviews, the empirical findings were discussed and analyzed. The initial idea was to conduct all interviews in English to facilitate the data processing for the analysis. However, this was reconsidered after completing the first interview, and all the following interviews were therefore held in Swedish. A verbal discussion between the two interviewers followed immediately after all interviews in order to summarize and highlight significant topics touched upon during the interview. The material considered relevant for the subject was transcribed and translated further, according to Bell et al. (2022), called selective transcribing. This made the collected material more relevant to the research question. The frameworks of Merchant & Van der Stede (2003) and Malmi & Brown (2008) were combined and integrated, allowing for broadened analysis. After conducting all the interviews, the transcribed material was analyzed and divided into categories and themes based on the combined theoretical framework. The different categories were management control, administrative control, result control, action control, personnel control, and cultural control. This allowed for the creation of a unique linkage to the chosen theoretical frameworks and interesting analysis.

4. Empirical Findings

In this section, the empirical findings and gathered data are presented. First, Tech Corp. and an overview of management control are described. Then, the collected data is presented and divided into the categories of administrative, result, action, personnel, and cultural controls based on the combined framework.

4.1. About Tech Corp.

Tech Corp. emerged from the Swedish industrial company "Andersson AB"[3] 40 years ago. Ever since the divestment of Andersson AB, Tech Corp. has continued to grow steadily by acquiring and developing other industrial companies focusing on technical expertise and stressing the importance of building close sustaining relationships with both their customers and suppliers. This has resulted in the development of one of Sweden's largest technology and industrial groups. All Tech Corp. companies produce and sell different components, services, and systems characterized by high-technology content. A typical Tech Corp. company has an annual turnover of 50-100 MSEK. In the early 2000s Tech Corp. was launched on the Swedish stock market. In the past five years, they have created a growth of over 200%, compared with the OMXS30 of 32% (Nordnet, 2022). Tech Corp. refers to their outspoken focus on entrepreneurship and decentralization as key factors to their success. They continuously expand their company portfolio by acquiring well-managed and successful companies with strong market positions operating in well-defined and mature markets (Tech Corp., 2022).

[3] The firm has been anonymized in this paper and the authors refer to it as "Andersson AB".

4.2. Management Control in Tech Corp.

To ensure an overall goal congruence in a company group of 200+ portfolio companies, some level of management control is required. To understand the employees' perception of management control, they were asked to explain what management control is to them. Everyone used different words to describe the concept; however, it seemed to be a consensus regarding the general meaning of it. The overall view was that MCS steer employees to act aligned with the top managers' interest. Words like control, steer, and monitor were often used to describe the concept.

Management control is about monitoring and steering a company based on a set of KPIs.

(Acquisitions & Business Development, Tech Corp. AB)

Management control is different control mechanisms and structures aiming to steer behavior in a particular direction within a company.

(Business Area Controller, Tech Corp. AB)

However, when asked to describe their perception of the management control system Tech Corp. deploys, words like "trust" and "expectations" were most preferred.

At Tech Corp., everything is about trust. You trust that people in the organization know their company best.

(CEO, Alpha AB)

When asked to explain what defines good management control, the CEO of Gamma answered, "responsible freedom." He continued with: "I believe that Tech Corp. has found a very good balance." Moreover, some interviewees expressed their unwillingness to use words like control and steer in connection to Tech Corp. Even management control concepts were unpreferred when asked to describe what mechanisms make portfolio companies perform aligned with Tech Corp.'s interest.

I don't like the word management control. That is exactly what it is NOT about. It's about trust. I have to be able to trust the individual's ability.

(Business Unit Leader, Tech Corp. AB)

Administrative	Action	Result	Personnel	Cultural
Organization structure: • Divisionalized structure • Large organization • 8 business areas • ~4 business units per business area **Governance structure:** • Decentralized • Low integration • Independency • Indutrade-appointed board **Policies and procedures:** • Code of conduct • Sustainability policy • Whistleblow function	**Preaction Reviews:** Board meetings: • Strategy meeting • Budget meeting • Follow-up meeting Immediate actions: • “Must haves”: legal, internal control, reduced risk • Appoint the board **Action accountability:** • Task ownership **Behavioral:** • Restrict MD’s power	**Positive reinforcement:** Monetary rewards and compensation: • Incentive programs • Bonus program for the CEO • Acquisition strategy with additional purchase price Award ceremonies: • Annual award ceremony for financial performance • Award ceremony for sustainability initiatives Financial and non-financial evaluation: • Monthly reporting • Quarterly internal benchmarking	**Selection and placement of employees:** • Takes on an advisory role • Encourages establishment of a management team • Complements the Board with an Indutrade representative • (CEO replacement) **Training:** • Training • Workshops **Job design and resources:** • Annual leadership conference • Cluster meetings	**Physical and social arrangement:** • Networking events **Values:** • People make the difference, entrepreneurship, decetralization, long-term perspective • Trust • Company culture VS Indutrade culture

Table 1. Tech Corp.'s Control Mechanisms Categorized Into the Combined Framework.

4.3. Administrative Controls

4.3.1. Organizational Structure

The Tech Corp. group comprises more than 200 companies in over 30 countries. Tech Corp. comprises eight business areas where the portfolio companies are divided based on their product area or geographic coverage. The areas are then subdivided into units depending on their operations. While the 200+ portfolio companies are grouped into different business areas, the “actual” Tech Corp. AB only consists of the group management and its support functions, in total around 30 people. The business areas continuously work with new acquisitions and the improvement and development of the companies within that area. Every business area has a management team of people from Tech Corp. with relevant competence, which allows focusing on different niches.

4.3.2. Governance Structure

Each of the eight business areas has a Business Area President (BAP). Additionally, 36 Business Unit Leaders (BUL) are divided over the eight business areas. After an acquisition, Tech Corp. appoints a new board consisting of the Business Area President or Business Unit Leader and additional Tech Corp. employees. The board's size depends on the company but is usually around four to five members. As the Tech Corp.-appointed Chair often holds a role as Business Area President or Business Unit Leader, these people tend to have several Chair positions in the Tech Corp. group. The CEO position at the acquired firm may be referred to as "Managing Director" (MD) after the acquisition.

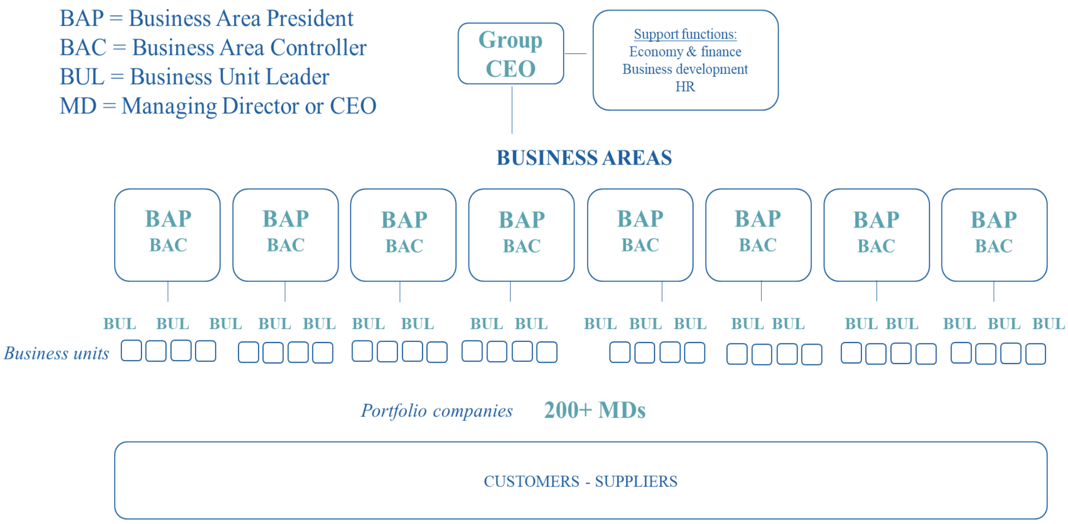

Figure 4. Tech Corp.'s Governance Structure.

The acquired companies are kept relatively independent with operational responsibility for their business and long-term strategy. The high degree of independence and decentralization is rooted in the idea that "the best decisions are made close to the customer by people who have the best understanding of the customers' needs and processes" (Tech Corp., 2022).

Tech Corp.'s core philosophy is to change as little as possible in the acquired firm. However, there is some steering. It is not like you let it go entirely.

(CFO, Beta AB)

Since a typical Tech Corp. company is often entrepreneurial-led, Tech Corp. has gained experience working closely with entrepreneurs. They have thus realized the importance of understanding the people and culture of the companies they acquire. The CEO of Gamma AB explains that as the firms are entrepreneurially led, with an owner who founded the firm themself, there are many feelings involved. Therefore, Tech Corp. needs to establish trust with the owner. Most often, there is a strong will from Tech Corp. to keep the entrepreneur and owner in the company when acquired.

Joining the Tech Corp. Group is like running your own company, but someone else holds the stock. The employees keep their employment and the firm keeps its name and location. In that sense, Tech Corp. is more of a networking organization.

(Business Area Controller, Tech Corp. AB)

4.3.3. Policies and Procedures

Since Tech Corp. is a publicly traded company, the portfolio companies need to adapt to certain stock market requirements. Beta's CEO explains that "sooner or later, you are steered to believe that you actually are a publicly traded firm."

During the last couple of years, a clear vision of building financially viable businesses has emerged in the Tech Corp. group. To achieve this, Tech Corp. believes there must be a clear sustainability focus within the whole company group, something they are willing to push for top-down. As the Tech Corp. group is legally obliged to produce a sustainability report, they want all companies in the group to strive to develop and improve their sustainability thinking. The sustainability strategy's main areas consist of three key elements: people, environment, and profitable growth, with an objective for 2030. Furthermore, Tech Corp. implements its code of conduct and whistleblow function at all the portfolio companies.

The code of conduct is like a fence. You can do what you want within the fence, but we do not jump over the fence. I would not call it control, but rather a collective vision.

(CEO, Alpha AB)

Since Tech Corp. is a publicly traded company with a high degree of information sharing, the code of conduct becomes particularly important. Tech Corp. demands fair and ethical actions towards the employees in all portfolio companies. The organization should be sound, and so should the behaviors within, in order to generate sustainable, profitable growth.

Sustainability is about the willingness to be here in 100, 200, or even 300 years.

(Business Area Controller, Tech Corp. AB)

Furthermore, Tech Corp. has a policy to not collaborate with firms, including both suppliers and customers, in countries blacklisted by the Financial Action Task Force (FATF). This process includes rigorous control of the entire value chain, demanding extensive internal resources from the Tech Corp. companies.

4.4. Result Controls

According to Tech Corp., it is important to offer competitive compensation to motivate the employees to perform in line with the interest of Tech Corp. Therefore, different incentive programs have been launched. In 2017, a long-term incentive program was introduced where selected employees were offered to sign options. Later, other share programs were introduced. These programs are often directed to key individuals in managerial positions in a portfolio company.

Tech Corp. values that key individuals, such as the former owners, continue to engage in the acquired company. Therefore, an acquisition strategy with an additional purchase price is often deployed to ensure their continued engagement in the company. The additional purchase price is paid out to former owners when the company reaches an agreed level of profitability after the acquisition.

Furthermore, the deployment of result controls goes beyond monetary incentives. Tech Corp. organizes annual award evenings to reward outstanding performance within specific categories. For instance, there is an annual gala evening for awarding sustainability initiatives among the portfolio companies to encourage new initiatives with a sustainability focus. The award is based on three dimensions: people, environment, and sustainable growth. A second gala evening awards the best relative financial performance among all the portfolio companies. One of the Business Unit Leader of Tech Corp. Industrial Components, explains how the MDs appreciate the recognition from their peers.

The quarterly internal benchmarking is another way of recognizing high performance within the group based on chosen financial metrics. These metrics could include growth, EBIT, EBIT margin, and capital employed and are measured relative to last year's performance. Beta's CEO explains that the internal benchmarking is important for creating motivation in the CEO collective as it becomes a measure of the CEO's success.

Lastly, result controls are employed through monthly reporting of financial and non-financial measurements. The financial data can include sales, order intake, and changes in net working capital. The non-financial metrics may be linked to HR-related KPIs such as sick days. The performance is, as a general rule, evaluated relative to the previous year.

We strive to perform better than last year. Always a bit better. To refer to the sports world: you can't do the next season the way you did the last, then you won't improve your result.

(CEO, Alpha AB)

4.5. Action Controls

4.5.1. Preaction Reviews

Preaction reviews refers to the auditing of employees' action plans. They can be performed formally, in a budgeting process and a strategy formulation, or through more informal dialogue. Tech Corp. organizes three formal meetings annually to directly audit the portfolio company's action plan, including strategy and budgeting, ensuring its alignment with Tech Corp.'s expectations.

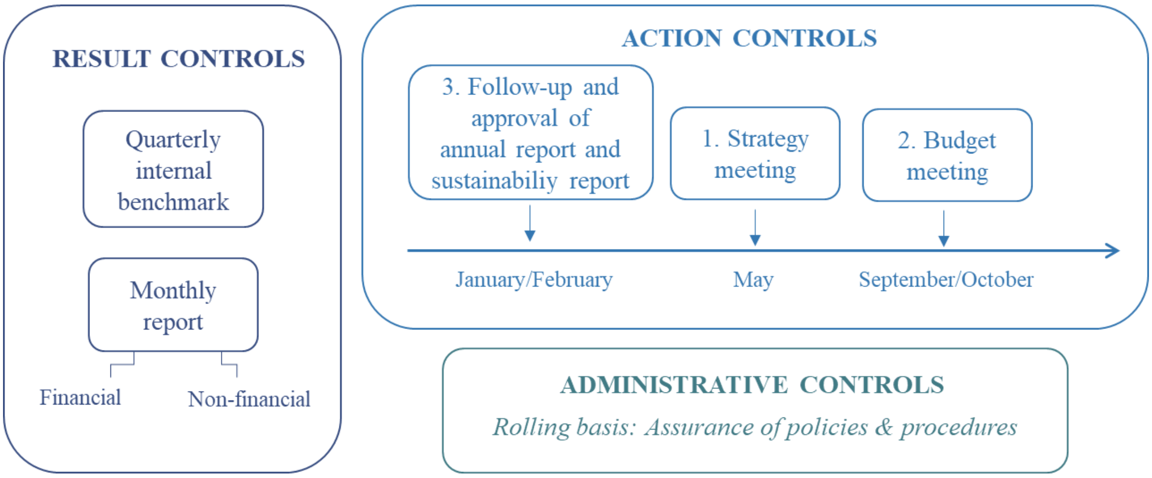

Figure 5. An Tech Corp. Year.

The first formal board meeting, the strategy meeting, is scheduled during the spring of each year. During this meeting, the portfolio company's long-term strategy is presented and, sometimes with revisions, approved by the board. The level of involvement from Tech Corp.'s side depends on the company's overall prosperity. In some cases, the acquired firm needs support in formulating a long-term strategy. Then, Tech Corp. will be involved as a sounding board advising on the most critical aspects. However, as one of the Business Unit Leaders at Tech Corp. states, the strategy is entirely up to the management in the end. The board aims to challenge the management's proposed strategy by opening up for discussion, which contributes to providing valuable insights for the portfolio company.

We want the firms to set the strategy. They know the market, customers, and all processes.

(Business Unit Leader, Tech Corp. AB)

The next formal meeting, the budget meeting, is scheduled for the fall. One or two months before the annual budget meeting, the MD receives a standardized spreadsheet from Tech Corp. where they are asked to present the proposed budget for the coming year. After discussion and possibly making some changes to the proposal, the budget is approved. Additionally, there is a follow-up on the long-term strategy during the budget meeting in the fall. At the turn of the year, the final follow-up and approval of the annual and sustainability report are finalized.

We do not make the budget for them, but expect them to have a thorough worked plan.

(Business Area Controller, Tech Corp. AB)

Tech Corp. has a rigorous assessment period pre-acquisition and can spend up to five years of dialogue with a potential target before deciding to conduct an acquisition. The focus during these meetings is on softer values rather than the financials. The Business Unit Leader at Tech Corp. AB explains that the reasoning behind the long assessment period is that Tech Corp. wants to get to know the potential portfolio company and see how they perform under pressure.

Tech Corp. asks basically zero questions about the financials as they can read it themselves but instead focuses on the soft values.

(CEO, Gamma AB)

In addition to the long assessment period and the formal meetings, some immediate actions may be required of the portfolio company. Therefore, Tech Corp. starts to work on the most critical aspects of the acquired company's operations directly after the acquisition. These are often legal items pertaining to the internal control within the portfolio company. Besides driving the necessary revisions, Tech Corp. may also suggest voluntary improvements for the acquired firm.

We don't set a particular plan. We have a list of nice-to-haves and must-haves that we follow.

(Business Area Controller, Tech Corp. AB)

4.5.2. Action Accountability

Tech Corp. emphasizes action accountability by using the concept of task ownership. As an owner, Tech Corp. has the ambition to be a sounding board; if a portfolio company needs advice on a specific matter, Tech Corp. wishes to be there and support through dialogue. However, in the end, it is always up to the MD of the company to make a decision and take action in the specific matter. The MD thus holds the utmost responsibility.

They should feel strong and that we are behind them. However, they should not feel that we *made the decision but rather that* they *did. In this way, they will feel responsible.*

(Business Unit Leader, Tech Corp. AB)

4.5.3 Behavioral Constraints

To some extent, Tech Corp. implements the control mechanism behavioral constraints on decisions outside the daily work of the MD. A decision from the board must be made if a portfolio company is planning to do something out of the ordinary, such as a large investment.

4.6. Personnel Controls

4.6.1. Selection and Placement of Employees

Tech Corp. plays a vital role as a sounding board in selecting and placing employees at the portfolio company. Tech Corp. sees the employees as a foundation in all companies and are therefore of utmost importance for the company's long-term survival and sustained growth.

At the end of the day, it is all about the people. Everything starts with them. Therefore it is important to find the right person for the right place.

(Business Unit Leader, Tech Corp. AB)

Even though the selection and placement of employees play a fundamental role in a portfolio company's success, Tech Corp. rarely decides, on behalf of the portfolio company, over the processes of selecting and replacing the workforce. As one from Tech Corp.'s M&A team states, Tech Corp. does not want to control and steer these processes. Instead, that is up to the company's MD. However, Tech Corp. may give input on procedures related to employees and staffing, such as HR, if the portfolio company wishes to gain advice on these matters from an outside perspective.

Tech Corp. takes on more of an advisory role regarding recruitment. We might recommend people, but the choice is always up to the MD.

(Acquisitions & Business Development, Tech Corp. AB)

Changes in the management team may be made when Tech Corp. becomes the new owner. Some acquired firms, often entrepreneurially led, do not have an established management team when acquired. In those cases, Tech Corp. encourages establishing one as it contributes to long-term planning and entrenchment of the strategy. Furthermore, Tech Corp. complements the current board with additional members with an Tech Corp. background. Tech Corp. may also replace the CEO. However, those cases are rare and only happen for a particular reason.

4.6.2. Training

Personnel control also stresses the importance of training to achieve goal-congruent behavior. Tech Corp. organizes different trainings annually to increase competence at all levels in their portfolio companies. The training is often offered to key employees and could cover different areas fundamental to all organizations, such as leadership workshops or sales training. In this way, Tech Corp. explains, information regarding expected behavior is communicated to the employees. Once again, the CEO of Alpha AB returns to the employees and explains the importance of providing them with the proper toolbox for their specific tasks. Another valuable outcome of the training sessions is the networking effect the company representatives achieve from meeting other industrial companies in a collaborative environment. From these experiences, companies share highlights and challenges, thus gaining insights and advice from their peers.

Networking is sometimes more valuable than theories and models.

(Business Area Controller, Tech Corp. AB)

4.6.3. Job Design and Provision of Necessary Resources

In addition to the training sessions, Tech Corp. organizes different types of networking events every year with the sole purpose of creating ties between companies within the Tech Corp. group. These networking events include cluster meetings with the business units and a CEO conference with around 230 attendees annually. While the primary purpose is to interact with people in similar positions, Tech Corp. may highlight specific topics, such as sustainability issues, to create insightful discussions.

Tech Corp.'s entire business is built on the fact that the companies are independent units. It is more about contributing with competencies. Sometimes with tools on the Tech Corp. Portal, sometimes in a workshop format with the board and management team.

(CEO, Beta AB)

Concerning the supply chain disruption caused by events such as the Covid-19 pandemic, Suez canal obstruction, and ongoing wars, positive synergies between companies arose within the Tech Corp. group. For instance, there was a case when one firm could provide a key component to another firm suffering shortage, which was then used in their manufacturing process.

In addition to building a network of unique linkages and creating synergies, the networking events serve as a forum where the managers consult each other on critical issues they may face. This contributes to an open and transparent culture.

I believe that the networking events create awareness of who holds what competencies and contribute to the Tech Corp. culture.

(CEO, Beta AB)

4.7. Cultural Controls

According to the interviewees, the cultural integration performed by Tech Corp. is limited. While an "Tech Corp. culture" exists, it is important to Tech Corp. that the portfolio company preserves its culture. Tech Corp. pursues an acquisition strategy where the acquired companies should have a culture similar to that of Tech Corp.

We won't acquire a company that we don't feel is a good [cultural] fit.

(Acquisitions & Business Development, Tech Corp. AB)

Many of the acquired firms were family-owned before the acquisition. For these firms, cultural change is more tangible. Before the acquisition, they could tell their acquaintances or the press the firm's annual results at any time. In contrast, as a part of the listed Tech Corp. group, they now have to wait until this information has been announced publicly.

While the cultural difference is minimal, some employees find that being a part of the Tech Corp. group provides more structure to the firm. An example is the establishment of a management team and developed routines for financial reporting. However, as stated by the CFO of Beta, "the culture remains the same to 90%".

There is no possibility of changing any culture if you only visit the firm three to four times a year.

(CFO, Beta AB)

The CEO of Alpha AB mentions that Tech Corp. is trying to develop its culture and that the Tech Corp. network greatly contributes to this. The goal is to make the companies feel like they are part of a more prominent family. Currently, the Tech Corp. culture is more present in the CEO collective than at each firm. Social arrangements and networking events are essential in creating a sense of belonging among employees, which is important to build trust within the organization. While the company culture can differ, Tech Corp. emphasizes that the core values between the firms must be similar.

The core culture of the firm is kept after the acquisition. The change happens as individuals of the firm are exchanged rather than that Tech Corp. changes it.

(CFO, Beta AB)

As part of its core values, Tech Corp. highlights its helping culture. This culture has emerged over time and is strengthened annually by networking events.

There is incredible transparency between the companies and a culture of always wanting to help others within the group. If a firm sits on an issue and another one has competencies, you always want to help.

(Business Unit Leader, Tech Corp. AB)

5. Analysis

The following analysis discusses gathered empirics based on the literature review. To answer the research question, the strongest tendencies and choice of control mechanisms are highlighted.

5.1. Management Control in Tech Corp.

The empirical findings disclose that there is a consensus on the interpretation of the concept of management control. According to the interviewees, words like control, monitor, and steer would describe the concept best. On the contrary, it is evident that the employees have a different view of what management controls Tech Corp. deploys. Some go as far as saying that the management control on portfolio companies in Tech Corp. is highly limited. However, what seems to be foreseen here is that control can be divided into two types: direct and indirect. Direct control is a straightforward way, sometimes involving enforcement, to ensure that actions align with the company's interest. Indirect control, on the contrary, involves more discrete ways to ensure alignment. Tech Corp. may have limited use of direct control, however, examples of indirect control, in terms of nudging and encouragement is widespread within the organization.

The indirect control Tech Corp. performs builds on a key element, trust, which is also a recurring theme in the interviews. The interviewees do not necessarily believe that Tech Corp. controls the portfolio companies but instead emphasize that it is about establishing trust in each other's ability to achieve desirable results. The control mechanism of trust is bilateral, where the foundation is established during the pre-acquisition assessment. For Tech Corp. as an owner with a highly decentralized organizational structure, it is vital to trust the portfolio company’s ability to perform in accordance with expectations.

On the other hand, it is equally important for the portfolio companies to trust Tech Corp. as their new owner. Many portfolio companies are, at the time of the acquisition, entrepreneurial-led by the founder, which often means that there are strong feelings related to the acquisition. Thus they need to feel trust in Tech Corp. as a new owner. In accordance with the theory of Gibson & Cohen (2003), this is further strengthened post-acquisition by the MD, who undertakes the role of the link between the portfolio company and Tech Corp. Gibson & Cohen (2003) suggest that trust is strengthened when an individual acts as a link between the team and the network.

The long assessment period helps to build a trusting relationship pre-acquisition and makes the MD more likely to open up and act with transparency towards Tech Corp. when facing challenges post-acquisition (Cummings & Bromiley, 1996; Rousseau et al., 1998). Through widespread trust in the firm resulting in an inclination among employees to share both highlights and challenges, Tech Corp. can maintain its philosophy of decentralization with little interference since they trust in everyone's ability. Thus the concept of trust constitutes an important constituent for the management control of Tech Corp.

5.2. Administrative Controls

Tech Corp. has a clear divisionalized organizational structure built upon formalized business areas into which the portfolio companies are integrated when acquired. By targeting well-managed and successful companies with strong market positions, Tech Corp. can keep the companies fairly independent, with little interference, allowing for a largely decentralized model. The prominent organizational structure, together with a rigorous pre-acquisition assessment, emancipates the managers’ attention from unnecessary tasks (Flamholtz &

Randle, 2000). This makes it possible for Tech Corp. to, with a team of only 30 employees, manage a group of 200+ companies. Tech Corp.'s formalized structure is not surprising, as Davila (2005) suggests; as organizations expand over time, they require more formalized systems.

Moreover, the governance structure is upheld by the Tech Corp.-appointed Chair, who acts as a spokesperson between the portfolio company's MD and Tech Corp. Prior research on serial acquirers claims integration vital in M&A success (Larsson & Finkelstein, 2009; Christensen et al., 2011; Kenny, 2020). In contrast, the empirical findings show that Tech Corp. successfully generates value by avoiding full integration and instead adopting a decentralized organizational structure.

In terms of formal policies and procedures, administrative control is also employed on portfolio companies when merged with Tech Corp. This is largely an effect of becoming a part of a publicly traded company. As a publicly traded firm, you are obliged to annually produce a sustainability report. Even if this is pushed from top-down by Tech Corp. through encouragement, the stock market is the party actually demanding the portfolio companies to align with this. The requirement of a sustainability report allows Tech Corp. to continuously follow up on the work around sustainability, assuring that portfolio companies align with Tech Corp.'s ambition of creating long-term sustainable businesses with a sustainability focus.

Additionally, all portfolio companies are demanded to implement Tech Corp.'s code of conduct and whistleblow function, which is a way for Tech Corp. to assure ethical and fair behavior both within the portfolio companies as well as towards external parties. This is particularly important as the firms become part of a large publicly traded company, where information, to a higher extent, shall be available to external parties.

5.3. Result Controls

From the empirical findings, it is evident that Tech Corp., to some extent, uses result controls. However, these are particularly directed towards key individuals holding managerial positions within the firm rather than offered to all employees. They are offered to take part in different incentive programs. The widespread incentive programs are not surprising since theory supports the use of result control mechanisms in large organizations with highly decentralized entities, which is exactly what Tech Corp. is (Merchant & Van der Stede, 2003).

What is typical for this result-oriented control is that it creates motivation to work towards the overall company objectives. It also informs the employees what actions are desirable and thus will be rewarded. In line with the decentralized structure of Tech Corp., this control mechanism is a way to, without making operational decisions, encourage the portfolio companies to improve every year. In this way, companies will keep their independence and operational decision-making, with limited interference from Tech Corp. Furthermore, the implementation of results controls goes beyond the monetary aspect as Tech Corp. encourages certain behavior through their award evenings, where desirable behavior from portfolio companies is rewarded. Through this, Tech Corp. informs the portfolio companies what behavior is desirable and thus rewarded, which creates incentives for the portfolio companies to act accordingly since they want to get recognized by their peers.

Result control is also maintained through a formalized reporting system where portfolio companies are required to report financial and non-financial data monthly. The establishment of formalized reporting systems is aimed at reducing information asymmetry (Merchant & Van der Stede, 2003). Since Tech Corp. as an owner, avoids interference in the portfolio company's daily operations, it is vital that an established reporting system is developed, allowing Tech Corp. to continuously follow up on the portfolio company's performance.

5.4. Action Controls

According to Merchant & Van der Stede (2003), action controls serve as the most direct form of control. Therefore, it is not surprising that Tech Corp.'s usage of them is much more limited than other control mechanisms, as it aligns with the independent organizational structure the company has chosen to employ.

To some extent, Tech Corp.'s employment of preaction reviews starts before the acquisition with a, sometimes several years, long assessment period. The assessment period's importance and the prioritization of selecting the right target are augmented by research (Christensen et al., 2011). Moreover, Malmi & Brown (2008) state that "planning can be done with little reference to finance." With that in mind, part of Tech Corp.'s acquisition strategy is to anchor their core values, rather than expectations on financial performance, during the assessment period.

Private equity firms have been found to practice preaction reviews through formal, regular board meetings, which also seems to be the case for Tech Corp. (Di Toma & Montanari, 2017). While it may be possible for entrepreneurial-led firms to coordinate through frequent and informal meetings, this is no longer the case when they become a part of the Tech Corp. group (Davila, 2005). Instead, the acquisition generates a need for formalized systems that anchor the previously informal interactions. Prior research on venture capitalists shows that unless the investors spend a significant amount of time at the portfolio companies, they are unlikely to affect how action control systems are structured (Davila, 2005). Tech Corp., on the other hand, succeeds by doing the opposite. With only three formal board meetings during a year, Tech Corp. successfully affects the portfolio companies' formality and routines, making them more structured than before.

Based on the empirics, it is evident that the control mechanism of action accountability permeates the whole organization. The way Tech Corp. holds dialogue with the portfolio companies concerning different aspects critical to the organization is characterized by acting as a sounding board but keeping the decision-making at the portfolio company, holding portfolio companies responsible for their tasks. Even in the instance of selection and placement of employees, Tech Corp. deploys a form of action accountability, as they stress the importance of holding the MD responsible for making the final decision.

5.5. Personnel Controls

Personnel control mechanisms are essential in strengthening goal congruence within the Tech Corp. group. Whether it is through direct or indirect ways of steering differs. In some cases, the personnel control mechanisms involve more nudging than actual direct control.

Tech Corp. highly emphasizes the value of each employee in the group, and their strategy is built around the trust in their employees. Empirical findings show that Tech Corp. acts as a sounding board rather than a decision-making unit in this instance. This is rooted in the idea that the right people at the right place are found when holding portfolio companies responsible for the selection and placement of employees. Through dialogue and advisory from Tech Corp., the portfolio companies select motivated employees with the right competencies to achieve the long-term objectives. More structure, long-term planning, and overall formality are also entrenched by encouraging the establishment of a management team. This could be seen as a way to nudge or discretely control their portfolio companies to perform in line with the overall objectives.

Corresponding to previous studies conducted on PE firms, a more direct way of control is the placement of Tech Corp. representatives on the board (Di Toma & Montanari, 2017). This ensures the entrenchment of Tech Corp.'s objectives in the portfolio companies while Tech Corp. is kept informed of the company's operations.

Personnel control is not only deployed through the selection and placement of employees. As the next step in the process, the portfolio companies' employees can participate in various training programs in order to gain helpful information on result expectations and how this can be achieved. By offering trainings, Tech Corp. can, to a larger extent, ensure that tasks are performed in accordance with their interests. Lack of training and knowledge could result in decision errors reducing the probability of making preferred decisions (Merchant & Van der Stede, 2003). Additionally, from the empirical findings, it is found that the training programs play a vital networking role for portfolio companies in the group. The exchange between portfolio companies contributes to their continuous improvement and allows for further growth. This is also accomplished during the networking events organized by Tech Corp. Another noticeable effect of the networking events is the contribution to an open and transparent culture within the Tech Corp. group which further contributes to trust in the firm.

5.6. Cultural Controls

Tech Corp.'s success can be partly described by its effort to find an acquisition target with the right cultural fit. In line with Bauer & Matzler's research (2013), the cultural fit has proved to influence the chance of a successful acquisition. Since the cultural integration within the Tech Corp. group is limited, it is crucial to find the right fit from the start. Therefore, Tech Corp. can spend up to years before finalizing an acquisition to ensure the fit, including the cultural aspect. This pre-assessment before finalizing an acquisition can be seen as a personnel control mechanism in terms of the selection and placement of employees. By ensuring the cultural fit of acquisition through probe examination, the control of employees within the firm is implemented pre-acquisition.

If Tech Corp. had wished for more cultural integration, it would have been challenging to achieve. This is rooted in the difficulty of changing the culture of a whole organization when only visiting them a few times a year, supported by previous research on PE firms (Davila, 2005). While the cultural integration is minimal, some changes, including more structure and formality, are tangible when becoming a part of a more prominent publicly traded firm. The encouragement of a management team and extended financial reporting contribute to this formality. Some interviewees argue that an “Tech Corp. culture” exists; however, it is most tangible in the CEO collective. Transparency and openness characterize this culture. It is shaped by internal networking events, where top management, commonly the CEOs, meet and discuss relevant topics regarding their operations. This also contributes to a culture where the companies can mutually exchange information and advice.

In line with Tech Corp.’s decentralized model, their control of the acquired company’s culture is limited. However, by spending a rigorous amount of time in finding targets with the right fit, including cultural dimensions, Tech Corp. can assure that their portfolio companies have a culture characterized by values and norms aligned with the Tech Corp. culture. In this way, productivity losses emerging due to lagging in cultural adaptation can be avoided. (Bijlsma-Frankema, 2001).

6. Conclusion

This thesis aimed to investigate what control mechanisms a serial acquirer deploys to manage its portfolio companies and how these are combined. The authors used a combined framework based on Merchant & Van der Stede (2003) with complements from Malmi & Brown (2008). The study was conducted on the Swedish industrial and technology group Tech Corp., which has succeeded in generating high growth over a long period. Tech Corp. is known for being a decentralized organization with largely independent entities, and they describe their management control on the portfolio companies as highly limited with minimal interference. This study, however, found that Tech Corp. does deploy several control mechanisms to create alignment. These control mechanisms are characterized by more indirect control, through nudging and encouragement, rather than enforcement.

In terms of administrative controls, Tech Corp.’s clear governance structure with the MD as a link between the firm and Tech Corp., together with a prominent organizational structure, allows for a well-functioning, decentralized system. Since the portfolio companies become a part of a large, publicly traded group after the acquisition, some policies and procedures are forced top-down from the Tech Corp. group.

Furthermore, Tech Corp. employs result controls by offering key individuals the opportunity to participate in various incentive programs. Aligned with the decentralized structure, result controls are a way for Tech Corp. to, without making operational decisions, encourage the companies to improve each year. Additionally, result controls in the form of monthly reports to the board are deployed to reduce information asymmetry (Merchant & Van der Stede, 2003).

As action controls serve as the most direct form of control, these are the least used by Tech Corp. The preaction reviews take the form of a long assessment period pre-acquisition combined with formal, regular board meetings, similar to prior studies on PE firms (Di Toma & Montanari, 2017). Lastly, the control mechanism of action accountability permeates the entire organization as Tech Corp. firmly holds the portfolio companies utmost responsible for their actions, promoting task ownership.

With a strategy built around trust in their employees, the personnel control mechanism is vital in strengthening goal congruence within the Tech Corp. group. Personnel controls are deployed by training programs where the employees gain valuable information on result expectations and how these can be achieved. Moreover, the training programs play a vital networking role for the group as the exchange between the companies contributes to continuous improvement, allowing for further growth. In terms of recruitment, Tech Corp. acts as a sounding board rather than a decision-making unit. The only recruitment Tech Corp. is responsible for is the placement of representatives on the board. However, the long pre-acquisition process can be seen as a personnel control where companies with the right cultural fit are selected. This enables the philosophy of not changing the acquired firms' culture, limiting cultural controls, while ensuring alignment with Tech Corp.

Management control is vital in all organizations to achieve desirable results in line with the management's expectations (Merchant & Van der Stede, 2003). The literature review and empirical findings show that management control does not have to be direct monitoring but can take form in various ways. In Tech Corp.'s case, the firm has developed a management control system that allows for a decentralized organization with little integration or direct steering of the portfolio companies. Since the direct controls are few and the tonality is more advising rather than steering, both Tech Corp. and the portfolio companies perceive the deployed management control as highly limited. It is evident that Tech Corp. employs more discrete ways of ensuring alignment, which is also a way of controlling.

The management control system of Tech Corp. is likely to be one factor contributing to the strong company performance, continuously outperforming the stock market. The case of Tech Corp. shows how a serial acquirer succeeds in managing a large organization with little integration of acquired portfolio companies. By building trust, Tech Corp. is able to maintain a decentralized organizational structure with largely independent entities and a philosophy building on as little interference as possible, despite the company's size.

6.1. Validity and Future Research

We believe this study confirms and complements prior research within the field of management control conducted on PE firms. The study shows how a prosperous serial acquirer succeeds in controlling their portfolio companies without the perception of it. These findings are relevant for large, decentralized organizations with highly independent entities. However, conducting a single case study entails both advantages and disadvantages. On one hand, the sample size limits the possibility of drawing significant statistical conclusions from one case. On the other hand, the single-case study enables a more in-depth understanding of the chosen subject. Moreover, while the studied control mechanisms are assumed to have contributed to Tech Corp.'s exceptionally high growth, their mechanisms might not be suitable for all companies.

As for using a single-case study, there are both advantages and disadvantages to choosing an interview-based research method. Through semi-structured interviews, the authors have been able to ask follow-up questions and investigate deeper into the subject. However, due to response bias and subjectivity, the answers may have been affected by both the interviewee's interpretation of the posed questions and the interviewer's interpretation of the responses. Additionally, it is more likely that qualitative data is subject to subjectivity than quantitative data is. Therefore, we have based the interview guide and analysis on two neutral frameworks, and both authors have participated in the conducted interviews to control that both interpret the data equivalently.

The thesis structure and the limited research in the area of serial acquirers' control mechanisms allow for future studies. As this study was conducted on a single firm, it would be interesting to conduct a similar multiple-case study on several firms and compare the findings to those made in this paper. By researching multiple firms, the validity is increased, and the study can contribute to existing literature with more significant and general conclusions.

6.2. Final Thoughts

To answer the research question "What is the role of management control in serial acquisitions?", the authors conclude, based on the analysis, that the role of management control in serial acquisitions is to provide an organizational structure into which portfolio companies are integrated. This structure shall allow for information-sharing but limit the interference in the portfolio companies' operational decision-making. Furthermore, when controlling through more discrete ways, with little interference but more encouragement to pursue alignment, a key element is that of trust. It takes a bilateral form; Tech Corp. must trust the portfolio company's ability to perform actions aligned with their interest. Moreover, the portfolio companies must have trust in Tech Corp. as an owner, allowing for openness and transparency. By adopting the control mechanism of building trust, a successful management control system can be achieved in large, decentralized organizations with highly independent entities, such as serial acquirers.

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8. Appendix

8.1. Appendix 1: Details of Interview Sample

Interview	Company	Role	Date	Length
1	Tech Corp. AB	Acquisitions & Business Development	2022-10-04	52 min
2	Tech Corp. AB	Business Area Controller	2022-10-19	58 min
3	Alpha AB	CEO	2022-11-03	41 min
4	Tech Corp. AB	Business Unit Leader	2022-11-03	31 min
5	Beta AB	CFO	2022-11-07	35 min
6	Beta AB	CEO	2022-11-07	49 min
7	Gamma AB	CEO	2022-11-18	39 min
8	Gamma AB	Key Account Manager	2022-11-22	31 min
9	Tech Corp. AB	Business Unit Leader	2022-12-01	22 min

8.2. Appendix 2: Extract from Interview Guides

General (10 min)

As mentioned beforehand, we're studying serial acquirers' management control of their portfolio companies. We're curious about the involvement and strategy of the acquiring company post-acquisition.

- Can you tell us a bit about your background and your role at Tech Corp.?
    - What does a normal day look like to you?
- What is management control to you and Tech Corp.?

    - What do you believe defines good management control?
- On the website we can read that you support your companies with “industrial expertise, financing, business development, and performance management”. What does this mean in practice?
- Has your management control changed given the past year’s volatility on the stock market and macroeconomic fluctuations? How?

Planning controls (10-15 min):

- How involved is Tech Corp. in the overall strategy of the acquired company?
- Describe the process immediately after the acquisition. What does the planning process look like?
    - Is it the same process across all the companies? Do you have a portfolio-wide post-acquisition strategy?
    - Do you set up some kind of immediate action points for the management of the acquired company?
- How do you clarify what behavior Tech Corp. expects from the portfolio company’s management?

Cybernetic (Result) controls (10 min):

- You have a quarterly internal benchmarking in the form of a ranking list between the Tech Corp. companies. Can you tell us a bit more about this?
- How do you evaluate the acquired firm’s performance post-acquisition?
    - Do you base it on the budget outcome, financial measures, non-financial measures, or hybrid measures such as the Balanced Scorecard?
    - What happens if they perform under target?

Reward and compensation controls (5 min):

- How do you motivate the former owners who are still part of the management team or employed at the acquired company to perform in line with Tech Corp.’s interests?
- Do you have some sort of bonus program or shared ownership?

Administrative (action) controls (10 min):

- Your acquisition model includes that the acquired companies keep their name, culture, and management after the acquisition.
    - Is Tech Corp. involved in the recruitment or placement of other employees besides the management?

    - What does the board structure look like in the acquired company? Personnel controls: How involved are you in that decision?
- Do you ever change the portfolio company's organization structure after purchase?
    - What happens to the management team post-acquisition?
    - What happens to the number of employees?
- How do you change the policies or procedures in the portfolio companies?
- How involved are you in the acquired company's budget process?
    - Do they need approval from an instance in Tech Corp.? If so: what department?

Personnel controls (7 min):

- Tech Corp. has internal network meetings. Describe these - how do they work?
- Is there any training for the management of the acquired firm?

Cultural controls (7 min):

- What happens if the culture is significantly different from the rest?
- How do you ensure a smooth integration culturally after acquiring a new portfolio company?
- What does the communication look like after the acquisition?
- How are your core values, sustainability approach, and code of conduct enforced?
    - Do you expect these values from your entire portfolio?

To round-up:

- What is the hardest part of your job?

8.3. Appendix 3: Tech Corp.'s Controls in the Combined Framework

Administrative	Action	Result	Personnel	Cultural
Organization structure: ● Divisionalized structure ● Large organization ● 8 business areas ● ~4 business units per business area **Governance structure:** ● Decentralized ● Low integration ● Independency ● Tech Corp.-appointed board **Policies and procedures:** ● Code of conduct ● Sustainability policy ● Whistleblow function	**Preaction Reviews:** Board meetings: ● Strategy meeting ● Budget meeting ● Follow-up meeting Immediate actions: ● "Must haves": legal, internal control, reduced risk ● Appoint the board **Action accountability:** ● Task ownership **Behavioral:** ● Restrict MD's power	**Positive reinforcement:** Monetary rewards and compensation: ● Incentive programs ● Bonus program for the CEO ● Acquisition strategy with additional purchase price Award ceremonies: ● Annual award ceremony for financial performance ● Award ceremony for sustainability initiatives Financial and non-financial evaluation: ● Monthly reporting ● Quarterly internal benchmarking	**Selection and placement of employees:** ● Takes on an advisory role ● Encourages establishment of a management team ● Complements the Board with an Tech Corp. representative ● (CEO replacement) **Training:** ● Training ● Workshops **Job design and resources:** ● Annual leadership conference ● Cluster meetings	**Physical and social arrangement:** ● Networking events **Values:** ● People make the difference, entrepreneurship, decetralization, long-term perspective ● Trust ● Company culture VS Tech Corp. culture