MAKING A DIFFERENCE FROM THE SIDELINE

A CASE STUDY ON ACCOUNTING SYSTEM INTEGRATION FOLLOWING PRESERVATION ACQUISITIONS

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Making a difference from the sideline: A case study on accounting system integration following preservation acquisitions

Abstract

This study explores the management accounting system (MAS) integration following preservation acquisitions, and how this process affects the financial control institutions in acquired firms. Drawing upon *The Process of Institutionalization* (Burns & Scapens, 2000) and the insights from a single case study of a Swedish corporate group specializing in preservation acquisition, we found that financial control institutions expand in acquired firms through three processes. (1) The introduction of new financial KPIs, (2) the development of more sophisticated accounting routines, and (3) the decision-making process through the Board of Directors. Moreover, we have identified how strengthened financial control institutions were encoded into organizational activities through the introduction of business-oriented routines. In line with previous research, we found that employee resistance can arise as a result of cultural differences, or conflicting institutions. However, we also found that inadequate accounting routines can cause resistance as employees are not equipped to enact newly imposed rules. Lastly, our findings show, contrary to previous research, that following acquisitions of small firms MAS are retained rather than replaced so as to not interfere with the capabilities and autonomy of the acquired firm. This disparity relates to the fundamental differences between absorption and preservation acquisitions.

Keywords: Management accounting systems (MAS), preservation acquisitions, institutionalization

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Table of contents

1. Introduction

Mergers and acquisitions (M&A) are commonly used as strategic tools by companies to enter new markets, gain technological advantages and achieve economies of scale (Graebner et al., 2017). The frequency and size of M&A transactions have resulted in the topic being frequently covered in accounting and financial research. Previous research has, for instance, shown that 70-90% of corporate acquisitions fail to create shareholder value (Christensen et al., 2011). The post-acquisition integration between acquirer and the acquired firm has, furthermore, been proven crucial in realizing synergies and strategic goals; factors that ultimately determine the success of an acquisition (Graebner et al., 2017).

Management accounting systems (MAS) are employed in the post-acquisition integration process to establish a common technology within a newly formed group (Granlund, 2003). MAS provide a set of principles that enable standardization and organization of corporate activities (Burns & Scapens, 2000). They are typically recognized as the most important source of formal information in organizations (Jones, 1985a). Absence of a common MAS can lead to instability as the fundamental source of formal information is missing (Granlund, 2003). Thus, MAS is an important facilitator of integration in acquisitions as problems often arise when companies grow and corporate cultures collide.

Haspeslagh and Jemison (1991) outlines a classification of acquisitions along two dimensions, (1) the degree of desired strategic interdependence and cooperation between the acquirer and the acquired company, and (2) the need for autonomy in the acquired firm. Two contrasting types of acquisitions can be identified using this approach: absorption and preservation acquisitions. The authors argue that this categorization determines the appropriate way of managing the post-acquisition integration. Absorption acquisitions combine high interdependence with a low level of autonomy in the acquired firm. This involves complete consolidation and the elimination of boundaries between acquirer and the acquired firm. Preservation acquisitions combine low interdependence with a high level of autonomy in the acquired firm. Preservation involves giving responsibility and decision-making authority to the managers of the subsidiary so as to not interfere with the acquired capabilities. Engagement is selective, strategic in nature, and relates to areas with opportunities for learning. Acquired firms in preservation acquisitions typically maintain separate financial statements after the acquisitions.

Previous research on post-acquisition integration and the employment of MAS in this context is not conclusive. One early study attempted to develop a contingency theory of MAS implementation in acquired companies (Jones, 1985b). They found that acquisitions result in increased formal controls and delegation of authority in the subsidiaries. Acquired companies are generally not trusted and therefore need to be controlled through well-developed MAS (Jones, 1985a). However, Jones' (1985b) also found that MAS design varied significantly between firms, evidence inconsistent with his contingency theory. Following this, he proposed that dominant individuals and their preferences have a significant impact on the post-acquisition integration of MAS,particularly when their preferences do not coincide with the needs of the overall organization. This inconsistency encouraged a broader theoretical approach in understanding MAS integration following acquisitions.

Most qualitative research investigates absorption type acquisitions where the acquired firm is submerged and absorbed into the acquirer. Absorption type acquisitions rely on the realization of pre-acquisition estimates of synergies and economies of scale to generate value. Extended integration processes and unclear objectives will in these cases limit the potential gain and expected value of the acquisition (Granlund, 2003). Culture, trust and communication is typically quoted as deciding factors to the success or failure of absorption type acquisitions (Granlund, 2003; Jordão et al., 2014; Smeulders et al., 2022; Väisänen et al., 2021). Haspeslagh and Jemison (1991) argue that the managerial challenge in absorption acquisitions lies in consolidating and rationalizing best practices in the joint company. The preferred integration approach in preservation type acquisitions is vastly different. The challenge relates to preserving a boundary between the acquirer and the acquired firm; changes should be few and selective so new organizational capabilities can be developed without impeding on existing sources of strength (Haspeslagh and Jemison, 1991).

Furthermore, previous literature has primarily studied M&A activity and MAS integration of large companies (Granlund, 2003; Jordão et al., 2014; Väisänen., et al., 2021). MAS in smaller companies receive less attention and are less sophisticated (Jones, 1985a). Jones' (1985a) findings also demonstrate that the MAS integration process depends on the relative size of the acquired company. Acquirers are likely to replace the accounting and management systems of considerably smaller firms. However, if the acquired company is relatively large and has a credible and well-established MAS, retention instead of replacement may occur (Jones, 1985a). Thus, we have reason to believe that the findings in previous research cannot readily be applied to acquisitions of smaller companies.

Burns & Scapens (2000) provide a model for understanding how MAS change over time. They claim that MAS can both shape and be shaped by the institutions which form organizational activity. Institutions are defined as "the shared taken-for-granted assumptions which identify categories of human actors and their appropriate activities and relationships" (Burns & Scapens, 2000, pp.8). Institutions are formed through a routinization of human behavior (Burns & Scapens, 2000). Thus, there exists a two-way relationship between MAS and the institutions which form them.

1.1. Research question

This paper investigates the MAS integration process that takes place after preservation acquisitions through a single case study. The case company is a Swedish corporate group (hereafter "ProCorp") that acquires small Nordic industrial firms with a perpetual investment horizon, meaning their intention is to never sell acquired companies. ProCorp has a decentralized model in which subsidiaries possess a high degree of autonomy. ProCorp instead provides the subsidiaries with strategic input to guide the long-term development of the businesses.

MAS will be the focus area of the study as they are commonly used to facilitate the integration process and can help promote a shared understanding between acquirer and the acquired firm (Granlund, 2003). Even though ProCorp acquires small firms, these still employ MAS in order to plan and coordinate their industrial activities. ProCorp pursues no operational integration with its subsidiaries, however, it does have requirements on financial reporting and KPIs which, in turn, forces subsidiaries to modify their MAS.

Through this study we address an inconsistency in previous literature. Jones (1985a) found that acquirers replace the MAS of smaller acquired firms. However, this appears conflicting with the goal of preservation acquisitions. Imposing new MAS could interfere with the autonomy in acquired firms. Furthermore, when the primary source of formal information is replaced, organizational knowledge and capabilities risk being superseded and forgotten. This disparity will be analyzed through Burns & Scapens (2000) framework, which highlights the two-way relationship between institutions and MAS. Special regard will be given to financial control institutions since these have a strong connection to MAS and accounting practices in organizations. Thus, by applying Burns & Scapens (2000) framework, we intend to answer the following research question:

How does the integration of MAS following preservation acquisitions affect the financial control institutions in acquired firms?

1.2. Contribution

This paper has three primary contributions to the domain of management accounting research. Firstly, we contribute to existing literature on MAS in post-acquisition integration (Jones, 1985a,b; Granlund, 2003). Our findings show that following preservation acquisitions, pre-existing MAS are retained so as to not interfere with the capabilities and autonomy of the acquired firm. This contradicts Jones (1985a) who found that acquirers replace the MAS of smaller acquired firms as they are generally less sophisticated. Moreover, the introduction of new financial reporting requirements forced subsidiaries to develop new accounting routines. This was a complicated and time consuming process but ultimately strengthened financial control institutions in acquired firms.

Secondly, we provide insights into *The Process of Institutionalization*, contributing to research on how culture can influence MAS integration (Jordão et al., 2014; Moilanen, 2016). Financial control institutions expanded in acquired firms through three processes. (1) The introduction of new financial KPIs, (2) the development of more sophisticated accounting routines, and (3) the decision-making process through the Board of Directors. We have also identified how financial control institutions were encoded into organizational activities through the establishment of business-oriented routines. Moreover, we found that employees do not reflect on why routines change, when the changes are aligned with their institutions.

Finally, we also contribute with new perspectives on the source of employee resistance following acquisitions (Buono & Bowditch, 1989; Roberts, 1990). In line with previous research, we found that employee resistance can arise in the enactment of rules, if rules contradict the institutions of powerful actors (Burns & Scapens, 2000). This was exemplified as a CFO opposed the introduction of new financial reporting requirements because these were not compatible with the pre-existing institutions of the subsidiary. Furthermore, new financial reporting requirements generated resistance as employees perceived them as burdensome and something they were not equipped to resolve. This suggests that inadequate accounting routines can cause resistance as employees struggle to enact new rules.

2. Theory and literature review

This chapter provides an overview of the previous research on which this study is based. The post-acquisition integration process is crucial for M&A success (Graebner et al., 2017). Therefore, before examining the rather limited amount of accounting literature covering MAS in the post-acquisition setting, we take a broader perspective and summarize post-acquisition integration research to gain insight into the fundamental managerial challenges. This field of management research primarily covers either strategic or cultural challenges in post-acquisition integration.

2.1. Previous research

2.1.1. Strategic perspectives on post-acquisition integration

Strategic perspectives on post-acquisition integration has examined how the acquirer and the acquired firm are combined structurally and which post-acquisition practices are efficient in generating value from the transaction. This perspective covers a number of topics, including structural integration, autonomy and communication.

Studies on the structural integration between merging firms generally try to determine whether the benefits from structural integration, such as synergies and economies of scale, outweigh the costs associated with the disruption and loss of autonomy in the acquired firm (Graebner et al., 2017). Structural integration refers to when targets are structurally absorbed into the acquirer and could, thus, be likened to absorption type acquisitions (Haspeslagh & Jemison, 1991). Puranam and Srikanth (2007) proposes that structural integration results in high utilization of the target's existing knowledge but decreases the target's innovative capabilities. Structural integration negatively influenced post-acquisition patenting activity by acquired personnel, meanwhile, post-acquisition citings of the target's pre-acquisition patents increased significantly (Purnam & Srikanth, 2007). Zollo and Singh (2004) takes an alternative perspective on structural integration and investigates to which extent systems and procedures are aligned or centralized following an acquisition. This study found a positive relationship between centralization and the acquirer's return on assets (ROA).

Autonomy is generally viewed as the polar opposite of structural integration. Empirical findings on the relationship between autonomy and performance are varied. Some studies have found a positive relationship between autonomy in the acquired firm and acquisition performance (Reus et al. 2016). Datta and Grant (1990), on the other hand, found that autonomy was positively associated with performance in unrelated acquisitions, but not in related acquisitions. This finding corresponds to Haspeslagh and Jemison's (1991) proposed integration approaches in different types of acquisitions. Autonomy has a positive effect on performance in unrelated, or preservation, acquisitions as the managerial challenge in this integration process relates to maintaining organizational capabilities and innovation in the acquired firm. On the other hand, for related, or absorption, acquisitions autonomy is counterproductive since value is derived from coordinating and integrating the acquired firm's practices into the parent (Haspeslagh & Jemison, 1991).

Research on communication and interaction in a post-acquisition setting have generally claimed that a higher degree of interaction leads to better coordination between the merging firms, which in turn yields better performance (Graebner et al., 2017). Larsson and Finkelstein (1999), for example, found a positive link between level of interaction and synergy realization, with synergy realization representing a measure of post-acquisition performance. Here, it becomes important to highlight that some authors have different perspectives on acquisitions, which have resulted in some discrepancies in the findings. For example, Larsson and Finkelstein (1999) study absorption acquisitions and argue that the achieved degree of synergy realization determines the success or failure of an acquisition. Reus et al. (2016), on the other hand, study preservation acquisitions and how the knowledge transfer from acquirer to the acquired firm destabilizes power structures, creates tensions and harms performance. In this sense, both findings are harmonious with Haspeslagh and Jemison's (1991) classification of acquisitions. Different types of acquisitions should be integrated in different ways.

Lastly, Bauer and Matzler (2014) found that strategic similarity between acquirer and target increases degree of integration and is a predictor of M&A success. Cultural similarity also has a positive influence on M&A success, but notably has a negative effect on the speed and degree of integration (Bauer & Matzler, 2014). Consequently, the authors suggest that cultural similarity could act as a substitute for the structural integration process. In the following section we develop the discussion connecting culture and M&A success.

2.1.2. Cultural perspective on post-acquisition integration

Cultural perspectives provide tools that help in understanding many of the human, social and cultural problems that arise in the post-acquisition integration (Graebner et al., 2017). This perspective includes more topics than we are able to cover in this thesis. We have decided to focus on employee alignment, resistance and trust, as these findings are the most relevant for our study.

Previous literature shows that cultural differences between acquirer and the acquired firm usually, but not always, have a negative effect on performance (Graebner et al., 2017). Therefore, some research has highlighted the importance of establishing shared principles, mutual understanding and employee alignment in the post-acquisition integration process, as failure to do so can lead to employee resistance (Buono & Bowditch, 1989). Furthermore, Buono & Bowditch (1989) found that the post-acquisition integration process can generate extreme negative emotions, even trauma, for employees of the acquired firm. Negative emotions like these can subsequently result in damaged morale and employee drop-off

(Buono & Bowditch, 1989). The primary source of employee resistance is the fact that an acquisition challenges the pre-existing culture of an organization. Cultural differences between acquirer and the acquired firm can constitute obstacles for integration (Buono & Bowditch, 1989). Therefore, recognizing and managing cultural tensions can improve employee alignment and acquisition outcome.

Similarly, Smeulders et al. (2022) found that cultural differences are linked to initial employee resistance to the acquisition, which subsequently hampers acquisition performance. However, Smeulders et al. (2022) argue that managers can affect employee resistance through the use of tools in the integration process. Task integration tools, such as manuals to communicate new procedures, have a positive effect on performance, but notably also increase employee resistance in the presence of cultural differences (Smeulders et al., 2022). Sociocultural integration tools, such as cultural awareness programs, can then help reduce employee resistance and its negative effects on performance (Smeulders et al., 2022). Thus, sociocultural integration is particularly useful to reduce initial employee resistance, which paves the way for subsequent task integration efforts.

Another important social factor to consider in the post-acquisition setting is trust. Trust is often associated with successful integration efforts (Graebner et al., 2017). Graebner (2009) found that trust asymmetries can emerge in acquisitions and influence the actions of managers. Distrust can for example lead to deception as well as guarding against deception (Graebner, 2009). Notably, Graebner (2009) found that managers often have incorrect perceptions about the trustworthiness of their counterparty in an acquisition. Väisänen et al. (2021) show how trust can improve employees' understanding and use of management controls in an acquired firm. Trust fostered enabling perceptions of new management control systems in the acquired firm (Väisänen et al., 2021). Furthermore, the study illustrates how managers of the acquirer can build trust through activities aimed at developing interpersonal relationships and clear communication of intentions. The authors argue that managerial intentions are connected to employee perceptions. Managers' trust influences the design of new controls, subsequently employees reciprocate and trust the controls as well as the managers (Väisänen et al., 2021).

2.1.3. Management accounting systems (MAS) in post-acquisition integration

Management accounting systems (MAS) are generally regarded as the primary source of formal information in companies (Jones, 1985a). Acquisitions are organizationally and culturally disrupting events. These events place a great emphasis on sources of formal information, such as MAS, to make sense of a dynamic environment and justify complex decisions (Jones, 1985a). Previous research on MAS in the post-acquisition setting is scarce but some common themes can be identified.

Jones (1985a) argues that MAS make up the foundation of a company's identity, structure and processes. Their importance "stems from the ability to facilitate organizational integration, to motivate individuals and groups, to assist decision-making and to provide measurement of performance (Jones, 1985a, pp. 178-179). His empirical study of thirty acquirers show that MAS assume a greater importance following acquisitions (Jones, 1985a). This was a result of the increased formality and delegation of authority in acquired companies. Changes in MAS were usually extensive in acquired companies, but only modest in acquiring companies (Jones, 1985a). Moreover, he found that large acquirers are likely to replace the accounting and management systems of considerably smaller acquired companies since these typically are less sophisticated. Jones (1985a) also identified a deliberate destruction of the pre-acquisition accounting controls in acquired companies to expedite the MAS integration process. The author concludes that acquired firms are typically not trusted and are therefore controlled through well-developed MAS. However, automatically extending the acquirer's controls into newly acquired firms will rarely lead to desired outcomes in terms of order and control (Jones, 1985a). Roberts (1990) develops on this and shows that imposing new MAS on an acquired firm often leads to employee resistance and conflicts.

Building on his previous empirical study, Jones (1985b) develops a contingency model for MAS implementation following acquisitions. The study found that conformity and willingness to accept variations in MAS varied considerably between individual companies, which was not consistent with the proposed contingency theory. As an explanation to this, Jones highlights the influence of dominant individuals and their preferences on the design and implementation of MAS.

Granlund (2003) reaffirms the influence of dominant individuals and their preferences on MAS design. He studied a merger between two equally large Finnish food manufacturers, characterized as an absorption acquisition. Notably, one controller in the acquired company was alone trusted to integrate the two separate accounting systems following the merger. Granlund (2003) equates MAS to a common language within the group. A lack of a common MAS in a post-merger setting can therefore lead to organizational instability, especially in absorption acquisitions. Coordination and management of organizational units becomes an impossible mission as the fundamental tool for formal information and communication is missing (Granlund, 2003). Furthermore, combining separate accounting systems is a complex and time consuming process, and delays can lead to undesirable outcomes (Granlund, 2003). Despite this, the study shows how little time and managerial attention is reserved for MAS integration. Granlund concludes that the post-merger integration process is characterized by goal ambiguity and unintended consequences. “Organizational processes were not well-understood and decision-making seemed to be largely accidental” (Granlund, 2003, pp. 231). Obscure and conflicting goals influenced decision-making and resulted in several unintended consequences, for example a lengthy MAS integration process and severe power struggles. This goal ambiguity developed in the absence of a common MAS that would have produced reliable and comparable accounting information, used in controlling organizations.

More recent research has examined the effect of organizational culture on the post-acquisition development of management control systems (MCS). Jordão et al. (2014) found that changes in the acquired company’s MCS were derived from the new financial results-oriented culture introduced by the acquirer. The implementation of a new culture resulted in improvements in production, financial, and quality control processes, which subsequently led to higher adoption of the acquirer's culture. Moreover, post-acquisition management was determined a key factor for the success of M&A activity. Employee's in the acquired company attributed the success to the CEO's management style and charismatic leadership. These findings are in line with Granlund and suggest that culture and leadership can have indirect and unintended consequences on the design and effectiveness of accounting and control systems.

Moilanen (2016) also takes a cultural perspective and studies different groups' sensemaking of changes in MCS following an acquisition. The study shows how individuals in the acquirer and the acquired company interpret changes to MCS differently. Moilanen (2016) suggests that the structural positions held by employees influence their perspectives and generate emotions that in turn determine how they make sense of MCS changes. Employees of the acquirer had rational perspectives for sensemaking and focused on the technical functionality of accounting systems, on the other hand, employees of the acquired firm had emotional perspectives for sensemaking and described changes in accounting systems through personal experiences (Moilanen, 2016). On this foundation, Moilanen (2016) contends some of Granlund's (2003) findings by suggesting that a group-wide MAS may not function as common language, or a shared medium of understanding, since employees of the acquirer and the acquired firm make sense of accounting systems differently. Therefore, designing MAS in a post-acquisition setting requires careful consideration of the underlying assumptions and experiences of different groups of individuals, something our theoretical framework addresses.

In this paper, we want to explore the change processes in MAS after preservation acquisitions. Burns & Scapens' *Process of Institutionalization* (2000) is a model detailing management accounting change in organizations over time. This model will be employed as our theoretical framework. It is useful in the context of this study as it aims to "describe and explain analytical concepts which can be used for interpretive case studies on management accounting change" (Burns & Scapens, 2000, pp. 9). It takes the perspective of management accounting change as a process but indicates that external events, such as acquisitions, can have noticeable effects on this process. Moreover, the model "supports the argument that corporate mergers are never likely to be unproblematic, because institutionalized practices engender behavior that impedes changes, particularly changes that endanger the existing norms and values" (Granlund, 2003, pp. 212). Burns & Scapens' (2000) model, thus, functions as a suitable method theory as it describes how pre-existing norms and cultural differences can influence the development of MAS following acquisitions. Moreover, previous research (Granlund, 2003; Jordão et al., 2014) has determined that absorption acquisitions challenge existing norms and values in the acquired firm, the question remains to what extent this occurs in preservation acquisitions.

2.2. The process of management accounting change

The Process of Institutionalization is a model detailing how management accounting changes in organizations over time. Burns & Scapens (2000) assume that management accounting systems (MAS) and accounting practices constitute organizational rules and routines. Rules represent the formally approved way of doing things, and routines represent the way things are actually done in reality (Burns & Scapens, 2000). Thus, rules comprise the formal MAS as they are specified in manuals, and routines are the accounting practices actually in use.

Burns & Scapens (2000) claim that MAS can both shape and be shaped by the institutions which form organizational activity. Institutions are defined as "the shared taken-for-granted assumptions which identify categories of human actors and their appropriate activities and relationships" (Burns & Scapens, 2000, pp. 8). Thus, institutions constitute a social agreement on accepted ways of thought and action within a group. Moreover, institutions are formed through a routinization of human behavior, meaning there exists a two-way relationship between human action and the institutions which form that action.

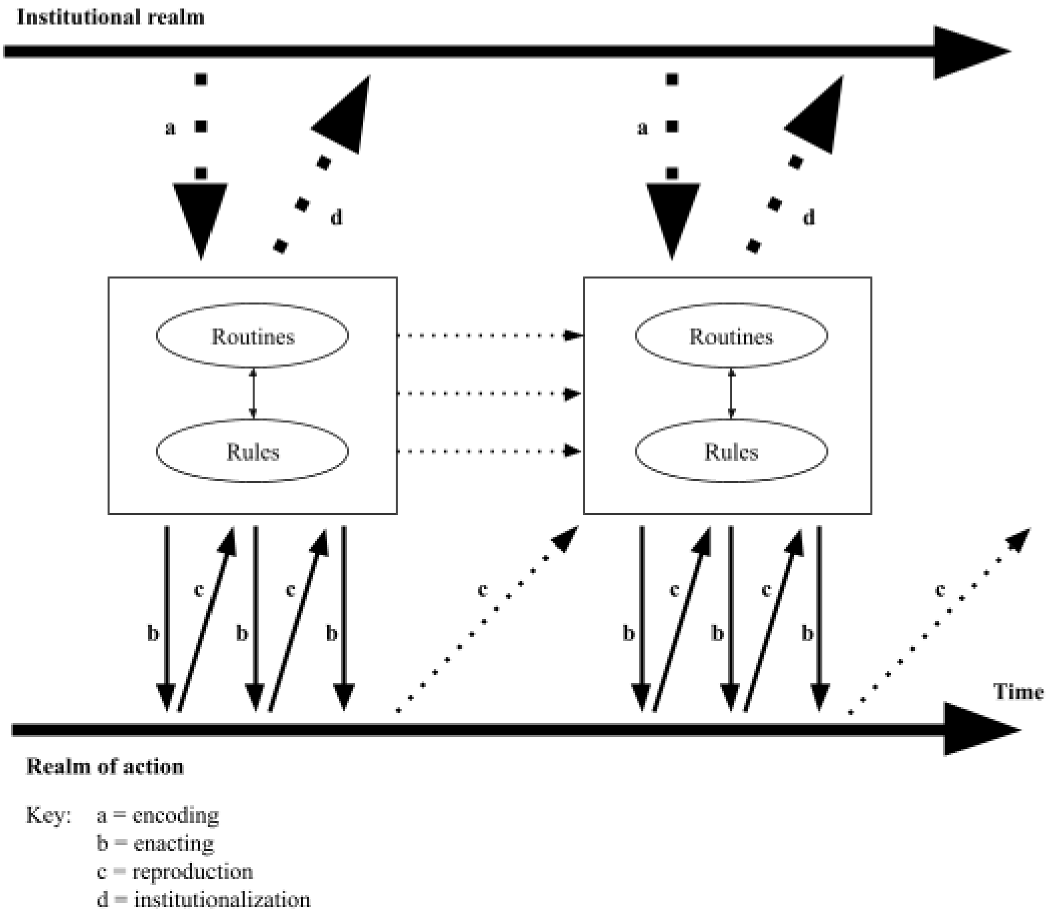

Figure 1: *The Process of Institutionalization* by Burns & Scapens (2000, pp. 9)

The model illustrates how rules and routines connect the institutional realm to the realm of action through four change processes: (a) encoding, (b) enacting, (c) reproduction, and (d) institutionalization. The first process (a) consists of encoding institutional principles into rules and routines. Current institutions, or taken-for-granted assumptions, are expressed through the prevailing routines in a group. Routines influence the formation of new rules, which in turn leads to adjustments of existing routines. The second process (b) consists of actors enacting the prevailing rules and routines through actions. This may involve individuals making conscious decisions but is typically an automatic response in line with prevailing institutional principles. The enactment of rules and routines can meet resistance, particularly if they contradict the institutions of powerful actors. Thus, challenging previously agreed upon institutions rarely occurs without external changes to the organization; an acquisition could be one such external change. The third process (c) occurs as repeated action leads to a reproduction of routines. Thus, routines are reformed through repeated behavior in the action realm. This reproduction can build upon either conscious or unconscious change. Conscious change occurs when actors rationally challenge existing rules and routines, while unconscious change occurs when rules and routines are misunderstood and no adequate monitoring or control system exists. The fourth process (d) consists of the institutionalization of rules and routines that have been reformed through repeated action. In this step, rules and routines are transformed into norms and taken-for-granted assumptions that represent the shared views of the group, institutions in other words. This process is repeated over and over again. New institutions will consequently be encoded (a) into the prevailing rules and routines, and so forth.

To summarize the framework, institutions are abstract and "taken-for-granted assumptions about the way of doing things, which shape and constrain the rules and routines, and determine the meanings, values, and also powers of the individual actors" (Burns & Scapens, 2000, pp. 11). It is important to note that institutions always exist prior to any change process, and will therefore always influence the process. This implies that change processes, as well as the design of MAS, are path dependent. Existing MAS and institutions will inevitably shape the integration process. Studying specific change processes, as we intend to do in this paper, thus requires careful examination of existing institutions. Furthermore, the model emphasizes the temporal aspect of post-acquisition integration. The outcome of the MAS integration and the views of specific actors depends, to some extent, on the time between the acquisition and when the study is conducted. Longer time implies that the change process has been repeated more times, and subsequently that the institutions, rules and routines of an organization will be more developed.

2.3. The process of institutionalization in preservation acquisitions

In this section we introduce a theoretical framework to guide our understanding and interpretation of the results from the study. The framework is developed by applying Burns & Scapens' (2000) model of management accounting change to previous literature on MAS in absorption acquisitions. On this foundation, we then discuss how *The Process of*

Institutionalization plays out following preservation acquisitions, since this topic is yet to be researched.

The goal of absorption acquisitions is to integrate the acquired firm into the acquirer to realize synergies and economies of scale (Haspeslagh & Jemison, 1991). The high degree of strategic interdependence requires cooperation and mutual understanding, having separate institutional principles can therefore be problematic (Granlund, 2003). Consequently, acquirers attempt to replace the prevailing institutions in acquired firms with their own. However, institutions are abstract and difficult to change as they develop over time through a routinization of human behavior (Burns & Scapens, 2000). The deinstitutionalization of acquired firms is therefore often realized through an elimination of pre-existing rules and routines in the acquired firm. For example, Jones (1985a) found that acquirers typically impose new MAS on acquired firms. This is equivalent to imposing new rules using Burns & Scapens' (2000) terminology. Jones (1985a) also identified a deliberate destruction of the acquired firm's accounting procedures, which is equivalent to eliminating the prevailing routines (Burns & Scapens, 2000). Rules and routines reflect the institutional principles of a group, however, they are also fundamental in the forming of new institutions (Burns & Scapens, 2000). Thus, when an acquirer eliminates rules and routines, it not only destabilizes but also challenges the institutions of the acquired firm. New institutions will subsequently develop over time as employees of the acquired firm enact the new rules imposed by the acquirer and re-produce new routines aligned with those rules.

This viewpoint, that acquisitions constitute external events that can challenge the prevailing institutions of employees in the acquired firm is supported throughout a number of papers that describe acquisition as disrupting events and detail the adverse effects of cultural differences between acquirer and the acquired firm (Buono & Bowditch, 1989; Granlund, 2003; Moilanen, 2016; Smeulders, 2022). In this sense, cultural differences are equated to conflicting institutional principles between employees in the acquiring and the acquired firm. Conflicting institutional principles can, in turn, lead to employee resistance in the enactment process (Burns & Scapens, 2000). Rules, or new accounting systems, will be violated or adjusted if they are not possible to combine with prevailing institutions. Thus, routines or accounting procedures will be influenced not only by the rules imposed by the acquirer but also by cultural differences and employee resistance. In other words, cultural similarity and to what extent institutions overlap in the acquirer and the acquired firm influences employee resistance, and subsequently the efficiency with which new MAS can be implemented. In absorption acquisitions, cultural differences are therefore often quoted as a primary reason for unsuccessful integration processes and MAS implementations (Granlund, 2003; Moilanen, 2016; Väisänen et al., 2021; Smeulders, 2022).

We expect the institutionalization process following preservation acquisitions to play out differently. The goal of preservation acquisitions is to maintain the specific capabilities in the acquired firm (Haspeslagh & Jemison, 1991). Acquirers therefore preserve a boundary between the firms to not interfere with the sources of strength in the acquired firm. Burns & Scapens' (2000) perspective would, thus, suggest that acquirers should be careful as to not interfere with the institutional principles in the acquired firm, since these shape the specific routines and rules that, in turn, together produce unique organizational knowledge and capabilities. Following preservation acquisitions we, therefore, expect a limited involvement of the acquirer. However, Jones (1985a) findings suggest that acquirers typically replace the MAS of smaller acquired firms as they typically are underdeveloped. This would be incompatible with the goal of preservation acquisitions as it suggests that new rules are imposed on acquired firms. As these rules are reproduced and institutionalized, new institutions would emerge and challenge the firm specific capabilities an acquirer intends to preserve. Thus, preservation acquisitions of small firms requires a balancing between opposing forces. To preserve institutions in small acquired firms it is important to allow them to be run autonomously, at the same time, this exposes the acquirer to risks associated with weak financial controls. Alternatively, an acquirer could impose more formal financial controls, but would risk interfering with the institutions of the acquired firm.

Subsequently, a tension between rules and routines exists which can determine the outcome of preservation acquisitions. Rules may be introduced by the acquirer, but how these are implemented and reproduced into organizational routines depends on the institutions in the acquired firm. Autonomous firms will be less receptive to the implementation of new rules due to their strong institutions. Autonomy is desirable in preservation acquisitions but also implies that an acquirer must renounce itself from control.

Preservation acquisitions do entail some changes in the acquired firm. The acquirer, for example, typically engages in long-term strategic guidance through target-setting. They also engage when there exists opportunities for learning between the firms, for example through exchange of knowledge or technologies (Haspeslagh & Jemison, 1991). Thus, a challenge following preservation acquisitions relates to implementing small improvements in the acquired firm, while not impeding on its institutions. In theory, this should be possible if newly imposed rules are aligned, or can coexist, with the pre-existing institutions. This would, in turn, require a deep and nuanced understanding of the culture and taken-for-granted assumptions in the acquired firm before new strategic initiatives and long-term targets are implemented. Thus, absorption acquisitions are characterized by the replacement of institutions in the acquired firm, while preservation acquisitions are characterized by the maintenance of institutions in the acquired firm, and the selective engagements which can coexist with those institutions.

3. Method

In the following chapter we present our research methodology. In the first section we describe and motivate our research design and setting. Following that, we explain the data collection and data analysis process. Lastly, we analyze the trustworthiness and reliability of our study.

3.1. Research design

3.1.1. Single case study

This paper is based on a qualitative single case study of a Swedish corporate group (ProCorp) and three of its recently acquired subsidiaries (Alfa, Beta and Gamma). Previous research has found that the use of MAS in a post-acquisition setting is influenced by several aspects (e.g., Granlund, 2003; Jordão et al., 2014; Väisänen et al., 2021). Accordingly, the strength of a qualitative case study lies in its ability to capture specific features of reality and analyze numerous variables and their relationships, at the same time (Ruddin, 2006). Qualitative accounting research assumes that social reality is created subjectively, and materialized through human interaction (Chua, 1986). The qualitative research design is suitable as it provides in depth and nuanced data that enables the analysis of *how* MAS integration is managed (Dyer et al., 1991). Moreover, multiple previous research papers on the topic of post-acquisition MAS integration have also utilized the single case study methodology (Granlund, 2003; Jordão et al., 2014; Moilanen, 2016; Väisänen et al., 2021; Smeulders et al., 2022).

Given the limited research on MAS integration following preservation acquisitions, an explorative study is deemed most appropriate (Eisenhardt, 1989). Furthermore, Edmondson and McManus (2007) argue that a qualitative methodology is preferred for emerging research topics, referred to as nascent theory. The authors also highlight the importance of a match between research question and contribution to ensure internal consistency (Edmondson & McManus, 2007). Therefore, we have chosen to carry out a qualitative methodology with an open research question to provide an explorative rather than descriptive contribution to the literature.

3.1.2. Research Setting

The company studied in this research paper, referred to as ProCorp, is a Swedish corporate group that specializes in preservation acquisitions and the subsequent development of small Nordic industrial companies. ProCorp has circa 20 subsidiaries and continuously pursues new acquisitions. The selection of this research setting and case company was determined due to the following reasons.

ProCorp constitutes a suitable research subject, especially seeing as the company has made numerous preservation acquisitions, has established procedures for steering businesses, and experienced management. This allows for an in depth understanding of how preservation acquisitions are managed by an organization that is experienced in these types of transactions. Furthermore, by also interviewing three subsidiaries within the ProCorp group we are able to develop a nuanced understanding of specific processes and strategic initiatives following preservation acquisitions. This is particularly relevant seeing that previous research has found that the structural positions held by employees and managers influence their understanding and interpretation of post-acquisition MCS (Moilanen, 2016). Thus, observing different perspectives on preservation acquisitions provides a broader empirical material.

Secondly, ProCorp pursues acquisitions of smaller industrial companies, the acquired firms typically have revenue between 50-200 mSEK. This also addresses the identified research gap as previous literature primarily has studied M&A activity and MAS change in large companies (Granlund, 2003; Jordão et al., 2014). The post-acquisition integration process depends on the relative size of the acquired company (Jones, 1985a). Jones (1985a) also found that acquirers are likely to replace the MAS of smaller acquired firms, however, this appears to be conflicting with the aim of preservation acquisitions as it could interfere with existing institutions and subsequently organizational capabilities in the subsidiaries. Thus, the research setting provides an opportunity to study smaller acquisitions in combination with preservation acquisitions which could provide interesting insights.

Finally, the case company was chosen as it fulfilled a number of practical criteria. ProCorp is headquartered in Sweden and has made several preservation acquisitions. ProCorp allowed for interviews to be conducted across different hierarchical levels, but also with different autonomous subsidiaries within the group. Moreover, ProCorp was willing to share detailed information on strategy, integration processes and how MAS are used in the organization which was crucial for the study.

3.2. Data collection

3.2.1. Interviews

In-depth interviews are the primary source of qualitative data in this study. The interviews were conducted in a semi-structured way, they started out from a set of questions but developed as the authors asked follow-up questions and recognized new relevant topics. This allows the interviewee to control the interview based on his or her ability to discuss specific questions and focus the discussion on topics where most useful data can be gathered (Bryman & Bell, 2015). The semi-structured interview approach is prevalent in qualitative accounting research and a legitimate means for collecting information (Lee & Humphrey, 2006).

A total of 15 interviews were conducted with 14 different employees across the group, each lasting circa one hour (see Table 1). Six interviews were held with ProCorp employees involved in the acquisition and subsequent governance of the subsidiaries. These were the CEO, CFO, a division manager, the M&A manager and the group controller. In addition to this, three interviews were carried out at each of the three subsidiaries Alpha, Beta and Gamma to provide a nuanced picture of the post-acquisition process (Eisenhardt & Graebner, 2007). The interviewees in the subsidiaries held top management positions, such as CEO, CFO and COO, since these are typically the most involved in the post-acquisition integration process and therefore are assumed to have the best understanding of ProCorp's governance model. However, in Gamma a Controller was interviewed in place of the COO as this position was being filled. Considering the formal positions of the interviewees, our empirical findings primarily reflect the views of top management in the subsidiaries. The views of management could potentially differ from those of the employees, however, considering that these are small firms we believe that their perspectives should be relatively well-aligned. See Appendix 1 for a more comprehensive overview of the interviews.

Interviewees	**ProCorp**	**Alpha**	**Beta**	**Gamma**
CEO	2	1	1	1
CFO	1	1	1	1
COO	-	1	1	-
Controller	-	-	-	1
Division Manager B	1	-	-	-
M&A Manager	1	-	-	-
Group Accountant	1	-	-	-
Total number of interviews	**6**	**3**	**3**	**3**

Table 1: Overview of interviewees

The interviews took place from January to March 2023. All interviews, except an introductory interview with the CEO of ProCorp, were conducted via video conferencing platforms.The subsidiaries are scattered throughout Sweden, which given the time frame and resources for this thesis made it too difficult for on site interviews and visitations. Both authors were present at all interviews. Interviewees were informed about their anonymity and the research topic prior to the interviews. Anonymity mitigates the risk that interviewees may be unwilling to disclose specific information (Lee & Humphrey, 2006). Corporate managers, as we primarily have interviewed, can be particularly cautious in disclosing firm specific information as it could threaten the competitiveness of their businesses and subsequently their individual careers. All interviews were conducted in Swedish, audio recorded and then transcribed. We chose to have the interviews in Swedish, as it was the native language of all interview subjects, and thus allowed the interviewees to feel more comfortable during the interviews. The quotes that are included in this paper have been translated from Swedish to English.

The interview guide provided open questions on the relevant research topics and was developed with regards to the research question, previous research and theoretical framework. The interview guide covered four themes: (1) post-acquisition integration, (2) strategy, (3) level of autonomy, and (4) culture. MAS implementation and requirements on accounting was the primary discussion topic in post-acquisition integration. Some smaller adjustments were made to the interview guide throughout the study to focus the discussion to the most relevant topics. Otherwise, the interviewees were asked principally the same questions to capture different perspectives on preservation acquisitions within the group. Two interview guides were developed, one for ProCorp and one for the subsidiaries. The interview guides can be found in Appendix 2 and Appendix 3.

Secondary data was collected in the form of internal documentation and presentation materials. The authors were given access to ProCorp's "on-boarding" presentation which contributed to a better understanding of the post-acquisition integration process and what specifically is expected of newly acquired businesses in terms of reporting and financial performance. This information was provided by ProCorp under the condition that no figures or models could directly be found in the final report.

3.3. Data analysis

Method and domain theory, as developed by Lukka & Vinnari (2014) has provided a theoretical lens for data analysis. The method theory, Burns & Scapens' (2000) *Process of Institutionalization* provides a fundamental understanding of management accounting change processes and was used as a framework to identify theoretical inconsistencies in the empirics.

An abductive approach was employed in the data analysis and the study as a whole. Thus, theory development, data collection, and data analysis were performed iteratively and continuously developed while narrowing in on the research question (Dubois & Gadde, 2002). The abductive approach was strengthened by structured discussions following each interview on the findings in relation to previous literature and the method theory, which was then summarized in the transcription document. In the first interviews with ProCorp it became obvious that ProCorp does not impose any major operational changes in subsidiaries following acquisitions. However, ProCorp tries to encourage a more business-oriented management approach in its subsidiaries, but this was described as a longer change process. Subsequently, the later interviews, primarily with the subsidiaries, were more connected to Burns & Scapens' framework and how ProCorp in practice encourages a more business-oriented culture in the subsidiaries.

The interview material was categorized into themes through a qualitative content analysis. The data was analyzed and categorized in two steps according to "first order concepts" and "second order themes" as outlined by Gioia et al. (2013). First-order concepts were identified by scanning the interview transcripts for common ideas without any theory application (Gioia et al., 2013). Some first-order concepts identified were: (1) ProCorp's financial reporting requirements, (2) new financial KPIs, and (3) the introduction of business-oriented routines. Second-order themes were then established by categorizing the first-order concepts through the lens of the theoretical framework (Gioia et al., 2013). Some second-order themes identified were: (1) resistance to financial reporting requirements due to incompatible institutional principles, (2) deinstitutionalization of subsidiary CEOs, and (3) encoding of strengthened financial control institutions.

The empirical themes were then analyzed in relation to one another to identify linkages and to better understand the process in which MAS change. Developing causal claims in qualitative research entails a screening for and selection of relevant explanatory factors, which is not unbiased (Lukka, 2014). However, the aim of this explorative case study is not to provide a conclusive set of explanatory variables and linkages, but rather to explore emerging themes within preservation acquisitions and management accounting. Explorative case studies "do not explain events or phenomena per se, but only particular aspects of them" (Lukka, 2014, pp. 563). Theoretical linkages, or casualties, have been developed with help from the ideas of contrastive thinking and counterfactuality (Lukka, 2014).

3.4. Data quality

The aim of case study research is not to establish generalized results, but to in detail illustrate the case that has been researched (Ruddin, 2006). Lukka and Modell (2010) argue that interpretive research should be evaluated on the basis of *authenticity* and *plausibility*, rather than *validity* and *reliability* which typically are applied in quantitative studies.

The authenticity of interpretive research relates to providing rich descriptions and genuine accounts of the studied phenomena so that "readers are convinced that the researchers have been there" (Lukka & Modell, 2010, pp. 469). This study aims to disclose genuine and in-depth perspectives on preservation acquisitions and management control. This is achieved through well-prepared and structured data collection and analysis. Furthermore, to avoid biased narratives, interviews have been carried out with a number of employees in the acquirer (ProCorp) and three different subsidiaries (Alpha, Beta, and Gamma).

The plausibility of interpretive research relates to the credibility of the explanations provided in the study. Does an explanation or causality make sense and can it be "inter-subjectively accepted as a likely one" (Lukka & Modell, 2010, pp. 469). In the previous sections, we have provided a detailed account of how data has been collected through interviews and subsequently categorized and analyzed. Moreover, through a step-by-step theoretic approach to presenting the findings, where we first present an empirical theme and then apply the method theory, we hope the reader can follow our reasoning and how certain conclusions are drawn. Lastly, a background on ProCorp and its subsidiaries is provided in the findings so that the reader is given an opportunity to learn about the research setting and what characterizes it.

4. Empirical analysis

In this chapter we present and analyze the empirical material gathered in the interviews. We start by providing background information on ProCorp and its three subsidiaries Alpha, Beta and Gamma. Following that, the findings are structured based on three empirical themes identified during the interviews: (1) monthly reporting and new financial KPIs, (2) the Birkenstock factor, and (3) steering through the Board of Directors. The empirical themes have then been analyzed by applying the theoretical framework by Burns & Scapens (2000).

4.1. Background

ProCorp is a Swedish corporate group with circa 20 subsidiaries and almost 2000 employees. However, ProCorp in itself is a rather small organization with approximately 10 employees. ProCorp's business model builds on acquiring and developing small Nordic industrial firms. ProCorp primarily acquires Swedish firms but has made some acquisitions in other Nordic countries. Revenues of newly acquired firms vary, but are typically in the range of 50 mSEK - 250 mSEK. In general, ProCorp subsidiaries hold a strong position in niche industrial markets or product segments. They tend to be engineering-driven manufacturing companies that own a particular technology, patent or product. Moreover, all subsidiaries are business-to-business organizations.

ProCorp always acquires a majority of the voting rights in an acquisition. In some acquisitions, the previous owner retains a minority ownership. This is done to preserve the expertise of a founder or manager and align their interests with those of ProCorp during a transition period. Following this transition period, however, ProCorp usually maintains an option to purchase the remaining shares. ProCorp has a perpetual investment horizon, meaning the company has an intention to never sell any of its acquired firms. The return generated from ProCorp's subsidiaries is reinvested to finance further acquisitions.

ProCorp has a decentralized business model where the subsidiaries are given a high degree of autonomy. Operational decision-making takes place in the subsidiaries as they are more knowledgeable and experienced when it comes to their market, product and technologies. Subsidiary managers are accountable for their financial performance and evaluated based on group-wide financial KPIs. Financial performance and KPIs are reported into ProCorp on a monthly basis. ProCorp steers its subsidiaries through the Board of Directors. A new Board is appointed following an acquisition and fitted to support the subsidiary manager with expertise in specific strategic areas. For example, one Director was appointed to support Alpha's CEO with an expansion into the South American market. The Board continuously supports a subsidiary manager with guidance on strategic initiatives but also settles major decisions, such as long term strategy and large investments.

ProCorp has organized its subsidiaries into five divisions, based on firms' respective industrial markets and product niches. Each division consists of two to six subsidiaries. Every division also has a division manager who is the Chairman of the Board in all companies in the division. Below is ProCorp's organizational chart.

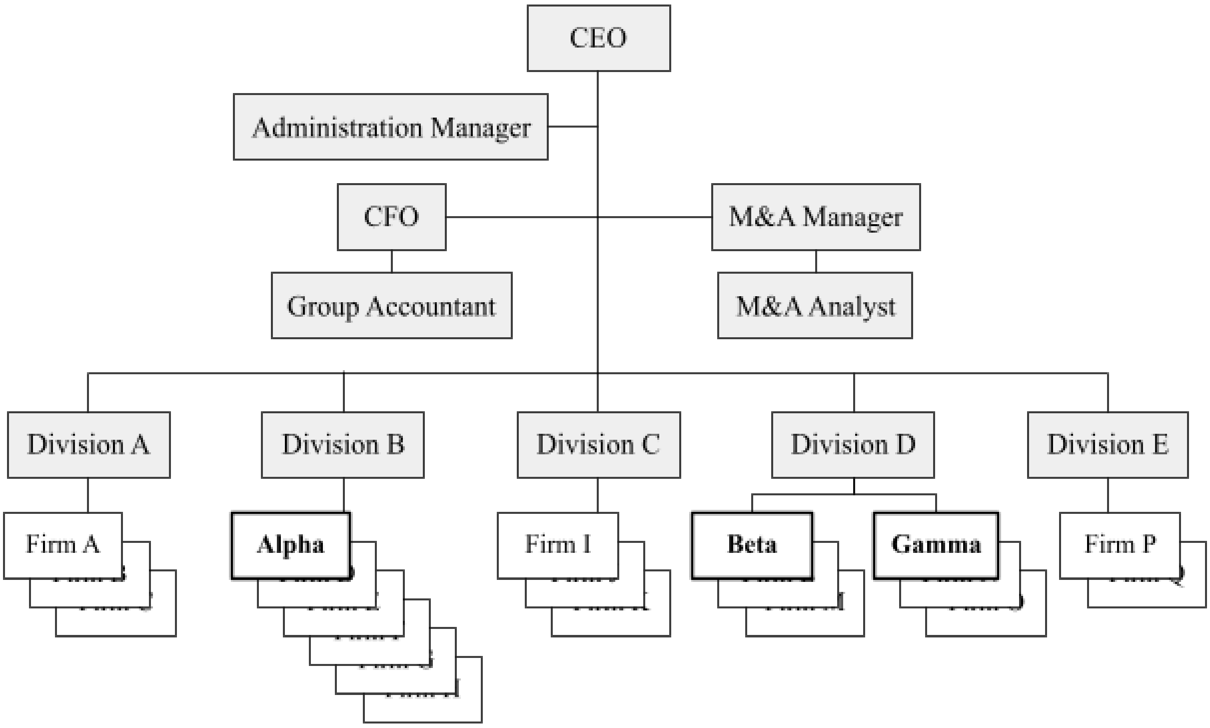

Figure 2: Organizational chart ProCorp

Alpha, Beta and Gamma are all subsidiaries of ProCorp. Alpha is the most recently acquired of the three, acquired in the beginning of 2023, but also the largest in terms of revenue and number of employees. Alpha is part of Division B and has developed a technology used in certain segments of commercial vehicles. Alpha is a supplier to a number of global vehicle manufacturers and has a market share of 80% in Europe in its largest product area. The company is growing at a high rate and is currently expanding into new product segments as well as new international markets, like Brazil and China. The previous owner and CEO of Alpha has retained minority ownership but is not involved operationally anymore. The current CEO, who previously held the position of Sales Manager, replaced the founder as the company was acquired.

Beta and Gamma are both part of Division D in ProCorp and share the same Chairman of the Board. However, they are not competitors as their products and customers differ. Beta was acquired in the first half of 2021 and is the smallest of the three subsidiaries in terms of revenue and number of employees. Beta develops and sells high-technology measurement instruments used in a variety of industries. The instruments are sold globally, 90% of sales are exports and the company has wholly owned sales organizations in the USA, England and

Germany. Historically, Beta has struggled with profitability but has completed a turnaround in recent years and was during 2022 the best performing subsidiary in ProCorp. Beta was previously owned by its founders, a small group of engineers. Some of the founders are still involved operationally but they have not retained any ownership. Beta's CEO has held the position for several years but is not one of the previous owners.

Gamma was acquired in the middle of 2022 and is the second largest of the three subsidiaries. Gamma produces high-accuracy measurement devices used in several industries. The largest customer segment is automotive and the primary geographic market is Sweden. Gamma has a large aftermarket and service operation, which makes up 50% of revenue, since the devices need to be adjusted and calibrated on a regular basis. Gamma has also developed a complementary software solution which is offered to the customers on a subscription-basis. Gamma was previously owned by a number of employees in the firm, some of whom are still involved operationally. The current CEO has worked in the company for several years and held the position before the acquisition.

4.2. Monthly reporting and new financial KPIs

ProCorp's subsidiaries are free to employ whichever MAS they prefer. MAS in subsidiaries typically consist of an ERP (Enterprise Resource Planning) system and an accounting system, or a combination of the two. Thus, ProCorp's subsidiaries employ a number of different MAS of varying quality. The Group Accountant motivated this by pointing out that ProCorp consists of a diverse group of companies and a common MAS would therefore have to be very advanced and include a wide range of functionalities in order to function in all subsidiaries. These advanced ERP systems are costly and overly complicated for small entrepreneurial businesses. Furthermore, the M&A Manager described how ProCorp is reluctant to force changes upon its subsidiaries since it could impede on their autonomy.

> Autonomy enables the businesses to be run locally, close to the customer with quick decision-making, which is favorable. – M&A Manager ProCorp

ProCorp is, moreover, a lean organization and does not have the capacity to get involved operationally in its subsidiaries. In other words, allowing subsidiaries to choose their own MAS saves both time and money for the subsidiaries and ProCorp.

However, ProCorp does have certain requirements on the quality and timing of financial reporting.[1] On a group level, ProCorp consolidates the financial performance of all subsidiaries in a group accounting system, separate from the accounting systems in each subsidiary. Through this group accounting system ProCorp continuously monitors the performance of its subsidiaries. Subsidiaries are required to report their financial performance into ProCorp's group consolidation system on a monthly basis. This can prove to be difficult

[1] ProCorp's financial reporting consists of complete financial statements following the Swedish K3 regulation.

for some newly acquired firms with small finance functions that are used to preparing financial statements once per year with the help of external auditors.

> Some companies we acquire do not even have a finance function. It might be an entrepreneur who has fought their way to 70 mSEK in revenue. They often have an external accounting firm, and perhaps one accountant. These companies usually struggle to meet the reporting requirements we have, so we have to help them. In these cases, the subsidiary sends an excerpt from their accounting system so that [Group Accountant] can put it into the group accounting system. After a couple of months [Group Accountant] will visit the company and teach them our financial reporting systems and procedures. – CFO ProCorp

The monthly financial reporting consists of complete financial statements, submitted within four weekdays the following month. This includes consolidating foreign subsidiaries and, in some cases, converting financials from foreign accounting standards to Swedish K3 standards. Moreover, the financials must be submitted to the group accounting system. Finance employees in newly acquired subsidiaries typically have to be taught, in-person, how to report to this system.

For small entrepreneurial businesses monthly financial reporting can, thus, require quite an adjustment. Some companies, such as *Beta*, were previously steered primarily through operational metrics without a formal process for monthly financial reporting. Moreover, the finance function in Beta only has one employee, namely the CFO. ProCorp's requirements on financial reporting, therefore, resulted in a significantly heavier workload for the CFO.

> I would say that the company has not been particularly affected by the new owners, except for my own role. Now, I have to do all the financial reporting I did before, plus that I have to prepare another separate report up to new owners on a monthly basis. In addition, we have a subsidiary in the USA which we previously just monitored with little formal reporting. Now, since it is a wholly owned subsidiary, I have to consolidate them into our [Beta] group monthly, and report this to [ProCorp]. This is just a burden on me that adds no value. – CFO Beta

This quote highlights a culture that exists in many entrepreneurial and engineering-driven firms that ProCorp acquires. Engineering-driven businesses, like Beta, are driven by operational excellence, innovation and solving problems for customers. Financial reporting is necessary from the perspective of evaluating performance, but should not guide strategy or decision-making. At times, this engineering-driven culture clashes with ProCorp's more financially oriented approach for managing businesses. ProCorp steers its businesses through the use of three financial KPIs: EBITA growth, EBITA margin, and return on capital employed (ROCE).

> We push hard on profitability [...]. We use three financial KPIs [EBITA growth, EBITA margin and ROCE] which we require all subsidiaries to report. Then, the

> Board in each company decides what the target level should be. Some have 12% EBITA margin this year and some 17%. Other companies will only manage 8%. This has meant an adjustment for some CEOs, now they have to think about performing financially so that they have job security and can afford to invest.
> – CEO ProCorp

Finance employees were in general negative to the increased amount of financial reporting following acquisitions, most likely as it resulted in a heavier workload for them. However, this negative attitude could also be motivated by what appeared to be a disconnect between the metrics used by ProCorp to evaluate the performance of its subsidiaries, and the metrics used within the subsidiaries to guide operational decision-making. Some subsidiary interviewees were aware of the KPIs used by ProCorp to evaluate their performance, but did not believe it influenced their own operational decision-making.

> ProCorp is a diverse group of companies. When you have to find a way of reporting performance that works for everyone, it results in a reporting that does not work particularly well for anyone. It's a compromise. We don't have any use of most of what I submit to [ProCorp]. In that sense, it is just a burden.
> – CFO Beta

On the other hand, there were also cases in which the increased focus on financial reporting and financial KPIs influenced the behavior of employees. In *Gamma*, following ProCorp's acquisition, managers started engaging more with the monthly financial statements.

> Department heads look more carefully at the financials I send out, they ask questions and try to understand the numbers and how they can be improved upon.
> – Controller Gamma

This effect ensued from a perception of increased pressure to achieve the newly implemented financial targets. The company was previously owned by employees within the company. New external owners have led to an increased pressure to perform as managers want to make a good impression. Subsequently, managers focus more on financial reports as that is what ProCorp evaluates.

Alpha was acquired just a couple of months before this study was conducted and some integration processes with ProCorp were ongoing, such as teaching finance employees the group accounting system. However, as a result of the new financial targets some initiatives were already being implemented. For example, Alpha had just launched a liquidity program, specifically designed to improve the ROCE metric.

> We have not looked at ROCE historically because we have always had large cash reserves. So, now with [ProCorp] we have started an internal program to shorten payment terms of customers, lengthen payment terms to suppliers, and reduce our

> inventory. This is beneficial for us and we could have done this a long time ago, but we have never had any incentives to do this. – CEO Alpha

Thus, it appears that the new financial KPIs and requirements on financial reporting yield different outcomes between the subsidiaries. In Beta, the financial reporting was viewed as a burden and the financial KPIs were deemed meaningless from an operational perspective. In Gamma, on the other hand, new financial KPIs and an increased perception of pressure to perform financially led to managers paying more attention to the content of financial statements. Similarly, in Alpha, ProCorp's financial KPIs have incentivized the company to start new programs specifically designed to improve ROCE, one of the KPIs.

4.2.1. Strengthening of financial control institutions

Connecting to Burns & Scapens' (2000) process of management accounting change, we see that the implementation of new rules can result in employee resistance when existing routines are not suitable to meet them. Furthermore, the introduction of financial reporting requirements and financial KPIs strengthen financial control institutions in subsidiaries.

Beta's CFO was discontent with the additional financial reporting and viewed it only as a burden. Following Burns & Scapens' (2000) terminology, ProCorp's requirements on financial reporting constitute new rules in subsidiaries, since it establishes the formally approved way of reporting. The enactment of rules can meet resistance, particularly if rules contradict the institutions of powerful actors (Burns & Scapens, 2000). Thus, the CFO views monthly financial reporting as a burden because these practices are not aligned with the financial control institutions that exist in Beta. This misalignment was expressed in two ways. Firstly, the CFO argued that the group consolidation system was a compromise developed to fit all subsidiaries which, in practice, does not fit any subsidiary. Secondly, the CFO believed financial KPIs were useless from an operational perspective.

The extent to which this resistance has been realized is uncertain. Following the acquisition, Beta relied on assistance from the Group Accountant when it came to producing monthly financial reports. This also highlights an issue with ProCorp's approach to MAS integration. ProCorp expects subsidiaries to meet strict financial reporting requirements with the unsophisticated accounting systems and small finance functions that are prevalent in small engineering-driven firms. In other words, ProCorp implements new rules which they hold their subsidiaries accountable towards, but does little to establish new accounting routines that could help in fulfilling these rules. Enactment of the new rules is therefore difficult and leaves some finance employees frustrated since they are incapable of producing the necessary monthly financial reports to ProCorp. The Group Accountant's role is to assist subsidiaries with financial reporting, particularly newly acquired ones during a transition period. However, this is a complicated task since there is a formally approved way of reporting financial performance once per month, but no common MAS to gather and structure accounting information. In order to meet ProCorp's reporting requirements, subsidiaries, together with the Group Accountant, therefore have to develop new accounting routines on a case-by-case basis. This is complicated and time consuming, it can take anywhere from a couple of months to a year before a subsidiary can prepare monthly financial statements independently. Furthermore, this implies that the enactment of identical rules will lead to reproduction of different routines, depending on the pre-existing accounting routines in subsidiaries. Subsequently, varying accounting routines between subsidiaries will result in an institutionalization of different financial control institutions. However, even though financial control institutions can vary across subsidiaries, they generally become more pronounced as a result of the financial reporting requirements. Subsidiaries develop more sophisticated accounting routines to address the reporting requirements. These accounting routines are institutionalized and expand the financial control institutions in subsidiaries.

Through Burns & Scapens' (2000) model, it can also be argued that new financial KPIs expand financial control institutions in acquired firms. The new financial KPIs define to CEOs how they are evaluated. ProCorp also sets target levels on each KPI, making CEOs accountable to perform at a certain level. This deinstitutionalizes CEOs and reshapes their taken-for-granted assumptions on what type of performance is important. CEOs' new institutions are then passed down the organization through department and employee-level KPIs, as well as internal communication. These new institutions, related to financial performance, are subsequently encoded into organizational routines, promoting decision-making that improves financial KPIs. Thus, the introduction of new financial KPIs, strengthen financial control institutions in subsidiaries which, through the encoding process, promotes the establishment of routines that improve financial performance.

4.3. The Birkenstock factor

> We started with something I like to call the Birkenstock factor a couple of years ago. In some engineering-driven companies, all employees stroll around in Birkenstock slippers and ponder on how to solve complex problems. [...] Of course this is important but it's not the only thing that matters. We want ambitious business-oriented companies with a sense of urgency. – CEO ProCorp

The *Birkenstock factor* refers to a tendency in small entrepreneurial or engineering-driven companies to be too focused on R&D and technical excellence. According to ProCorp, companies with a high Birkenstock factor lack the necessary business orientation. When ProCorp visits a company in which most employees wear Birkenstock slippers it signals to them that these employees are not meeting with new customers and that the sales organization is underdeveloped. Although engineering and innovation is essential and typically the foundation on which these companies develop, a lack of business orientation can have negative consequences. *Beta* was previously a company with a high Birkenstock factor and has historically struggled with liquidity. “Liquidity has previously been a governing factor and limited what kind of projects we could pursue” (CFO Beta).

> [*Beta*] was that kind of a company. On a scale of 1-10, they were at least a 7 or 8 in Birkenstock factor. We recognized that this company could create so much more value. So, when we had bought the company we sat down with the CEO and said: “You have to start by raising the prices, you have not raised them in several years. And remove all your under-performing products”. So, the CEO bounced some ideas with us and we supported him in making these changes, and it has gone extremely well. They are real stars now and it did not take that much, they just needed a push in the right direction. – CEO ProCorp

> Since we are an engineering company, many of us think technology is interesting. Previously, we accepted almost all orders and did many customer-specific projects because we thought: “that sounds fun, we should develop that, or that should turn out great”. [...] Projects always look good when you sell them, but then you have to fulfill what you have promised which can be difficult. [...] Now, we say no to most customer-specific projects because they are uncertain, time consuming and usually unprofitable. – COO Beta

In 2022, Beta was the best performing subsidiary in the ProCorp group. One explanation to the successful turnaround in Beta is a higher degree of caution in accepting customer-specific projects. Today, Beta has a more thorough risk analysis before accepting orders. Technicians evaluate the proposed customizations on every order and decline projects that are risky or poorly defined. Technicians also evaluate customer requirements and to what extent Beta’s products match these. Previously, salesmen accepted orders and technicians were left to resolve complex and poorly defined customizations. Beta has always based quotes to customers on price estimates, including material costs and time spent, to ensure an underlying profitability in each project. However, without a thorough risk analysis, these price estimates were sometimes misleading and could result in Beta charging too low prices for complex and time-consuming projects.

In *Gamma*, another establishment of new business-oriented routines could be identified. Service technicians were encouraged to focus more on additional sales while carrying out routine service tasks for customers.

> Since I am also a service administrator, I have a lot of contact with the service managers and service technicians. [...] Service technicians have started focusing more on additional sales when they are out calibrating our [products] at customer sites. [...] For example, if a service technician sees that a [product] is worn out, they will talk to the customer and recommend a new product, suggest a renovation, or maybe to replace rubber strips. – Controller Gamma

Service technicians visit customer sites regularly to calibrate Gamma’s high-accuracy products. This is a regulatory requirement in certain customer segments but also necessary in order to achieve the intended accuracy of Gamma’s devices. Following the acquisition, service managers recognized that Gamma’s large service and aftermarket segment could function as an additional sales channel. Service technicians have a unique insight into the needs of industrial customers. When visiting customers on routine service work they have an opportunity to evaluate the quality of existing devices and discuss alternative solutions with the customer. Furthermore, customers generally trust service technicians since they are knowledgeable and these companies have purchased devices from Gamma before.

What role ProCorp has played in implementing these business oriented routines is not obvious. It is definitely managers and employees in the subsidiaries who realize new business oriented routines, since ProCorp does not involve themselves operationally. However, ProCorp likely plays an important role in identifying and incentivizing the implementation of new business-oriented routines. Following ProCorp's acquisition of Beta, the company has carried out a turnaround and significantly improved its profitability. Yet, managers in Beta believe that ProCorp has had little to do with the turnaround, arguing that they were planning to do these improvements for a long time.

> I think we were on the right track before we were acquired, we have talked about these changes for many years. It takes time to realize changes in an organization, for example that we do not accept difficult projects anymore. No, I do not think [ProCorp] had much to do with it [the turnaround]. – COO Beta

If these changes would have been implemented without ProCorp, it is unclear why they were not implemented earlier. Particularly since it would have allowed the previous owners of Beta to sell the company at a higher price.

4.3.1. Encoding of strengthened financial control institutions

Through Burns & Scapens' (2000) theoretical lens, the implementation of new business-oriented routines is a consequence of the encoding of strengthened financial control institutions in subsidiaries. Furthermore, a high Birkenstock factor reflects weak financial control institutions in small industrial firms.

As discussed in the previous section (4.2.1), financial control institutions in subsidiaries were strengthened following the introduction of new financial reporting requirements and new financial KPIs. Building on this, we argue that the implementation of business-oriented routines reflects the encoding of strengthened financial control institutions. Business-oriented routines constitute organizational routines as they represent how things are actually done (Burns & Scapens, 2000). Business-oriented routines are ultimately aimed at improving the financial performance in a subsidiary. This can be achieved in different ways. For example, Beta reduced risk in customer-specific projects by introducing a risk analysis, and Gamma increased aftermarket sales through the use of service technicians. Although very different, these new routines are reflections of the strengthened financial control institutions in Beta and Gamma. Moreover, through the introduction of business-oriented routines, financial control institutions can expand further as routines are reproduced and institutionalized.

Eventually, routines will be transformed into norms and taken-for-granted assumptions through the repeated actions of employees.

Institutions in firms with a high Birkenstock factor, like Beta, are focused around innovation, engineering and technical excellence. Beta's COO exemplified this through quotes like "technology is interesting" or "that sounds fun, we should develop that". Institutions are encoded into organizational rules and routines (Burns & Scapens, 2000). For example, the previous owners of Beta had a rule of never taking any money out of the business, everything was reinvested into product development and manufacturing. Furthermore, Beta only has one finance employee, the CFO. Thus, it appears that rules and routines aimed at promoting innovation and technical excellence also result in weak financial controls. This is not surprising as financial controls impede on opportunities for innovation. However, a lack of financial control can ultimately lead to negative consequences, which could be seen in Beta where liquidity historically was a limiting factor. Furthermore, firms with a high Birkenstock factor are less likely to implement business-oriented routines, even though these firms would stand the most to benefit from them. This is because there is a higher risk that new business-oriented routines clash with the strong engineering institutions and therefore meet employee resistance. Financial control and engineering can, therefore, be viewed as opposing institutional principles. It appears that ProCorp aims to balance these opposing forces in its subsidiaries. A high Birkenstock factor, thus, indicates insufficient financial controls.

4.4. Steering through the Board of Directors

A high Birkenstock factor is not something ProCorp wants to observe in its subsidiaries, however, it constitutes a business opportunity as it signals to ProCorp that this firm could improve performance if they can implement more business-oriented routines. ProCorp does not impose specific business oriented routines on its subsidiaries. Instead, ProCorp steers its subsidiaries through the Board of Directors. The implementation of new business-oriented routines is, thus, carried out by managers in the subsidiaries. However, subsidiary managers present, motivate and discuss operational improvements with the Board, meaning ProCorp exercises indirect control over the implementation of business-oriented routines. ProCorp's way of working with the Board of Directors is considered more formal than what most small entrepreneurial businesses are used to, but this was generally viewed positively by subsidiary managers.

> This is a new world for us who are used to having an owner on site all the time. Previously, decisions were made in the hallways. Now it is a lot more formal and a lot more reporting. Of course [ProCorp] is not more than a phone call away, but it introduces a slowness into the system. However, this is positive for us. [...] The previous owner and CEO was a typical engineer who wanted to run in every direction at the same time. With [ProCorp] we have a more focused approach and take one thing at a time. – CEO Alpha

> Of course we had a Board of Directors before we became a part of [ProCorp], but that was just on paper. Everything strategic and operational was up to the management team. For me, as a CEO, to have a professional Board of Directors is a huge improvement. Now I have someone I can bounce ideas off. – CEO Beta

ProCorp's formal way of working with the Board provides value to subsidiary CEOs as it forces them to have a focused strategic approach and motivate their decision-making. Moreover, ProCorp provides CEOs with a professional and experienced Board contrary to some smaller entrepreneurial firms where the Board only exists on paper. A professional Board provides better opportunities for exchange of knowledge as it allows the CEO to test ideas and discuss issues with other well-informed parties.

Subsidiary CEOs are responsible for initiating the process through the Board. This includes informing the Board on a matter, providing financial documentation, and a final recommendation on how to proceed. The Board will most likely side with the CEO but may provide some insight on what to consider or evaluate further.

> We have a Finnish distributor who wants to renegotiate his terms. He wants us to hire him rather than him running his own firm. Then, via mail or phone, I present the situation to [ProCorp], bounce some ideas with them and give my recommendation. In response I usually get a couple of things to check. Then, we do some estimates to see if it is profitable to take over his operation or if we should hire him instead. We do a regular P&L and then we make a decision [in the Board of Directors] based on that. – CEO Alpha

> The strategic process starts with us. If we want to develop a new product or enter a new market, we have to address that through the strategic framework and Board of Directors. We have discussions with the Chairman [Division manager D]. We produce financial documentation and I present it to the Board of Directors.
> – CEO Gamma

Thus, a subsidiary CEO has a key role when it comes to introducing new business-oriented routines. However, ProCorp ultimately determines how a specific issue is resolved through its control of the Board. Cooperation between ProCorp and a subsidiary CEO is therefore crucial for the Board to function. When it works as intended, the CEO brings relevant questions to the Board to discuss, and justifies his or her decision-making through financial documentation. When the Board does not function as intended, ProCorp is not shy to replace subsidiary CEOs. This has not happened in Alpha, Beta or Gamma, as these companies are newly acquired and have performed well financially, however, replacing a CEO is somewhat common in the group as a whole.

4.4.1. Deinstitutionalization of CEOs

Lastly, through the lens of Burns & Scapens (2000), ProCorp deinstitutionalizes subsidiary CEOs through a formal work process in the Board of Directors. ProCorp cannot implement business-oriented routines in subsidiaries. They lack the technical expertise and customer contact necessary in recognizing opportunities for new business-oriented routines. Moreover, ProCorp is a small organization and does not have enough time or resources to allocate to initiatives in specific subsidiaries. Direct operational involvement would also risk impeding on the autonomy of the subsidiaries. The CEO, therefore, is the key actor when it comes to managing and improving subsidiary operations.

In order for subsidiaries to develop as ProCorp wishes, CEOs are deinstitutionalized. This process involves aligning CEOs' institutions with those of ProCorp. Alignment is primarily achieved through the introduction of financial KPIs and setting target levels in the Board of Directors (discussed in section 4.2.1). The alignment process is also ongoing as new decisions are continuously made by the Board. ProCorp requires financial documentation and estimates to substantiate decision-making and the CEO is responsible for providing this information to the Board. Thus, CEOs' institutions are continually tested and realigned to ProCorp's financial control institutions, as they are pushed into making decisions supported by financial figures. When a CEO's decision-making is not supported by financial figures, ProCorp challenges the decision through its control of the Board of Directors. In cases where ProCorp cannot deinstitutionalize CEOs, they are replaced. It is assumed that CEOs with financial control institutions aligned with those of ProCorp will effectively recognize and pursue new business-oriented routines in ways that match ProCorp's expectations.

Moreover, similar to how rules and routines reflect the institutions of employees in a firm, it could be argued that the composition and functioning of a Board reflects the institutions of owners. ProCorp's formal and structured decision-making process in the Board reflects the groups' financial control institutions. Similarly, the quick and ad hoc decision-making process that existed in many subsidiaries before they were acquired reflects the entrepreneurial and technology-driven institutions which exist in many small engineering-driven industrial firms.

5. Discussion

In this chapter we discuss and expand upon the empirical analysis, and contrast our findings to previous research. The discussion has been divided into three sections. In the first section we compare MAS integration approaches and discuss how they affect institutions. Following that, we discuss finance employees' resistance to the introduction of new financial reporting requirements. Lastly, we evaluate the link between preservation acquisitions and deinstitutionalization of CEOs.

5.1. MAS integration and financial control institutions

Financial control institutions expanded in acquired firms through the development of new accounting routines and the introduction of financial KPIs. These findings support Jones' (1985a) conclusion that MAS assume greater importance following acquisitions due to the increased formality and delegation in subsidiaries. This is not very surprising, an owner and entrepreneur who is present at a company's site every day has a good understanding of how the business is developing and therefore does not feel the need to establish control functions. External owners, such as ProCorp, have poorer visibility into subsidiary operations and therefore require controls in order to monitor them.

In line with Jones (1985a), we also found that MAS change substantially in acquired firms. Yet, how these MAS change differed. Jones (1985a) found that MAS change as acquirers replace the accounting systems of smaller acquired firms. In ProCorp's subsidiaries, on the other hand, MAS change as firms are forced to develop new accounting routines in order to conform to ProCorp's financial reporting requirements. The outcome is similar on paper, MAS become more developed and sophisticated, but the different approaches will result in the institutionalization of varying principles. Rather than simply switching to a new accounting system, finance employees in ProCorp subsidiaries have to reshape their accounting routines in order to meet the new reporting requirements. This process, although complicated and time consuming, results in employees gaining a better understanding of the accounting systems. It also leads to the institutionalization of financial control principles, as institutions are formed through a routinization of human behavior (Burns & Scapens, 2000). Furthermore, the development of new accounting routines also allows for the encoding of firm specific principles into MAS. Subsidiary MAS will thereby reflect the institutions of the firm, rather than those of the acquirer. In terms of preservation acquisitions this is preferable as it allows subsidiaries to maintain firm specific capabilities, knowledge and routines while the MAS change. This could explain why many subsidiary employees do not recognize the effects of ProCorp's ownership. Even though MAS change and new business-oriented routines are implemented, the core business and the underlying institutional principles are preserved.

The varying MAS integration approaches in this study and previous research can also be connected to the concept of trust. Trust can improve employee's understanding and use of management controls in acquired firms (Väisänen et al., 2021). Jones (1985a) found that MAS are replaced in acquired firms as they are typically not trusted. However, this approach rarely leads to the desired outcomes in terms of order and control (Jones, 1985a). Instead, it can lead to employee resistance and conflicts (Roberts, 1990). On one hand, ProCorp's MAS integration approach reflects a trust in subsidiaries' ability to develop more sophisticated accounting routines. This led finance employees to gain a better understanding of the MAS, in line with what Väisänen et al. (2021) suggest. On the other hand, employee resistance was still prevalent under this approach, indicating that trust is not always reciprocated. It could, thus, be argued that conflicting institutions can offset reciprocity and the enabling perceptions of control systems that trust fosters. This suggests that alignment of institutional principles is a determining factor in post-acquisition MAS integration, since misalignment can impede on other integration efforts, such as trust. In ProCorp's case employee resistance and a lack of reciprocal trust resulted in a time consuming MAS integration process. However, the effect on subsidiary operations was limited. This relates to the high degree of autonomy given to the subsidiaries, which will be developed upon in the following section.

5.2. Resistance to introduction of financial reporting requirements

Acquisitions challenge the pre-existing culture in an organization and can subsequently result in employee resistance (Buono & Bowditch, 1989). Similarly, Burns & Scapens (2000) argue that the enactment of rules and routines can meet resistance if they contradict the institutions of powerful actors. Our empirical analysis supports this idea. In Beta, the introduction of new monthly financial reports met resistance from the CFO because he regarded the group accounting system as inadequate and the financial reports as meaningless from a decision-making perspective. Thus, the pre-existing institutions in an entrepreneurial and engineering-driven firm led the CFO to oppose the introduction of financial control routines.

However, conflicting institutional principles was not the only source of employee resistance. Finance employees were also frustrated with the increased workload that resulted from the requirements of monthly financial reporting. Acquired firms generally have small finance functions and simple accounting systems. Therefore, newly acquired subsidiaries have to develop new accounting routines to conform to ProCorp's reporting requirements. The lack of a common MAS complicates this process as new accounting routines have to be developed on a case-by-case basis. In line with Granlund (2003), we find that the lack of a common MAS leads to lengthy and complex integration processes. A shared MAS in the ProCorp group could have functioned as a common language and facilitated the transition to monthly financial reporting for subsidiaries. However, the negative implications of a prolonged integration process were limited in ProCorp, but severe in Granlund's (2003) study. This relates to the different types of acquisitions as outlined by Haspeslagh and Jemison (1991). Granlund studied an absorption acquisition in which the MAS was used to coordinate activities in organizational units. ProCorp, on the other hand, pursues preservation acquisitions and their subsidiaries are managed autonomously. The lack of a common MAS did not influence operational decision-making, as the subsidiaries employ separate systems for measuring and evaluating operational data. Thus, in ProCorp, the lack of a common MAS only bothered finance employees as they produced monthly financial statements, while in Granlund's study it disrupted operational decision-making and coordination of activities. Therefore, the lack of a common MAS has negative consequences, but these are particularly prevalent in absorption acquisitions.

Moreover, in Granlund's study, the lack of a common MAS resulted in goal ambiguity and unintended consequences as there was no formal tool for evaluating performance and substantiating decision-making. Organizational processes were misunderstood, and decision-making was accidental and troubled by conflicting goals (Granlund, 2003). In ProCorp, goal ambiguity existed in subsidiary finance functions and derived from the financial reporting requirements. Goal ambiguity explains the lengthy integration process before subsidiaries can report independently. The monthly financial reporting was surrounded by conflicting goals, and reports were challenged by some actors since they were not aligned with their institutional principles. In this sense, goal ambiguity can reflect conflicting institutional principles. Furthermore, the development of new accounting routines was not accidental, but original and characterized by the institutions of finance employees. Subsidiary CFOs had unique approaches to addressing the financial reporting requirements. Some wanted to keep things as they were, while others took the chance to improve accounting practices. This highlights the influence of dominant individuals and their influence on the design of MAS, similar to Granlund (2003). In conclusion, MAS are tools to manage conflicting goals. MAS are used to justify decision-making by providing neutral financial figures. Goal ambiguity appears in the absence of a common MAS, decisions become difficult to motivate and conflicting goals become apparent. Moreover, goal ambiguity can be likened to conflicting institutional principles, and these principles influence how employees address situations characterized by goal ambiguity.

5.3. Preservation acquisitions and the deinstitutionalization of CEOs

The goal of preservation acquisitions is to maintain the specific knowledge and capabilities of acquired firms (Haspeslagh & Jemison, 1991). This is achieved by allowing acquired firms to be run autonomously with little involvement from the acquirer, which corresponds well to ProCorp's business strategy.

The deinstitutionalization of CEOs and subsidiaries appears inconsistent with this goal. As CEOs are deinstitutionalized and compelled into adopting financial control institutions, firm specific capabilities risk being forgotten. This is because institutions form rules and routines which, in turn, determine organizational knowledge and capabilities (Burns & Scapens, 2000). Subsidiary interviewees shared the perception that ProCorp has had a limited influence on operations and strategic initiatives. This is surprising seeing to the turnaround in Beta, and the introduction of business-oriented routines which, from the outside, appear related to ProCorp. One explanation for this perception could be that CEOs identify and implement business-oriented routines, making it difficult to recognize ProCorp's significance and control. Another explanation could be that the new business-oriented routines are aligned with the institutions in subsidiaries, yielding a perception that these improvements would have been done even if ProCorp had not acquired the company. Based on our findings, it appears that employees do not reflect on new routines if they are aligned with their institutions. New routines are taken-for-granted and perceived as the natural way things are done. This highlights the importance of deinstitutionalization in implementing changes in subsidiaries. Deinstitutionalization enables a smooth indirect development of new routines over time, as new institutions are encoded into organizational activities.

Whether or not the deinstitutionalization of CEOs has negatively influenced firm specific capabilities is impossible to determine from this study. What we can say is that the strengthening of financial control institutions in subsidiaries has led to the introduction of business-oriented routines which have positively impacted the financial performance of subsidiaries. Moreover, the introduction of new business-oriented routines has met little operational resistance which suggests that these are aligned with the institutions in the subsidiaries. Consequently, this implies that the strengthened financial control institutions can, to some extent, co-exist with the pre-existing institutions in subsidiaries.

Moilanen (2016) found that employees in the acquired and acquiring firms interpret changes to MAS differently. This can be seen in our study also. The COO and CFO in Beta were of the view that ProCorp had little to do with the introduction of a risk analysis as well as the company's turnaround. According to them, Beta had thought about introducing these controls for a long time, and they would have been implemented without ProCorp as an owner. Meanwhile, the CEO of ProCorp emphasized how they instructed the CEO of Beta to raise prices and to stop taking unprofitable projects. Thus, Beta and ProCorp have different perceptions regarding how and why a new control function was established.

Contrary to Granlund (2003), Moilanen (2016) suggests that a group-wide MAS may not function as a common language since employees in the acquirer and acquired firms make sense of MAS differently. Moilanen (2016) explains this through the concept of *sensemaking* but this could also be explained by the institutions in a firm. In this perspective, individuals make sense of reality based on the taken-granted-assumptions that are shared by a group (Burns & Scapens, 2000). This highlights an advantage with the separate MAS in ProCorp's subsidiaries. Individuals understand MAS differently depending on what group they belong to. MAS should, therefore, be unique and fitted to the institutions in each firm, in order for them to be understood and used in a collective way. However, retaining too much of the old MAS may also pose a risk, as unfavorable institutions connected to them could linger.

Lastly, we have found that the strengthening of financial control institutions in acquired firms led to the introduction of business-oriented routines, aimed at improving the financial performance. Likewise, Jordão et al. (2014) found that changes in the acquired company's MAS were derived from the new financial results-oriented culture introduced by the acquirer.

To conclude, this suggests that institutions guide decision-making in a group, and subsequently shape organizational rules and routines, such as MAS, in line with Burns & Scapens (2000) theoretical framework.

6. Conclusion

The appropriate way of managing MAS integration depends on what type of acquisition is pursued. Preservation acquisitions combine low interdependence between acquirer and acquired firm, with a high level of autonomy in the acquired firm (Haspeslagh & Jemison, 1991). The goal of preservation acquisitions is to preserve the knowledge and capabilities of the acquired firm, which involves giving responsibility and decision-making authority to subsidiary managers (Haspeslagh & Jemison, 1991). Moreover, Jones (1985a) found that acquirers are likely to replace the MAS of small acquired firms as these typically are less sophisticated. However, this appears conflicting with the goal of preservation acquisitions as firm knowledge and capabilities risk being superseded and forgotten. This paper has explored this disparity through a single case study of a Swedish corporate group, specializing in preservation acquisitions of small industrial firms. By applying Burns & Scapens' (2000) *process of institutionalization* this study aimed to answer: *How does the integration of MAS following preservation acquisitions affect the financial control institutions in acquired firms?* This paper has three primary contributions to the domain of management accounting research.

Firstly, we contribute to existing literature on MAS in post-acquisition integration (Jones, 1985; Granlund, 2003). Our findings show that following preservation acquisitions, pre-existing MAS are retained so as to not interfere with the capabilities and autonomy of the acquired firm. This contradicts Jones (1985a) who found that acquirers replace the MAS of smaller acquired firms as they are generally less sophisticated. Moreover, new financial reporting requirements were introduced to monitor acquired firms. Engineering-driven firms with small finance functions struggled to meet these requirements and were forced to develop new accounting routines. This was a complicated and time consuming process but ultimately strengthened financial control institutions in acquired firms. A common MAS in the group could have facilitated the integration process (Granlund, 2003). However, the negative implications of a prolonged integration process were limited in this study, but severe in Granlund's (2003). This relates to the difference between preservation and absorption acquisitions. The lack of a common MAS did not influence operational decision-making, as subsidiaries are managed autonomously and employ separate systems for measuring and evaluating operational data. The lack of a common MAS only bothered finance employees as they produced monthly financial statements.

Secondly, we provide insights into *The Process of Institutionalization*, contributing to research on how culture can influence MAS integration (Jordão et al., 2014; Moilanen, 2016). Financial control institutions expanded in acquired firms, primarily through three processes. (1) The introduction of financial KPIs deinstitutionalized CEOs as it redefined how they are evaluated and at what level they are expected to perform. (2) Subsidiaries were forced to develop more sophisticated accounting routines, which were institutionalized through a routinization of human behavior. (3) The decision-making process through the Board of

Directors continuously strengthened CEOs' financial control institutions as they are pushed into making decisions supported by financial figures. Moreover, we have identified how strengthened financial control institutions were encoded into organizational activities through the introduction of business-oriented routines, similar to Jordão et al. (2014). A risk analysis before accepting customer-specific orders and service technicians focusing on additional sales while carrying out routine service work were two examples of this. Furthermore, in line with Moilanen (2016) we found that the acquirer and acquired firm can have different perceptions regarding how and why new control functions were established. This highlights how institutions guide perceptions and decision-making in a group.

Finally, we also contribute with new perspectives on the source of employee resistance following acquisitions (Buono & Bowditch, 1989; Roberts, 1990; Smeulders et al., 2022). Employee resistance can arise in the enactment of rules, if rules contradict the institutions of powerful actors (Burns & Scapens, 2000). This was exemplified as a CFO opposed the introduction of new financial reporting requirements because these were not compatible with the pre-existing institutions of the subsidiary. Furthermore, finance employees were frustrated with the increased workload that resulted from the requirements on monthly financial reporting. Finance employees perceived these new requirements as burdensome and something they were not equipped to resolve. This suggests that inadequate accounting routines can result in resistance as employees struggle to enact new rules.

This study is subject to some limitations. MAS develop over time through *The Process of Institutionalization* (Burns & Scapens, 2000). A longitudinal case study could have better reflected the ongoing and cumulative process in which rules and routines are reproduced, and MAS develop. For example, Alpha had just been acquired before this study was conducted and the effects of the acquisition were difficult to determine. Moreover, most subsidiary interviewees held management positions which could skew the findings as these might not reflect the perceptions of subsidiary employees. Furthermore we acknowledge that the selection of the subsidiaries could skew the findings in a positive light as these firms had performed well. Lastly, we recognize that institutions are difficult to observe and can change as a result of processes other than those initiated by the acquirer.

We believe there exist opportunities for future research on the topic of MAS and preservation acquisitions. As previously mentioned, a longitudinal case study could provide additional insight into how MAS change over time following preservation acquisitions. Furthermore, in the interview with ProCorp's Division Manager, we were made aware that other corporate groups specializing in preservation acquisitions have alternative approaches to MAS integration. These pursue complete MAS integration into a group-wide system. It could be insightful to explore how these influence the reproduction of rules and routines, as well as institutionalization of financial control principles.

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8. Appendix

Appendix 1: Conducted interviews

Interviewee	Number of interviews	Interview context	Interview length	Recorded	Interview date (2023)
ProCorp					
CEO	2	In person By video	50 min 60 min	No Yes	January 19th March 3rd
CFO	1	By video	60 min	Yes	February 24th
Division manager	1	By video	60 min	Yes	February 20th
M&A manager	1	By video	60 min	Yes	February 24th
Group controller	1	By video	50 min	Yes	March 7th
Alpha					
CEO	1	By video	50 min	Yes	March 2nd
CFO	1	By video	40 min	Yes	March 17th
COO	1	By video	60 min	Yes	March 6th
Beta					
CEO	1	By video	60 min	Yes	March 2nd
CFO	1	By video	55 min	Yes	March 10th
COO	1	By video	50	Yes	March 24th
Gamma					
CEO	1	By video	50 min	Yes	March 10th
CFO	1	By video	60 min	Yes	March 10th
Controller	1	By video	55 min	Yes	March 16th
Total interviews	**15**				

Appendix 2: Interview guide ProCorp

<table>
<tr><th>Themes</th><th>Questions</th></tr>
<tr><td>Background</td><td>What is your position and responsibilities?
What is your professional background? What have you worked with earlier?</td></tr>
<tr><td>Strategy</td><td>What kind of companies are you looking for?
Industry?
Geographic market?
Capabilities/ technologies?
Ownership structures?
Management?
How many acquisitions have you made? Average number per year?
Describe the due diligence process? What is most important</td></tr>
<tr><td>Post-acquisition integration</td><td>Describe the integration process that takes place after an acquisition? [On-boarding process?]
Is the integration process standardized? Why, why not?
What does it depend on?
Size/ structure?
What financial tools or accounting systems do you use in the integration process?
What's the most important factor for a successful acquisition?</td></tr>
<tr><td>Level of autonomy</td><td>What degree of autonomy is given to subsidiaries?
Do all subsidiaries have the same degree of autonomy?
What factors influence autonomy given to subsidiaries?
Can subsidiaries earn/lose the privilege of autonomy?
What are the benefits of autonomous subsidiaries?
What characterizes successful autonomous governance?
What are the disadvantages of autonomous subsidiaries?
Have you encountered issues with resistance, or disagreements?
How are disagreements dealt with?</td></tr>
<tr><td>Culture</td><td>How do cultural differences impact the acquisition process?
What role does trust play following acquisitions?
What factors influence trust between the parent and subsidiary?
One-way/ two-way?
How does trust impact the level of autonomy?</td></tr>
</table>

Appendix 3: Interview guide subsidiaries

Themes	Questions
Background	● Can you describe what the company does? ● When was the company acquired? ● How many employees do you have? ● What is your position and responsibilities?
Post-acquisition integration	● Can you describe the integration process following the acquisition (on-boarding)? ● How has your financial reporting changed? ○ What are ProCorp's requirements on reporting? ○ How have you managed these requirements? ● How have your operational control systems changed? ● Did you experience the on-boarding process was adapted to your specific needs? ● Would you like to make any changes to the on-boarding process?
Strategy	● Has your strategy changed since the acquisition? How? ● Have you introduced any new projects or processes as a result of the acquisition? ● How does ProCorp contribute to the strategic development in the subsidiary? ● Did you use financial metrics (ROCE, EBITA margin & revenue growth) before? ○ Are these flexible with respect to other strategic goals? ● What strategic initiatives are you working on now?
Level of autonomy	● Who has decision-making authority in the subsidiaries? ○ When and how does ProCorp involve themselves? ● Can you describe the decision-making process? ● What are the benefits of autonomous subsidiaries? ○ What characterizes successful autonomous governance? ● What are the disadvantages of autonomous subsidiaries? ○ Have you encountered issues with resistance, or disagreements? ■ How are disagreements dealt with?
Culture	● Has ProCorp or the acquisition affected your corporate culture? Or the attitudes of employees in your organization? ○ Strategic or operational? ■ Financial targets vs. operational KPIs ○ Intended or unintended changes? ● Effect of new external owners vs. owner/ entrepreneur who is present at company sites every day? ● Effect of new financial KPIs on entrepreneurial culture?