



UNIVERSITY OF GOTHENBURG  
SCHOOL OF BUSINESS, ECONOMICS AND LAW

# Flexibility versus formalization

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*The shape of the management control system  
in rapid growth companies*

## **Master thesis in business administration**

Management accounting

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Gothenburg, June 2011

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*Anna Karlsson & Sofia Andersson*

## ABSTRACT

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<b>Authors</b>	Andersson, Sofia & Karlsson, Anna
<b>Tutor</b>	Baldvinsdottir, Gudrun
<b>Title</b>	Flexibility versus formalization - The shape of the management control system in rapid growth companies.
<b>Background and problem</b>	Rapid growth companies are an important part of today's society and contribute to the increase of the welfare. These companies are in an unstable environment with many changes which creates a need for flexibility but at the same time they need control to achieve the goals. This can be seen as a tension which has to be taken into consideration when the companies shape their management control system.
<b>Research question</b>	How do successful rapid growth companies shape their management control system?
<b>Aim of study</b>	We want to give an understanding of how rapid growth companies shape their management control system with consideration to the affect of the growth. We also focus on how formal and informal management tools are balanced in the control package.
<b>Methodology</b>	The study is a qualitative interview study, where four companies are participating and the shape of their management control system is described. The empirical findings are analyzed with a model developed in the methodology part of the thesis.
<b>Empirical findings and conclusions</b>	The study shows that rapid growth companies have to evolve their management control system while growing, and that the evolvment often goes towards a more formalized system. The companies though express the need for flexibility and therefore the importance of also having informal control.
<b>Suggestions for further research</b>	It would be interesting to study the management control system in one rapid growth company, thereby being able to deepening the understanding of why changes occur with connection to the growth. It could also be of interest to perform the study in companies within the same industry, since it would ease the comparisons between the companies.

## DEFINITIONS

<b>Company culture</b>	The shared values and attitudes among the employees which affects the behavior within the organization.
<b>Control package</b>	We define a <i>control package</i> as a package of control practices and tools, both formal and informal, which work together in a holistic perspective with couplings among the different types of components.
<b>Firm</b>	<i>Firm</i> is used as a synonym to company.
<b>Formal control</b>	The visible control tools in the control package.
<b>Growth</b>	We define <i>growth</i> as the change of a firm in size or magnitude over time. The growth shall be organic.
<b>Informal control</b>	The invisible control tools in the control package.
<b>Management</b>	The people in an organization that have the power and responsibility to manage the company in the right direction to achieve the common goals.
<b>Management control</b>	The general expression used for various techniques used to control the employees in the company.
<b>Management control system</b>	We use <i>management control system</i> as the general concept for the system within a company, that includes every control practice performed by the management of a company aiming to reach the goals for the business.
<b>Management control tools</b>	We define management control tools as the components in a control package used to control the organization in the right direction.
<b>Organization</b>	A unit of people that work together, structured in positions and functions within a business, to achieve common goals.
<b>Rapid growth company</b>	Our definition of a rapid growth company is a company that grows much faster than others and therefore has special characteristics of flexibility and entrepreneurship.
<b>Strategy</b>	A company's plan of how to work to achieve its goals and mission, which will be reached with the help from the management control system.

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- Exhibit 1
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## CHAPTER ONE - INTRODUCTION

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*In chapter one the subject of the thesis is introduced. In the background we discuss rapid growth companies in general and how the characteristics of these companies influence the management control system. Furthermore, we present our problem discussion which leads to the research question and the aim of the study.*

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### 1.1 Background

The growth in Swedish companies is a debated subject as it contributes to the welfare of the nation and the competitiveness at the international market. During the last couple of years when the economic crisis has had a great influence on the Swedish society the debate has grown and the voices demanding better political support to growth companies have become louder. The growth companies will create job opportunities in the future and the government needs a clearer strategy for how to form the right conditions for these companies (Berggren 2009). Hence, the employment issue makes this a crucial subject for the entire Swedish society. The government needs to make an effort to improve entrepreneurs' willingness to hire new people and become enthusiastic about making their business grow (Engellau and Gür 2010).

The economic crisis during the last couple of years has shown that growing companies are strong and can survive through tough times. There has been a comprehension that small growing companies are more vulnerable in situations of crisis but there is little research supporting this idea. Instead, it seems like companies that take chances and continue to grow through crisis are the most successful (Davidsson et al. 2001, 29), which is a strong argument for other companies to follow in their footsteps. If more entrepreneurs in Sweden were able to grow there would be better possibilities for the welfare to increase.

In the area of rapid growth companies there are different views of how growth can be supported by management control. There are ideas of how to shape the management control system with the vision to form a base for growth, considering different management tools and models. Jordi Canals (2000, 32-37) presents a model for explaining the growth of a firm. The author argues that the management control system is a part of the total business and that it contributes to becoming a rapid growth company. The model is based on five different factors; the internal context is one of them and includes the formal control of the firm. The model illustrates the fact that the management control system is part of the basis to stimulate growth and is therefore important when becoming a successful rapid growth company.

The models for how to achieve rapid growth in companies are often promoted by people with special interest in the area, and who might have personal experience of business enterprise and business consulting. This can be exemplified with models of how to control in the aim to achieve rapid growth, developed by Ahrens Rapid Growth<sup>1</sup>. There are a couple of theories and concepts which the firm follows in the ambition to help businesses to grow. One of them is the hard-soft<sup>2</sup> use of control (Ahrens 2005, 130-133) which means that there has to be a softness to create

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<sup>1</sup> A consulting company in the area of rapid growth.

<sup>2</sup> The concept of hard-soft control can be related to the tight and loose way of controlling presented by Merchant and Van der Stede (2007).

liberty and maintain the mentality that is required to foster growth. At the same time hardness is necessary in order to keep up the quality standard, the cost consciousness and the pace in the business. (Ahrens Rapid Growth 2011)

There is a view that a need for both formal and informal control to foster growth exists, and therefore the idea of a required balance in the management control system has arisen during the recent years. The question of how to shape the management control system to harmonize with the entrepreneurship within an organization is essential in the area of growth companies. Some argue that there is a conflict between controlling an organization to reduce uncertainty, and at the same time obtaining a sense of freedom and flexibility to liberate entrepreneurial spirits. There are different opinions on how to solve this possible conflict, especially when it comes to how to use formal management control such as planning and budgets. (Lövstål 2001, 9-15) As entrepreneurship and innovation are parts of the basis for growth in a company (Wiklund 1997) this discussion is of great interest in the context of rapid growth companies.

## **1.2 Problem discussion**

It is important to the Swedish society and the welfare that companies grow. The growth both creates new job opportunities and contributes to the growth in the Swedish economy as a whole. But what differentiates a rapid growth company from a company that does not grow or grows less? To answer this question many factors have to be taken into consideration (Greiner 1998). The business concept must include a superior product that will attract customers (Canals 2000, 88-89). Other factors of great importance are the strategy, the leader, and the growth rate of the industry (Hambrick and Crozier 1985; Greiner 1998). The management control system is an important factor and will be the focus in this study. The system consists of tools which together form a control package that the management uses in order to affect the employees in reaching the stated goals and follow the strategy. (Langfield-Smith 1997)

As mentioned in the background, a premise is that a rapid growth company needs informal control tools to be able to be flexible in a changing environment. According to research made on the subject it is though also important with formal control tools. Many researchers have taken the approach of studying the management control system design during the lifecycle of rapid growth companies and found that the use of formal control increases with the maturity and the pace of growth in the company. (Romano and Ratnatunga 1994) Rapid growth companies face uncertainty due to quick changes, both internally and externally, and therefore have a need of a management control system to reduce the uncertainty (Sandelin 2008). Studies have shown that management control systems are required to growth and that companies which fail to implement the right systems will not keep growing (Romano and Ratnatunga 1994). Companies in growth move from being small to becoming big and complex, with higher capacity and the power of producing larger volumes and consequently a higher pressure is put on the management (Flamholtz 1995). When a company is small it can make the daily business work with informal control tools, but when the complexity increases so does the need for formal control tools (Davila and Foster 2007).

All companies that are rapidly growing go through changes which disfigure the balance in the current management control system (Cardinal et al. 2004), this calls for rebalance in the management control and between the formal and informal control tools. If the right balance is to be found the effectiveness of the firm can be expected to increase (Cardinal et al. 2004). In a rapid growth company it can therefore be expected that a good balance between formal and



informal management control is a matter that is considered in shaping the control. Nilsson (2010) argues that it is important for a rapid growth company to work actively with the balance in the control package in order to be able to advance their business and keep growing. He describes this balancing as a continuous act and that there is not one true balance that is right in every situation.

With the above discussion in mind we find it interesting to investigate the management control system in rapid growth companies. We argue that the fact that companies are rapidly growing affects the management control system, and that those companies have to deal with problems of balancing between formalization and the flexibility required for growth. This leads us to the research questions stated below.

### **1.3 Research questions**

*How do successful rapid growth companies shape their management control system?*

- 1. How does the growth affect the shape of the management control system?*
- 2. How are formal and informal management control shaped in these companies?*
- 3. How are formal and informal management control balanced in the control package?*

### **1.4 Aim of study**

The aim of this study is to describe how successful rapid growth companies shape their management control system, and thereby gain an understanding of the meaning of management control systems in rapid growth companies. The study will describe what becomes important when controlling a rapid growth company, and especially what tools are in focus in the control package. Our purpose is also to establish how the companies in the study have balanced their management control system with consideration to the tension between flexibility and formalization. Hence this study will contribute to the understanding of how the management control system is shaped by top performers in the area of rapid growth. Therefore, this is an interesting study for people involved in the area of rapid growth and for those interested in the field of management control. Investigating companies that are not working in a stable environment is an area that has gotten more and more attention during the last couple of years; this is therefore an up-to-date study which will expand the area of management control system.

### **1.5 Scope**

We will limit our study to rapid growth companies showing excellent growth during the last couple of years. The companies are chosen because of their top rating of a national rapid growth list. The choice of a national list leads to a scope of the study which only comprises Swedish companies, even though the business can include international operations. Furthermore, we will limit our descriptive study to four companies. We will analyze the management control systems in these companies in relation to relevant literature. We will presume a management perspective in order to get an understanding of why the management control system is shaped the way it is.

## CHAPTER TWO – METHODOLOGY

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*In this chapter we want to give the reader an understanding of how we have performed this study. We present the method used by describing the whole research process, which means that we explain the approach and how we have chosen to gather the data. The chapter ends with a discussion of the credibility of the study and a picture of how we will execute our analysis with consideration to the empirical findings and the frame of reference. We will present criticism of the chosen method continuously during the parts of this chapter.*

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### **2.1 Research strategy in short**

The aim of our study is to give an understanding of how rapid growth companies shape their management control systems. To be able to achieve this aim we have used qualitative interview studies. A qualitative study is an appropriate method to use when looking into the meaning behind a phenomenon (Blumberg et al. 2008, 193). This study is of the descriptive kind since we have a clearly stated research question (Ibid, 207), which will be answered by studying four different companies. We are using both a monitoring and communication method when collecting our data (Ibid, 197). The monitoring is done by reading earlier research of the subject and the communication is performed through interviews. We have taken a leadership perspective in our study why Chief Financial Officers (CFO) are chosen as the interviewees. The main focus of our study is on the results from the interviews, which are presented in the empirical findings, and the subsequent analysis.

### **2.2 Approach**

In the startup phase of the study we read many research articles of the chosen subject to get a greater understanding. We found the area of formal and informal management control interesting since our view is that there is a tension between flexibility and formalization in rapid growth companies, and that this should influence the shape of the different control tools in the control package. In order to narrow the subject it is important to formulate a research question before the study starts (Merriam 1988/1994, 55). In the beginning we had a wide question, namely; *how do rapid growth companies control their business?* We started with this question but then narrowed it down to; *how do successful rapid growth companies shape their management control system?* As the study continued we complemented the research question with three sub-questions which could help us answer the main question.

Plenty of research is done about the management control in rapid growth companies and much of it focuses on the leader and takes a lifecycle perspective. The area of management control systems in unstable environments is a subject that has grown much during the recent years why this is a subject that is up-to-date. We have chosen to do a qualitative study in order to be able to achieve our aim of this study. We want to see how the management control system is shaped in relation to the context of the firm, even though it is impossible to keep up with all different variables. It is important for us to give a picture of the most distinguishing features of the companies' management control system to be able to make connections to the rapid growth. Though it is important to consider that there can be more control tools used in the companies which has not been pointed out as dominating in their management control.

We are not able to manipulate the variables affecting the management control in the companies. The study will therefore be of the descriptive kind. We will report our findings in writing and not in numbers and this is the most common way to present the results of a descriptive study. (Merriam 1988/1994, 27) This method has the advantage of showing the complexity of different situations and taking the environment into consideration. This type of study is also able to present different aspects of the question since “living” sources participate (Ibid, 28).

In qualitative studies the researcher has great influence of the final report. It is the researcher that conducts the interviews and the researcher’s subjective thoughts will be noticeable in the report. (Merriam 1988/1994, 47) Since the researcher is an important factor in this type of studies, our point of view will show in the entire report. Therefore we have read a lot of research to have a good knowledge of the subject, and have knowledge from different perspectives.

## **2.3 Gathering of data**

There are mainly two sorts of data, primary and secondary, that a researcher use as a basis for the study. Primary data is collected by the researcher himself in the purpose of finding answers to the problem of the study, while secondary data is collected and recorded by someone else. (Blumberg et al. 2008, 315) In our study we have focused on the primary data collected through interviews with representatives of four rapid growth companies, and on the secondary data collected through a literature review.

### **2.3.1 The primary data**

We have performed semi-structured interviews to collect our primary data. In semi-structured interview questions are prepared but the respondent gets to share his or her thoughts as well (Blumberg et al. 2008, 385). Our main reason for using this type of interview guide is that our research problem is of great width and that we wanted to capture the wholeness of the firms. We also wanted to understand the specific situation every company is in, and therefore we needed to let them talk free but still have control over the information collected (Ibid, 386). We worked a lot with our interview questions to make them specific enough to answer our research questions, which also was our main focus when the interview guide was constructed. When conducting an interview the questions asked decides how good the answers will be (Merriam 1988/1994, 94). According to Holme and Solvang (1997, 99) the strength of a qualitative interview is that it seems as a regular conversation, which is the feeling we wanted our respondents to have.

We have conducted interviews with the CFO or the accountant manager in three of the four companies. In the fourth company the financial specialist also attended the interview since this person was considered to know much about the management control system. These respondents were chosen because we wanted a leadership perspective in our thesis. The downside of this method is that we do not get an overriding picture of the management control system; we only get one person’s point of view in each company (Blumberg et al. 2008, 389). But our question concerns how the system is shaped, which our respondents have the right knowledge of because of their position in the companies.

An interview is a special situation, both for the interviewer and for the respondent. There are according to Holme and Solvang (1997, 106-107) four elements which affect the outcome from an interview; theme, roles, actors and coulisse. Depending on the theme of the study the respondents’ willingness to talk about the subject can vary. Our study which handles the

management control system in successful rapid growth companies could be a subject that the companies would like to keep as a secret. The roles in an interview situation mean that both the respondent and the interviewer have expectations in advance. We told the respondents about our study when we first contacted them so they knew what were waiting. The actors are also important, according to Holme and Solvang (1997, 107) and the researcher has to learn how to connect with the respondent. We recorded all interviews on tape but during the interview we also took notes on our computers. The use of a recorder is the best method when analyzing the material afterwards (Merriam 1988/1994, 96) but it is also a part of the coulisse and affects the respondent. After the interviews the material was listened to and a transcription was made. These documents have been the basis in our continuing work with the empirics and the analysis, and are significant to those sections of the thesis. Our interviews were conducted at the companies head offices, since this seemed more convenient for the respondents and therefore the best coulisse for our study. (Holme and Solang 1997, 106-107)

During an interview it is important that the interface between the interviewer and the respondent is working and the interviewer has to be prepared for the situation. To be a good interviewer practice is needed (Merriam 1988/1994, 86). During our first interview we found it difficult to ask the right questions, at the right time. After the first interview it felt much easier and the following ones went smoother since we had become better at asking follow up questions. We had sent our questions to the respondents in beforehand with the intention that they could get acquainted with the subject. All of the respondents had read the questions briefly and we therefore started all interviews with a short description of the study. Since we let the respondents talk freely during the interviews our semi-structured interview guide was not followed. Before we met the respondents we had gathered information about the companies to get a better understanding. The information was gathered from the companies' websites and from their annual reports.

### ***Selection of companies and respondents***

As units for analysis we have chosen four firms placed in the top of a national growth list, which implies that they are successful rapid growth companies. In each firm we have interviewed managers working in the finance department but they are representing the firm as an entity. We have done a multiple interview study and interviewed two CFOs and two accountant managers; in one company the financial specialist was also attending the interview. We did not choose a single case study since our subject is not specific to a single firm, and we also wanted to be able to make comparisons between the companies. (Blumberg et al. 2008, 224)

When choosing our sample we used a national growth list which has stated criteria of how to qualify for the list. The growth list is presented every year and the companies in the top get attention because of their performance. To qualify for the list there are some demands that have to be fulfilled. We have picked four companies from the top 20 of the list. The downside of picking a sample from a designed list is the uncertainty of not knowing how well the publishers have investigated the companies in Sweden. But the fact that the companies on the list qualify as rapidly growing is without doubt.

Advantages of using a sample are lower cost and faster collection of data. These were the main reasons why we have chosen to use a sample. We have used a non-probability sampling, which is a subjective sampling (Ibid, 235). We chose this type of sampling because we had some criteria that had to be fulfilled: we wanted the companies to be in the top of the growth list and we

wanted them to be located at specific places. The location mattered in the choice since we wanted to do personal interviews face-to-face. When a non-probability sampling is chosen it is a bigger chance that the results will be biased. The fact that our respondents can answer our questions and give us a picture of how their management control systems are shaped is though what will help us answer the research question. (Blumberg et al. 2008, 251) Since the result cannot be generalized alone a sample chosen by the researchers, who have knowledge of what the goal of the study is, are to prefer (Merriam 1988/1994, 61).

When contacting the companies we requested to talk to the CFO, and we told this person about our study and why we wanted them to be a part of it. Since we have taken a growth list as a stand point we started from the top and contacted the companies in order. Out of the companies we called some turned us down with the explanation that the material we wanted was confidential or that they did not have the time to participate. In one of the companies where we had booked an interview our respondent had left on an urgent business trip the same day as the interview was to take place. The company therefore provided us with another person from the financial department, one who also has a manager position.

Two of the companies in the study wanted to be anonymous and we therefore made the choice to keep all of the companies that way. The reason they expressed was that they do not want this study and its content to be shown when searching for their company name on the Internet. It was mostly an esthetic question for us when we made the decision that it would be better if no company were named. This implies that the name of the national growth list we have used when selecting the companies, as well as the definition of growth and the criteria to qualify, cannot be mentioned. The fact that the companies are held anonymous also caused some problems when the empirics were to be written. We wanted to create an understanding of the companies, but in order to keep them anonymous we could not write much about their business which can make it hard for the reader to get the right picture of the business. We however argue that the most important feature is that the participating companies are successful rapid growth companies and other features are not as significant for the study. When a respondent wants to be anonymous it is important that it is considered throughout the thesis to follow good ethics (Holme and Solvang 1997, 32).

### **2.3.2 Secondary data**

The secondary data used in this study is mainly collected from earlier research of the subject, that is through academic literature and articles written in the area of management control and rapid growth companies. Our approach to find the secondary data we needed has been to search for information through different electronic databases, such as Business Source Premier, Science Direct, Retriever and LIBRIS. We have used search word as *rapid growth*, *rapid growth companies*, *management control*, *management accounting*, *balancing management control system* etc. and the searches has been made in both English and Swedish. During our search for relevant literature, we took help from the expertise available at the Economics Library at Gothenburg University Library. We booked time with a librarian who showed us how to proceed with our search and gave us valuable tips of how to conduct the search in order to find the information we needed. The secondary data that we ended up using consists of scientific articles, dissertations and books.

The problems that can arise with secondary data are related to the fit between the data and the required information needed for the study. The secondary data are collected to fill information

needs and may not fit the specific requirements of the research problem. It is important to reconsider the information quality and the sample quality of the secondary data. The information quality is good if the data cover the information needed, is detailed and accurate enough, and follow the same definitions as the ones used in the research. The sample quality can be questioned with regard to the purpose, the scope, the authority, the audience and the format of the data. (Blumberg et al. 2008, 317-319) We have reconsidered the models and theories in our frame of reference many times to make sure they are relevant to our study. We have mainly thought of how connections can be made between the empirical findings and the frame of reference in creating an interesting analysis.

To be able to do a good analysis we had to expand our frame of reference to not only comprise research on management control systems in rapid growth companies. We included a section where the characteristics of a rapid growth company were presented to get a better understanding of the companies involved in the study. A section with management control in general is also included to give a view of the basis of management control systems. The last section of the frame of reference deals with the balancing between formal and informal control in the control package. We have chosen to have contingency models (see e.g. Ferreira and Otlely 2009) in our frame of reference. This means that the findings are generalizable together with other findings in the same area but not by themselves. Contingency models have caused much criticism since some argue that this does not make the findings credible and that researchers instead should look at the same contextual variables in their research to create coherence in the area of control. It is also pointed out that when using contingency theories many factors are left out, such as informal control and instead only relies on traditional theories of management control systems. (Chenhall 2003) We have tried to solve this issue by taking a broad picture of the shape of the management control system in rapid growth companies, and also include criticism against traditional management control models in the frame of reference.

## **2.4 The study's credibility**

In this section we will discuss the credibility of the study based on the concepts of validity and reliability.

### **2.4.1 Validity and reliability**

Validity and reliability are two major criteria for evaluating a measurement instrument, like the interviews in our study, where reliability contributes to the validity of the instrument (Blumberg et al. 2008). Hence, the concepts are used to describe whether the instrument measures what is supposed to be measured, and how accurate and precise the measurement procedure is. When doing a qualitative study the credibility is decided by the researcher's objectiveness and performance. (Blumberg et al. 2008) To make a study scientific the researcher has to be critical during the whole process, from the first gathering of literature to the analysis (Merriam 1988/1994, 176) and this is how we have tried to perform our study. There are two forms of validity: external and internal (Blumberg et al. 2008). If a researcher achieves external validity it means that the findings can be generalized across persons, settings, and times. The internal validity is about the instrument's ability to measure what is relevant for the study.

In a qualitative study the result is based on how the respondents think of the reality and the researcher is responsible of portraying this reality as correct as possible. If this is viable the study will have an internal validity. As a way to control the internal validity in our study we sent the material from the interview to each respondent to read it through and complement if they

thought something was missing. (Merriam 1988/1994, 178-180) When it comes to the question of external validity it is not as important in a qualitative study since the purpose is to give understanding of the subject and not a generalizable result (Merriam 1988/1994, 184).

Reliability, which is a part of the credibility, is connected to the concept of consistency; hence the measure's ability to supply consistent results influences its grade of reliability (Blumberg et al. 2008). An instrument is reliable if it measures in the same way and get the same result every time, and there is no risk of error because of situational factors. A high degree of reliability of an instrument does not mean that it is valid, the results can be the same every time but there is no validity if these are wrong. That is an explanation of the connection between validity and reliability; it does not matter if an instrument is reliable if it lacks validity. In our study the discussion of reliability is connected to the gathering of data through interviews. The findings depend on how different persons describe the environment, which is affected by many different variables that can change quickly. In this study it is important that the internal validity is high; instead of creating high reliability a qualitative study should strive to reach a result with meaning. (Merriam 1988/1994, 180-182)

## 2.5 Model of analysis

In the analysis we will relate the results from the interviews with the research described in the frame of reference. We will also look at how the companies' management control systems coincide or differ from each other. Our thesis includes the sections shown in the model below, where the parts are tied together to show the line of arguments.

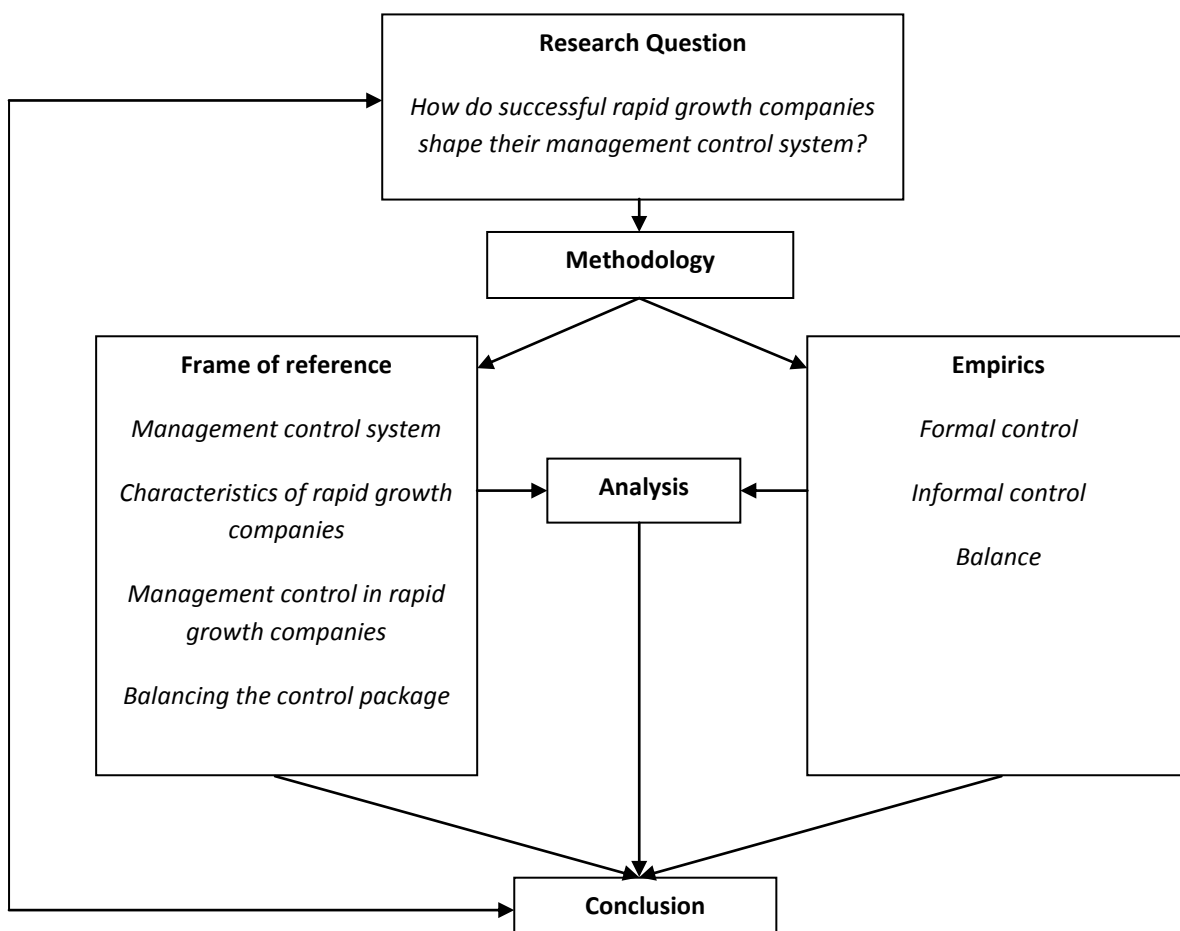


Figure 1: Own model

## CHAPTER THREE – FRAME OF REFERENCE

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*In this chapter we will first give a review of the research on management control systems. This is followed by a general description of the characteristics of rapid growth companies and the growth phases the firms go through. In the final sections we connect these two general areas by describing the earlier research done on management control system in rapid growth companies, and by illustrating the importance of balancing the management control system and its control tools.*

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### 3.1 Management control systems

In the complex environment of today a company needs management control to function. Why a specific management control system is chosen and how it is used depends on many factors, specific to each company (Langfield-Smith 1997). In this section, theories for analyzing the shape of management control systems and different control tools are presented. This is to enhance awareness about what management control is in order for the reader to understand the connections made later on to rapid growth companies, and what is specific to their control package. A section with critic against traditional management control models ends this section.

#### 3.1.1 Definitions of management control systems

Management control system is a term of great width. Its meaning has changed through the years, and may vary depending on different researchers. Early on, the term was straight forward and only included a few factors influencing the system. As the years have passed more of the business' strategies have been taken into consideration and today a lot of focus is on the management control system and how it fits with the strategy of the firm. (Merchant and Van der Stede 2007, 5)

Flamholtz (1996) presents the management control system as the tools used to affect people in the company towards the stated goals. The author states that if a company can shape a management control system that suits the company's specific needs, a competitive advantage towards other competitors will exist. Chenhall (2003) define management control system as information gathered externally as well as internally which helps managers make the right decisions. Merchant and Van der Stede (2007) have a good and understandable definition of what management control is which follows:

*“Management control, then, includes all the devices or systems managers use to ensure that the behaviors and decisions of their employees are consistent with the organization's objectives and strategies.”*

Merchant and Van der Stede 2007, 5

This definition fits the intention with this study because it takes a general approach. It says that management control includes all the devices or systems that managers are using in their struggle to affect the behavior of the employees. In the terms, *device* or *system*, formal control tools and informal control tools will be included in this thesis. These expressions include different management control tools for companies to use and will be reviewed below in the frame of reference. In contrast to the other definitions mentioned earlier this definition of the management control system takes both the objectives and strategies into consideration. This is



important since this study deals with companies that have growth strategies and other short term goals that arise from this fact.

To get the employees, who have different personalities and wills, to work together towards the same goals a company must rely on their management control system. The management control has to push people in the right direction in order to reach the company's goals, and this is the reason why management control systems play an important role in a company's infrastructure. (Flamholtz 1996) Hence the need of a management control system increases with the number of employees. When a company grows the managers can no longer overlook everything and help is needed. In rapid growth companies the numbers of employees often increase fast and therefore affect how the management control system is shaped.

### **3.1.2 A holistic view of management control systems**

Ferreira and Otley (2009) define management control system with another term, namely, performance management system. In this definition they include both formal and informal mechanisms, processes, systems and networks. The authors argue that other models usually only investigate the formal mechanisms while their model takes a broader view to help in the understanding of what key aspects influence the design and use of a management control system. The model builds on the contingency theory, stating that there is no ideal model for managing a company; instead several factors influencing a company and its management control system are taken into consideration.

What differentiates this model from other research in the area of management control system is that it tries to capture the whole view of a company's management control and the factors affecting it. Ferreira and Otley (2009) argue that a company works to reach their strategies and plans, but these are set for a long term and it is the transformed short term goals that the management control system should control. In the model they have included the company culture and the contextual factors affecting the management control system. The authors state that it is hard to say anything about how these factors affect each individual company but that they play a part in the use and shape of the management control system. In this study these factors are important since the belief is that companies which grow rapidly cannot be controlled with only formal control tools, and therefore the company culture and other contextual factors of informal character should play a crucial part in the shaping of their management control system. In the Ferreira and Otley (2009) model other factors said to be included in the management control system are for instance: key success factors, key performance measures, target setting process, evaluation and reward system.

### **3.1.3 Formal and informal control**

In the model by Ferreira and Otley (2009) presented above both formal and informal management control systems are considered, but they are not explained in terms of their characteristics. In this study the model by Ferreira and Otley (2009) is used to show that a company has a context and a company culture that have to be taken into consideration when investigating the management control system. Formal management control and informal management control differ much in how they affect the people in a company since they consist of control tools out of different character. Both formal and informal management control tools can be used separately and still reach the same result, but the best is if both can work together as a package and this idea is the foundation of this thesis. Formal control is based on systems and informal control is based on values and the behavior of the employees. This infers that

formal control is the visible tools in a company and the informal control are the tools used for control that is not visible. (Collier 2005) Hence much of the research on management control systems can be referred to formal control.

Formal management control is described by Langfield-Smith (1997) as rules, standard operating procedures and budgeting systems. These are most commonly of a financial character but since the focus in management control becomes more strategic, more non financial measures are also included in the formal part (Whitley 1999). The formal management control often measures the result and the control is done before the events take place and the ambition is that it is done right in the first place. (Langfield-Smith 1997) Examples of formal control tools are; budget, forecast, product calculation, key performance index (KPI) and decision process<sup>3</sup> (Ax 2005, 63). If a company relies fully on formal management control tools it is often thought of as bureaucratic, a word that has a negative sound (Whitley 1999) or as Collier (2005) expresses it:

*“Synonyms for control include command, dominate, direct, steer, pilot, hold sway over, exercise power or authority over, govern, manage, lead, conduct, call the tune, guide, oversee, check, hold back, curb, repress, contain. Without exception these reinforce the negative connotations of control which is restraining rather than enabling, in which domination overwhelms social relationship and trust.”*

Collier 2005, 323

Informal management control on the other hand is more unintended, it is built into the foundation of the company. It is the unwritten laws and rules of the company which all the employees feel that they want to follow (Langfield-Smith 1997). With informal management control the employees feel trusted and freer than under formal management control (Whitley 1999). Informal control tools are for example; culture control, learning and management support (Ax 2005, 63). Sandelin (2008) adopts a broad perspective of management control when describing the informal culture control. The culture control is the tool to form the company culture within the organization (Merchant and Van der Stede 2007 see Sandelin 2008). Hence, the culture control is the means to affect the behavior of the employees and differs between companies.

Companies use both formal and informal management tools in their efforts to control events. Formal and informal management control tools are also dependent of each other to the degree that they affect the efficiency of the other. By most the efficiency of the formal management control increases if a company has a working informal management control. (Langfield-Smith 1997) One kind of management control does not rule out the other, it is the other way around, and this supports the idea of having a control package consisting of both formal and informal management control tools.

#### **3.1.4 Criticism of traditional management control system models**

It is not always easy to investigate and understand a company's management control system. A company is often complex and this is especially true in a rapid growth company where changes is part of the day-to-day operations. It is common to use models to explain the management control system in companies (see e.g. Ax 2006; Ferreira and Otley 2009). Models and theories

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<sup>3</sup> Ax (2005) classifies the decision process in a third category called organizational structure. In this study it is though classified as a formal control tool.

are used for explaining the complexity involved in management control systems in an easy way. But when using models a simplified reality is shown and factors that might have a large effect on the management control system might be left out. There is also a complexity in using models since a person's individual experience plays a part in how the model is interpreted and used. (Macintosh and Quattrone 2010, 280)

Macintosh and Quattrone (2010, 40-54) are trying to incorporate more of the reality when discussing the subject of management control systems. They distinguish the role individuals have on the system and also the role of the relations in a company. How the management control system is used depends on how it is registered by the involved parties which mean that there is never one truth.

*"Management accounting and control systems are fluid and changing entities."*

Macintosh and Quattrone (2010, 40)

The authors also argue that how suitable the management control system is depends on the environment which consists of contextual variables; Ferreira and Otley (2009) have the same reasoning in their model described earlier. The most distinguished variables are the society and also psychological factors (Macintosh and Quattrone 2010, 43).

Macintosh and Quattrone (2010, 38) argue that when studying companies in complex environments researchers have to use another approach than practicing stated models. They state that to create the best understanding it is important to follow the daily work and see the daily routines in the company. An organization is never exactly the same as another and the internal relationships have to be considered when analyzing a company's management control system which traditional models is not always viewing.

In their book Macintosh and Quattrone (2010, 289-292) find one man's work important when broadening the scope of management control system and this is the work of Bourdieu (1998). He is a sociology scientist who means that to understand different management control systems an understanding of how humans interact with each other is crucial. In many of the usual management control models this factor is left out and Macintosh and Quattrone (2010) argue that this has to be acknowledged in the management control system research. Focus is placed on the company culture which the employees of a company gather around. The opinion is that the culture has a large effect on the function and form of the management control system, and that a company functions like a social group. (Bourdieu 1998 see Macintosh and Quattrone 2010, 289)

### **3.2 Rapid growth companies**

There are some characteristics of rapid growth companies that separate them from others. Studies show that there are specific features that confirm the differences, and give a general view of how rapid growth companies act in contrast to other firms (see e.g. St-Jean et al. 2008; Barringer et al. 2005). Wiklund (1998) states that it is possible to identify special factors which explain why certain small firms perform better and grow faster than other firms. Some of the most common characteristics are the need for flexibility and fast decision making within the organization. Others are the entrepreneurial spirit and the role of the leader.

### 3.2.1 Characteristics of rapid growth companies

St-Jean et al. (2008) have made a study of rapid growth companies where the adjustment capacity is one factor that affects the growth. There is a need for flexibility in two ways, both to seize the opportunities for growth but also to avoid the negative effects that a growing company is exposed to. In the case of opportunities it is about change in the external environment which creates possibilities for growth if the management is able to take the right decisions. To avoid the risk for untapped opportunities there is a need for flexibility, so that the company can take advantage of for example changes in the market. Those firms that are proactive and make quick responses to changes have a competitive advantage in the market (Davidsson et al. 2001). Hence the dynamic environment around a firm creates positive effects on the growth (Wiklund 1998). The negative effects are more related to the internal changes which high growth can cause, for example changes concerning the structure of the firm, the employees or increases in sale (St-Jean et al. 2008). All these changes, both external and internal, require an adaptive approach within the firm to benefit from the existing opportunities to grow. The rapid growth companies have a great capacity to find new opportunities and also to react in the right way, because of their flexibility and capability of adaption (Wiklund 1997).

The required flexibility is related to the characteristic of decision making in rapid growth companies. Decentralized decisions are common and an important factor for the firm in the adaption to the present situation in a changeable environment (Wiklund 1997). The decision maker is closer to the problem that has to be solved. The managers in a rapid growth company are often in situations where they need to make fast decision without back-up from, for example, financial data or market research. In a changing environment the managers are often on the run when decisions have to be taken. Therefore, they have to rely on their intuition because there is no time to hesitate and wait for decision basis. (Ahrens 2005)

The role of the leader and the leadership in general are often in the center of discussions about rapid growth companies. There is both the view of the strong leader as a major success factor, but also the characteristic entrepreneurial spirit that is significant for growing firms. The leader of a rapid growth company is usually a person who is entrepreneurial as he or she is innovative, comes up with new business ideas and always has new opportunities in sight (Wiklund 1997). Hence, there is often a connection between entrepreneurship and growth since the characteristics of entrepreneurial firms are related to what is needed to create rapid growth. Wiklund (1998) argues that entrepreneurial strategic orientation is one of the important factors to enhance growth and that there is a connection to the fact that the managers in a small growing firm enjoy strategic work, which is also significant to the possibilities of growth.

### 3.2.2 The growth phases

The growth phase a company is in influence the way the company shape their management control system, and is therefore an important factor in this study. Greiner (1998) states that the development of an organization is based on the following five dimensions: the age and size of the organization, the evolution and revolution stages, and the growth rate of the industry (See Exhibit 1). The age dimension is of great importance as changes over time effect the development, especially managerial problems due to changes requiring new operations by the management. An organization's size affects the development as coordination and communication become more important when the organization grows and more processes are implemented. The stage of evolution that an organization enters during growth is described as periods of continuous growth where only modest adjustments are necessary. The organization's

revolution stages are periods of turbulence which appears when the firm has grown much and chaos is created in the management, and new organizational practices are required in order to continue to grow. The last dimension which affects the development of an organization is the external environment of the industry. The speed at which an organization goes through the evolution and revolution phases depends on the growth rate of the industry and thus the adaption required in the business. (Greiner 1998)

There are more research done in the area of growth phases and Romano and Ratnatunga (1994) present a simplified model based on three stages of growth and the special features of the firm and its control at each of these stages. The first stage is called the start-up growth stage which is the phase in which the owner decides to start the business. In this stage the use of formal control is low because there is no need for such system to control a small organization. The leader is controlling the firm by involvement in all activities and decisions instead of using formal processes. The next stage is the renewed growth stage where the formal control gets more important as well as the strategic decisions. In this stage the management team building is started and the firm is adapting to the new situation as it grows. In the last stage which the authors call the mature growth stage the small firm is developed to a large firm, hence the formal systems of managing and control become more important. The decision making is decentralized and a management team is fully developed.

### **3.3 Management control systems in rapid growth companies**

As mentioned in the introduction to this study there are different views and aspects of how the management control system is shaped in a rapid growth company. In this section research done in this area will be presented and hence different perspective that exists within this subject.

#### **3.3.1 Earlier research on management control system in rapid growth companies**

To understand the evolvement of management control and its tools in rapid growth companies many authors take a life cycle perspective as mentioned above. The studies done of this subject all argue that management control systems are important in a rapid growth company or as Davila and Foster (2010) states:

*“Management systems are associated with growth, growth and management systems go together.”*

*Davila and Foster 2010, 86*

Davila and Foster (2010) argue that companies which grow fast and are in a changing environment needs management control systems to make their goals clear and established. The systems are important to coordinate and make up plans for the firm to follow. They make the decision process easier and help the managers focus on the questions of importance. Management control systems also facilitate giving responsibility to the employees and the ability to understand if they do a good job which should be rewarded. The authors' arguments is similar to the ones presented by Ferreira and Otley (2009), who also argue that the management control systems should be used to reach the stated goals and the strategy of the firm. In a rapid growth context this is important since the changes are fast and many, but still the employees need to remember what the goals are.

Cardinal et al. (2004) have made a longitudinal study of a company in the moving business, studying how the focus in the management control changed over the years with regard to the

company's growth. The authors found that in the beginning much of the control was done with informal tools, especially by using culture control. The company culture was created through the founder of the company who was involved in every area of the business by giving verbal feedback to all employees on their work. The company hired the employees permanently instead of on contract which also helped in the forming of a strong company culture. The leader's aim was to create an atmosphere where the employees acted by them self but for the leader this came at a high price. He got burned out when the company grew without having standardized the increased number of processes and he no longer had the time to be involved in every area. Scott and Bruce (1987) present their theory of how management control systems evolve during growth and this is in line with Cardinal et al. (2004). They argue that companies first have one manager that supervises the entire business and the company use simple bookkeeping to control the numbers needed. Both of these studies come to the same conclusion which is that as a company grows the need for more formalized control increases.

Davila and Foster (2010) are more specific when they present their study of which management control tools a company adopts first. They mainly investigate formal management tools and they point out that the first tools to be implemented are the ones included in planning systems followed by the ones included in evaluation systems. Sandino (2007) has done a study of rapid growth companies in the retail business and the author does a classification of the management control tools into; basic management control systems, cost management control systems, revenue management control systems and risk management control systems. The author argues that in the early phase of a company's life basic management control systems which includes; budget, pricing system and inventory system are implemented. The author states that the tools first implemented are focusing on the internal environment and that external tools such as marketing reports are adopted later.

As a company begins to grow the management control systems have to evolve in order to keep the control in the company (see e.g. Cardinal et al. 2004; Scott and Bruce 1987). More formalized control systems are adopted when the company finds that the informal control tools are not enough (Cardinal et al. 2004). In Cardinal's et al. (2004) longitudinal study the company abandoned all of their initial informal control tools, the involved leader and the strong culture control, and replaced them all with formal control tools. The company changed their structure and became more hierarchical and bureaucratic, a bookkeeper was hired and the processes were standardized to a higher degree. According to Davila and Foster (2010), who argued that planning and evaluation systems are the first systems to be adopted, the company thereafter introduces product development systems and sales and marketing systems. In these systems tools as project milestones, project portfolio roadmap, sales target and customer satisfaction feedback are included. Scott and Bruce (1987) also argue that the use of reports increase when companies grow, but they also argue that the employees get more responsibility and are more trusted by the managers.

Scott and Bruce (1987) state that when a company grows and goes towards a more formalized control the company is ruled by determined objectives instead of by a leader's state of mind. This is crucial to a company that grows but still wants to have control and coordinate to be efficient in reaching the goals (Davila and Foster 2010). All of the studies presented above have in common that they have found evidence of an increased use of formalized tools when a company grows. Which tools are adopted first differs a bit but budgets and other reports used for planning are among the first tools that are implemented. The reasons why the adopted tools

differ can depend on the strategy of the firm or the internal or external environment (Sandino 2007). In the study made by Cardinal et al. (2004) the company started with informal control tools, but then shifted to using only formal control tools. The employees objected and the company had to reinstate some of the formerly used informal control tools.

### **3.4 Balancing the control package**

During the recent years the area of management control systems has evolved and many new theories have emerged. Many researchers are now focusing on firms such as research and development intensive firms or entrepreneurial firms, where the need for creativity and flexibility is more apparent. (see e.g. Abernathy and Brownell 1997; Frow et al. 2010) Research with this focus, questions the traditional management control models and their usefulness in unstable environments. High competition creates a need for flexibility and innovation, such as the one facing a rapid growth company. One of the new research areas takes the balancing of control package into consideration (see e.g. Adler and Chen 2011). Research on balance can take many courses; in this study the focus will be on the balance in the control package, both between the different control tools of formal or informal character but also within the same. Balance is a question of great importance when it comes to management control systems; some even think that the real meaning of the system is to balance the control with flexibility (Henri 2006).

#### **3.4.1 Control in unstable environments**

Cardinal et al. (2004), whose study was referred to above in the section about management control systems in rapid growth companies, also focuses on the balance between formal and informal control which is argued to change through the life cycle of a firm. The authors state that:

*“Balance is a state where an organization exhibits a harmonious use of multiple forms of control. The harmony of any configuration of control elements relies on specific situational requirements but depends on achieving isomorphism with internal and external requirements and sustaining or smoothly adapting to changes in those requirements.”*

Cardinal et al. 2004, 412

The above citation shows that it is central for a company to find a balance between the multiple forms of control. In the citation it is mentioned that the balance is influenced by specific situational requirements and that the balance therefore change from time to time. In the study by Cardinal et al. (2004) evidence is found stating that it is the imbalances that drive changes in a company's control package. To regain balance former used management control tools, whether it is formal or informal, are often reintroduced. The authors claim that the former shape of the system affects the shape it will have in the future. The control tools once used are latent and can be reinstated the day they are needed to rebalance the control package.

Companies can have tight control, loose control or simultaneous tight-loose control (Peters and Waterman 1982 see Merchant and van der Stede 2007, 225). The authors argue that the management control system is loose when it encourages entrepreneurship and innovation, but at the same time it is harder to reach the stated goals. If the system is tight the goal are reached to a higher degree, but depending on which tools are used tight the employees can feel too controlled. However it is also argued that if the system is built on a strong company culture and shared values, it can be considered tight since this makes the employees work towards the goals

without using standardized processes and rules. Merchant and Van der Stede (2007, 225) though questions how common this is in companies since getting the employees to share the same values is difficult. Instead they argue that even if a strong company culture is not present, it is possible for a company to create a balance and encourage creativity and flexibility by having tight control in some areas and loose control in others. It is pointed out that employees can be controlled tight in some areas if they feel freer in other. The authors state that companies should have tight control in the areas of most strategic importance and looser in other areas to encourage flexibility and creativity.

Adler and Chen (2011) deal with the subject of large-scale collaborative creativity (LSCC) which they argue are those activities that require high creativity but also high control since many employees are involved and coordination is a must. In this sense there is a need for formal control but in a loose way that enables creativity, which is in line with the reasoning by Merchant and Van der Stede (2007). In the article Adler and Chen (2011) take an approach where they look at this tension from an individual level, and point to the fact that the motivational effects plays an important role when controlling a creative environment and that identification to the company is crucial. Hence this is something that has to be taken into consideration when shaping the management control system. The authors state that the motivation is a powerful control to create a group feeling in the companies, and to have the employees working together toward the same goals makes them motivated. The study is focused on larger companies where the tension between the need for tighter control and flexibility is more apparent, since the need for better coordination and control increases with number of employees.

### **3.4.2 The balance in rapid growth companies**

Sandelin's (2008) research is a case study of a small firm's management control practices as a package at different time periods of the firm's history. The findings of the study cannot be generalized as the right way to design the optimal control package, but it gives an insight into how firms can form their management control system in a rapid growth context. It shows that the balance is found with different weight of formal and informal control depending on different situations.

The study by Sandelin (2008) reveals that the balance and hence the use of different management control tools vary between two time periods but in both cases the firm is successful in terms of growth. The author states that the design of the control system is formed based on functional concerns; hence the manager designs the package by prioritization of the different functional demands that exists. In the first case study, which is done in the start-up phase of the firm, the manager had focus on the need for innovation and product development instead of building a formal administrative bureaucracy. This lead to the use of formal control only at senior management level because this type of control may prevent the innovation spirit in the organization; hence the manager prioritized the cultural control and therefore a hybrid control package.

The employees were very committed to the firm because of their own share, which they got as an incitement beside the base salary. This was the firm's way of shaping an entrepreneurial spirit where everyone within the organization worked hard to reach the goal of growth. The spirit of entrepreneurship was the foundation to develop the business and make technological advancement. There was a focus on getting things done rather than waste time on planning, the



management acted as role models to promote flexibility and rapid actions. Hence, there were other ways of controlling besides the culture control even though the spirit of ownership was the main control tool. The firm focused on hiring the right candidates when recruiting new employees. This was of great importance to get people who fit with the strong company culture, therefore the focus was on the social dimension and the management based their selection on subjective judgment. The company had a decision making process that was loose and based on daily discussions in the office. Personal supervision was another control tool which was based on the managers' assignment of tasks by walking the talk. There were no planning and scheduling of activities, instead the employees had freedom to take own initiatives. (Sandelin 2008)

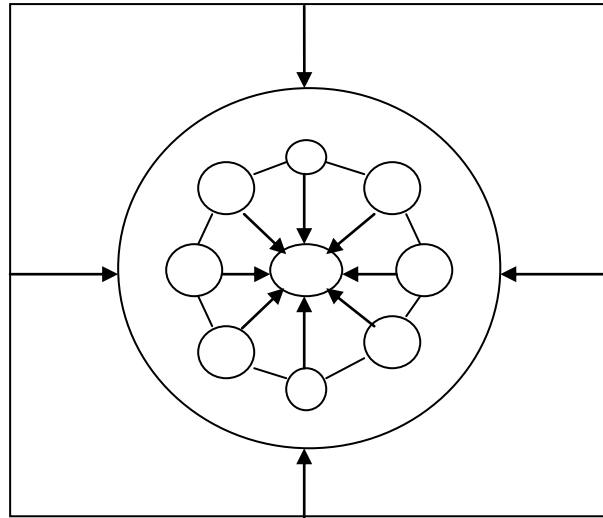
In the second case, which is the phase where the firm had become large, the firm had a need for efficiency to cut the costs. The manager therefore implemented formal control tools in order to meet these needs. These consisted of activities to estimate cash flows at an aggregated level, to analyze and secure a steady cash flow. The organization was divided into units to create a better foundation for new control modes, which were based on accounting practices and accountability. New goals were stated based on financial performance targets that were allocated on different business units and responsible managers. There was more focus on budget and calculation than before, and evaluating the performance on a monthly basis. Other changes were seen in the stated administrative structures and new constraints, and the management had the responsibility to provide formal documentation and plans. (Sandelin 2008) These two cases show the different ways companies work with balancing the control package depending on which growth phase they are in.

In another research of small rapid growth companies in a turbulent environment Nilsson (2010) describes a broader picture of the balance as both a state and an act.

*“Understanding the relationships between situational requirements, the structural composition of the control package, and its evolution over time, are pivotal questions for theory development in our field.”*

Nilsson 2010, 4

Nilsson (2010) states that there are many ways to define the concept of balance and he clarifies his definition in a model where the symbols in the model show the generic features of the balance. The mix of control tools in the control package is shown by all the inner circles, and the weight of the different tools is shown by the size of those circles. The relations between the components in the control package are illustrated by connections between the inner circles, and the arrows inside the model show the coherence that exists. The outside arrows are symbols for the situational requirements which affect the control package. The total control package is illustrated by the outer circle.



*Figure 2: Nilsson 2010*

Nilsson (2010) argues that previous management control frameworks which he based his research on are focused on balance as a desirable state, where the tools are chosen in order to find the right synergistic state of balance. In the area of rapid growth companies the turbulent environment has a great impact on which components that are of importance to find the right balance. Since the situational requirements are changing a lot it is significant to focus on the act of balancing, hence not only to find the ultimate balance state. The need of different components and hence their weight in the control package are depending on the changing environment the firm is in. Nilsson (2010) states that some degree of imbalance between the control package and the situational requirements may contribute to the firm's work of questioning the strategy and the behavior within the firm. The imbalance can be helpful to detect environmental signals and hence to confirm the strategy or discover the need for change and improvements. This is an example of seeing balance as an act instead of a desired state. If the balance in the control package is seen as harmonious the need for change remains undetected.

### **3.5 Summary of the frame of reference**

The chapter started with a description of what management control systems are. The systems are used in controlling the employees to reach the company's stated goals. We continued with a presentation of some models we find useful to our study and specific focus was on the difference between formal and informal management control tools. The focus on formal and informal control tools and their weight in the control package is connected to our belief that there is a tension between formalization in a rapid growth company and the need for flexibility. The models and theories in the first section of this chapter are traditional and to create awareness about other ways to look at the management control system we also included criticism of these.

Thereafter we presented some of the most noticeable characteristics of a rapid growth company. From this section it became clear that earlier research has shown that the need for flexibility is large, and also that an entrepreneurial spirit is common in a rapid growth company. This again confirmed our suspicion about a tension between formalization and the need for flexibility, and that these companies have to find a balance between formal and informal management control tools in their control package. We also described the theory of how a company goes through

different stages of growth which showed that a company that grows has to handle many changes when it comes to control.

In the third section earlier research on management control system in rapid growth companies was presented, and the studies of different companies show an evolvement from the use of informal control tools to formal control tools. It was also shown that the transition from informal to formal control was not always easy and that there is a need to create a balance between these. The balance is the focus of the last section and finding the right balance in each situation can be seen as an answer to the tension we have put forward, between the need for flexibility and at the same time formalization.

## CHAPTER FOUR – THE EMPIRICAL FINDINGS

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*This chapter presents the findings from the conducted interviews. In Exhibit 2 an anonymous list of the companies and the respondents are presented, and in Exhibit 3 the interview guide we used is shown. The findings from the four companies are presented separately, for the reader to get an understanding of the control package and the specific characteristics of each company. Each section starts with a short description of the company and thereafter follows a presentation of the gathered information under three main headlines namely; formal control tools, informal control tools and balancing the control.*

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### **4.1 Company A**

Company A is a consultant firm which offers their customers specialist services in different areas. They are a group of about ten people working at the head office, and the rest of the employees are consultants working in the customers' businesses. Since Company A has a distinct growth strategy there are some features of their control that are more important than others, which will be noticed in the sections below. Their growth can be exemplified by the nearly 150% increase of the turnover between the year of 2007 and 2008, and more than 400% increase between the year of 2005 and 2009. The number of employees has increased by almost 300% during the same time period. As an introduction to the description of their management control system, it is worth to mention that their focus now is to increase the turnover even more and this is reached by hiring more employees in order to be able to accept more assignments. That makes their employee policy very important; to hire the right people and fostering the company culture which characterizes Company A's business. The strong culture is said to be achieved by arranging many employee activities, having an open and inviting head office, giving the employees responsibility, having a strong leader and by creating freedom through the payment model. The company states that the fact that the employees feel good and comfortable in the company is significant to the success and hence the growth. The respondent was doubtful that she would have anything to say about the firm's management control system of interest to this study; since she claims that they do not use much control in what she states is a simple business.

#### **4.1.1 Formal control tools**

##### ***Planning – to control quick changes***

Company A sets their budget in October or November the year before, and they practice a traditional budgeting process which is based on goals that are set by the parent company. Beside the yearly budget they create monthly reports and forecasts for three months ahead, in the meantime the forecasts are revised a couple of times. The revised forecasts are important since many factors can change from the time the budget was set, especially when growing fast. For Company A to be able to plan the future these reports are crucial. Since the firm has experienced growth during the last years, they claim that the parent company does not use tight control to make sure that Company A reaches their goal. The respondent does a comparison to one of the other companies in the corporate group, which has not grown much, on which the parent company puts a lot of pressure to make sure they perform a specific result. The respondent claims that Company A is free to choose how to plan and control in order to achieve the stated goals without involvement from the parent company. Since this freedom is connected to the fact

that Company A is growing right now there is insecurity about what will happen in the future if the results are not as good as they are today. The parent company sets the goals which Company A is to achieve, and the day they do not reach them it is in the parent company's interest to be more involved. Today Company A though has the freedom and the flexibility they argue is needed to be able to keep growing.

*“Every month everyone gets their result report. There is no problem because it always looks good, which means that we do not need to have tight control of the economic figures.”*

Respondent A

During the economic crisis the monthly reports were though important to gain control over the costs. Company A claim the need to have full control over the results every month, both when it is good and bad times. This means that even if the parent company do not pay much attention to the numbers it is important internally. The firm claims that they do not produce reports for the sake of reporting. They are fully focused on the planning needed to run their business, which is the budget and the forecasts, and do not use any reports in excess. Company A has focused their reporting on the factors which they believe are most significant to succeed, but when using only a few control tools it is important that these are the right tools. It is crucial that they despite the use of few tools do not miss out on any aspect of the business that needs to be controlled. At the same time the respondent claims that this is Company A's success factor which enables fast decisions and flexibility.

***Decision making and responsibility – Who does what?***

In Company A they claim that there are no documented processes of how to make decisions within the organization, neither is there any strict responsibility allocation to adjust who is responsible for what. The respondent argues that this is because they need to be able to make fast decisions and if every decision had to go through a line of people this would not function. She claims that there is a sense of liberty in the organization, and the employees are trusted by the Chief Executive Officer (CEO) and the owners of the firm to make the decisions that is needed on a daily basis.

*“Some things are very clear how to handle /.../ some things are not responsibility allocated at all, but I do not think that there are things falling through the cracks because all feel great responsibility.”*

Respondent A

At the company's head office they are few people working together which the respondent argues encourage fast decisions and everyone knowing what to do in different situations. They are conversant of the work of others which also contributes to their way of making fast decisions. There is said to be a sense of liberty which means that the employees make their own decisions, and even if a fast decision would be wrong they never hear that they should have done differently.

Company A believes that they have strength in having a decision process which is not formalized, therefore they can be flexible and adapt to the situation. They claim to have a loose decision process since the employees at the head office know what is going on in the entire

business and can make decisions about almost anything. The fact that they are a small group of people at the head office means that they take responsibility for a variety of tasks; the respondent claims that everybody does everything and helps each other. It is good that the employees know much about the business but sometimes this can take focus from their own responsibilities, and they can end up doing too many tasks at the same time. So even if the decision process is loose, it is important that everyone knows their own work assignment which is their first priority. Furthermore, Company A claims that the loose decision process makes people more committed to their tasks. The firm thereby avoids the risk of losing commitment of the employees, which they state is a risk when growing. The respondent points out that when more employees are hired and more processes are involved in the business because of the growth, it is easy for the employees to feel left out. She states that by letting them make own decisions the commitment is held on to.

### ***Payment model***

In Company A they have a payment model which they claim is their most important control tool in the control package. The model controls the employees and hence the business by setting the guidelines for the payments to the employees. All employees except the people working at the head office get to keep a percentage of the amount the customers pay for the services delivered by Company A. Every individual saves that amount in an account as a base for their own payments. The saved amount of money can be spent in any way they want to, but guidelines set by The Swedish Tax Agency's rules have to be followed. The employees can choose to get a high payment every month and hence not save much in their account, or get paid less and save more for future payments. The payment model is described, by the respondent, as a way for the employees to be free and have control over their own payments, and for the company to create incitements and a willingness to work hard. The fact that the consultants can decide how much they want in salary is a freedom but pressure is put on them to always perform on top. During periods of time when Company A's sale is poor all the consultants do not have work assignments, and if they do not have money saved in their account they have no salary. This can create uncertainty which could affect the company climate negatively. For the company the model is good in bad times since they do not have any costs for the consultants who do not work.

Company A states that the control function of the payment model leads to a lesser need for other formal control tools, and the model is the focus in their control package. It gets the employees to work hard which leads to higher turnover for the company. It is also a tool for controlling the costs within the organization. If an employee has not worked much in a period of time, he or she must lower the payment until more money is earned and the amount in the account allows a higher payment. Therefore the company claims that the payment model is a self-controlling tool which is very important in their attempt of controlling the business. If a consultant is to stay in the company he or she has to use their account in a clever way to be able to feel secure about always getting a monthly paycheck.

### **4.1.2 Informal control tools**

#### ***Company culture and the entrepreneurial spirit – The core of the success?***

In Company A the company culture is said to be strong and the people working there want to do what is best for the firm. The company culture is shaped by the culture control and the employee activities are also of great importance. The few persons working at the head office have created a spirit of overachieving and always performing on top. This means that they always do what is

best for the company and work many hours in periods with many assignments. The fact that they work many hours can cause problems since the consultants might feel pressured and therefore work too much.

What enables the strong company culture is mostly that the right persons are employed and that everyone is focused on the firm's goals. Company A has the goal of delivering the best services in the industry and this put a lot of pressure on hiring the right persons. The company has a standard of only hiring experienced persons who have a good reputation in the business. The company also has a system where they want the consultants to give suggestions on new possible persons to hire since they know the business best. Company A state that they think much about the social abilities when hiring new people, which is important to hold on to the strong company culture they claim to have.

Company A's head office consists of a big, open and light space where some of the employees have their desks. There are a few individual smaller offices where meetings can be held, but during our visit the doors were open. At the office there is a big kitchen and this is to create a feeling among the consultants of coming home. This is a feeling they want to hold on to.

*"The employees should feel like they are entering a home when they come to the office."*

Respondent A

Company A invests a lot of resources to make the consultants a part of the company and thereby makes them loyal. At the head office in Company A the employees are informed about what everyone does, and that is supposed to create a spirit where everyone feels a responsibility to help each other. To create the same feeling among the consultants many resources are spent on activities to make them feel part of the company. Company A claims that they want all of their employees to feel trusted and therefore they get a lot of responsibility. This responsibility can for example be seen in the fact that if the firm needs to hire someone new quickly, this can be done without checking with the CEO. One other important factor when it comes to the company culture is said to be the leadership. The CEO of Company A is one of the founders of the company, and today he is the one who sells the most services. He is a person who is very committed to the company which was confirmed during our visit at the head office. He was talking to all of the employees and everyone seemed relaxed in his company. Having a leader to look up to is contributing to creating a common company culture.

#### ***Employee activities - Aligning the employees to the company***

Company A has a lot of employee activities, as mentioned above. They argue that this is crucial to make the employees feel part of the company and thereby strengthening the company culture. They offer their employees training cards and massages, and they celebrate the employees' birthdays. They also invite the employees and their families to Christmas dinner every year. These are all activities that most persons appreciate but some might instead of this be more attracted by having a higher salary. During the recession of 2009 Company A had to cut down on the expenses on company activities but during the year of 2011 they have been skiing and a sailing trip is planned for the summer.

*“Our company is distinguished with positivism and generosity.”*

Respondent A

The company offers their employees a lot of independence in terms of working time, and also their own payments due to the specific payment model described above. The employees are free to plan their own time as long as they consider the customer’s best. This is said to be appreciated by all, both younger employees and those that have small children, as they can plan their time according to their specific situation. They can work more or less in different periods and are free to adapt their work time according to how much work there is. They also decide about their own time-off in the summer and all this independence leads to a strong commitment among the employees. The company claims that the freedom of the payment model is appreciated by all consultants, but there is a risk that some of them might see this as a problem and wants tighter control. The payment model is important to attract people to work in the company because of its generous spirit.

#### **4.1.3 Balancing the control**

In Company A they claim that the informal control tools are much more evident than the formal and it is stated that this is the way the management wants it to be. They argue that the employees need to feel part of the company which these types of control tools can provide. The company believes that it is inevitable that when growing and becoming bigger more formal control tools are implemented. But the informal control is still the core of the company’s management control package, and the company states that they have not come a long way in the formalization process. They will work actively to hold on to the company culture which is present today. They will create smaller work groups with about 25 persons in each to keep their employees’ personal engagement. The company believes that smaller groups will create a family feeling which they desire. The company argues that it is important that the formalization which comes from growing should only be noted in the top management groups. During the last years the company has thus evolved a lot and one factor which shows this is that they in the year of 2006 started their own finance department. Until that year one person did the accounting about once a month, but since more employees where hired this was no longer an option and today there are three full time persons working in the finance department.

#### **4.2 Company B**

Company B is operating at the international market and the rapid growth of the firm has led to many changes in the organization and the business. Earlier they functioned through the fact that everyone knew each other and met every day. Now they are too many employees to function in that way and the coordination has been standardized. The average number of employees increased by more than 50% during the year of 2009 and the turnover had an increase at the same level. When studying the time period between the year of 2005 and 2009, the turnover increased by more than 350% and the number of employees by nearly 250%. The company expresses a feeling of a tendency that growing firms generally drag behind because there is so much to do, and therefore there is a lot of ad hoc work to keep track of everything that comes up. Our respondents state that the rapid growth makes it hard to say where the company will be in a few years since changes are occurring all the time. The industry is fast moving and the firm is adapting to the changes mostly through an increased investment on product development. The many changes have also contributed to evolvment in the management control system which will be explained below.



#### 4.2.1 Formal control tools

##### ***Planning – to control quick changes***

Company B's work with planning and hence reports is ad hoc, because they state that there is not always time to get routines and formal processes documented as they are changing to suit new requirements. The ad hoc way of reporting results in the use of Microsoft Excel as a tool to gather information, which is great in terms of flexibility. But it can also lead to problems regarding individually models which new users may not understand. It is of great importance to have a system that is flexible and supports the growth of the firm, but at the same time the company experience that they cannot be too flexible in their business. There is a need for more standardized formal processes which is something they work on to develop in different ways. For example they are developing their project process to become more standardized and in that way shape a base for more effective work in their projects. The company does a lot of their work in projects especially when developing the products. Company B is also developing their forecast follow up to get a better view of the future, which becomes important in their rapid growth. They state that it is crucial for them to become better on seeing what the future will bring since the growth makes it uncertain.

They have a traditional budget process in which they plan for one year ahead with monthly follow ups, and they do forecasts of 18-months periods. Making forecasts is not easy and the information is gathered from their Enterprise Resource Planning system when evaluating different scenarios. The focus today is on being able to foresee how the international market moves, since this is a major influencing factor on how well the company performs. The monthly budget follow up is important because there is a lot going on in the business during a month. The higher level management has an intention to do weekly follow ups instead, just because of the need to know how the business goes and what the results will be in the end of the month. This desire has though not been performed yet and the respondents claim that this is not a reasonable task to include. They have to make the forecasts work properly first. The respondents state that they see a need for better planning and that the board puts more pressure on them to handle this.

##### ***Decision making and responsibility – Who does what?***

The decision process at Company B has been developed during the growth of the firm. Before it was loose but now when the organization has become larger there is a need for more formalized processes of how to make the decisions. The need of formalized processes has risen due to the increase of employees and also since the amount of processes has increased with the growth.

*“We get a clearer structure in the company, which reflects in the decision making.”*

Respondent B (2)

Before the growth of the company the organization was flat and one person could handle everything. Now there are more managers in a management team to form a structure which fits with the growth of the company. The structure today is hierarchal and everyone have one person to turn to when handling difficult questions. The employees in the organization go to their responsible manager with questions that comes up and the responsibility is now allocated depending on hierarchal levels. Depending on the extent of the matter the decision can be made at the next management level, as high as board-level if needed. But if there is a need for a fast

decision, the respondents claim that there is no problem making decisions at the lowest level right away. So even if the company works hard with formalizing processes they state that they can go around this when needed. This could though lengthen the time it takes to get the standardized processes functioning properly. The company argues that the standardized decision process can be hard to follow in some cases, but it is needed and makes the work easier for the employees and also for the managers controlling the employees. But as with the planning not every process and routine is standardized, which sometimes results in a lack of formal decision basis. Even if things get more standardized, there is a lot of communication outside the standard which the respondents argue obstructs going back and see what went wrong.

#### 4.2.2 Informal control tools

##### ***Company culture and the entrepreneurial spirit – The core of the success?***

In Company B the company culture has changed a lot during the last couple of years, and the formerly strong culture has evolved with the growth. Today the company culture is built on an entrepreneurial spirit, a strong leader, an open office space and employees from different nationalities and in different ages. Earlier the company culture was more self-evident and shaped by the small group of employees who worked close to each other. The change of the culture has evolved in the same pace as the growth.

*“One of our employees has been on maternity leave for one and a half year and she states that the company has transformed completely.”*

Respondent B (2)

In Company B they however argue that their company culture is still a part of the foundation of the company, and that it is important to not lose the innovative and entrepreneurial spirit which distinguishes it. The importance of an entrepreneurial spirit in the firm is said to be crucial to keep growing. Because even though there has been a change in the company culture during the years of growth, the characteristics of entrepreneurship and innovation are important features if they want to be able to keep up with the fast changes in the company and the industry. This makes hiring the right employees crucial to the company’s success. Another important factor which affects the company culture is the management of the company. In Company B the board members are said to be engaged in the business and they visit the firm at several occasions every month. The board members’ engagement spreads among the employees and creates a feeling of belonging. The respondents argue that it is unusual that the employees in a large company know who the board members are.

When we arrived at the head office we immediately thought of the open office space. Many of the employees sat in the same room with desks pointing toward each other. There were not many walls in the office; it was glass walls between the different rooms which made it look as if all worked together. This creates a feeling of openness and something our respondents claim is a reason why some decisions can be made fast, most of the staff meet each other every day at the office.

There is no reward system in Company B affecting the company culture besides at the top management level. The company sees it as a given fact that the bonus system is designed in that way, but there is a risk that all of the employees might not agree with the fact that just the people

in the higher levels get bonuses when all employees are part of the success. The selling department has measures and performance targets to evaluate the performance.

*"At the selling department it is easy to measure performance, other units does not have that kind of measurement. But I am sure it will be more common in the future."*

Respondent B (2)

Today Company B has no measurement at an individual level, but the different units have responsibility to follow their budget. Before the growth of the company, when the organization was smaller, there was room for bonuses to everyone when achieving the goals. Today that is not possible since the number of employees is larger and it would take too much resources to figure out who did what to enable a fair reward. At the same time the respondents argue that the results are also higher which could enable the use of a reward system for all employees. One of the respondents believes that the use of a reward system will be reintroduced in the future since she thinks it is a control tool of great affect. She could not say how it will be designed, since it is not a current question today.

#### ***Employee activities - Aligning the employees to the company***

Company B uses continuous activities to foster the company culture and the right spirit. The aim is to create a family feeling which is done by different activities namely; Friday beers, a joint breakfast every Monday and yearly Christmas and summer parties. Their employees are an important success factor and the mix of different educations, nationalities and personalities is a great part of that. It is though important to consider that differences can lead to disagreements among the employees.

#### **4.2.3 Balancing the control**

In Company B an evident increase of formal control is seen. The fact that the company is working hard to formalize the decision process makes this evident. The top management also has higher demands when it comes to reports, forecasts and follow ups. Today they need to be able to measure the effectiveness of the firm and also know how the industry will evolve, which was not important when the company was smaller. Then they could focus on their internal processes and on creating the best product. It is not until now when they are a larger company that they feel a need to understand the external industry. This new type of information needed has enabled the new company structure, where new layers are made with more managers who need information about how their specific group performs. The responsibilities have become more decentralized as a way to still keep up with changes and to be flexible.

Company B feels that the development to use more formalized control tools is necessary when growing to be able to control the increases in both employees and processes, even if it can be difficult during the transformation:

*"This is a process that sometimes can be hard but we feel that it is a must and that it will ease our work in the future."*

Respondent B (1)

In the finance department it has become more important to be able to prophecy into the future. The company believes that the right way to complete this is to formalize the management

control system, mostly by using tighter forecasting and better follow up. In the company they are continuously working with standardizing the management processes and the former company culture is not the same as it was before the growth but though still strong. Today they have to work actively to keep up the culture which they did not have to when the organization was smaller.

### **4.3 Company C**

Company C sells products and has operations at the international market. The firm has a clear goal of growing and the growth strategy is their main focus in the business. All money earned in the company goes to strategic investments with the aim to grow. Since the start the company has grown rapidly but the entrepreneurial spirit is still there, and the drive for growth is in the company culture according to the respondent. The firm has almost had a 50% increase of the turnover each year between the year of 2007 and 2009, and the average number of employees has reduplicated. Going back to the year of 2005 and studying a five year period of time the turnover has increased by 400% and the number of employees by 450%. The respondent state that the people in the organization are committed to their growth strategy and there is a spirit of competition characterizing their company culture which makes everyone wanting to perform on top. The growth has led to a need for standardization and the management control is affected.

#### **4.3.1 Formal control tools**

##### ***Planning – to control quick changes***

At Company C the planning consists of a traditional budgeting process to set the goals for one year ahead, and a monthly follow up process in which some specific KPI are important. The most significant KPI is the before-tax profit, which they follow up on a daily basis together with the sales figures which are compared to the budget. They also follow the sales figures of specific products to see which products they are selling most of; hence the sales volume is of great importance to control. Another significant KPI is the personnel cost which Company C follow up regularly. It is important to control the personnel costs so they can plan the employees' working hours.

Based on some given goals the responsible manager for each unit set their own budget and reports it to the responsible manager for the region that unit belongs to. The region manager reports the budget to the finance department at the head office; hence the company uses a bottom up budgeting process. The forecasting in Company C is done in the short term, in contrast to the one year budget which is long term. They produce forecasts on a monthly basis and the figures are depending on the results from the past months. As the firm has become larger there is a need for standardized routine descriptions of how to do things, which they are working on to develop. Because if they switch responsibilities or switch employees at different positions, it has to be clear how tasks should be handled. If not, there is a risk of spending time on solving problems instead of focusing the important work.

##### ***Decision making and responsibility – Who does what?***

In Company C they have developed and are continuing to develop a standardized way of making decisions, which is based on making the decisions at different hierarchical levels of the organization depending on the matter. Though the decision making process today has rests from the beginning of the firm's history. At that time they were only four people working together; the two owners and two employees which imply that there was no need for any formal process. The

practice is still to have fast ways of decision even if the organization has become larger since then and needs a hierarchal structure. The employees make decision in those areas they are responsible for, or take the problem further to their responsible manager.

The owners of the company are active in the business and that contributes to the fast decision making process, since they on a daily basis are representing the highest level of management. The different levels of management are in steady contact with each other by seeing each other at the office and in regular meetings. They also travel around to visit the different units they are responsible for which also contributes to the ability to make fast decisions. The growth of the company has lead to the fact that there has not been time for formal routines to be implemented all the way, and sometimes the formal process is not followed.

*“In some cases the decisions are, I should not say made in the wrong ways of decision, but they are not made in line with the formal way of the decision process.”*

Respondent C

Even if Company C claims to have a formal way of making decisions, there is a need for flexibility to make fast decisions and the employees can make decisions outside the process when needed. The formal way is based on routines and is said to be characterized by Company C’s trademarks, which are simplicity and clearness. That means that everyone in the organization should know how to handle things in the right way. Although it is hard to make sure that every new employee learns the trademarks and uses them. The respondent claims that everybody should know who they are supposed to turn to with different matters. Therefore it is significant to standardize the decision making process to make it easier and more effective, in order to ease the expanding of the company.

#### ***Product calculation – Calculating for profit***

The formal control tool product calculation is used by Company C at their purchasing department to calculate prizes for their products. If they cannot find the right purchasing prize for a product, which is acceptable considering what Company C’s customers are willing to pay, that product is not included in the product range. Otherwise, they need to modify the product so it becomes cheaper to purchase. The product calculation is an important tool to Company C at a lower level in the company. It is important for the purchasing department to find the right products that are profitable, and in that way know what products they should have in the product range.

#### **4.3.2 Informal control tools**

##### ***Company culture and the entrepreneurial spirit – The core of the success?***

In Company C, which is the largest company in the study, the company culture has changed during the growth. Earlier the founders’ values were easier to transmit into the entire organization but today they are too large and have too many employees for this to be possible. But the way of thinking is said to be the same, even though it is not as obvious as before. The core of the company, like their values of how they are supposed to act in different situations, has been developed as the company has grown. Many of the company’s processes have become standardized and that also includes the culture control in their control package. The company’s values which characterize the company culture are described in a document and every employee

is introduced to them when hired. Those values should be present in every decision the company makes and affect how the employees act in different situations. The points are also taken up for discussions every year when the employees are gathered for regular meetings, just to remind everyone of how important it is that they follow the directions that are set. Company C also has activities in which they mix people from different units, to form a base for discussions and exchange ideas. They claim that it is important for them to have an open discussion about everything concerning their business; nothing is secret between the units or hidden for the employees. Their open-plan office with no doors is a symbol of their way of working; they claim that there is an understanding of each other's work and everyone are informed of what is happening.

In Company C they claim to have an entrepreneurial but also competitive spirit, and a part of their company culture is to have a constant drive. In the firm this is believed to be a consequence from having a growth strategy. In Company C the leaders today are the same family that founded the company. The leaders are very involved in the business and they are seen at the office on a daily basis. Since the leaders are constantly present they are the ones that often have the last saying in matters concerning the business. They also act as role models of how to run the business, since they are working together with the employees as colleagues which affects the company culture positively.

#### **4.3.3 Balancing the control**

Company C feels that they have no other choice than becoming more formalized in their control since they are now a large company. There is a need to control the larger number of employees in the organization to make them work in the same direction, to reach the stated goals of the firm. The company's growth strategy is their base for how they are handling their business and the management control needs to become more formalized to achieve the right performance. The amount of employees and the amount of processes have now reached beyond what can be handled with informal control tools according to the respondent.

The increase of formalization is noticed for example in how the information flows in the company. Earlier when the employees had a question they could always turn to one of the company's founders who were able to give an answer. Today the information must go a decided way since the processes have been formalized, and without this the processes would become too complex. When it comes to the informal control the company has grown so much that they claim that it is impossible to use only this type of control. Therefore the company goes towards a control system where the formal tools have higher weight. They do activities to foster the values within the company culture, to have them as a base for how the employees are supposed to act in their work.

#### **4.4 Company D**

Company D is a staffing company which offers services with specialist competence within selected segments. Since the start of the company a lot has happened and the business has been developed in new directions and expanded into new fields. The average number of employees has more than reduplicated from the year of 2007 until the end of 2009, even though the economic crisis led to a decrease during the year of 2009. When studying the five year period of time between 2005 and 2009 the turnover increased by 150%. The growth strategy is distinct but the company and the industry in general had a hard time during the economic crisis the past years and are just starting to recover. Company D had to reduce the administration which

affected the management control activities. But even now after the crisis they try to stick to the most important factors in their control, which are their planning and their fast decision process. The rapid growth leads to a need for focusing on the most significant activities and the rest is not worth spending time on according to the respondent.

#### 4.4.1 Formal control tools

##### ***Planning – to control quick changes***

In Company D the need for more formal routines has become clear as the organization is getting larger. The respondent states that there is a need to make formal routines of how to handle different situations. They need to have control over their activities and make sure they do what is best for the business to keep growing. Now when the firm has grown and the number of employees is larger, the company needs standardized ways of working so everyone knows how to handle the work tasks.

*“The need to standardize gets stronger because the way we do things now does not work anymore. Right now we spend time on mapping all the processes and flows in all units, and we will produce routine descriptions and link them to each process.”*

Respondent D

When it comes to planning, the budgeting process is in focus in Company D. The respondent claims that the planning is significant in a growing company; hence to have the right focus and to choose the right directions for the business are depending on the planning process. The budget is set for one year ahead and they are following up the figures on a monthly basis. The planning also consists of forecasting and they produce both short and long term forecasts, where the long terms are for three months. The rapid growing context the firm is in makes it significant to have control over what is happening, and what is going to happen in the future. The planning processes help the management to understand how to control that the business is going in the right direction, and also to understand how they should use different control tools in the aim of achieving their goals.

Sales volume and before-tax profit are KPI:s which are central in the planning process, hence the estimation of how many service hours that can be sold and what the gross margin will be is of great importance. These figures are depending on market forces and the company is exposed to risks and therefore sensitive to what happens in the market. The budget is set by a bottom up process where the goals for the different units are developed by the responsible manager. The sales volume and the gross margin are significant but both figures depend on market prizes and are therefore hard to control, the levels of costs are more easily controlled and planned. Company D has a narrow focus on their planning and following up and might therefore miss other important features that need to be controlled. Though, the respondent claims that there is not time to follow up more factors and that this focus is necessary when growing at their pace.

##### ***Decision making and responsibility – Who does what?***

In Company D the decision making process is significant to their successful growth and one of their success factors according to the respondent. The process is based on fast decisions within the organization, and the decision making is decentralized. The responsible manager for one unit makes decisions that concern the business in that unit. The company has managers who are

responsible for a group of employees and those persons work close to them which enables fast decisions. There are few matters in the daily business that have to be solved by the top management; they only need to be involved in decisions of great importance for the business. The decentralization of the decision making should, according to the respondent, make the employees feel trusted, but it can also lead to the fact that they do not know when they should pass a problem further up to the managers.

#### **4.4.2 Informal control tools**

##### ***Company culture and the entrepreneurial spirit – The core of the success?***

In Company D they claim that the company culture is strong in sense of commitment to the company's values and the willingness to work hard for achieving the stated goal of growth. The atmosphere in the head office, where rather few people are working, is characterized by happiness and positivism. The respondent states that they all work together in the same direction to follow their strategy of growth. Every time the company gets a new order they write it on a board on the wall, and the person who got it rings an order bell. That is an example of how they work to foster the positive spirit at the office and celebrate when times are good. They do not have the same system to foster the company culture among the other employees, which is something they want to develop. During bad times it can be hard to hang on to the same spirit even in the office, since there are no occasions to ring the order bell. During the economic crisis it was therefore even more apparent that the company culture in the company is important, since this company suffered great losses but still had a happy atmosphere according to the respondent. It is the employees that together create the atmosphere and all different personalities contribute. The employees are committed to the firm and are therefore working hard to contribute to the success, and this is something that is said to be crucial in the future when the firm wants to grow more. The respondent claims that the firm is characterized by an entrepreneurial spirit which is most noticeable at the management level, the managers who have to find new deals and new ways of solving tasks are very dedicated. They are important to the firm's success because of their drive to perform well and find new business opportunities and the other employees follow in their footsteps.

##### ***Employee activities – Aligning the employees to the company***

In Company D they want to improve their work with activities for the employees, to foster the right spirit as mentioned above. Every unit is supposed to have regular activities with the group of people working in each unit. Since their employees are working as consultants in their customers' businesses, it is of great importance that the firm makes them feel connected to Company D and committed to do a great job and create a good reputation for the company. It is usual that the customers call the same day they are in need of personnel, and Company D therefore requires loyal employees who they can ask to work in short notice. Hence it is important to take good care of the employees and make the employee turnover, which today is quite high, go down. They want the employees to be proud when they come to their workplace wearing the Company D's logo and by improving the activities they believe this could be reached.

The managers have started to have meetings with their employees every month, to discuss their situations and show them that the company cares about them. Company D also states that since they have a high employee turnover they could make savings due to less recruitment costs if the employees were to stay longer in the company. Company D has no formal bonus reward system,



but they have a type of short term bonus at the selling department as a complement to the regular payments. This is to encourage great work and make the employees feel appreciated. But the fact that they do not have any bonuses in other units could be questioned. Hence, the company has different kind of activities to foster the right spirit within the organization, and to make their employees feel connected to the firm.

#### **4.4.3 Balancing the control**

In Company D an increased use of formal management control tools can be seen according to the respondent. They have developed their planning to get better insight of how the business is going and what the future will look like. They have started to standardize their processes, which they need due to the changing environment and the high demands because of the growth. The company states that they believe it is more important to have rules and routines when growing fast to create order in the chaos. The rules and routines make everyone know what to do in different situations and the work tasks are supposed to be easier to handle. The disadvantage of stating rules and routines is that the employees can lose their capacity of being flexible and innovative. According to the respondent the employees have a tendency to step over the boundaries during high growth, and do not follow the stated ways of doing things. That is a sign of the important flexibility needed to response to quick changes in the business. Therefore it is significant that the stated rules are not too tight and rigid according to the respondent.

*"I believe, without knowing, that there is a breakpoint when a company becomes larger and have to implement more and tighter controls."*

Respondent D

The use of more formal control takes its ground in the increase of numbers of employees. When there were only about 15 employees the managers could keep track of everything without any help from control tools. Affairs were done without a proper calculation, and sometimes it worked out fine but other times it did not. Today the company has well developed calculations which they use before any affair is decided on. Yet they do not have requirements on documenting or signing the record, the responsibility is delegated and the employees are trusted to make the right decisions. Hence the formalized processes are developed but not to an extent of the employees being controlled tight in every situation, which in some cases could lead to them making mistakes and do not follow the right way of working. To sum up the company states that the question of balancing between formal and informal management control is nothing that is obvious for a firm. It is a constant consideration about what is best in every situation.

## CHAPTER FIVE – ANALYSIS

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*In this chapter we present our analysis where we relate the empirical findings with earlier research of the subject, presented in the frame of reference. We will analyze the information given to us by the respondents and do comparisons between the four companies.*

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### **5.1 How the rapid growth affects the management control system**

The existence of specific characteristics of rapid growth companies, presented in the frame of reference (see e.g. St-Jean et al. 2008; Wiklund 1997), is prominent in the empirical findings of this study. The characteristics are factors which influence the management control systems and hence the shape of the system that the companies have chosen since these factors separates them from other firms. The growth phase also affects the shape of the management control system (Greiner 1998) which is seen in this study.

#### **5.1.1 The characteristics of rapid growth companies**

##### ***Adjustment capacity and flexibility***

Both Wiklund (1998) and St-Jean et al. (2008) state that the adjustment capacity and the need for flexibility are important in rapid growth companies. All respondents in the study argue that these factors are crucial to the firms' ability of growing, to be able to make fast decisions and adapt to changes in the environment. According to Davidsson et al. (2001) the companies that make quick responses on changes have competitive advantages. In Company A their decision process is an example of trying to form a base for flexibility. They have no standardized decision process; instead the employees are free to make decisions which encourage fast decisions and adaptation to the specific situation. This is a way of seizing the external opportunities of growth that are given, by making fast decision and reacting in the right way (St-Jean et al. 2008). In Company C they have a more formalized decision process and hence not the same freedom to go around the standardized way of making decisions. But if there is a need for a fast decision they do not follow their stated process. In line with Ahrens (2005) Company C adapt to the situation and make the decision needed relying on their intuition.

Another sign of flexibility is the payment model used by Company A. The respondent described it as a self-controlling tool, to control the costs in the organization by adjusting the costs to the turnover. There is an adjustment capacity which is of great importance to the possibility of adapting to internal changes which is in line with the ideas of St-Jean et al. (2008). Company D does not have the same adjustment capacity due to more fixed costs; they had to reduce the administration personnel during the economic crisis to adapt to the situation. Hence, they had to adapt to the changes in the market, but did not have the same flexibility in controlling their costs.

All four companies have a stated goal to grow, and this is shown by the focus on adjustment capacity and flexibility in their management control. Similarly to St-Jean et al. (2008) this study shows how these factors are needed for the possibility to grow. The businesses are depending on their ability to act fast and work in an ad hoc way, which Company B's way of reporting is an example of. The study shows that all companies stress the need of flexibility and this affects the

shaping of the control package. The respondents claim that this fact makes it harder to use formal control tools in a too large extent.

### ***The leader and the entrepreneurial spirit***

As Wiklund (1997) argues the leader of a rapid growth company is usually entrepreneurial and innovative and has an important role in the strategy for growth. This is also evident in this study, as all the companies stated that the leader has a positive impact on their company culture. In Company C the leaders, who are also the founders of the company, are very involved in the business and are therefore a major success factor according to the respondent which is in line with Wiklund (1997). In Company B the important role of the leader as a factor for growth is characterized by their board of directors. The members of the board are committed to the business and show up at the office several times a month. This is an indication of an entrepreneurial strategic orientation which Wiklund (1998) states as an important factor to enhance growth. The board members acting become a symbol for the commitment to the growth strategy within the organization. The strong leadership is not as obvious in Company D, but there is an entrepreneurial spirit characterizing the management of the firm. The spirit is shown in their drive for selling. In Company A the leader is at the office on a daily basis and is a role model for the other employees. Though, Scott and Bruce (1987) argue that when growing a company cannot be too dependent of their leader's state of mind, instead goals and strategies should run the business. In the four companies they are relying much on their leaders. It could be argued that having a leader involved in many parts of the business, decreases the employees' willingness to take responsibility and make own decisions. In line with the work of Scott and Bruce (1987) all companies in this study work to improve the freedom of making own decisions which is common in rapid growth companies.

### **5.1.2 The growth phases**

The growth phase and the size of the company affect the shape of the management control system in all four companies, which is in line with Greiner (1998) and Romano and Ratnatunga (1994). All four companies have experienced rapid growth and still do, and they have changed the shape of their management control system to fit the new size of the company. According to Greiner (1998) a company goes through phases of revolution and evolution when growing. In this study all companies experience revolutions with regard to the growth which forces them to evolve their management control system.

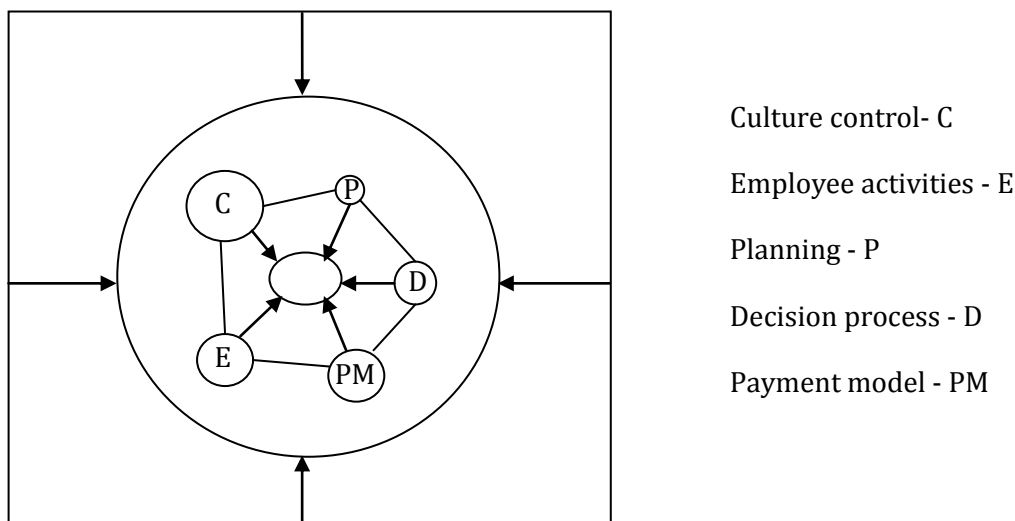
According to Greiner (1998) the coordination and communication become more important when an organization grows and becomes larger, as a result of the increase in numbers of employees. That can be related to the increased use of formal control tools in the companies, which have been seen to some extent in all of them. Romano and Ratnatunga (1994) also argue that the formal tools get more important as a firm grows. They state that in the third stage of growth, where the firm has become large, the formal control is of great importance. Company C's development of their formal control is an example of that.

## **5.2 The control packages of growing companies**

In line with Langfield-Smith (1997) the companies' shaping of the management control system depends on firm specific factors and the shape differ due to the companies' size, age, number of employees and industry. Similarly to Macintosh and Quattrone (2010) the internal relationship within the companies in this study makes them all different. In the section below an analysis of each company's control package by using Nilsson's (2010) model will be done, which shows the

control package's structure and how the features are connected. As Nilsson (2010) describes the balancing of the control package can be seen as an act, to find the right harmonious use of the control tools in each specific situation (Cardinal et al. 2004). The balance in the control package can also be seen in how the tools are used; either tight, loose or both (Merchant and Van der Stede 2007). According to Nilsson (2010) there is no ultimate balance state which is right at all times; instead it is an ever changing balancing act to adapt to the external and internal environment. This study shows that the companies have different balances due to their specific situational requirements due to internal and external changes.

### 5.2.1 Company A

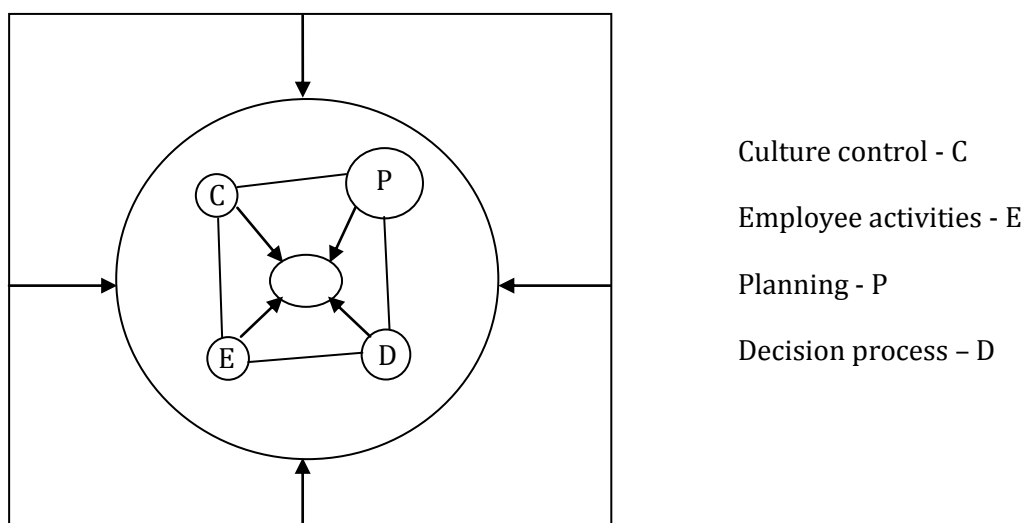


In Company A the informal control tools have more weight than the formal. Even if formal control is needed to some extent, they want to hold on to the entrepreneurial spirit that has been in the company since the start. They only use the formal control if really needed; instead they rely on the informal control to be the best way to enhance flexibility and foster the right spirit which is similarly to St-Jean et al. (2008). Hence, there is coherence between the informal control tools in the control package. The culture control is one of their success factors and therefore it has a large weight in the control package. Since Company A is the smallest firm in the study, this is in line with Cardinal et al. (2004) who argue that it is common that the company culture is prominent in the beginning of growth. The employee activities are also of great importance to make the employees committed and performing on top, which is in line with Langfield-Smith (1997) who argues that the activities make the employees feel appreciated and therefore perform better. The payment model is the control tool which has most weight of the formal control in Company A's control package. Both the planning and the decision process have less weight which depends on the low requirements from the parent company. The firm has not experienced a large increase of formal control tools when growing which is the opposite of what many earlier research state (see e.g. Cardinal et al. 2004; Davila and Foster 2010).

In Company A they use loose formal control to a large extent which should be more appropriate to make the employees not feeling trapped, and therefore perform a better work in line with Merchant and Van der Stede (2007). The successful growth during a long period of time has led to lesser need for tight formal control; instead they try to hold on to the flexibility which has been significant to their success. As Adler and Chen (2011) state, there is a need for coordination

and therefore formal control, but it can be used in a loose way. Planning and the decision making process are examples of loose formal control tools in Company A. The processes are not documented and a sense of freedom is present in the firm. Company A claim that the payment model gives freedom and flexibility, they think of it as a loose control tool. However it could be seen as a tight formal control tool due to the high demands and the pressure it puts on the employees to reach the company's goals (Merchant and Van der Stede 2007). Merchant and Van der Stede (2007) argues that the tools affecting the employees to reach the goals are used tight, consequently the culture control and the employee activities are tight in Company A.

### 5.2.2 Company B

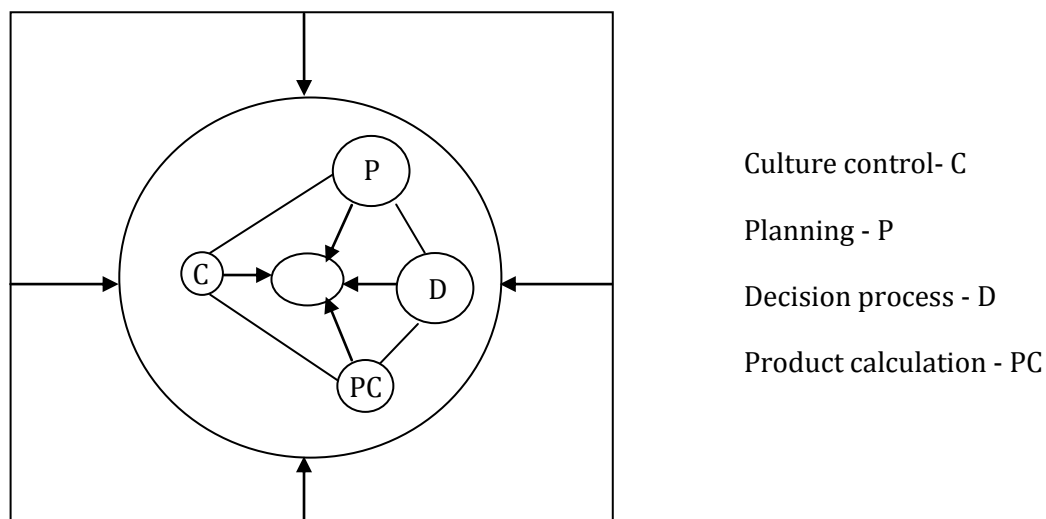


In Company B the formal control tools have more weight than the informal due to the increased standardization of processes. This is similar to what Flamholtz (1996) argues since the firm has increased the numbers of employees and therefore the need for coordination has increased. The planning is the formal control tool with most weight in the control package followed by the decision process. The company state that the company culture is built into the foundation but that there has been change during the recent years of growth. Therefore the culture control has little weight in the control package which is a similar development to what was seen in the study by Davila and Foster (2010). Employee activities are performed regularly to strengthen the spirit in the company but do not have much weight relative to the formal control tools in the control package.

In line with Davila and Foster (2010) Company B is formalizing their decision process into different hierarchical levels of responsibility, since the firm has become larger. But when a fast decision is needed they can go around the formalized process which indicates that the decision process is used in a loose way in accordance to Merchant and Van der Stede (2007). The planning and especially the follow ups are used in a tight way and the management of the company wants to make this process even tighter. The reason for this could be that the management wants to make sure that the company reaches their goal if Merchant and Van der Stede's (2007) ideas are followed. That the firm uses the formal control tools both loose and tight is similar to what Adler and Chen (2011) argue, namely that it is important to use formal control to coordinate many employees but that the control can still be used in an loose way to

enhance creativity. The need for creativity is also seen in the company's use of ad hoc work. The informal control tools in the company are used loose since these tools cannot alone control the employees towards the goals, but they help in the creation of an entrepreneurial spirit which is similar to Whitley's (1999) description of informal control.

### 5.2.3 Company C

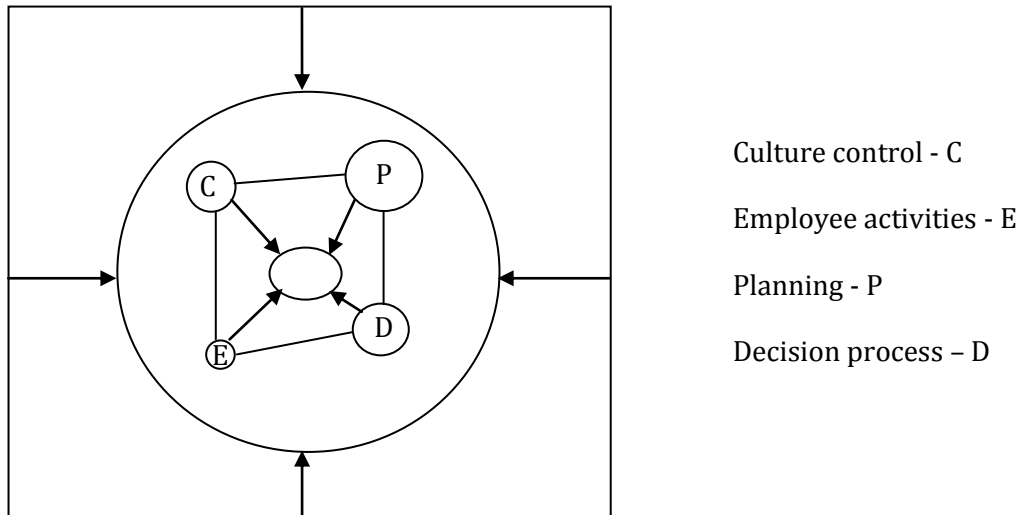


Company C is the largest company in this study and they have developed their control package to exist of more formal control tools which they argue is needed due to the growth of the organization. In the study by Cardinal et al. (2004) the company replaced all of their informal control tools with formal control tools when becoming larger, but that is not the case in Company C. When a company grows more formalized control is needed (Davila and Foster 2010; Scott and Bruce 1987; Cardinal et al. 2004) and in Company C they rely much on the planning and the decision process. Therefore the formal control tools have most weight in the control package which is seen in the model. The decision process is being standardized and as a result the structure of the company has become more hierarchal which is in line with the study of Cardinal et al. (2004). The planning is important to Company C and they have some KPI numbers that they continuously follow up, some on a daily basis which leads to the high weight in the control package. The product calculation is also of great weight in the control package due to the follow up on every product. According to Cardinal et al. (2004) a company's culture might fade with the growth. Even though Company C wants to hold on the company culture they have built up, the culture control has less weight in the control package and the culture has faded during the period of growth.

The formal control tools have become significant during the last years, and are used in a tight way in accordance with Merchant and Van der Stede (2007). According to Adler and Chen (2011) this can decrease the creativity in the company. Even though the decision process is used in a tight way the company stresses the importance of flexibility when fast decision is needed. The planning is also a tight control tool which is shown by the continuously follow up and the standardized way of reporting. Company C's company culture has changed but they argue that it is built into the foundation, which is in line with Langfield-Smith (1997). They communicate the

values to the employees by a document but do not work in other ways to enhance the company culture, which is why the culture control is seen as a loose control tool.

#### 5.2.4 Company D



In Company D the weight of formal and informal control tools is rather equal, but the formal tools are getting more weight due to the standardization. The firm has just started their process of formalizing the management control system since they have grown to the point where this is necessary (Davila and Foster 2010; Scott and Bruce 1987; Cardinal et al. 2004). Even though the firm has increased their use of formal control tools, they still rely on the informal control tools to foster the right spirit within the organization. The company culture is claimed to be a success factor and this fact became even more apparent during the economic crisis in 2009. Therefore the culture control has great weight in the control package. During the years of crisis the employee activities have not been many in Company D and the control tool has less weight, but this is something they want to improve. According to Langfield-Smith (1997) that would make the employees feel appreciated and therefore perform better. The aim is also to get the employees committed to the company and to foster the right spirit among all people in the organization.

Company D uses the formal control tools as loose management control tools (Merchant and Van der Stede 2007) to a large extent. The planning is though used in a tighter way than the decision process, which they think is needed to control that the business is going in the right direction. This is in line with Davila and Foster (2010) who argue that the first formal management control tools that are implemented in a company are the ones included in the planning system. In Company D the decision process works as a loose control tool and the decisions can be made fast. The process is becoming more standardized but to have short ways of decision they need to keep it simple. Scott and Bruce (1987) argue that growing companies need to decentralize the decision making and give responsibilities to the employees. Similar to that the decision making is decentralized in Company D and the responsible manager or other employees make own decisions. The top managers are not involved if it is not necessary and they claim that this is one of their success factors and something they want to hold on to. Because of the fact that the firm does not perform employee activities more than to a small extent today, this control tool can be

seen to be used in a loose way. They argue that they need to improve their activities to get the wanted results when it comes to commitment and entrepreneurial spirit among the employees; hence they are working on getting this control tool to function as a more tight control. The culture control is used in a loose way when studying the whole organization, because Company D does not have any distinct ways of spreading the company's values among the employees who works at their customers businesses. But in the head office the firm has a more tight culture control because the managers work close together and contribute to spreading the entrepreneurial spirit all the time.

### **5.3 Comparative analysis**

#### **5.3.1 Formal control tools**

All four companies have focus on the planning and the decision process as formal control tools. According to Davila and Foster (2010) the first formal management tools that are implemented in a company are the ones included in the planning system which the budget and the forecasting are good examples of. Sandino (2007) also states that the budget is one of the first management control tools that are implemented when a formalization of the control package is done. The author states that this is one of the basic management control tools and therefore one of the first to be used, which the four companies show evidence of. Collier (2005) argues that formal control tools can be seen as bureaucratic and decrease the employees' creativity. Since all four companies argue that it is important to have an entrepreneurial spirit to be creative, this is something the companies consider when creating a control package with more weight on the formal control tools. The decision process is according to Wiklund (1997) related to flexibility in rapid growth companies. The evidence from this study supports this fact even though the decision process becomes more standardized when growing, which goes against flexibility. Differences in the use of formal control tools have been seen to some extent in the study. According to Nilsson (2010) differences are due to firm specific factors. To exemplify, in Company A the payment model is appropriate since they are a consulting firm and in Company C they use product calculation as a consequent of them being in the retail business. This shows that the industry is a specific situational requirement affecting the management control system.

#### **5.3.2 Informal control tools**

To create a complete control package, informal management tools are needed (Langfield-Smith 1997). According to Ferreira and Otley (2009) it is significant to look at a broad picture of a company to understand the shape of their management control system. They state that the company culture is an important factor which is in line with the findings in this study, where the culture control gets the most attention in the four companies. How the company culture is fostered differentiates between the companies. It is changing and even fading to some extent due to the rapid growth. This is consistent with Cardinal et al. (2004) who claim that the culture is important in the beginning of a firm's life, after which it often lay latent when more formalized tools are implemented as the firm grows. This is confirmed by the culture control having the most weight in Company A's control package and the least weight in Company C's control package. According to Cardinal et al. (2004) the culture control in Company C can be latent and the day it is needed to create the right balance in the control package, it can be taken into use again. Merchant and Van der Stede (2007) question if companies can rely on culture control as the only control tool. According to the respondents this is possible to a large extent until the growth has made the company too large, with too many employees and too many processes, which they have all experienced.



To use culture control is complex, and Macintosh and Quattrone (2010) argue that the relations between all individuals have to be taken into consideration since it affects the company culture. In the study it is shown that the companies handle the individuals differently. Company A works much with employee activities to affect the employees' motivation which is important according to Adler and Chen (2011). This is seen in their control package where the informal tools have the most weight, which differentiates them from the other companies.

### **5.3.3 Balancing the control package**

In line with Merchant and Van der Stede (2007) the four companies use simultaneous tight-loose control. There are different tools that are used tight and loose depending on company. In Company C the formal control tools are used in a tight way but in Company A the informal control tools are used tight. In Company C and D the planning is used in a tight way while the other control tools are used loosely. This is supported by Merchant and Van der Stede (2011) who state that companies can reach a balance in their control package by using some tools in a tight way and others in a loose way.

Four different balances in the companies' control packages due to different mixes of control tools have also been seen in this study. In Company A the informal control tools have more weight while in Company C the formal control tools are dominating. The other two companies have a more equal balance of formal and informal control, even if the formal control has more weight to some extent. In all companies the control tools are related and used in the aim of performing the companies' strategies of growth.

In the study of Cardinal et al. (2004) the company replaced all of their informal control tools with formal tools when becoming larger. This drastic change cannot be seen in any of the four companies even though Company B and C have more weight on the formal control tools in their control package. All four companies agree upon the need for more formal control tools when becoming larger, mostly to be able to control the increased number of employees. But neither of the companies is able to function without the informal control tools and Company A's active work to keep the company culture is an example of how important the firm ranks this type of control. These findings are in line with the findings in the studies by for example; Davila and Foster (2010), Cardinal et al. (2004) and Scott and Bruce (1987).

This study has similarities to the study made by Sandelin (2008). In Company A the management prioritizes the cultural control because tight formal control may prevent the innovation spirit in the organization. Instead of wasting time on planning the management uses their time to promote flexibility which is in line with the first case in Sandelin's (2008) study. Other similarities are that Company A focuses on hiring the right candidates in the aim to hold on to the strong company culture. According to Sandelin (2008) the managers use culture control in the startup phase, and thereafter the formal control gets higher weight due to the growth. This evolvment is seen in Company B and D but they are still using informal control to foster their company culture. The culture has changed due to the growth which means that they need to work hard to hold on to the culture which they had when the organizations were smaller. Company C's control package instead has many similarities with the second case of Sandelin's (2008) study. Company C has evolved from being a small firm with only the founders and two more people working, to become a large organization with several hundred employees. This means that the firm has been through the same development as the firm of the case study and implemented more formal control tools. Similarly to what Sandelin (2008) states about the

design of the control package, Company C has formed their control package based on functional concerns. The company has a need for more tight formal control to coordinate the growing organization. The findings in this study show, in accordance to Sandelin (2008), that the balance in the control package is found by increasing the weight of formal control tools when growing rapidly.

## CHAPTER SIX – CONCLUSIONS AND REFLECTIONS

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*In the final chapter of the thesis we draw conclusions from the analysis of our study and answer the research questions stated in the introduction. The answers to the sub-questions will lead to the final conclusions of the main question. Furthermore, we bring forward suggestions for further research on the subject and we end with our own reflections.*

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In the introduction to this thesis we stated that the aim of the study was to:

*“(...) describe what becomes important when controlling a rapid growth company, and especially what tools are in focus in the control package. Our purpose is also to establish how the companies in the study have balanced their management control system with consideration to the tension between flexibility and formalization.”*

### 6.1 Conclusion

#### 1. How does the growth affect the shape of the management control system?

All four companies in this study have a strategy to grow which is shown in their decisions of how to manage their business, and hence their way of controlling. The study shows that all have the specific characteristics of a rapid growth company. Since the firms are growing they have to keep up with many changes and therefore there is a need for flexibility. This leads to the need of informal control in the management control system. There are changes in the external environment, due to for example the market and the competitors, but also in the internal environment due to factors as the employees and the organizational structure. The need for flexibility is most present in the decision process where fast decision making is important. The leaders of the rapid growth companies in this study are central to their company cultures because of their engagement. They have similar qualities which are shown in how they manage the businesses in the aim of growing. They transfer an entrepreneurial spirit among the employees which is a significant success factor for each company. At the same time the growth is related to larger numbers of employees and also more processes within the business, which increases the need for formalization. Hence the size of the companies affects the possibility to hold on to the flexibility, and the need for more formal control in the management control system increases.

#### 2. How are formal and informal management control shaped in these companies?

In the companies the formal management control tools that are in focus and most meaningful to the companies are; the planning, which consists of budget and forecast, and the decision process. These are traditional formal control tools that are usually the first ones implemented in a company. The informal control tools that are most significant in the companies' management control system are: culture control and employee activities. The companies want to hold on to the informal control as long as possible but they are aware of the fact that more formalized control is needed when growing. Since the companies are in an environment with quick changes they have experienced shortage of time to implement and use many different control tools. They

have rationalized and chose the control tools they find most usable which affects the shape of the management control system.

### *3. How are formal and informal management control balanced in the control package?*

There is no right way to balance the formal and informal control in the control package that lasts over time. The balance is a state which is specific to every phase the company is in and the right balance is affected by many factors, like how large the companies are regarding employees and processes. When becoming larger the balance in the control package is found when using more formal control tools, since this is needed to control the business with more standardized processes. The larger numbers of employees due to the growth increase the need for formalization to control the organization in the right direction. But still there is a need for informal control to outweigh the formal, else wise the entrepreneurial and innovative spirit can fade away. What was found in the study is that even though some control tools were used in all of the companies, they were used in different ways as tight or loose management control. The larger companies in the study have developed tighter formal control than the other because it is needed. All companies are trying to hold on to the informal control but it gets harder the larger the companies become. Hence the formal control becomes tighter and the informal control looser due to the growth. The study shows that all companies works actively with the balance to adapt to the changing environment.

### *How do successful rapid growth companies shape their management control system?*

The answers to the above three sub-questions make it possible to respond the main research question. Companies that are rapidly growing shape their management control system with consideration to the fact that they are growing and have specific characteristics. An increased use of formal control tools are seen in the companies as the firms grow and they therefore get a higher weight in the control package. At the same time the companies try to hold on to the informal control to support the creativity. The balance of the control package becomes important in order to be able to use both formal and informal control in the management control system. The balance can be seen in the use of the control tools, which can be said to be used in a simultaneous tight-loose way. The balance is decided from every company's specific situation and therefore varies from company to company; hence it is something that the companies consider when shaping their management control system.

## **6.2 Contribution and suggestions for further research**

With this study we have contributed to the research area of rapid growth companies. The study has also contributed to the emerging area in management control system, which handles control in changing environments. We have given a description of how four rapid growth companies shape their management control system, which together with earlier research on the subject strengthens the view of the system's evolvment toward more formal controls as a firm grows.

To keep expanding the area of management control system in rapid growth companies it would be interesting to do the same study but in one company, thereby being able to get an even deeper understanding of why changes occur with connection to the growth. It could also be of interest to perform the study in rapidly growing companies in the same industry since it would ease the comparisons between the companies. If possible this is a subject that could benefit from being studied in a longitudinal perspective since the evolvment of the system would become more apparent. A suggestion is also to study one control tool more in depth and according to us

it would be interesting to investigate the role of the leader since we found this to be an important factor in the companies. The balance of the control package is important to consider in the understanding of how a management control system develops. The companies in this study acted to shape the right balance for specific situations. It would be of interest to only have focus on the balancing act in companies that are active in fast changing environments. The balance of the control package could also be studied through the use of other references, for example Merchant and Van der Stede's (2007) models of control.

### **6.3 Own reflections**

During the months we have performed this study many thoughts about the approach have been raised. We are aware that our conclusions from the study of four rapid growth companies are not generalizable. We also realize that the picture we have presented of each company comes from one source and it might not be the same if another person were asked. The picture presented is positive and there can be negative sides in the companies' management control systems that the respondents left out during the interviews. Even though we are pleased with the respondents and the answers they gave, interviews with employees at different levels in the companies would have contributed to a better overall picture.

Our study deals with two areas, namely rapid growth companies and management control system, and these two areas affect each other. The rapid growth companies need to consider the growth context when forming their management control. The management control system in turn affects the possibility to foster growth in the companies. In the study we have not taken the latter aspect into consideration, because there are many other factors affecting the possibility for a company to become a successful rapid growth company. For example there are industry specific factors that influence as well as different personal experiences of the people working at the companies. Therefore it is misleading to draw conclusions of how great the effect of the management control systems is. Instead we have focused on how the rapid growth companies characteristics, and also the rapid growth context, affect the shape of the management control system.

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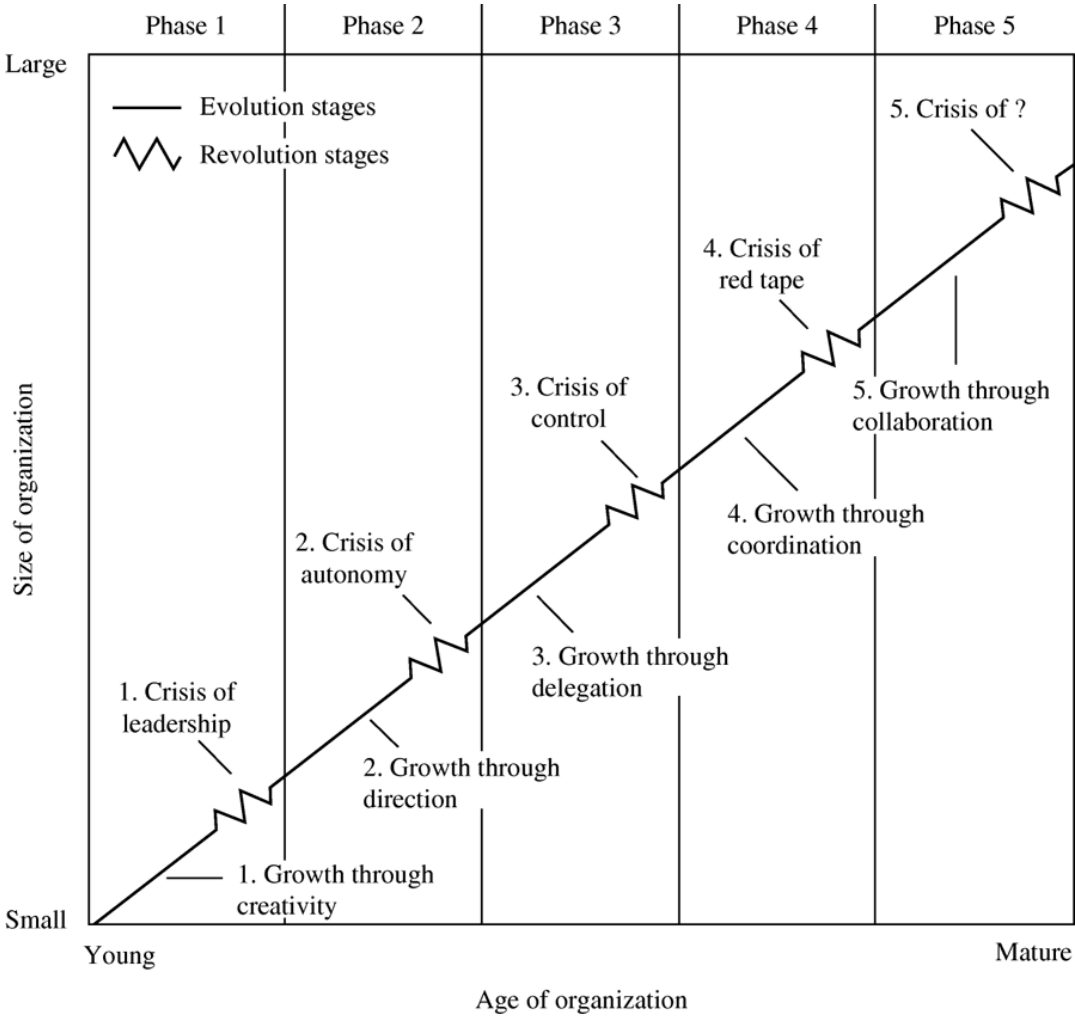
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### **Verbal sources**

- Interview with the CFO of Company A (2011-03-14)
- Interview with the Accountant manager and the Financial Specialist of Company B (2011-03-15)
- Interview with the Accountant manager of Company C (2011-03-16)
- Interview with the CFO of Company D (2011-03-17)



**Exhibit 1**



*Greiner 1998*

## Exhibit 2

### Presentation of the respondents

Company	Respondent	Position	Gender
A	1	CFO	Woman
B	2	Accountant manager	Woman
B	3	Financial specialist	Woman
C	4	Accountant manager	Woman
D	5	CFO	Man

## Exhibit 3

### Interview guide

General questions:

- Description of the company.
  - Do you have a distinct growth strategy?
- Description of your work/your work tasks.

Questions:

- What management control tools are most important to the company in the daily business?
  - What do you think are the company's success factors?
  - What is the focus in your use of management control tools?
- How do you use management control in your daily business to reach the goals you have for the business?
- How do you use formal management control in the daily business?
  - Why? Aim/goal?
  - How do you use it?
  - What are the advantages/disadvantages in relation to the growth?
- How do you use informal management control in the daily business?
  - Why? Aim/goal?
  - How do you use it?
  - What are the advantages/disadvantages in relation to the growth?
- How is the formal and informal management control tools balanced?
- In what way does the organization get affected/who are affected in the organization?
  - Who are using the different control tools in the daily business?
  - How do they use the control tools?
- How does your rapid growth affect your use of management control?
  - Do some control tools become more important than others?
  - Do you need to rationalize the control tools due to the high tempo?
- How has the use of management control developed?
  - Has the management control changed during the growth?