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MANAGEMENT CONTROL SYSTEMS DURING EARLY LIFE CYCLE PHASES

A case study in the social and healthcare services sector

Master's Thesis
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Spring 2017

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Abstract of master's thesis

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Title of thesis Management control systems during early life cycle phases – a case study in the social and healthcare services sector

Degree Master of Science in Economics and Business Administration

Degree programme Accounting

Thesis advisor(s) Hanna Silvola

Year of approval 2017 **Number of pages** 75 **Language** English

Abstract

OBJECTIVES OF THE STUDY

The objective of this study is to investigate how and why an organization's management control systems (MCS) package evolves during the birth and growth life cycle phases. As an organization grows, its administrative task becomes greater, and thus its control needs are expected to increase. This thesis will provide a holistic view of the changes in each element of the MCS package while also examining their interdependence. It will employ a life cycle perspective to capture the dynamic nature of organizational life.

DATA AND METHODOLOGY

The research was conducted as a case study using a single case company in the Finnish social and healthcare services sector. A qualitative approach was selected because of the high level of depth required to satisfactorily meet the objectives of the study. While some aspects of the MCS package can easily be identified, others can be more difficult to uncover. The main sources of data were 12 interviews supplemented with participant observation.

RESULTS

During the birth phase, the MCS package was found to be centered on clan and value-based controls, which benefited from the CEO's regular interaction with all levels of the organization. Administrative controls served as the foundation for the use of these controls by providing a low organizational structure and a personal style of governance. Rudimentary financial measures were present to ensure the newly founded company's financial viability. As the company entered the growth phase, the CEO's interaction with the grassroots level slowly diminished, and clan control became less effective. With the introduction of venture capital, cybernetic controls were heavily upgraded to become the new mainstay of the MCS package. Planning controls were also developed as financial goals had to be translated into strategic and operating plans. Changes in administrative controls, including the formalization of the company's governance structure and a more vertical organizational structure, were pivotal to the changes identified in the other MCS elements.

Keywords management control systems, social services, healthcare services, organizational life cycle

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Työn nimi Johdon ohjausjärjestelmät varhaisissa yrityksen elinkaaren vaiheissa – tapaustutkimus sosiaali- ja terveyspalvelualalla

Tutkinto Kauppatieteiden maisterin tutkinto

Koulutusohjelma Laskentatoimi

Työn ohjaaja(t) Hanna Silvola

Hyväksymisvuosi 2017 **Sivumäärä** 75 **Kieli** Englanti

Tiivistelmä

TUTKIMUKSEN TAVOITTEET

Tutkielman tavoitteena on selvittää miten ja miksi yrityksen johdon ohjausjärjestelmien paketti kehittyy sen elinkaaren synty- ja kasvuvaiheissa. Yrityksen kasvaessa sen hallinnollinen tehtävä kasvaa, joten myös sen kontrollitarpeiden odotetaan lisääntyvän. Tutkielma tarjoaa kokonaisvaltaisen kuvan jokaisen johdon ohjausjärjestelmien paketin osan muutoksista, huomioiden samalla niiden välisen vuorovaikutteisuuden. Tutkielmassa hyödynnetään yrityksen elinkaariajattelua apuna yrityksen arjen dynaamisen luonteen käsittelyssä.

LÄHDEAINEISTO JA METODOLOGIA

Tutkimus toteutettiin tapaustutkimuksena käyttäen yhtä kohdeyritystä Suomen sosiaali- ja terveyspalvelualalla. Kvalitatiivinen lähestymistapa valittiin koska tutkielman tavoitteiden saavuttaminen edellyttää syvällistä tutkimusta. Osa johdon ohjausjärjestelmien paketin kontrolleista on kenties helposti tunnistettavissa, kun taas toiset voivat olla vaikeampia havaita. Pääasialliset tietolähteet ovat 12 haastattelua täydennettynä kohdeyrityksessä tapahtuneella havainnoinnilla.

TUTKIMUSTULOKSET

Syntyvaiheen aikana johdon ohjausjärjestelmien paketin havaittiin pohjautuneen pitkälti klaani- ja arvoperusteisiin kontrolleihin, mitkä hyötyivät yrityksen toimitusjohtajan päivittäisestä läsnäolosta yrityksen hierarkian kaikilla tasoilla. Hallinnolliset kontrollit toimivat näiden kontrollien perusteena tarjoamalla matalan organisaatiorakenteen ja henkilökohtaisen hallintotavan. Yrityksen siirtyessä kasvuvaiheeseen toimitusjohtajan vuorovaikutus ruohonjuuritasolla väheni ja klaanikontrollien tehokkuus heikentyi. Yrityksen hankittua ulkopuolista omaa pääomaa, kyberneettisiä kontrolleja kehitettiin huomattavasti ja ne siirtyivät yrityksen johdon ohjausjärjestelmien paketin keskiöön. Suunnittelukontrollit kehittyivät myös, koska taloudelliset tavoitteet oli muutettava strategisiksi ja operatiivisiksi suunnitelmiksi. Hallinnollisissa kontrolleissa tapahtuvat muutokset, mukaan lukien yrityksen hallinnon virallistumisen ja organisaatiorakenteen pystysuuntaisen kasvun, olivat avainasemassa muiden kontrollien muutoksissa.

Avainsanat Johdon ohjausjärjestelmät, sosiaalipalvelut, terveyspalvelut, yrityksen elinkaari

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1. Introduction

Organizations consist of groups of people working together towards common goals. Managers need to ensure that the behavior of subordinates is beneficial to the organization so that these goals are attained. Management control systems (MCS) are various tools that managers can use for this purpose. The interdependency between various MCS has been identified by numerous researchers, and because of this, it is often recommended that MCS should be studied as a package (Ferreira and Otley 2009, Malmi and Brown 2008, Flamholtz 1983, Otley 1980). Despite this, many studies have only focused on parts of the MCS package, or on individual elements, such as budgeting, in isolation (Bedford and Malmi 2015, Chenhall 2003, Dent 1990). This may be due to the fact that the data required to study an entire MCS package can be very extensive and thus difficult to gather and analyze (Ferreira and Otley 2009), particularly because the various interdependencies between control elements can be difficult to determine through, for example, surveys (Malmi and Brown 2008). The problem with this is that it can potentially lead to conflicting results (Chenhall 2003). For example, in some cases budgeting might work very well as a control mechanism, and in others, it might produce unwanted behavior due to different underlying cultural controls.

In the field of management accounting, researchers often assume a level of stability in the organizations they study and only focus on the studied phenomenon at a particular point in the life cycle of the organization (Merchant 2012). However, it is common for organizations to face both external and internal changes, and it could be argued that it is especially in these situations that organizations would require guidance from researchers or consultants as to how to best adapt to these changes. One challenge with taking into account the dynamic nature of organizations and their environments is that it increases the complexity of the study. The dynamic nature of organizations has been modeled in various life cycle models, which are based on the recognition that the various characteristics of organizations (size, age, strategy, etc.) often follow specific patterns so that it is possible to classify organizations into various life cycle phases (Moores and Yuen 2001, Miller and Friesen 1984, Quinn and Cameron 1983).

There have been a few exploratory studies in which the importance and usefulness of combining life cycle models with MCS studies has been noted. Granlund and Taipaleenmäki (2005) studied management control systems in new economy firms. Their findings suggest that in these companies, time pressures within organizations cause planning to be prioritized over

control. Organizations tend to develop their MCS mainly in response to expectations from venture capitalists and later on from stock market players. Davila (2005) also studied MCS from a life cycle perspective, but only focused on the human resource function. His study indicates that in human resources, size, age, venture capital, and the replacement of the original founder by a new CEO all have a positive impact on the emergence of more formal MCS.

There is a definite need for more in-depth studies on how MCS change over an organization's life cycle. In particular, the view of MCS as a package and the developments in individual elements as well as their interdependency, have not yet been studied. For practitioners, this is an important topic. Various elements of MCS inevitably affect each other, so any new MCS that are added should be considered against the background of existing ones (Sandino 2007). Because of this, it would be helpful if the forthcoming requirements for MCS could be anticipated in the earlier MCS packages of organizations. This thesis will seek to address this gap in research by using the MCS package framework by Malmi and Brown (2008) and combining it with the model of an organization's life cycle by Miller and Friesen (1984), where an organization's life cycle is divided into five different phases: birth, growth, maturity, revival, and decline. The research question that will be addressed is:

> *"How and why does an organization's MCS package change during the birth and growth phases of its life cycle?"*

The study will focus on a single case company to provide an in-depth investigation of the changes in each element of the MCS package as well as their interdependency at different phases of the organization's life cycle. The case company is currently in the growth phase, so the empirical research will focus on how and why the case company's MCS package has evolved from birth to growth, and what the pressures are to changing it that the company is facing.

The case company operates in the social and healthcare services industries in Finland. While there are many previous studies in accounting literature of companies in the healthcare industry, the social services industry has largely been ignored. There are some notable differences between organizations in the healthcare industry, such as hospitals, and the case company of this thesis. For example, social services require less physical assets and have lower

educational requirements for employees. Thus, this study will potentially indicate some of the unique features of the social services industry, and how they affect the case company's MCS package.

The focus of this study will be on systems used for controlling purposes. Systems that are designed purely for decision-making will be excluded. Those systems that are used for both decision-making and control purposes will be included in the study.

The rest of this study is organized as follows. Chapter two will provide a review of the literature on MCS, and the social and healthcare service industries. Life cycle theories are presented in chapter three, along with existing research that combines life cycle literature with MCS frameworks. Chapter four presents the methodology employed in this thesis. Chapter five includes a description of the case company to provide context for this study as well as the actual empirical findings relating to the case company's MCS package. These findings are discussed in chapter six in relation to previous literature. Finally, the findings are summarized, their implications discussed, and suggestions for further research offered in chapter seven.

2. Management control systems

This section begins with an explanation of what MCS are, what they are used for, and why they should be thought of as a package. Three frameworks of MCS are presented in detail to show the different approaches to the conceptualization of MCS, and to help understand the studies which are referenced later. Some contingency-based research is presented in section 2.3 to show our current level of understanding of how various contingencies affect MCS. Finally, the characteristics of the social and healthcare services sectors are explored, along with existing accounting research in these industries.

2.1. What are management control systems?

The field of MCS research has long suffered from inconsistent definitions of MCS (Malmi and Brown 2008, Chenhall 2003, Anthony 1965). Simons defined MCS as "the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities" (1995). While this definition applies for the formal MCS, such as budgeting, there is a danger that it overlooks more informal and subtle MCS, such as cultural controls. This thesis will employ a MCS model by Malmi and Brown (2008). To ensure consistency between the model employed and the MCS definition adopted, the definition presented by the same authors will be used. They define management control systems as "those systems, rules, practices, values and other activities management put in place in order to direct employee behavior" (Ibid, 290). When these controls form a system, as opposed to simple rules, they are called MCSs. The benefit of this definition is that it does not rule out informal systems.

A further complication to MCS research is the fact that there are similar terms, such as organizational control and management accounting systems, which are sometimes used interchangeably with MCS (Chenhall 2003). Because of the inconsistency of definitions, it can be difficult to compare studies by different researchers, and some articles have produced conflicting results. This is important to keep in mind when reading MCS studies, and should be considered when comparing the findings of this thesis with other MCS studies. Depending on what is included in the definition, different results might be achieved.

Malmi and Brown (2008) make an important distinction between systems that are used for control and systems that are used purely for decision-making purposes. The latter are excluded

from their definition of MCS. The same practice will be followed in this thesis. Many systems can have a role both in control and in decision-making and will be included. For example, budgeting can be used both to control employee behavior and when making decisions regarding capital expenditures. In addition to identifying the presence of various systems, it will also be important to determine what they are actually used for so that they can be classified correctly.

Traditionally, MCS research has focused on the control employed by top management, however, it has been suggested that this distinction may be somewhat artificial (Langfield-Smith 1997). When we think of the evolution of an organization from the top management's perspective, it is common that an organization is founded, then run by the founder/manager with a few employees, and as the organization grows, the founder/manager moves upward from the line workers in the organizational structure. If we concentrate only on the control systems used by the top management, the changes might be vast. Some control systems may remain with the lower levels of management and the top management will need to employ new systems to maintain control as the organization grows and the distance between the top management and the grassroots level increases.

Individual MCS do not work in isolation, instead they can all affect each other (Malmi and Brown 2008, Langfield-Smith 1997, Flamholtz 1983). For example, budgeting can link strongly to other cybernetic controls, such as targets for non-financial measures or planning. Because of this, it has been recommended that MCS be studied as a package (Malmi and Brown 2008). This means that changes in one MCS can potentially cause changes throughout the MCS package.

Properly designed MCS have been linked with good performance (Merchant and Van der Stede 2012, 5). They can promote goal congruence, which increases the likelihood of goal attainment (Flamholtz *et al.* 2007, 256). If the MCS package is poorly designed, such that it does not support the behavior that is desired, it can be detrimental to performance.

With some MCS elements, particularly those introduced by venture capitalists, it has been noticed that not all controls that officially are in place are actually used (Strauss *et al.* 2013). Thus, when investigating the MCS package of a company, it is important to not only identify systems that are in place, but to also determine if they are actually used. This presents a

difficulty particularly for quantitative studies where in-depth information regarding the actual use of systems is difficult to attain.

2.2. Frameworks

Researchers have presented many frameworks for conceptualizing MCS. There is no consensus on what the best framework is for any given situation. Three frameworks will be discussed below, along with an evaluation of their strengths and weaknesses with respect to the needs of this thesis. MCS represents such a broad subject that selecting a suitable framework is crucial for properly dealing with the subject (Anthony 1965, 1-2).

2.2.1. Levers of control

One of the most popular frameworks of MCS is the levers of control framework by Simons (1995), which is shown in Figure 1. In the framework, MCS are divided into four categories: belief systems, boundary systems, interactive systems and diagnostic systems.

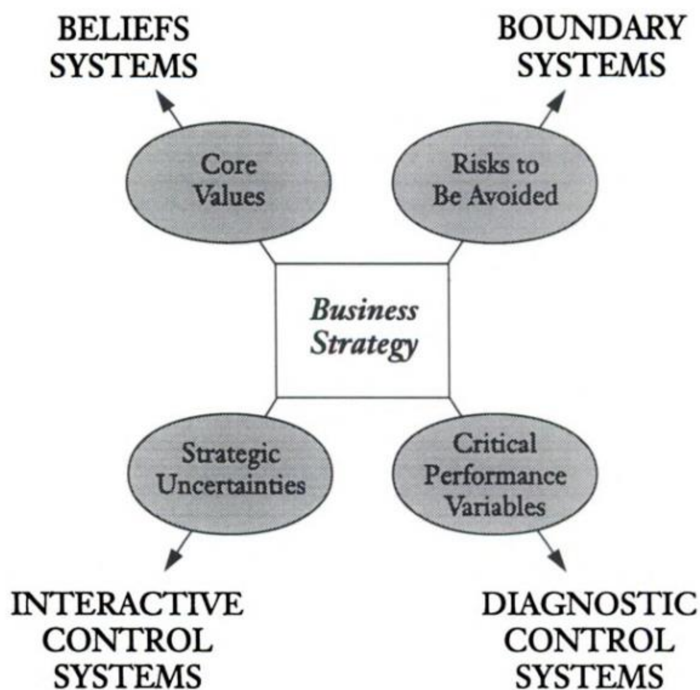

Figure 1. Levers of control (Simons 1995, 5)

Belief systems are the "definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose and direction for the organization" (Simons

1995, 32). Simons lists examples of belief systems as credos, mission statements, and statements of purpose. Belief systems are created through the symbolic use of information, and motivate the search for opportunities to solve problems and create value for the organization. (Simons 1995, 31-34)

Whereas belief systems motivated the search for opportunities, boundary systems restrict that search by defining the appropriate domain for organizational activity. Boundary systems state what subordinates should not do. Although they are stated in a negative manner, they help achieve flexibility and creativity. As long as the boundaries are set and subordinates abide by them, managers can confidently allow subordinates to make decisions on their own without the need for the manager to confirm every decision. An example of this is a minimum rate of return in an asset acquisition system. (Simons 1995, 37-39)

Belief and boundary systems form the foundation for the cybernetic MCS by providing the motivation and allowable domain for organizational search activity. Diagnostic control systems are "the formal information systems that managers use to monitor organizational outcomes and correct deviations from preset standards of performance" (Simons 1995, 57). Profit plans and budgets are examples of common diagnostic systems. (Simons 1995, 59)

Interactive systems are used by managers when they interact with their subordinates and involve themselves in the decision-making process. An interactive system is not a distinct type of control system, rather it arises when a manager chooses to use a control system interactively. For example, profit planning can be merely a diagnostic system where a profit target is set. However, if the manager decides to use it as a framework when discussing with subordinates about changes in the firm's competitive environment and adjust the profit goal accordingly, it becomes an interactive system. (Simons 1995, 93-95)

Interactive and diagnostic systems are used to manage the inevitable tension between freedom to innovate and predictable goal achievement (Simons 1995, 27). Research suggests that the interactive use of performance measurement systems fosters entrepreneurship, innovation and organizational learning, and so it is particularly useful for organizations with high environmental uncertainty, which may result from constant change and intense competition (Henri 2006). Another study of MCS in an information systems development context found that the interactive use of MCS enhanced performance when task uncertainty was high, but was

detrimental to performance when performance task uncertainty was low (Sakka *et al.* 2013). Conversely, the diagnostic use of MCS increased performance when task uncertainty was low. While Simons' framework may be the most widely used MCS framework in previous research, there are some significant drawbacks to it with regards to the needs of this particular study. The definitions of the framework are vague and somewhat ambiguous (Tessier and Otley 2012), so it can be difficult to identify control systems in an empirical setting based on this framework. The division of MCS into just four general categories is quite crude, and as such would limit the possible observation of the emergence of control systems within each of the four levers of control. For example, diagnostic systems could be broken into smaller pieces to allow us to see, which of them emerge first. Simons also explicitly only focuses on formal MCS. Subtler forms of social control are not included in the model's belief systems, yet firms in the beginning of their life cycle may rely heavily on such controls (Collier 2005).

2.2.2. Object of control

Merchant and Van der Stede divide MCS into four categories in their object of control framework. These categories are results control, action control, personnel control, and cultural control. Results control begins with the definition of the dimension in which results are expected, which is important, because if measures are selected for a different dimension than the one whose results actually matter, the effect on behavior may be minimal or even detrimental. Performance within a selected dimension is measured and compared with a previously determined target. Finally, rewards are provided for achieving targets. (Merchant and Van der Stede 2012, 33-35)

Action controls are used by directly controlling what actions subordinates take as opposed to the results to which the actions lead. The use of these controls requires pre-existing knowledge of what actions are desirable and what actions are not. Merchant and Van der Stede further divide these into behavioral constraints, pre-action reviews, action accountability and redundancy. Behavioral constraints directly restrict actions that subordinates can take. Pre-action reviews allow for managers to approve or disapprove actions prior to their undertaking. In action accountability, subordinates are made accountable for their actions and desired actions are rewarded and undesired ones punished. Redundancy increases the capacity of employees or equipment to a task to decrease the probability of capacity deficits. (Merchant and Van der Stede 2012, 81-84)

Personnel controls help to ensure that subordinates behave in a desired manner out of their own initiative. According to the authors, this can be achieved through the selection and placement of employees, their training, and job design and resourcing. Cultural control functions through mutual monitoring, which is based on shared beliefs and values. (Merchant and Van der Stede 2012, 88-90)

While the object of control framework provides more concrete definitions of potential MCS types, the grouping of control elements in the framework is not ideal. Incentives are grouped with result controls, however, the measurement with respect to targets and the rewarding of achievements are two distinct forms of control. It is possible to have just measurements, and it is just as possible to have rewards based not on measurements, but, for example, on contributions to the organizational culture.

2.2.3. Management control systems as a package

Based on an analysis of existing MCS research, Malmi and Brown (2008) have compiled a conceptual framework of MCS as a package, which is shown in Figure 2. The framework divides MCS into five categories: cultural controls, planning, cybernetic controls, administrative controls, and reward and compensation. These are further divided into subcategories. The cultural controls define a contextual frame in which the other controls function. Administrative controls set the structure in which planning, cybernetic controls and reward and compensation are used.

<table>
<tr><th colspan="7">Cultural Controls</th></tr>
<tr><td colspan="2">Clans</td><td colspan="4">Values</td><td>Symbols</td></tr>
<tr><th colspan="2">Planning</th><th colspan="4">Cybernetic controls</th><th rowspan="2">Reward and compensation</th></tr>
<tr><td>Long range planning</td><td>Action Planning</td><td>Budgets</td><td>Financial measurement systems</td><td>Non-Financial Measurement Systems</td><td>Hybrid Measurement Systems</td></tr>
<tr><th colspan="7">Administrative controls</th></tr>
<tr><td colspan="2">Governance structure</td><td colspan="4">Organization structure</td><td>Policies and Procedures</td></tr>
</table>

Figure 2. Management control systems package (Malmi and Brown 2008)

Cultural controls

Cultural controls are divided into clans, values, and symbols. Clan controls function by establishing shared values and beliefs through the use of ceremonies and rituals of the clan (Malmi and Brown 2008). Rituals consist of an organization's traditional ways of doing things and special events, such as company picnics, retirement parties or annual meetings (Flamholtz *et al.* 2007, 310). The term clan control is often used synonymously with the term social control (Langfield-Smith 1997). Clan controls are based on a high commitment from individuals and require them to have a deep understanding of what is considered appropriate behavior, which is achieved by both selecting and socializing individuals so that their objectives are congruent with the organization's (Ouchi 1979).

Value-based controls function on three levels (Malmi and Brown 2008). First, during recruitment individuals whose values are congruent with the organization's values are selected. Second, individuals are socialized and their values change to match the organization's values through the ceremonies and rituals of clan controls. Thirdly, values can be explicated and employees forced to behave in accordance with them. Oftentimes organizations will have an official set of values, which are published, for example on the organization's website. The real set of values which are enforced in the organization through the actions of managers and subordinates can be very different to those publicized to external parties (Flamholtz *et al.* 2007, 17-18). Thus, it is possible, that besides official company values, there are subtler unofficial values, which managers expect subordinates to abide by.

Symbols-based control are those visible expressions which an organization displays to develop a particular type of culture (Malmi and Brown 2008). Examples include an open office design, which can promote open communication, and dress codes, which can promote a higher degree of formality in behavior. Symbols can also be tied to reward and compensation. In a case described by Flamholtz and Randle (2007, 309), an organization had a tradition of awarding a special coffee cup for one month's usage for exceptionally good performance. Although such a reward may seem trivial to an outsider, it became very important in the company because of what it symbolized.

Administrative controls

Administrative controls consist of governance structure, organization structure, and policies and procedures. Governance structure describes how an organization is governed based on

formal lines of authority and accountability. It includes the board structure and composition, as well as management and project teams. Associated with these are any meetings and their schedules, which serve to create deadlines. (Malmi and Brown 2008)

Organization structure serves as a control by encouraging certain types of contact and relationships (Malmi and Brown 2008). Aspects of organizational structure, which contribute to control include the degree of centralization or decentralization, functional specialization, the degree of vertical or horizontal integration, and the span of control (Flamholtz 1983). Policies and procedures are a traditional bureaucratic form of control, where the expected behavior of subordinates is explicated.

Planning

Planning controls set out goals and provide standards which need to be achieved in relation to the goals. Also, if subordinates are involved in the planning process, they are more likely to buy into the plans and execute them. Planning is divided into long-range and action planning. Action planning refers to short-term plans, usually under 12 months, with a tactical focus. Long-range planning includes plans for the medium and long run, with a more strategic focus. (Malmi and Brown 2008)

Most people in organizations practice some kind of planning. An important distinction can be made between line workers planning their own actions and top management planning the actions of subordinates (Anthony 1965, 11). It is the latter that has the potential to be used for control purposes. Planning controls are often tightly linked with cybernetic controls where, for example, budgets are made based on plans to serve as performance targets (Merchant and Van der Stede 2012, 306). Properly designed plans assign responsibility and accountability for these targets.

Cybernetic controls

Cybernetic controls are feedback loops where targets are set, performance is measured and compared against the targets, and deviances are identified and fixed (Hofstede 1978). Malmi and Brown (2008) divide cybernetic controls into four categories: budgets, financial measurement systems, nonfinancial measurement systems, and hybrid measurement systems.

Budgets are used by the vast majority of organizations (Ekholm and Wallin 2000) and often form an integral part of their MCS package (Malmi and Brown 2008). They can serve a variety of purposes, such as evaluation, planning, and control (Sivabalan *et al.* 2009). As a control mechanism, a budget sets financial targets for sales and costs, which can be used when evaluating actual performance (Malmi and Brown 2008). In many organizations budgets are one of the earliest forms of formal MCS to emerge (Davila and Foster 2007).

Budgets have also attained substantial criticism, which has prompted some researchers to suggest abandoning budgeting in favor of other tools in what has been labeled as beyond budgeting (Hope and Fraser 2003). Much of the criticism is focused toward the use of budgets for performance evaluation and rewards based on this evaluation (Sivabalan *et al.* 2009). This is because if employees know their bonuses are tied to the budget, they may attempt to make the targets easier to meet. Another potential problem with the annual budget is that it becomes outdated too fast, and because of this, some companies have moved to rolling budgets that are updated every few months (Myers 2001).

In addition to budgets, organizations can have individual financial measures for which employees are held accountable, such as return on investment and economic value added, as well as nonfinancial measures, such as capacity utilization or customer satisfaction. It is also possible to use hybrid measurement systems, such as the balanced scorecard, which contain both financial and non-financial measures. (Malmi and Brown 2008)

Reward and compensation controls

Reward and compensation controls are often linked to cybernetic controls such that when individuals or groups within the organization meet the targets that have been set, they receive some kind of reward (Malmi and Brown 2008). The promise of a reward motivates employees to work harder to achieve targets, and receiving rewards can reinforce particular behavior (Flamholtz *et al.* 1985). Rewards can be classified as extrinsic or intrinsic, where extrinsic rewards are rewards that are visible to others, such as promotions or bonuses, and intrinsic rewards are those that are directly associated with doing the job, such as doing meaningful work (Mottaz 1985). For rewards to serve as an effective control, they must be perceived by employees as being linked to performance, and they must be valued by employees (Flamholtz *et al.* 1985). Through the link with performance, a distinction can be made between a regular

salary and a reward that is used for control purposes (Merchant and Van der Stede 2012, 367-368).

In comparison with the other frameworks presented here, this framework is both broader and more explicitly defined. For example, the diagnostic controls of Simons are broken into four subgroups under cybernetic controls. It includes organizational and governance structure controls, which are omitted in the Levers of Control and the Object of Control frameworks. The selection of the MCS model significantly impacts the results of this study. There is a significant chance that controls, which are not included in the model selected, are not noticed in the empirical portion of the study, and even if they are, might be overlooked. Thus, it is important to select a framework that provides a broad enough selection of MCS so that a holistic view of the package is achieved. At the same time, the framework needs to have clear definitions of each MCS element, with enough specificity, so that it is known in the empirical part what to look for, and what is found can be identified and classified correctly.

Based on this selection criteria, Malmi and Brown's model was selected to be used in this thesis. Since it is based on an analysis of previous frameworks, including the Levers of Control and Object of Control frameworks, it is likely that the authors have not accidentally overlooked major components of MCS. It is also a comparatively broad framework, which decreases the threat of model under specification (Lueg and Radlach 2016). The elements of this framework are defined sufficiently clearly and with enough specificity to allow for empirical investigation.

2.3. Contingency-based research on management control systems

Contingency-based research is grounded on the notion that something is true only under specific conditions (Chenhall 2003). There have been many studies on various contingencies and their relation to MCS. As an organization progresses through different life cycle phases, many contingencies, such as size, organizational structure and competitive environment, are expected to change. From the birth phase to the growth phase, an organization is expected to grow in size, its growth rate will be at a high level, the external environment will begin to become more competitive, and the organizational structure will become more complicated by growing both horizontally and vertically (Miller and Friesen 1984).

While most MCS research has only studied large organizations (Chenhall 2003), size has been found to be a key driver in the formalization of MCS (Davila 2005). As an organization grows, its administrative task becomes more complex and more sophisticated systems are needed. An administrative style of control comprising of more sophisticated technologies, formalized procedures, and task specialization appear to be associated with larger firms while smaller firms seem to have a more personal style of control including increased interaction between superiors and subordinates (Bruns and Waterhouse 1975).

Functional differentiation appears to correlate with greater importance placed on meeting budgets, more formal budget communication patterns, and greater manager participation in budgeting activities (Merchant 1984). Research indicates that increased competition correlates with more sophisticated MCS, perhaps because under greater competition there is a stronger need to ensure that behavior within the organization meets expectations (Khandwalla 1972). Competition also seems to lead to a stronger emphasis on budgets (Otley 1978). Merchant and Van der Stede (2012, 686) argue that action controls are difficult to use when environmental uncertainty is high, because in such situations it is difficult to define desirable actions.

Based on contingency-based MCS research, it appears that size, functional differentiation, and external competition correlate with more sophisticated MCS. However, whether any of these are the cause of the observed changes remains unknown. Based on life cycle theory, it is expected that all three would change simultaneously, so it would be difficult to make a clear distinction about the cause of the changes observed.

2.4. The social and healthcare services sector

The healthcare industry is generally focused on the treatment of patients. The social services industry, on the other hand, is more focused toward providing assistance in daily activities for those in need. It includes residential care for the disabled, the elderly, and those suffering from mental health or drug-abuse problems. The required level of education for employees is generally lower in social care. Healthcare facilities require doctors and nurses, whereas social care facilities use mostly practical nurses. The social services industry in Finland has recently been undergoing significant consolidation. Previously, there were many small companies in the industry, many of which owned just one care home. Recently however, a few large national and international companies have been acquiring others and increasing their market share.

The social services industry has received very limited attention in accounting research. Part of the reason could be that in different countries these services are organized differently with varying amounts of privatization. They can be offered publicly, privately, or privately owned companies can offer services to the public sector, who provide them to customers. The healthcare industry has received slightly more attention.

A study of small and medium sized private healthcare providers in Australia found that budget use correlated with the organization's size, a decentralized structure, a cost leadership strategy, and was negatively associated with dynamism (King *et al.* 2010). A significant portion of the sample did not use written budgets; the authors speculate that this is because these businesses have traditionally been managed by the owner doctors, who lack formal training in MCS. Additionally, they point out that service sector organizations do not need to account for stock, which eliminates one key driver for the use of more sophisticated MCS.

Many countries today face aging populations, which causes increasing cost pressures on their healthcare systems. To help in dealing with this challenge, several researchers have advocated for the application of the balanced scorecard in the healthcare industry (Gurd and Gao 2007, Chow *et al.* 1998). A survey of nine healthcare organizations that were implementing a balanced scorecard indicates that it can be a useful tool in the industry to help align organizations to a more market-oriented and customer-focused strategy (Inamdar *et al.* 2002). Some modifications have been suggested to the traditional balanced scorecard to make it more effective for the healthcare industry, such as the addition of a perspective specifically for the quality of care (Zelman *et al.* 2003).

A single case study of the MCS of a small, religious, non-governmental healthcare organization highlighted the importance of linking newly introduced formal MCS, such as written guidelines, to existing ideology-based controls (Kraus *et al.* 2016). According to the authors, morals were the main source of motivation for many employees, which has to be taken into account when designing MCS in this context. Another study of the implementation of a new management accounting system, which included budgets and reporting, in a university hospital in Italy found the participation of employees to be conducive to the success of the implementation (Fiondella *et al.* 2016).

3. The organizational life cycle

This chapter will present the basic rationale of organizational life cycle theory as well as several models, which have been presented by researchers. A model by Miller and Friesen (1984) is selected as the most appropriate for this study. The case company of this thesis has spent much of its life cycle thus far in the growth phase, therefore, the characteristics of this phase as portrayed in existing literature are explored in greater depth. The introduction of venture capital is often an important event in an organization's life cycle, so it is presented in its own subsection. Finally, previous MCS research that has applied a life cycle perspective is presented.

3.1. Life cycle models

Life cycle models are founded on the notion that as an organization develops over time, the changes in its characteristics tend to follow predictable patterns (Dodge and Robbins 1992). Researchers have used these distinct characteristics to create many conceptualizations of the organizational life cycle and its various phases. A multitude of different models have been proposed, of which some omit certain life cycle phases, most commonly the decline phase, and some divide phases into greater detail than others, but the basic trends in the development of organizations tend to be similar across different life cycle models (Lester *et al.* 2008, Quinn and Cameron 1983).

While the most common progression for an organization is sequential, from one life cycle phase to the next, some organizations follow different progressions (Miller and Friesen 1984). It is possible for organizations to revert back to previous life cycle phases, for example due to environmental turbulence (Quinn and Cameron 1983). A significant portion of firms do not grow and remain very small, and many fail far before reaching the later life cycle phases (McKelvie and Wiklund 2010). Life cycle theory has received significant support both theoretically and empirically in organizational behavior literature (Moores and Yuen 2001). Life cycle models provide patterns for the simultaneous changes in multiple contingencies, for example, in the size, age, and strategy of an organization, thus allowing us to summarize the contingencies of an organization under a single variable, i.e. the life cycle phase.

Greiner (1972) divided the organizational life cycle into five phases of evolution, each of which is followed by a crisis and revolution. During the first phase, the organization's focus is on

creating a product and finding a market for it. The founders are heavily involved in all activities, but unfamiliar with and perhaps resistant to traditional formal management. Individualistic and creative activities are conductive to the initial success of the organization. However, as the organization grows, they become burdensome. More formal leadership is required, resulting in a crisis of leadership, which is solved through the hiring of professional managers.

The second phase is characterized by the formalization of processes, brought about by the new managers. Functional specialization is introduced; accounting systems such as budgets are developed. During this phase, hierarchies within the organization grow and communication becomes increasingly formal, while much of the power remains with top management. Lower level managers face increasing bureaucracy, which makes their jobs difficult and ultimately leads to a crisis of autonomy, which is solved through the delegation of authority.

The delegation of authority leads to the third stage of evolution, during which the organizational structure becomes increasingly decentralized, which heightens the motivation of lower level managers and enables higher responsiveness to the organization's markets. However, the level of autonomy eventually becomes a problem as top management senses it begins to lose control of the organization, resulting in a crisis of control. This is solved through the introduction of special coordination techniques.

In the fourth phase, decentralized units are merged into product groups. Formal planning procedures and sophisticated capital expenditure systems are introduced to enable an efficient allocation of limited resources. Eventually, the increased bureaucracy leads to a red tape crisis, which is a sign that the organization is too large to be managed through bureaucratic means. In the fifth and final stage, the red tape crisis is solved through an increased emphasis on collaboration and teamwork; social control replaces formal control. Greiner suggests that this phase may yet be followed by another crisis and revolution, but this is left for future research to demonstrate.

Quinn and Cameron (1983) constructed a model of an organization's life cycle through the integration of nine previous life cycle models, including Greiner's model. They classified the life cycle into four stages. The first stage they called the entrepreneurial stage. This is the formative stage in the organization's life cycle during which its function is legitimized, processes such as planning and coordination remain quite informal, and the power is highly

centralized to the founder. The second stage in the integrated model is the collectivity stage. Communication and structures remain informal. The stage is characterized by high commitment from members of the organization, which results in a high sense of collectivity and long hours dedicated to the company. The third stage is the formalization and control stage, during which rules become formalized, structures stabilized, and the emphasis turns to efficiency and maintenance. The fourth stage is the elaboration of structure stage, where the organization undergoes a renewal, it enters new markets, and its structures become decentralized.

Miller and Friesen (1984) introduced a model of the corporate life cycle, which includes five different phases: birth, growth, maturity, revival, and decline. The classification criteria for these phases are shown in Table 1. Over the first four life cycle phases the organization's size and age, as well as the competitiveness of its environment increase. In the last phase, profitability drops, markets dwindle, and the firm declines.

Phase	Criteria
Birth	Firm is less than 10 years old, has informal structure, and is dominated by owner-manager.
Growth	Sales growth greater than 15%, functionally organized structure, early formalization of policies.
Maturity	Sales growth less than 15%, more bureaucratic organization.
Revival	Sales growth greater than 15%, diversification of product-lines, divisionalization, use of sophisticated controls and planning systems.
Decline	Demand for products levels off, low rate of product innovation, profitability starts to drop.

Table 1. Criteria for each life cycle phase (Miller and Friesen 1984)

The following descriptions are some of the typical characteristics of organizations in each of the five life cycle phases. Birth phase organizations are young and small, their structures are simple and informal, and their products are undifferentiated. Power is highly centralized as the organization is dominated by the owner-manager. Their external environment is homogeneous, with not a lot of competition as the company has found a niche market. Information processing and decision-making methods are relatively crude. Growth phase organizations are

characterized by their rapid growth. Around this time new shareholders may be first introduced. The organization's structures become more formalized, and functional units are introduced. There is moderate differentiation of products or services as the market scope is broadened to closely related areas. Power is slightly less centralized, and some formal information processing and decision-making models are developed. Organizations in the maturity phase often have a very dispersed ownership. Their structures are very formal and bureaucratic; power remains moderately centralized. Growth slows down, and the organization focuses on the consolidation of its product-market strategy and the efficiency of its processes. Revival phase organizations have a divisional basis of organization with the most sophisticated controls and decision-making methods. The product-market is highly diversified with movements into some unrelated markets. (Miller and Friesen 1984)

In this study, a life cycle model is needed so that first, the case organization can be classified into a life cycle phase, and second, features of the phase can be used when seeking explanations for observations in the case company. For this purpose, Miller and Friesen's model has one substantial advantage compared, for example, to Greiner's or Cameron and Quinn's. It clearly distinguishes the classification (Figure 1) from the characteristics that are commonly observed in organizations based on the classification (Figure 2). If an organization were classified directly based on the characteristics into a life cycle phase, the characteristics of the phase would have no further explanatory power, which would undermine the utility of the model. Additionally, Miller and Friesen classification is very simple, containing a minimal number of qualities while still enabling a non-overlapping classification. The classification is also easily recognizable and partly measurable. Growth can be measured and organizational structure verified unequivocally. Thus, it should be relatively easy to classify organizations in a consistent manner. The Miller Friesen model offers a holistic, cradle-to-grave view of an organization's life cycle, and can thus be used for many different organizations. It is one of the most commonly used models, therefore, it contributes to the comparability of the results of this particular study. For these reasons, it seems appropriate to use it for this master's thesis.

3.2. The growth phase

In the growth phase, the concern for survival, which dominated in the birth phase, subsides, and is replaced by a search for expansion opportunities (Jawahar and McLaughlin 2001). Growth can be achieved either organically or through acquisitions. A study of all Swedish

companies with over 20 employees found that smaller and younger firms tended to grow organically, whereas large organizations grew mostly through acquisitions (Delmar and Davidsson 1998). The small and medium sized organizations which grow through acquisitions tend to have a more growth-intensive strategy and have a more diversified customer basis than those which grow organically (Pasanen 2007). To finance growth, new equity investments are common in the growth phase (Jawahar and McLaughlin 2001).

As companies grow it is typical for them to experience growing pains as a gap develops between the organization's actual infrastructure and the infrastructure required (Flamholtz *et al.* 2007, 2). Members of the organization spend a lot of their time "putting out fires", and feel that there is not enough time to get everything done as they would like to. There is little follow-up to plans, so things don't get done. The organization's sales revenues grow, but profits do not.

MCS form an important part of an organization's infrastructure that needs to develop as the organization grows. In the beginning, control can usually be maintained by the founder through day-to-day interaction with subordinates. As the organization grows, its control needs increase dramatically, and thus, more sophisticated control systems will need to be developed. (Flamholtz *et al.* 2007, 34)

3.3. The introduction of venture capital

The introduction of venture capital can be an important catalyst for change in organizations. Venture capitalists make an equity investment, usually with the expectation of earning an appropriate return on their investment through a selected exit route (Mitchell *et al.* 1995). Venture capital investments often take place during the growth phase of an organization's life cycle (Zider 1998). During this time, the organization needs external financing to help maintain its growth and is able to offer a potential for a significant return on investment. The level of control the venture capital investors have in the organizations in which they invest will vary depending on their equity share and presence on the organization's Board (Kaplan and Strömberg 2003).

Usually the venture capitalists are not involved in the daily activities of the organization, but only meet, for example, for monthly Board meetings. Because of this, they will have limited

access to information, and rely, to a great extent, on what the organization provides for them. This causes an information asymmetry between the investors and the organization. To alleviate these asymmetries, venture capitalists require more regular and detailed accounting information from the company. There are also some potential differences between the goals of the venture capital investors and the organization. The investors have diversified their risk into multiple investments, whereas the investees have all their risk in the single organization. (Mitchell *et al.* 1995)

The introduction of venture capital has been found to increase the formality of MCS, organizations with venture capital developed their MCS much faster and to a larger extent (Davila and Foster 2007). This was partly due to the fact that venture capitalists required more sophisticated systems, but also because these companies tended to be cash flow negative and have a higher growth rate, prompting the need for closer financial monitoring. Monitoring reports and budgetary control systems tend to be positively affected by venture capitalists (Mitchell *et al.* 1997). Research also suggests that investors value MCS adopted by start-up companies, particularly for companies operating in competitive environments with high growth rates (Davila *et al.* 2015).

3.4. Previous life cycle studies on management control systems

Along with his Levers of Control framework, Simons (1995) addresses the evolution of MCS as shown in Figure 3. In the beginning, formal systems are not needed because of frequent face-to-face communication between subordinates and superiors, which helps to keep the purpose of the organization clear to everyone. Only internal accounting controls are needed to ensure the security of assets and the reliability of accounting information. As the organization grows and matures, it becomes more difficult for managers to define and communicate a unified purpose. Diagnostic control systems are implemented in the growth phase to cope with increased control needs arising from an increased delegation of responsibility to lower levels of the organization. Boundary systems are implemented during the growth phase as managers learn that certain activities should be forbidden. Formal beliefs systems such as official mission and vision statements are implemented as the organization approaches maturity. In more mature firms, the top management needs to rely more on their subordinates for innovation and strategic initiatives, so they begin using some control systems interactively.

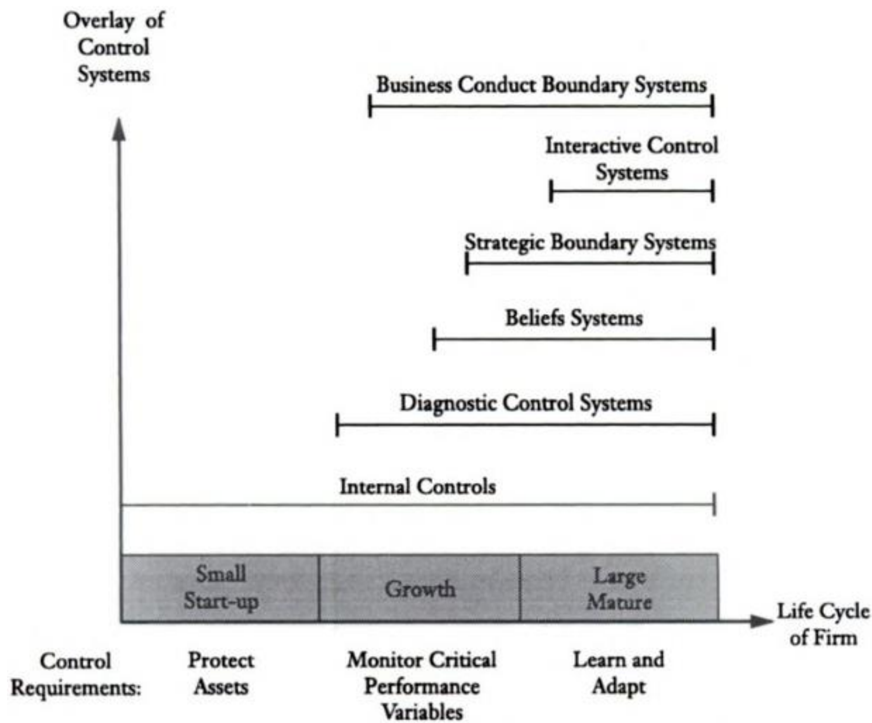

Figure 3. The evolution of the levers of control (Simons 1995, 126)

In a study combining Miller and Friesen's life cycle model and Simons' MCS framework, a positive association was found between the use of interactive controls and organizational performance in the growth phase (Su *et al.* 2015). The explanation offered for this observation was that interactive controls facilitated product innovation and generating new ideas and initiatives. In the revival phase, interactive controls correlated negatively with performance, perhaps because it caused the top management to be too involved in the decisions of individual divisions of the organization.

Moores and Yuen (2001) studied management accounting systems from a life cycle perspective using Miller and Friesen's framework. They focused on the clothing and footwear industry in Australia. It is essential to note that their definition of management accounting systems include systems used only for decision-making purposes, and thus, their results are not necessarily consistent with the evolution of MCS, which are used for control purposes. They found that management accounting system formality increased from birth to growth, relaxed in the maturity phase, and slightly increased in the revival phase. Organizations in the birth phase relied on the narrowest range of management accounting systems due to a homogeneous market and a simple organizational structure. As they entered the growth phase, the level of administrative tasks exceeded the capacity of their management accounting systems causing

them to develop both the sophistication and the extent of these systems. In the maturity phase, organizations were able to relax the management accounting systems as a result of increased stability. To achieve further growth in the revival phase, they once again increased their reliance on formal management accounting systems.

Granlund and Taipaleenmäki (2005) studied the evolution of management control in new economy firms (NEFs), which they defined as organizations in the information and communications technology or biotech industries characterized by fast growth, R&D and knowledge intensity and reliance on venture capital finance. They used the corporate evolution life cycle model by Victor and Boynton (1998), which they argue is more suitable for an in-depth study of the birth and growth phases of the Miller Friesen model. In virtually all the organizations they studied, they identified a constant lack of resources with the accounting functions. Resources for financial reporting and analysis were very limited as there was a strong tendency to spend limited resources on R&D, and later, on sales and marketing. Controllers were expected to develop control processes, but had difficulty doing so due to a lack of time resulting from a constantly changing external environment. Due to increased time pressures, the NEFs tended to prioritize planning over control.

Granlund and Taipaleenmäki (2005) found that budgeting was the most significant MCS, either in the form of traditional annual budgeting or a rolling forecast. As firms progressed in their life cycle phase, the roles of their financial control personnel tended to become more active and analytic. Financial controls developed "from non-existent management accounting, via very limited budgeting and reporting, basics of budgeting and cost accounting, more detailed product and profitability analyses, well-developed cost accounting to support analyses, to established control tasks and advanced management accounting techniques" (p.40). Although they were able to identify this type of apparently linear development, there was a lot of variance in the formality of the MCS of even the more mature firms in their sample. One important driver in MCS evolution was the introduction of venture capital. Venture capitalists require a level of sophistication from the organization's MCS, including budgets, the measurement of key figures, and their follow up system.

Moores and Yuen (2001) found that, within clothing and footwear industry, firms in the growth phase rely on a wider range of management accounting systems than firms in the maturity phase. Granlund and Taipaleenmäki, however, found no support for this in their sample of

NEFs. According to Granlund and Taipaleenmäki, this result reflects the different characteristics of NEFs compared to more traditional organizations. Another reason could be that Moores and Yuen focused on purely decision-making systems in addition to control systems, and thus, not strictly on management *control* systems.

A study of the U.S. retail sector indicates that the first MCS introduced have an internal focus related to operations, control systems which would be used to learn about customers or competitors are introduced later (Sandino 2007). A longitudinal single case study of a packing company showed how the case company initially relied heavily on social control achieved through the founder's frequent interaction with subordinates (Collier 2005). Accounting controls were largely non-existent. To maintain this mode of control, the founder traveled frequently to meet employees in different geographic locations where he would hold various social events. This type of control was very much a reflection of the founder's personality, and was highly dependent on the founder.

In a study focusing mainly on IT and biotech startup companies, financial planning controls including operating budgets, cash flow projections, and sales projections were found to be the first and most widely adopted MCS (Davila and Foster 2007). Some human resource planning and strategic planning systems were also introduced early on, such as core values, organization charts, the definition of strategic milestones, and headcount/human capital development budgets.

Based on previous life cycle studies of MCS, it appears that the sophistication and formality of MCS increases from birth to maturity, with the introduction of venture capital being a key driver of these changes. Simultaneously, the role of more personal social control decreases. Most of the previous studies have considered MCS at a very general level. Malmi and Brown's MCS package model offers a greater level of detail, and thus, provides the possibility of uncovering more detailed changes as an organization progresses from one life cycle phase to another. This is the starting point for this study and the research gap which this study will begin to fill.

4. Methodology

The research design and methods used in this thesis, along with the rationale for their selection, are presented in this chapter. The interviews and data collection process are described in detail, and finally the challenges and limitations of the study are explored.

4.1. Research design and methods

The goal of this thesis is to explore how and why an organization's MCS package changes during the birth and growth phases of its life cycle. The research will be conducted as a qualitative case study with a single case company, in which I have worked since January 2016. I will attempt to identify which elements of Malmi and Brown's MCS package framework (2008) are used in the case company, and how the MCS package has developed during its birth and growth life cycle phases, classified according to Miller and Friesen's life cycle framework (1984). These frameworks were selected as most appropriate based on a review of life cycle and MCS literature.

Many of the qualities of MCS require in-depth study for a thorough and proper understanding. Because of this, the case study method is suitable (Scapens 1990). A qualitative approach is used because, to uncover all relevant elements of the MCS package, a level of depth is required that would be difficult to attain with a quantitative method. Whereas the presence of some controls, such as budgets, could easily be determined in a questionnaire, others can be much more difficult to uncover. For example, clan controls are subtle and difficult to observe, and an outsider can easily make the erroneous observation that they don't exist (Ouchi 1979). With regards to the level of detail, it is important to also note that it is not enough to detect the use of, for example, budgets in the case company, but it will also be necessary to determine whether that budget is used for control purposes or for something else. Furthermore, it is possible that there are systems in place that are not actually used (Strauss *et al.* 2013). Thus, it will be important to not only determine what systems are identified, but to also verify that they are in fact used, and that they are used for control instead of only for planning or decision-making. All these characteristics of MCS support the use of the qualitative method (Scapens 1990).

A case study also provides an opportunity to get a holistic view of the entire object of study (Scapens 1990), in this case, of the case company's entire MCS package. Some aspects of the

MCS package may require direct observation on site, because they can be difficult for managers to articulate. A case study is appropriate for this reason as well.

As this is a qualitative case study, the generalizability of its results will be limited to theoretical generalization. Lukka and Kasanen (1995) argue that this can be achieved by attaining a thorough understanding of the case and reporting it in a credible manner. They emphasize the importance of communicating the real context of the case and identifying underlying structural relationships. In this thesis, I will attempt to tie observations relating to the case company's MCS package to its context, particularly to its life cycle phase. If these ties are identified correctly, then the MCS packages of other companies in similar contexts may have similar characteristics.

The data collection techniques used in this study are interviews and participant observation. Additionally, since I work in the company, I will have access to many internal documents, such as meeting memos, employee magazines, internal reports, and financial information. Through these, some controls can be directly observed. For example, looking at Board meeting presentations, I could directly see what kind of financial measures are followed, which facilitates further inquiries into the use of these measures. Financial information is also necessary to classify the case company according to Miller and Friesen's life cycle model as the growth rate of the company has to be determined.

Participant observation also allows for within-method triangulation of the interview findings (Modell 2005). For example, a manager could claim that financial measures are used, but in reality, it could be that this use is purely superficial. Through participant observation, it may be possible to determine the true use of these controls. In this special setting where I, as the researcher, work in the company, the observation will have some unique features. Overt observation would normally disrupt the setting such that it would not be observed in its completely natural setting (Atkinson and Shaffir 1998). Covert observation, which would otherwise yield more true findings, usually presents serious ethical problems and can't be used. In this case, the observation is overt in the sense that it is allowed, and everyone knows I'm working on my thesis, but I spend every day there and am also involved in daily work so my role as an observer is not noticeable, and thus, the non-intrusiveness of covert observation can be achieved so long as I don't intervene with what I'm observing.

The case company is a medium-sized, privately owned company in the social and healthcare services industry. I have been employed at the case company in the accounting department beginning from a few months before the first interviews were conducted. I will not study my own work, but will instead focus on the situation as it was when I arrived at the case company and how it had developed up to that point. A more detailed description of the case company will be provided in the empirical findings section of this thesis. The case company presents an interesting research opportunity for at least two reasons. First, it has been growing rapidly and has recently been joined by external venture capital investors, so the requirements for its MCS have undergone significant changes. Second, it operates mainly in the social services sector, which has not been studied much in accounting research.

4.2. Interviews and data collection

A total of twelve interviews were conducted for this study. The interviews were semi-structured, with topics based on the five categories of MCS in Malmi and Brown's framework. Depending on how well I knew the interviewee, I would first ask some background information, such as how long they had worked in the case company and what their job entailed. I then started the actual interviews with a brief explanation of what is meant by management control systems, and then asked the interviewees what first comes to their mind as MCS that are used in the case company. This was done to ensure that the they had understood the topic of discussion correctly. If what they answered didn't relate directly to the topic at hand, as was the case in one of the twelve interviews, I explained the definition of MCS again. After that I asked them for each category, what sort of MCS are in use. For example, what sorts of cultural controls are in use? Usually what ensued fit into one of the subcategories of the MCS framework, so we discussed that. Afterwards, I asked if anything from the other subcategories was in use, and finally moved on to the next category of MCS. In discussing the controls in use, I also asked about the development of the particular control over the time that the interviewee has worked for the company.

The people interviewed were the CEO and Chairman of the Board, who were also the company's founders, four operations managers, two of whom had been with the company since the first year of operations, the CFO, two business controllers, one representative of the external owners who was a member of the Board, and two unit managers. The interviews were conducted face-to-face with the exception of three interviews of people who worked in other

geographic locations. These interviews were conducted over Skype. Each interviewee was interviewed separately. All interviews were recorded with the interviewees' permissions, and the recordings were transcribed. The interviews were conducted in Finnish, as that was the mother tongue of both the interviewer and all interviewees, and thus made the interviews seem more natural to everyone involved. Only selected quotes that are presented in this thesis were translated. With the interviews, I was able to get what appears to be a good coverage of the current situation, all interviewees gave quite similar answers. By the final interview, no significant new findings emerged. A list of the interviews is presented in Appendix A.

Since I work for the company, I was already familiar with many of the interviewees. This means that I had a rough idea of their background, and I knew what their basic responsibilities were. Consequently, I was able to skip the introductory part of many interviews. Also, since I worked with and ate lunch with most of these people daily, they were already more comfortable around me than around strangers, and that is why I didn't need to worry so much about making the people at ease or establishing trust during the interviews.

I also had background knowledge of the company, many cybernetic controls that were in use, organizational and governance structures, rules and policies etc. This I had observed through my own presence in the company and the use of participant observation. I also used participant observation in an attempt to detect elements and nuances of the MCS package, which had not been described by the interviewees, particularly related to cultural controls. It was also used in an attempt to falsify the interview findings. Through my daily presence in the company, I would have had a good chance of observing any discrepancies between what the interviewees told me and what actually occurred in the day-to-day life of the organization.

4.3. Challenges and limitations

Ideally, this study would have been conducted in real time as the case company evolved instead of having to rely on the recollections of key people. People will be more likely to remember some things than others, and may have a tendency to rationalize their actions afterwards. Luckily both the founders and first managers that were hired still work for the company and were willing to take part in the interviews, so it was possible to attain historical information from the very beginning of the company's life cycle.

A lot of the evidence is based on recollections of the interviewees, and my interpretations of their recollections. It is therefore dependent on two things. First, that the interviewees remember and relay the information correctly. Second, case studies inevitably represent the researcher's interpretations of a social reality (Scapens 1990), so it is important that I understand and interpret the connection to the MCS framework properly. To alleviate this, to an extent, I've provided many direct quotations from the interviewees to maintain transparency between my interpretations and what was said by the interviewees. It is possible that some nuances of the language change when the interviews are translated. To minimize this problem, I've tried to maintain the translation as direct as possible. There is also inevitable subjectivity in the selection of which quotes are included and which are excluded.

The fact that I am employed by the case company also presents some challenges regarding the objectivity of the findings. The direct quotations provided increase transparency in an attempt to alleviate this problem. The research question is designed so that I am not studying my own work, but instead the company as it has developed up to around the beginning of my employment. Furthermore, the research question is not such that it would require me to make judgments about whether or not actions taken in the company were correct, but rather to merely report what these actions have been.

Finally, this study is subject to the limitations in the generalizability of findings associated with the case study method. Naturally, case studies do not allow for statistical generalization (Lukka and Kasanen 1995). Instead, contribution to existing literature will be sought through theoretical generalization as described earlier. Still, when interpreting the results of this study, it is important to keep in mind the particular context of the case company, of the industry, and of the national culture in which the company is situated.

5. Empirical findings

This section begins with a description of the case company to provide the context of this particular study and to classify the case company according to Miller and Friesen's life cycle model. Findings related to each category of Malmi and Brown's MCS framework are then presented.

5.1. The case company

The case company was founded in 2008 when its two founders purchased the business of renting medical personnel to public hospitals and health centers from a bankruptcy through an asset acquisition. At that point the organization consisted of the two founders, one operations manager, and two subordinates. The subordinates were in charge of the organization's day-to-day business of taking requests from municipalities and finding suitable medical personnel. The first operations manager was responsible for a multitude of administrative tasks, such as calculating salaries, making sales invoices, IT acquisitions as well as the management of the organization's operations, which included, for example, the acquisition of customers. One of the founders served as the CEO, the other as the Chairman of the Board. To this day, they hold the same positions. Initially, the Chairman of the Board was not involved at all in operations, but instead served more as a consultant to the CEO regarding growth plans. At that time, he still held another job. The Chairman of the Board has a background in investment banking while the CEO has a background in social and healthcare services. It's possible that the fact that the case company had both an operationally oriented person and a financially oriented person in its top management from the very beginning helped with the formalization of its procedures.

After the first seven months of operations, the case company purchased another company, which had been running a residential care service for the elderly and for clients with substance abuse and mental health problems. The new unit included several nurses and a unit manager, whose job was to organize the daily activities in the residential care home. Seven months after this, another residential care company was purchased. At this point, the original unit manager was promoted to an operations manager who became responsible for the two residential care units along with any related growth projects. Additionally, unit managers who worked on site were appointed to both residential care units.

From then on, new units were acquired systematically and the company kept growing. Acquisitions were funded with internally generated funds and debt. Some completely new units were established as well, creating a mixture of organic and inorganic growth. The organizational structure expanded horizontally, new operations and unit managers were introduced as needed. Around 2011, the company expanded significantly into healthcare services. At that point, the Chairman of the Board became more involved in operations as he assumed the role of the top manager of healthcare and child welfare services.

Currently, the company operates in a total of four industries: residential care services for adults, welfare services for children, healthcare services which include medical personnel renting as well as traveler medical care services, and dental healthcare services. The organization is structured around these industries with a separate organizational branch for each industry. These branches are managed by one of the founders and operations managers. An organizational chart is shown in Figure 4. The care services branch forms the largest part of the company's revenue, and has multiple operations managers. Under both the care services and welfare services, there are many residential units, each with its own unit manager. The CEO and Chairman of the Board have divided their responsibilities over the company so that each is responsible for two branches.

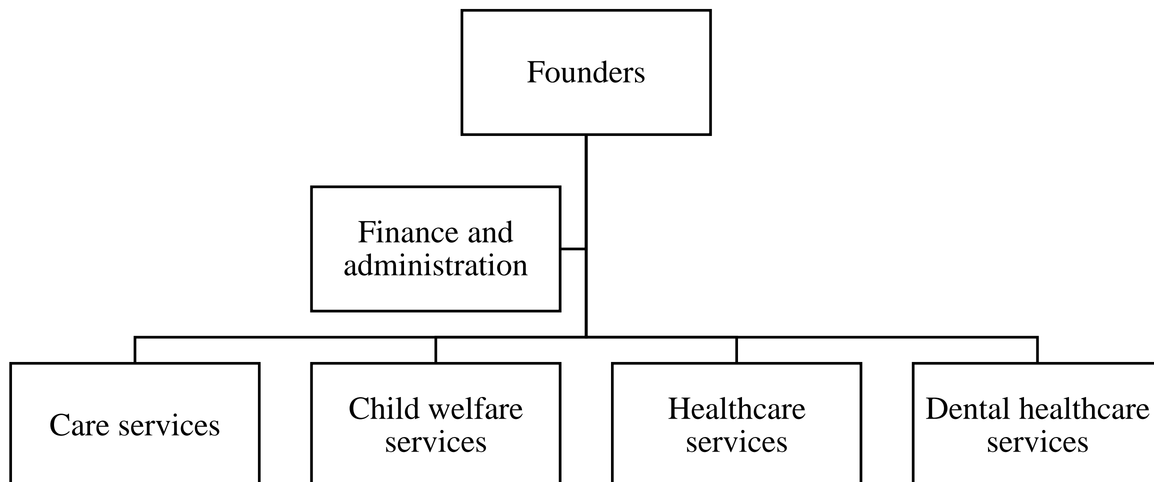

Figure 4. Organizational chart of the case company

Around the beginning of 2015, two external institutional owners were introduced to the case company. They are minority shareholders, i.e. their combined share of the company's shares is under 50%, because the original founders wanted to maintain control of the company. The

introduction of external owners formalized the role of the company's Board, with each institution having a representative along with the two founders and the brother of one of the founders.

> *"Our goal was to find minority shareholders, because we wanted to maintain control of our firm." (Chairman of the Board)*

Geographically, the company has been dispersed from the very beginning. The medical personnel renting service was organized from Oulu, while the CEO had a small office in Helsinki. The first residential care units were located near Turku, and subsequently acquired units are scattered all over Finland. Decision-making remains quite centralized. Virtually all major decisions go through one of the two founders, such as any purchases over 1000 euros. They also personally check all invoices.

At the time of its founding, the first operations manager took care of many of the company's accounting related tasks, such as the calculation of salaries, the payment of purchase invoices, and the making and follow up on sales invoices. Bookkeeping was outsourced. The first accounting professionals were hired in 2011, one controller for the healthcare sector and one for the others. When venture capital was introduced in 2015, a CFO was hired to oversee the development of the finance department.

The nature of the business is such that it uses very little fixed assets. Most locations are rented, and not a lot of machinery or other expensive equipment is required. The bulk of all spending goes to personnel costs, which account for around 70% of revenue. One of the external Board members briefly described the industry as follows:

> *"In this industry, EBITDA is a close estimate of cash flows, and cash flows determine the firm's value."*

Customers in the residential care and child welfare branches consist of municipalities who pay for the residential care of the elderly and of clients with mental health and substance abuse problems. Depending on the location, clients may also have to pay for a portion of their care themselves. In the care and child welfare services, the decision to use the case company's services is made by municipalities, so the majority of transactions are business-to-business. In healthcare services, the main customers are both private and public hospitals and health centers,

and in traveler health care services, the customers are mainly insurance companies. Dental healthcare services are more geared towards regular consumers, and thus traditional marketing plays a more important role.

Over the years, competition has increased causing profit margins to drop. Operations manager 4 described the competitive environment as follows:

> *"Competition has increased, some smaller players have fallen, and big national players have emerged. Prices have dropped, and simultaneously the legal requirements for employee experience and training have increased."*

The growth rate of the case company has on average been over 15% since its founding. Because growth is achieved through acquiring or establishing new units, the growth is stepwise. The capacity of existing units does not usually change, and growth occurs at the specific instants when new units are introduced. Thus, there are some years where fewer new units have been acquired, and where growth is under 15%, and other years where it is significantly more due to the occurrence of multiple acquisitions or establishments. In 2015, revenue growth compared to the previous year was around 50%.

Some functional specialization has been introduced to the case company in the form of the finance function. Recently, there have also been plans to hire a human resource specialist. Perhaps due to the nature of the industry, where marketing and research and development don't play important roles, there has been less of a need for functional specialization. The formalization of policies, which is another of Miller and Friesen's criteria for the growth phase, received a jump-start from the first residential care unit that was acquired. The unit already had previously established practices and policies that the founders were able to use and implement, with some alterations, in subsequently acquired units.

With regards to Miller and Friesen's classification, which were presented in Table 1, we see that the growth rate has been high enough to classify the case company either in the growth or the revival phase. The formalization of policies is still very much in process, and only slight functional specialization has been introduced. Thus, we can say with reasonable confidence that the case company is in the growth phase. If compared with the typical characteristics of growth phase organizations presented by Miller and Friesen, many similarities can be found. There are now multiple shareholders, a more competitive environment, decision-making

remains quite centralized but less so than in the birth phase, and the organization has expanded into related markets. These are all characteristics of typical growth phase companies listed by Miller and Friesen, which suggests that the classification of the case company into the growth phase is justified.

In the beginning, the company was very small, and the CEO founder played a huge role in it. This was the organizations birth phase. A discrete point in time where the company transformed from the birth phase to the growth phase can't be distinguished, as in reality the transition occurred gradually over time. After the first year of operations, the company already had a growth rate of over 15%, and a specific point in time when the formalization of policies began can't be determined. However, for the purpose of this study, we can consider the acquisition of the first residential care home seven months after its founding as around the time when the case company entered the growth phase. That is when the case company deviated from its original business of renting medical personnel and began actively capitalizing on growth opportunities. From then on, the company has been growing steadily, and thus has been in the growth phase.

5.2. Cultural controls

Clan controls

During the birth phase, clan control was heavily relied on in the case company. It was based on the personal leadership of the CEO. The organization was very small, so he was able to frequently interact with all subordinates. Although his office was in a different geographic location, he spent much of his time in Oulu from where the medical personnel service was organized, and later on at the locations of newly acquired residential care units. Direct interaction with subordinates helped the CEO establish desired values and shared beliefs throughout the newly founded organization.

> *"In the beginning, we started under the leadership of a single person, so the work culture was very much based on my personality. [...] I was able to bring my ideas to the field personally." (CEO)*

The CEO's own personality strongly shaped the type of organizational culture that initially developed. The organizational culture was aligned well with the CEO's vision, and as a result,

the actions of subordinates tended to align with his goals. This is evident from comments by Operations manager 1:

> *"Especially in the beginning, the company looked very much like its founders"*

Operations manager 2 described the culture of the company:

> *"On the mental health and substance abuse side, accepting and tolerating these kinds of people are a characteristic of our culture, which are not explicitly written down anywhere. That we respect all people equally."*

A couple months after the interview with operations manager 2, I got a chance to visit some of the residential care homes with the CEO while we were attending to some other work-related issues. I was able to observe in practice what the operations manager had described. During his visit in the residential care home, the CEO went around personally greeting all the patients that were staying there. It can easily be imagined, when his visits were much more frequent during the initial years of the company, such behavior would have set an example for all employees, perpetrating the behavior throughout the clan.

As the company has grown, the founders' interaction with the organization's grassroots level has decreased significantly, and they are no longer able to maintain control through personal interaction. The CEO recognizes the difficulty of fully controlling the prevalent organizational culture:

> *"There are constantly fewer and fewer possibilities of affecting [the organizational culture] as more people join the organization. Control of the business is slowly delegated."*

Thus, for top management, the use of clan controls through personal interaction has decreased significantly over the growth phase. However, clan control still exists as a more complex phenomenon. The values and beliefs established by the CEO at the beginning may persist to an extent. Lower level managers have a much better chance of affecting the working culture of the units, and thus exercising clan control. Top management can then control these unit managers with the hopes that they will then control the units. The CEO has hired several people from the initial residential care unit to managerial positions for this very reason:

> *"From there I've found many good employees. They've been promoted to managerial positions."*

However, as the organization has grown, even this has become difficult for the CEO:

> *"I've noticed that the more units we have, the less I'm able to intervene, give these kinds of opportunities, and to bring my own thoughts."*

The founders can influence the beliefs and actions of unit level employees through various indirect mechanisms. For example, there is a practice in the company of careful monitoring of invoices by the founders, which creates an atmosphere that permeates the organization. Similarly, symbols and values can be used to espouse beliefs and values of the clan. The founders have organized company-wide events to instill a sense of togetherness.

> *"I wish everyone would feel like a part of the same company. We organize events to try to get people together." (CEO)*

Despite all these mechanisms, the fact is that the top management is less able to control the organization through clan mechanisms, and the organizational culture is slowly becoming more disperse, because a growing number of people are contributing to it. Based on comments by unit manager 2, it appears that the togetherness sought by the CEO has not entirely been achieved:

> *"Employees know that [the parent company] is in the background, but they feel that [the subsidiary unit] is what they are part of."*

Much like the CEO, the unit manager works to change the perception of employees:

> *"My job is to alleviate fears and concerns that relate to being part of a large enterprise. […] This is achieved by the parent company's logo being visible everywhere and through our operations manager distributing news from the rest of the company and being present in the unit."*

Since much of the company's growth has been achieved through acquisitions, the company has had to work hard in changing the existing organizational cultures of the acquired units.

> *"It is always a challenge when there are different organizational cultures, different employee benefits. One of the major factors is if the old owners or managers stay there. We have often tried to do so that the old managers don't stay, usually through retirement. Even then there can be a level of change resistance." (Chairman of the Board)*

The same challenge was described by the CEO as well:

> *"With acquisitions it may be that their history is much longer than [the case company's], and they have their own organizational culture, integrating them has been very difficult."*

When operations manager 4 was hired, one of his primary tasks was tackling this problem:

> *"When I started, one of my tasks was to make [a new daughter company] feel more like a part of [the parent company]. This was done so that first I spent a lot of time there, two to four days a week."*

He elaborates on how the organizational culture has changed over time as follows:

> *"Previously [a unit] had a practice of hiring friends and relatives as opposed to the most competent people, now we've brought in a lot of new people. Since everyone was such good friends, the line between work and leisure had become blurred. Now it's a workplace for everyone."*

In addition to the difficulty of integrating newly acquired units, the company's different branches and their varying characteristics also pose a challenge:

> *"Different industries are intrinsically different; they speak a different language. That brings challenges, how to lead the business." (CEO)*

In summary, personal interaction between managers and subordinates appears to be an integral part of clan control. The founders' ability to use this control has decreased as the company has grown, but it remains important for operations managers, particularly when acquiring new units and integrating them to the case company. While initially the entire culture was very much a reflection of the CEO's personality, as the company has grown, other members have started to contribute to it.

Values

Official company values were declared by the founders during the birth phase. They were designed to guide decision-making and behavior and were initially emphasized by especially the CEO, who interacted frequently with all subordinates.

> *"We defined our values at the very beginning, and they remain the same to this day. We had a clear vision of which values we wanted our company to pursue." (Chairman of the Board)*

According to the Chairman of the Board, part of the reason for the strong emphasis on values was that they saw the consequences of ignoring them in the bankruptcy from which they purchased their business. The values were frequently part of conversations with employees especially during recruitments and when acquiring new businesses. All employees were encouraged to consider them when making decisions.

> *"If we don't do this [acting in accordance with our values] well, and if our customers are not satisfied, then our company loses all meaning. When we have meetings and discussion with our employees, we regularly bring this up." (CEO)*

The same values can still be found on the company's website today. As the company has grown, the significance of the company's values has decreased, and many of the interviewees reported that there is definite room for improvement regarding their use. For example, the Chairman of the Board now questions whether everyone in the organization even knows what the official values even are:

> *"I think if you were to ask some employees what are values are, you would get just a blank stare."*

In a similar fashion, the CFO sees definite room for improvement in the use of values as controls:

> *"The use of value based controls is not sufficient at the moment. They have been defined, so we should think how we can get our personnel to adhere to them."*

Part of the reason for the decrease in value-based controls is the lack of time. Growth has the highest priority, and growth projects are deemed more important than focusing on the company's values.

> *"Our values are left in the background by the hectic nature of everyday life." (Operations manager 3)*

Currently, the company's official values are no longer emphasized by the founders as they were during the birth phase, but instead are left for each individual operations and unit manager to emphasize as they wish. All the operations managers interviewed reported that they mention the values during recruitment, but no one mentioned using them after that. Thus, the significance of the company's values as controls has clearly decreased.

> *"It will depend on the manager, but at least I always go through our values during job interviews." (Operations manager 3)*

At the unit manager level, values still play an important role. Both unit managers interviewed for this thesis described how they frequently involved values in conversations, and had held sessions with employees to discuss how the values work in practice.

> *"We get our own micro values, when we do this work. [Our unit] has its own values for how our work should be done." (Unit manager 2)*

In addition to the official company values, companies have some actual underlying values as well, which are conveyed in the words and actions of their members. It is important to note that a company can easily make up a publicized list of values with no reflection on what the actual prevalent values are. The CEO described examples of such underlying values, which relate for example to how customers and employees should be treated. Such values are conveyed through human interaction. The CEO described these underlying values:

> *"When I compare us to our competitors, they seem to be much more finance-driven. Whether that's a good thing is perhaps visible in our numbers [which are not as good], but we've always wanted to concentrate on making the customer satisfied with our service."*

As interaction between top management and operating level employees has decreased, so too has the utility of these values as a means of control.

> *"Since we are still kind of a small company, some values are conveyed through the actions of the top management. When the firm was small, they were conveyed easily, but as the firm grows, this becomes increasingly challenging." (Chairman of the Board)*

In the case company, there is no a systematic or explicit way of controlling these underlying values, so they are likely to be a reflection of the key personnel's personal values. As the company grows, it becomes more difficult to ensure that the values conveyed by different managers are similar and compatible.

All in all, the systematic and formal use of value-based controls has decreased as the company has grown. Initially, formal values were propagated by the founders alongside underlying values regarding how employees should behave. As the company has grown, the founders are no longer able to affect the underlying values as they did before through personal interaction,

and an emphasis on official values has been superseded by the hectic nature of day-to-day life in the organization.

Symbols

Symbols did not play a significant role during the first years of the company's existence, as it took some time for the company to develop them. During the interviews, three symbols were pointed out by interviewees that had emerged during the organization's growth: brand, personnel magazine and an open office space.

When the organization was first founded, it didn't immediately begin developing a unified brand. According to the Chairman of the Board, there were three main reasons for this. Firstly, in their initial lines of business, medical personnel renting and residential care services, the services were mainly sold to municipalities, and thus having a brand was not as important. Getting customers was based on contracts with municipalities, and getting contracts was largely based on price. Another reason for this was the fact that they were a new company, the residential homes they acquired had already been running for years and had their own established brands, which they continued to use. Lastly, when they started their company, one of their competitors was receiving bad publicity for the renting of medical personnel, so it seemed better to keep a low profile and to stay out of the press.

> *"Over time, our brand has become more visible to our employees. In the beginning, in [our first residential care home] it's possible employees didn't know what [the parent company] was. Now they should know." (Chairman of the Board)*

Slowly, the case company has begun to create its own brand and present it both internally and externally. Operations manager 1 commented on how the organizational culture was dependent on the company's age:

> *"We've developed this [parent company's] culture of how things are done, […] partly because we now have a history where we have had to think of what our priorities are."*

Both unit managers described the significance of the company's logo being visible in the units for example in all documents. Unit manager 2 described it as one of the tools used for instilling

a sense of togetherness. Regarding a sense of belonging to the parent company, unit manager 1 replied:

> *"We have common instructions for all units, such as the personnel manual, which have [the parent company's name] written on it, and through which this occurs naturally."*

A personnel magazine has been published twice per year starting from the beginning of 2014. The magazine is distributed to all units, and includes various news about the company, introductions of new employees, as well as greetings from the top management. The main purpose for the magazine was to facilitate the flow of information within the company, which had been a common complaint in an employee satisfaction survey. However, it also serves to create a unified organizational culture since each independent unit receives the same common magazine. Also, it serves as a platform for top management to reach every employee.

The developments of the office space follow an unusual pattern compared to traditional companies. When the organization was first founded, it immediately began functioning in geographically distinct locations. As new units were acquired, new operations managers were hired to oversee them. Until 2014, all operating managers didn't have a stable office, but instead worked variably from different units and from their homes. While this meant that they spent a lot of time at the units, there was very little interaction between different operations managers.

To summarize, the company started without any significant symbols-based controls. Symbols such as brand, and the personnel magazine have emerged as the company has grown older. Today, they help to establish a sense of unity, which helps to promote consistent behavior throughout the company.

5.3. Administrative controls

Governance structure

An important characteristic of the case company's governance is the involvement of the founders at quite a detailed level. When the company was initially founded, the CEO spent much of his time interacting with subordinates as was described in relation to clan controls. Although the personal interaction between the founders and the grassroots level has decreased drastically during the growth phase, the level of detail of information from the field that the

founders expect to see remains very high. For financial measures this means that costs are followed at a very detailed level, variations in any bookkeeping account are noticed and require an explanation. In nonfinancial measures, the founders receive weekly reports from each unit manager. The personal style of governance played a big role in clan controls during the birth phase, but has since then decreased. It is likely that the fact that the founders have been so heavily involved in the company's operations has contributed to the sparsity of more formal controls.

> *"[The CEO] in particular is a very operationally oriented person, meaning that he wants to know at a detailed level where things are going." (Chairman of the Board)*

The governance of the case company is organized so that each of its branches has its own management team made up of the operations managers of the particular branch and either the CEO or the Chairman of the Board. This governance structure was implemented during the growth phase as more operations managers were hired.

In addition to the top-level management teams, each operations manager runs unit manager teams where the unit managers, under the operations manager, meet once or twice a month to discuss issues mainly pertaining to the day-to-day life in the units. Operations manager 3 describes these unit manager meetings as follows:

> *"We go through the previous meeting memo, then there are some acute current issues, then we go through what is going on in each unit, then through announcement-type issues, decision-making issues, and anything else that needs to be discussed."*

The management team meetings serve as platforms for planning and decision-making, and can provide deadlines for ongoing projects.

The introduction of venture capital around the beginning of 2015 formalized the role and practices of the Board, as evidenced by comments by the CEO:

> *"Previously the work of the Board was very unofficial. If there were some acquisitions, we would have a Board meeting. Now we have official Board meetings systematically."*

The external Board member interviewed for this thesis summarized the changes:

> *"Now that there are two external owners, things need to be done in a more formal and scheduled manner."*

The Board now meets regularly each month. An external Board member gave a brief overview of these meetings:

> *"The basic agenda of a Board meeting is first a branch overview of important things that have happened in each branch. Then we go over financial reports are gone through. Then there are some decisions, which can be connected to the previous topics or something completely different. And finally, a big part of the agenda is what kinds of growth projects are ongoing."*

The regular Board meetings set agendas for many processes within the case company. Financial reports must be prepared so that they can be sent to the Board members prior to the meeting. For this to be possible, all sales invoices need to have been created and all purchase invoices handled by a given date. The fact that the financials are reported to an external party instilled a level of strictness to the enforcement of deadlines that previously didn't exist. The Board also has a role in planning, which takes place in these meetings. This will be discussed separately under the planning controls subsection, but serves as an example of the interdependency between various controls.

During the acquisition of venture capital, a business case was made where the potential return on investment was evaluated. The business plan included financial forecasts as well as strategic targets, which remain the guiding principles for the external owners.

> *"We analyzed the company, and made a business case with a five-year horizon. There it was calculated that if they invest in a share of this company, how much the company is expected to grow and how the value of its shares is expected to develop. […] The only goal for everyone is that [the case company] does what was promised in the business plan." (External Board member)*

Once the investment decision was made, a venture capital agreement was drawn, which reflected the business plan. This agreement included the business plan's targets for growth rate and EBITDA margin, and thus the case company is also committed to achieving them.

> *"The venture capital agreement sets certain conditions; they require certain things from us. We have targets for growth and EBITDA." (CEO)*

The changes in the case company's governance structure resulting from the introduction of venture capital affected other parts of the MCS package as well. Prior to the introduction of venture capital, the company hadn't had specific financial targets, which are an important part of cybernetic controls. A strategy was also formulated indicating what kinds of acquisitions should be sought, which affects planning controls.

> *"We set clear financial targets for the next five-year period, which is something that we didn't have before." (Chairman of the Board)*

Thus, during the birth phase, the company was largely governed by top managers close to the field. As it has grown, governance has inevitably become less personal as the top managers are able to spend less time at the grassroots level. Additionally, during the growth phase, venture capital was introduced to the company, which formalized the company's Board and triggered significant changes in other parts of the MCS package.

Organizational structure

The organization began with a simple structure of the founders, an operations manager, and two subordinates. As the company has grown, its organizational structure has expanded both vertically and horizontally. It has gradually evolved so that there are now ten operations managers, many unit managers under them, and a total of over 300 employees. If we look at MCS from top managements perspective, it is inevitable that some change must have occurred, because their position in relation to grassroots-level employees has changed so significantly. If we, on the other hand, look at the controls employed by unit managers, the change might not be so significant.

Initially, many of the typical tasks of the accounting department were divided between the operations managers, the founders themselves and the external bookkeeping agency.

> *"Previously we did this accounting sort of with our left hand, because the idea was that we were specifically seeking growth." (CEO)*

The lack of resources related to accounting tasks caused many problems for the organization, which the Chairman of the Board summarized as follows:

> *"For the longest time, accounting was like a stone in our shoe."*

Functional specialization in accounting began with the introduction of a business controller for the healthcare sector around the beginning of 2012. The controller was hired in the middle of a project where the healthcare branch's accounting software was being changed. There were many problems with the new software and its use, which resulted in problems with financial reporting.

> *"The [accounting software] change had come into effect in the beginning of 2012. […] We were able to get the first reliable profit and loss statements as late as around November." (Controller 1)*

In the February of 2013 another controller was hired to oversee the care and child welfare service branches. He would later also oversee dental healthcare services after their acquisition in 2014. Both controllers were at first mainly focused on meeting the statutory accounting requirements and ensuring the reliability of basic accounting data. In 2015, as a result of the introduction of venture capital, a CFO was hired to manage the entire finance function, and especially to focus on acquisitions, as noted by the CEO:

> *"[The introduction of VC] has changed things dramatically. Because of it we've hired [our CFO]."*

He soon found that many of the struggles pertaining to the reliability of accounting information persisted, so further efforts were made to improve the situation. To help, several other people were hired to the team. Through these measures, it appears that problems with basic accounting are finally subsiding, as noted by the Chairman of the Board:

> *"[The CFO] started a little over a year ago and has lifted the accounting function to a completely different level."*

There are now discussions of hiring a human resource as well as an information technology specialist, as it is becoming increasingly evident that these tasks need a separate person to oversee them due to the growing size of the organization. Thus, it is likely that functional specialization will continue in the future.

> *"At the moment, we are very close to the point where we need to hire a HR person." (Chairman of the Board)*

The company began with a simple organization structure, as it only had a few employees. During the growth phase, its organization structure changed to accommodate a growing number of employees. Changes in organization structure lead to changes in other controls. Functional specialization was also introduced during the growth phase in the form of the accounting function.

Policies and procedures

When the organization was founded, it had very little formally documented policies or procedures. Their development began in the birth phase, and slowly over time, they've been improved.

> *"We've had some policies set from the very beginning, such as purchasing limits. [Our first operations manager] made a manual of management's instructions in the first years of operations, which has been developed into a full personnel manual." (Chairman of the Board)*

Since the first residential care unit, which was acquired, had a long-established history along with a ISO quality certification, it had some documentation of policies and procedures, which could be adopted for use in units acquired later. Thus, the process of acquisitions is not only a one-way process of imposing existing MCS on new units, but the existing MCS can also be developed based on practices in newly acquired units.

> *"We got procedures and rules from [the first residential care unit's] quality handbook, and that was a huge help. We were able to offer something concrete to the unit managers, a starting point for developing the business, which they could modify them to fit their needs." (Operations manager 2)*

Various policies and procedures now exist, which guide employee behavior. There is the aforementioned personnel manual, as well as process descriptions and rudimentary task lists for the employees of care and child welfare units. Despite these developments, much work remains to be done.

> *"A unit's quality depends a lot on the unit manager that happens to be there. As an enterprise, we aren't able to give enough guidance, such as documents, procedures, etc." (Operations manager 3)*

It should also be pointed out that, as with all MCS, more is not always better. An interesting example of this is provided by Operations manager 2 regarding one of their units and its process documentation:

> *"They've become easier to use. We've removed parts that we think should be a part of every employee's education, and thus the instructions are more clear."*

Initiatives to improve policies and procedures have been, as with many control systems, superseded by the importance of achieving growth and working on growth projects, as pointed out by Operations manager 3:

> *"During this fast growth phase, if we have to decide to either acquire more units or work on our documentation, it's clear what will be chosen."*

An important aspect of the case company's invoice handling process is that since the beginning, all invoices have been checked and approved by either of the two founders. This has compensated for the lack of cybernetic controls to some extent, as it allows the founders to directly control the company's costs. This procedure of close attention has also contributed to a culture where costs are looked at very closely, which is another example of the interdependency between various controls. As the company grows, this procedure is becoming increasingly difficult, as expressed by one of the external Board members:

> *"When your revenue is 5 million [euros per year], it is possible [for top management] to know each individual purchase invoice. When the business grows into 10 or 20 million revenue, this becomes increasingly difficult and ultimately impossible."*

Thus, the development of processes and policies began during the birth phase with some rudimentary guidelines, such as purchasing limits for employees, and has been ongoing throughout the organization's life cycle. The development has been quite slow, with interviewees stating that there remains much room for improvement. Furthermore, it has not been entirely linear, as in addition to the introduction of new policies and processes, some policies have been refined and removed.

5.4. Planning controls

Long-term planning

With both long-term and short-term planning, it is important to distinguish between the planning of one's own work, for example the CEO's own plans of moving forward with an acquisition, versus the planning of the work of subordinates, which has the potential to be a management control system. Only the latter type of planning is of interest for this thesis, and

thus what is referred to below as planning is actually planning regarding the work of subordinates.

Especially during the birth phase of the company, long-term planning was not a priority. Focus was on creating processes for the newly founded company, and ensuring that the processes worked well. As there was no significant long-term planning done during the birth phase, it follows that it wasn't used as a part of the company's MCS package.

> *"Initially, we focused on keeping our head above water, because we were a small company. Planning was operative and short-term." (Chairman of the Board)*

Over time, some long-term planning has been introduced. The management teams of each branch have a long-term strategy, but there is much room for improvement for it to become useful as a control. One problem is that follow-up is not systematic enough.

> *"We haven't had systematic planning, and it has been one of our weaknesses, as we have been busy living in the moment." (Operations manager 3)*

One important way in which planning would function as a control, is through the setting of targets and the process for evaluating if they've been achieved. So far, this has not been done.

> *"Clear target setting and evaluation with respect to them has not been done." (CFO)*

And finally, there have been difficulties in bringing the strategies to the unit level. Part of the reason for this could be that they are not involved in formulating them or designing their implementation.

> *"At the moment, the strategy is made by the management team. I think that we should also involve our personnel more, because if it is just given from the top, they might not be so committed to it." (Operations manager 4)*

The introduction of venture capital has had some effect on long-term planning. The business plan includes financial targets, and based on them a basic strategy has been formulated where the type and focus of growth are specified. Thus, this sets some targets in addition to financial ones. Ideally, these targets would be translated into operating level action plans, but in the aggregate, that has not happened yet.

All in all, long-term planning has not played an important role as a part of the case company's MCS package. It has not been very systematic, there hasn't been clear target setting, and subordinates have not been involved.

Action planning

In the beginning, planning had a strong focus on the effectiveness of basic operations to ensure that the firm was bringing in more money than was being spent. The goal was simply to maintain positive cash flows.

> *"The firm was completely self-funded, so it was important to maintain positive cash flows to keep the firm running." (Chairman of the Board)*

There were little formal structures for planning. Instead, many of the plans were made reactively whenever a need for them was recognized.

> *"In the beginning, planning was more ad hoc in nature." (Chairman of the Board)*

As the organization has grown, higher levels of management have been forced to distance themselves from the company's day-to-day activities, as they are more focused on growth initiatives. Action planning is largely beyond the scope of top management and is mostly done at the unit level. Thus, for top management, action planning is not an important control.

The Board does very little action planning, and is almost completely focused on strategic, long-term initiatives. They are mainly focused on strategic initiatives, ensuring that the organization is being developed in accordance with the business plan. Additionally, they don't have expertise in the operating activities of the case company.

> *"When we get to action planning, like the planning of specific actions, it's not something we do. [...] If I were to speak with [the CEO] about the actual residential care of the elderly, I wouldn't have much to say." (External Board member)*

The disparity of customs as well as the importance of the unit manager are evident with regards to action planning.

> *"[In our first residential unit] we go through things and set targets. The targets themselves are small, but the end result is that the customer receives better*

> *services. This has not worked elsewhere, because it requires the unit manager to understand it and be committed to it." (CEO)*

Operations manager 2 describes the importance of the unit manager in planning as well:

> *"There are units, where the personnel are very actively developing the business and planning, and then there are units where nothing happens no matter how hard you try. One key reason is the unit manager, who has a huge role in this."*

Both unit managers interviewed for this thesis described various planning practices in their units. However, there is little connection between this planning and top management. The plans are made out of the unit's own initiative, and are not reported to the top management, so from the top management's perspective, it is not used as a management control system.

In summary, when the company was first founded, there was little time for planning and no formal structures for it. Actions were largely reactive in nature. As the company has grown, action planning has started taking place at the unit level. However, the top management usually does not intervene in this planning as they are more concerned with strategic initiatives. Thus, action planning has not played an important role in the company's MCS package for the top management in either the birth or the growth phase.

5.5. Cybernetic controls

Budgets

The first operations manager began preparing budgets for the healthcare services around one year after the company's founding. This budget has been in use since then. However, it has mainly been used for planning purposes to provide information about expected cash flows, and not for control purposes. Thus, in the case company, it is not a management control system.

> *"The way it started was that I first began making a sales forecast. It didn't take long before I was making an entire annual budget based on it. [...] The budget was mainly for my own purposes to help with planning." (Operations manager 1)*

None of the other branches of the organization have ever had a budget. This an example of how the personalities of key persons affect the different tools used in the case company. With the hiring of a CFO following the introduction of venture capital, budgeting is starting to be implemented in the hopes that by the beginning of 2017, budgets would be in use for each of

the case company's branches. With budgets, each unit will have its financial targets clearly defined, and thus deviation from targets can be controlled for.

> *"Prior to budgets, we haven't been good at setting targets and following their achievement. With budgeting, we will start to get there." (CFO)*

The budgeting process is expected to produce important information about the company's costs, which can further help to control them.

> *"With budgeting, it's not only the end result, but the process of evaluating what makes up our costs is also valuable." (CFO)*

One challenge for budgets is that the company is continuously growing, so it is very difficult to predict where it will be in one year. The solution to this is twofold. Firstly, the budget is prepared with enough specificity so that it is possible to add new units to the budget as more information about them becomes available. Second, the budget is going to be updated every six months.

> *"In a growth company, budgeting is very challenging. […] With acquisitions, the budget has to be updated. Also, the nature of our business is such that the situation can be good today, and completely different in two months." (CEO)*

Thus, we can conclude that budgets have not played a role as a part of the case company's MCS package. Budgeting is, however, expected to become an important control as it addresses many of the control problems that are currently faced regarding tangible targets.

Financial measures

When the company was founded the bookkeeping office provided monthly profit and loss statements, which were reviewed by the operations manager and sent to the founders. The financials were initially looked at very closely by the founders, because they wanted to ensure that the new company had a viable business plan.

> *"In the very beginning, the numbers were looked at quite closely, the founders wanted to make sure that things get on the right track." (Operations manager 1)*

However, no specific targets were set beyond the goal of maintaining profitability.

> *"There were no specific targets, we just wanted to be profitable." (Operations manager 1)*

The CEO explained that he has quite a good idea of what kind of financials he should see based on each unit's historical data, and that this serves as a substitute for targets.

> *"We've grown accustomed to how things should go." (CEO)*

The first few residential units which were purchased were separate juristic entities, and thus had their own bookkeeping and financial statements. The statements were not consolidated in any way for monthly reporting. As the company grew, focus shifted mostly to sales and financial reporting became less of a priority. Profit margins were for the most part high enough that good sales guaranteed a good profit. If problems in profitability were identified, then costs would be followed in greater detail until the problems were solved.

> *"If a problem was noticed, then we began following it closely for some time. When the problem was fixed, the following stopped." (Operations manager 1)*

Operations manager 3 described the reporting practices prior to the introduction of venture capital:

> *"Previously we only followed revenue, personnel costs, and EBIT. The numbers were crude, but we've always paid close attention to make sure that our units turn a profit."*

The financials have not been presented to the units themselves, but instead if problems are noticed, the unit is advised to alter their behavior either by working to fill up empty capacity or reducing spending.

> *"The numbers are in no way visible in the units." (Operations manager 4)*

This is because previously the CEO has thought that the units should focus on providing care for their customers, as indicated by operations manager 3:

> *"The top management's view has been that the numbers are not the concern of the units. However, they are in a key position to affect the costs. They are required to behave economically, but they have to do it in complete darkness."*

The CEO himself described the reasons for this as follows:

> *"The people in the field are not accounting people. Their interest is in taking care of our customers." (CEO)*

The introduction of venture capital has significantly impacted the use of financial measures. Reliable accounting information must now be provided systematically on a monthly basis and deviations are looked at more closely. New reporting templates were created for the Board, along with a crude consolidation of each branches profit and loss figures and of the group as a whole.

> *"Together with the external members of the board, we established our reporting templates. These tools have been very informative to us." (Chairman of the Board)*

There is an ongoing effort to provide both broader and more detailed financial information to the Board.

> *"What the Board gets are very rough, very basic profit and loss figures. And then there's net debt." (External Board member)*

A significant change in financial measures is derived from the business plan where EBITDA and growth margin targets have been set. These targets are now in use in each of the branches, and operations managers are beginning to make sure that they are achieved. As a result of these changes, financials are now looked at a very close level by operations managers and the founders. There have been many times that I've been called to various management team meetings to explain what certain bookkeeping accounts for a particular month contain.

Overall, during the birth phase, financials were initially looked at very closely to ensure that the newly founded company was profitable. As this became apparent, focus shifted to achieving growth, and away from financial measures. With the introduction of venture capital during the growth phase, financials regained their importance. The Board receives limited information from the company, so financial data can provide them a quick overview of the current situation. Additionally, the external owners' motivations are purely financial, so they are naturally keen on following the development of the company's financials.

Non-financial measures

Non-financial measures were introduced early in the growth phase when the first residential care units were acquired. Capacity utilization is a key factor in determining the profitability of these units, so the second operations manager began following it actively and reporting it to top management. Over time, the systematic reporting of this measure has decreased. Now the

operations manager only uses it for his own purposes, and other operations managers have not adopted a similar practice.

The CEO receives a report from each of the residential care units every week where the customer situation is described briefly. This includes a description of capacity utilization as well as any problems or ongoing issues with customers. Additionally, the report includes the use of substitutes as well as any sick leaves in the unit, and any major purchases made or needing to be made.

> *"We've made this form, where every week I get a report of what is going on in every unit. […] It was used by [one of the units we acquired]. We developed it to suit our needs because we thought that it was a good thing." (CEO)*

Thus, although capacity utilization is not presented as a measure, the founders receive this information through reports and conversations with operations managers.

> *"[The CEO] would probably know in his sleep how many customers are in each unit." (Chairman of the Board)*

Recently, the reporting of capacity utilization as a distinct measure is beginning to resurface once again. A unit's profitability largely depends on how much of its capacity is utilized, and thus, it is an effective way of controlling performance.

Customer satisfaction is measured in many units due to contracts with municipalities, but their use as a control is very limited. The results are not reported directly to the operations managers or the founders, and each unit has its own kinds of forms that are used.

> *"Customer satisfaction surveys are done in the units, but the results don't come to me. […] They are not used in a systematic way, there are many different kinds of forms which are used." (CEO)*

Overall, nonfinancial measures were not used during the birth phase. During the growth phase, a measure of capacity utilization was introduced, however, it was later abandoned. Now, it is being brought back once again.

Hybrid measures

Hybrid measures have not been used in the case company, possibly due to the overall lack of sophistication with regards to cybernetic controls. Both financial and nonfinancial measures on their own have only recently been implemented, and their use is still being refined. A

combination of these measures into, for example, a balanced scorecard may be the next step as combining leading and lagging measures could provide a better understanding of the underlying business.

5.6. Reward and compensation

Extrinsic rewards and compensation, beyond regular salaries, have not been used in the case company. One operations manager raised an interesting point in line with the MCS package thinking that a reward system may not be compatible with the current organizational culture.

> *"We don't have a reward culture." (Operations manager 3)*

There is quite a difference between doing good for a monetary incentive as opposed to doing good because it's the right thing to do. It could be that because there is an altruistic aspect to the nurses' profession, rewards are not the best way to motivate the case company's employees. Thus, it is possible that there is an intrinsically rewarding component to the work done at the grassroots level. However, it appears that higher level management don't actively control this. Unit manager 1 commented the following with regards to rewards and compensation:

> *"We don't have anything like that. [...] If we get positive feedback, it is recognized and thanked for. [...] I suppose it could be considered a type of reward the type of flexibility where, if employees can be flexible with their work shifts, then correspondingly we will be flexible from our side. If someone needs a day off, we can discuss how they will do the hours back."*

Thus, reward or compensation controls are not actively used in the case company. There is some behavior, which could be considered rewarding, such as a pat on the back for good work. However, these do not go through top management, but are instead used at the grassroots level. Some recognition of good work is also present in higher organizational levels, where I have observed that good results have occasionally received a congratulation. A more systematic way of collecting and handling customer feedback could promote the intrinsically rewarding nature of the work. For now, rewards or compensation are not used as a control system in a material sense.

	Birth phase	Growth phase
Cultural controls	- Official values emphasized - Clan control through frequent interaction between CEO and subordinates establishes shared beliefs and values	- Emphasis on formal values decreases - Symbols such as brand and a personnel magazine emerge as the company's own identity has grown - Clan controls transform from CEO based to company identity -based, managing subcultures becomes a challenge
Planning controls	- Minimal planning, ad hoc and short-term, hardly used as a control	- More formal planning, but still limited use as a control
Cybernetic controls	- Financial measures focused on sales	- Budgets emerging - P&L statements followed closely - Weekly reports including nonfinancial measures
Reward and compensation	- Nonexistent	- Nonexistent
Administrative controls	- Simple structures - CEO heavily involved in operating activity - Rudimentary policies and procedures introduced	- External owners introduced to company and Board, bring new requirements which affect especially the cybernetic controls - Founders continue to be strongly involved with operations, however, it is becoming challenging - Functional specialization introduced, likely to continue - Ongoing formalization of policies and procedures

Table 2. Summary of empirical findings

6. Discussion

In this chapter, the empirical findings from the previous chapter are compared with life cycle literature and previous research on MCS to see how well the current theory explains the findings, and to identify this study's contribution to existing theory.

6.1. The beginnings of management control

During the birth phase, companies focus on creating a product or service and securing a market for it (Greiner 1972). Their processes tend to be crude, because they often need to be developed from scratch (Miller and Friesen 1984). Given these findings from life cycle literature, it's unsurprising that during the birth phase, the case company focused on getting its business up and running, and ensuring its viability. MCS were only developed to the extent that was considered essential. Some policies and official procedures were implemented at the very beginning. Some were needed for legal reasons, others to ensure the centralization of decision-making. Birth phase companies also typically have very limited planning and coordination, and focus instead on stabilizing resources and achieving a survival threshold (Quinn and Cameron 1983). Consistent with this finding from life cycle literature, the case company didn't rely much on planning controls during the birth phase.

In accordance with the concern for survival identified in life cycle literature (Quinn and Cameron 1983), the case company implemented basic financial measures in the form of a monthly P&L statement that was followed very closely by the founders to ensure that the newly founded company was profitable. Generating positive cash flows from the beginning was vital to the case company's survival, because it was financed entirely by its two founders. The initial focus on financials could also partly be a result of the Chairman of the Board's background as an investment banker. Previous research suggests that the founder's background is a key factor in a company's adoption of MCS (Davila *et al.* 2009).

Birth phase companies are typically very small and dominated by their founders (Miller and Friesen 1984). This was true for the case company as well. The founder was closely involved in operating activities and was able to maintain control largely through a governance style of frequent personal interaction with subordinates. The organizational structure had a low hierarchy, and decision-making was highly centralized, which facilitated controlling the organization. Similar MCS constructed around the personal interaction between the founder

and subordinates has been identified in other studies (Collier 2005, Cardinal *et al.* 2004). However, these studies don't directly address governance or organizational structures as part of the MCS package.

Through regular interaction with subordinates, the CEO of the case company was able to employ clan control to imbue the organization with shared beliefs and norms. The prevalent organizational culture was a close reflection of the CEO's own personality, and thus, the actions of subordinates remained in line with his expectations. A similar form of control was documented by Collier (2005), where the control of an organization was largely based on the personality of its founder and dependent on his personal interaction with subordinates. Indeed, clan control may be a natural corollary to common characteristics of birth phase organizations, such as small size, frequent interaction between subordinates and founder(s), and focus on survival and stabilizing resources. In fact, Merchant and Van der Stede (2012, 95) suggest that cultural controls may be optimal for small organizations because their costs are low and there is little harm of unwanted side effects.

In contrast with previous studies on the formation of MCS, the case company introduced formal values at the very beginning, and value-based controls were considered important. Simons (1995, 126) noted that belief system controls, such as official values, would typically arise in the growth phase after the introduction of cybernetic and boundary controls. One reason for this difference could be the social and healthcare service industry in which the case company operates. Success in this industry is dependent on taking care of customers, which relies on the daily actions of employees, which in turn are strongly affected by their values. It could also be that values are overlooked in some studies as they are not included in all MCS frameworks.

The main components of the case company's MCS package that emerged during the birth phase discussed here have been highlighted in blue in Figure 5. Significant interdependency was identified between clan controls, values, governance structure and organization structure. A low hierarchy and personal style of governance enabled the CEO to utilize clan control, which was supported with value-based controls. Policies and procedures contributed to the organization's level of centralization by restricting most decision-making to the founders.

Cultural Controls						
Clans		Values			Symbols	
Planning		**Cybernetic controls**				**Reward and compensation**
Long range planning	Action Planning	Budgets	Financial measurement systems	Non Financial Measurement Systems	Hybrid Measurement Systems	
Administrative controls						
Governance structure		Organization structure			Policies and Procedures	

Figure 5. MCS package during the birth phase

Based on this study it appears that during the birth phase, the governance and organization structure controls follow directly from the small size of the firm and the large role of its founder(s), which are typical characteristics of birth phase companies. Clan control is suggested to be a natural corollary in this type of an organization. Some basic policies and procedures are implemented both for legal reasons as well as to help maintain the centrality of decision-making. Because of the essential nature of some policies and procedures, it is expected that birth phase companies employ this control type at least to some extent. Birth phase companies may also implement rudimentary financial measurement systems as a means of ensuring their financial viability, based on their concern for survival. However, this may depend on the background of the founder(s), as companies are often founded by technically minded people (Greiner 1972), who may not be versed in utilizing financial information and may have little interest in it.

6.2. The development of the MCS package during the growth phase

During the growth phase, an organization's focus shifts to pursuing rapid sales growth (Miller and Friesen 1984). This may lead the organization to prioritize growth projects over the development of MCS, as was seen in the case company. The case company entered its growth phase relatively quickly. Some of the possible reasons for this are that the founders had a clear vision of the kind of company they wanted to create, and that they initially expanded their company through acquisitions. A similar fast progression from birth to growth was also documented in another study (Cardinal *et al.* 2004), where it was also suggested that the company's founder's strong vision for the company helped to achieve growth quickly.

The case company expanded rapidly first by acquiring new units through acquisitions and later through a mixture of acquisitions and establishing new units. As it grew, its administrative task became more complex as there were more people whose actions needed to be coordinated. At the same time, the top management had significantly less time to spend with each individual and quite soon regular personal interaction with all subordinates became impossible. The growth of the case company brought along numerous interdependent changes to its MCS package.

Growth phase organizations typically undergo changes to their structure (Miller and Friesen 1984). As the CEO of the case company was no longer able to manage the operating activities of the growing company alone, changes to the organization's structure were introduced. It was expanded vertically with the introduction of operations managers for the residential care branch, and horizontally as a unit manager was appointed for each new unit. In Malmi and Brown's framework, organizational structure is classified as a management control system whereas many other frameworks, such as Simons (1995), omit it. Previous life cycle studies have used these frameworks in which organizational structure is not separately mentioned, and thus, it is not included in their findings as a part of MCS changes. The inclusion of organizational structure in the MCS framework is justified, because changes in organizational structure enable better control of a growing organization, as more resources can be devoted to managing various processes within the organization as opposed to the top management having to manage everything.

Coinciding with changes in the organizational structure of the case company, its governance structure changed as well. Management teams were introduced, and the personal style of governance of the CEO diminished. The decreasing involvement of the CEO in operating activities is identified both in general life cycle literature (Miller and Friesen 1984, Quinn and Cameron 1983) and in life cycle studies on the MCS (Collier 2005, Cardinal *et al.* 2004). Governance structure itself is not included in many of the other MCS frameworks, which may be why the introduction of management teams is not discussed in other MCS studies. They do, however, serve as a control, because they formalize the actions of managers, enable a coordination of management efforts, and the meetings of these teams set deadlines for the execution of plans.

Along with the changes in organizational and governance structures, the CEO became more distant from the field. As this happened, his ability to utilize clan control diminished. He was no longer able to be in the field to "bring his ideas" to the grassroots level. To continue to utilize clan controls, he promoted employees from the initial units to managerial positions, because he had developed trust in them and believed they would guide the units in the right direction. The use of value-based controls decreased along with the use of clan control as the CEO's interaction with the field became more irregular. A similar distancing and subsequent challenges with clan control were described by Cardinal et al. (2004). There the solution was formalizing the recruitment process and implementing a vision statement, which are yet to happen in the case company. It could be, however, that with the potential forthcoming introduction of a human resource specialist the recruitment process may start to become formalized. While in the birth phase, clan controls may be an attractive form of control, but as on organization grows, their use becomes increasingly difficult for top management. Thus, it follows that during the growth phase, organizations may need to seek alternative forms of control.

After it was established that their business plan was viable, the financials were left in the background and focus shifted to growing the company. Some prior research suggests that efficiency is more of a concern during the birth and maturity phases than during the growth phase (Smith *et al.* 1985). This kind of progression is identifiable in the case company as it wasn't until the introduction of venture capital that financials became a priority again. To balance the MCS package as clan control diminished, the CEO introduced weekly reports, which were filled in the units and sent directly to him. These reports included information about capacity utilization as well as sick leaves, and thus, can be considered a type of nonfinancial measure. Through these reports, the CEO received information from the field regularly, however, the flow of information became more one-way. Cybernetic controls provide an alternative to clan controls. Prior research suggests that the first formal MCS implemented in companies are financial measures (Davila and Foster 2007) and diagnostic control systems in general (Simons 1995, 126). Thus, the development of cybernetic controls appears to be common during the growth phase, perhaps to form a substitute for the previously used clan controls.

New shareholders are commonly introduced during the growth phase (Miller and Friesen 1984). Venture capital literature suggests that venture capitalists can be an important catalyst

to changes in organizations (Mitchell *et al.* 1995). They have been found to be a key factor in the formalization of MCS (Davila *et al.* 2009, Davila and Foster 2007, Granlund and Taipaleenmäki 2005). Part of the reason for this is that venture capitalists have limited access to information within the organization, and regular and reliable accounting information can greatly assist them in assessing whether the organization is moving in the right direction (Mitchell *et al.* 1997). Consequently, the introduction of venture capital is likely to affect the development of cybernetic controls in particular. This is exactly what was observed in the case company, where cybernetic controls were influenced drastically by the introduction of two external owners. Financial targets were set in the business plan and performance was followed each month with regards to these targets. Budgets are now being prepared for the entire company, which will include unit level financial plans for how the company-wide financial targets can be achieved. There is also pressure to develop some non-financial measures to support the financial data.

The new owners also affected the case company's governance structure. They were given two seats on the company's Board. Board meetings started being scheduled regularly and had a recurring agenda. These meetings set deadlines for reporting, which increased the pressure of providing accurate financial data in a timely manner. The financial targets are translated by the company's Board into a strategy, thus affecting planning controls as well. Goals are set for making new acquisitions and for improving the efficiency of existing units.

The main components of the case company's MCS package during the growth phase have been highlighted in blue in Figure 6. The changes in this phase can be grouped into two distinct categories: changes that occurred as the organization grew, and changes that occurred because of the introduction of venture capital. Once again, interdependency was identified within both sets of changes. As the organization grew, its organization and governance structure changed as new managers and management teams were introduced. Simultaneously, the CEO's level of involvement at the grassroots level decreased substantially, and thus the clan and value-based controls he had been using became less useful. To compensate, non-financial measurement systems were introduced. Over time, symbols such as the company's brand began to emerge and contribute to the organization's culture. A key feature of the growth phase was that although the founders became less involved with operating activities, they still wanted to know everything that happened in their company. This was achieved to an extent through highly detailed financial and nonfinancial reports.

The introduction of venture capital formalized the company's Board, which began to meet on a monthly basis. This increased pressures to provide timely and accurate financial data, and resulted in the development of cybernetic controls in the form of budgets, non-financial measurement systems and more refined financial measurement systems. Financial targets are translated into strategic plans, and thus long range planning is starting to take place as well.

<table>
<tr><th colspan="7">Cultural Controls</th></tr>
<tr><td colspan="2">Clans</td><td colspan="3">Values</td><td colspan="2">Symbols</td></tr>
<tr><th colspan="2">Planning</th><th colspan="4">Cybernetic controls</th><th rowspan="2">Reward and compensation</th></tr>
<tr><td>Long range planning</td><td>Action Planning</td><td>Budgets</td><td>Financial measurement systems</td><td>Non Financial Measurement Systems</td><td>Hybrid Measurement Systems</td></tr>
<tr><th colspan="7">Administrative controls</th></tr>
<tr><td colspan="2">Governance structure</td><td colspan="3">Organization structure</td><td colspan="2">Policies and Procedures</td></tr>
</table>

Figure 6. MCS package during the growth phase

The findings from this study suggest that during the growth phase, organization and governance structures change, as the organization's management needs to be adapted to a growing administrative task. As a result of the increasing size of the organization, the clan controls used in the birth phase become more difficult to use. They are supplemented with other forms of control, most notably by cybernetic controls, which are more scalable than clan controls. Nonfinancial measurement systems can arise alongside financial measurement systems. As the organization grows older, symbols begin to emerge, perhaps because it takes time for the symbols to become meaningful. A gradual development of policies and procedures continues in the growth phase.

The introduction of venture capital, which often occurs during the growth phase, furthered the development of cybernetic controls. A key contribution of venture capitalists was the introduction of clearly defined targets. Financial measures become more refined, and their timeliness and correctness becomes more important. Budgets are introduced to provide a connection between the venture capitalists' growth and profitability goals and the organization's finances. Long range planning is introduced to translate these goals into operating plans.

6.3. A nonlinear and disruptive progression

One important characteristic of the case company's MCS package is that its development has not followed a linear progression in terms of formality or quality. The non-financial measure of capacity utilization was introduced during the growth phase, but was later abandoned. Now it is once again being brought back. Financial reporting was introduced early on, but its significance decreased, and severe problems were faced relating to accounting information systems due to which reporting partially halted for almost an entire year.

With MCS, more control systems do not necessarily guarantee a better result (Merchant and Van der Stede 2012, 5), and thus part of the development of the MCS package can include removing unnecessary controls. In the case company, this was seen in the development of policies and procedures where parts of the policies were removed to make them more effective.

Similar problems have been noticed by other researchers as well. Granlund and Taipaleenmäki describe this development aptly as "a set of winding trails, shortcuts and wrong tracks" (2005, 42). Life cycle models have been criticized for providing an overly polished look at the development of organizations. At the level of individual companies, non-linear and disruptive development is often a reality, life cycle models only offer a rough idea of a general trend (Granlund and Taipaleenmäki 2005).

7. Conclusions

The goal of this thesis was to investigate how and why an organization's MCS package evolves during the birth and growth life cycle phases. The research was conducted as a case study using a single case company in the Finnish social and healthcare services sector. The main sources of data were 12 interviews supplemented by participant observation over the entire period of making this thesis.

During the birth phase, the MCS package of the case company consisted of organization structure, governance structure, and policies and procedures from the administrative controls category, financial measures from the cybernetic controls category, and clan and value based controls from the cultural controls category. Administrative controls appear to have been present from the very beginning of the company's life cycle. A low organization structure enabled the founder/CEO to frequently interact with the grassroots level and thus to efficiently employ clan control. Some rudimentary policies and procedures, such as purchasing limits, were implemented early on to ensure the centralization of decision-making. Simple financial measures were introduced to ensure the company's economic viability.

As the company entered the growth phase, its organization structure was forced to expand both vertically and horizontally, causing the CEO to become more distant from the grassroots level. Consequently, the clan control that had been used in the birth phase became increasingly difficult to use. During the growth phase, venture capital was introduced to the company, which spurred the development of cybernetic controls including budgets, financial measures and non-financial measures. The financial targets set together with the new owners were translated into rough long-term plans, and thus rudimentary planning controls were introduced as well. Additionally, some symbols emerged during the growth phase, which had taken some time to inherit meaning within the company.

Administrative controls were present at both life cycle phases, which fits with Malmi and Brown's (2008) description of administrative controls as providing the structure in which other forms of control are used. As the foundation provided by the administrative controls changed due to the growth of the organization, the rest of the control package was forced to adapt. This lead to a transition from clan based control in the birth phase to cybernetics and planning based control in the growth phase. While the summary of changes depicted here provides a clean-cut

and linear progression, the reality was quite the opposite. It needs to be emphasized that the summary presented only represents the general trends of development, and in reality, the development was at times nonlinear and even chaotic. Control elements were introduced, abandoned, and introduced again, and technical problems caused financial measures to be partially unusable for almost an entire year.

The future of the case company's control package remains to be seen. Supposing that the company eventually reaches maturity, efficiency is likely to become more of a priority (Miller and Friesen 1984) whereas for now, it has been surpassed in importance by growth initiatives. Thus, cybernetic measures will probably continue to become more important. It is possible that eventually some reward based controls, which were not identified so far, may be introduced to ensure commitment to the financial and nonfinancial targets. Then again, it could be that these controls are not suitable for a company in this industry as suggested by some research (Wynia 2009). Hybrid measures are more than likely to eventually be introduced as connecting non-financial and financial measures would assist in understanding the underlying business. At the same time, the declining focus on cultural issues may lead to increasing problems, and thus, a revival of cultural controls may be waiting to happen. As stated by one of the external members of the company's Board:

> *"I would eventually want to see all of these [elements of the MCS package framework] in place."*

This thesis contributes to research in several ways. First, it provides an account of specific changes that occurred during the birth and growth phases and how those changes tie in to the characteristics of the particular life cycle phase. Thus, it contributes to life cycle and MCS literatures by adding the MCS component to life cycle literature and a dynamic life cycle perspective to MCS literature. Previous life cycle literature suggests that processes in general began to formalize during the growth phase (Miller and Friesen 1984, Quinn and Cameron 1983). The same phenomenon has been identified with regards to MCS in multiple studies (Granlund and Taipaleenmäki 2005, Davila 2005, Moores and Yuen 2001). So far, however, a more detailed account of the changes of the MCS package (Malmi and Brown 2008) and how they relate to the life cycle phase has not been presented. A few qualitative studies have provided narratives of developments (Collier 2005, Cardinal *et al.* 2004), but the ties to life cycle phases have remained unanswered, and the level of detail with the identification and

classification of MCS has remained at quite a general level. This thesis offers a greater level of detail with regards to investigation of the MCS package thanks to the MCS package framework (Malmi and Brown 2008), which has some significant advantages with regards to previous frameworks both in broadness and in specificity. Life cycle research has been criticized for providing an overly polished view of the development of organizations, however, they should be understood to only provide a general outline of developments (Miller and Friesen 1984). Granlund and Taipaleenmäki (2005) described how this applies to MCS as well, as the development of MCS over an organization's life cycle tends to be nonlinear and full of missteps. This thesis provides another account of the reality of MCS development where problems were encountered and development was not always for the better.

A second contribution of this thesis is in the depiction of venture capital and its effects on the MCS of a company. We know from venture capital literature that the venture capitalist's access to information within the company is inevitably limited, and they often depend on various measures to know how the company is doing. This leads them to require a greater level of financial data than what might otherwise be available (Mitchell *et al.* 1997). Venture capitalists have been identified as key catalysts in the formalization of MCS (Granlund and Taipaleenmäki 2005, Davila 2005). This thesis goes into greater detail in describing exactly how the MCS package is affected by venture capitalists. The strongest effect of the venture capitalists was on cybernetic controls including financial and nonfinancial measures and budgets. Both the breadth and the depth of these controls was found to increase significantly. Long-term planning also formalized as financial targets had to be translated into strategic plans.

This thesis investigated MCS within the social services sector, which has not been done before. Previous research has mostly focused on individual control elements in a healthcare setting such as budgets (King *et al.* 2010) or the balanced scorecard (Gurd and Gao 2007, Zelman *et al.* 2003, Inamdar *et al.* 2002, Chow *et al.* 1998) as opposed to studying the entire MCS package. The social services sector, in particular, has received almost no attention, and thus this thesis offers the chance to explore a new industry from the perspective of MCS research. The findings of this study suggest that budgets may be introduced later in social services companies than in traditional manufacturing organizations, and rewards and compensation may not be in line with the organizational cultures of such companies. Value-based controls, on the other hand, are possibly better suited, because much of the work is value-driven. It must be

emphasized that these findings are exploratory, and at best could serve as hypothesis for further studies.

When evaluating the contribution of this thesis to practice, it should be remembered that there is no reason to consider the practices identified in the case company of this thesis exemplary, and identifying successful MCS was not a part of the research question. Instead, the focus was on describing the changes in a particular company, and that perhaps that other companies might face similar changes. Given this background, this thesis provides an account for practitioners about the chaotic nature of organizational life in growing organizations. Organizations in the birth phase that are looking to grow can expect to run into prioritization issues where MCS are left in the background. They may find themselves having good ideas, perhaps even implementing them, but ultimately abandoning them, as was the case with nonfinancial measures in the case company. Organizations looking into venture capital can expect venture capitalists to develop their cybernetic controls in particular, and planning controls will need to be developed alongside. Finally, practitioners could look to the MCS package framework to analyze their own control systems and identify possible inconsistencies or weaknesses, as for example, the case company of this thesis could perhaps identify a diminishing set of cultural controls, and a possible future need to correct that.

There are some important limitations, which must be considered, when interpreting the results of this study. Firstly, because it was done as a single case study, it offers no potential for statistical generalization. The summaries presented here are based on what appeared to be links between the case company and its context with the idea that companies in a similar context may face similar issues. Thus, the context of this study must be kept in mind. The further another company is from the context, the less the results are likely to apply. Given the qualitative nature of the study, there is also an inevitable degree of subjectivity with the observations that were included and those that were not, with the classification of those observations, and with the evaluation of the most important observations. A final limitation is that whilst a dynamic view of developments over the organizational life cycle was presented, the study was not truly longitudinal. Ideally, the study would have been done over a long period of time so that the case company could be observed over its life cycle instead of having to rely on the recollections of key individuals.

Further research could undertake a similar study longitudinally and truly follow an organization over a longer period of time while classifying findings according to the same MCS framework. It would also be interesting to see a similar study done where other life cycle phases are included, as this study was limited to only the birth and growth phases, leaving open the questions of what happens as a company transitions to the maturity and revival phases. Finally, the MCS within the social and healthcare services sector could be explored further by examining the hypothesis presented earlier in this chapter regarding their characteristics.

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Appendix A. List of interviews

Date	Position	Duration	With the case company since
18.4.2016	Controller 1	79 minutes	January 2011
26.4.2016	CFO	53 minutes	March 2015
10.5.2016	Operations manager 4	58 minutes	2012
18.5.2016	Operations manager 3	61 minutes	2011
25.5.2016	Chairman of the Board	63 minutes	Founder
22.6.2016	External Board member	76 minutes	2015
28.6.2016	Operations manager 1	65 minutes	May 2008
30.6.2016	Controller 2	42 minutes	September 2011
2.9.2016	CEO	58 minutes	Founder
5.9.2016	Operations manager 2	62 minutes	November 2008
29.9.2016	Unit manager 2	62 minutes	2009
17.10.2016	Unit manager 1	52 minutes	November 2008