



**SCHOOL OF ECONOMICS  
AND MANAGEMENT**  
Lund University

Master's thesis  
Course FEKP01  
Autumn 2007

# When companies grow up

**A case study of a family-owned company's management control system**

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Lund, 2008-03-04



# Abstract

Title:	When companies grow up A case study of a family-owned company's management control system
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Course:	FEKP01
Problem:	What are the characteristics of Polykemi's management control system and how is it affected by growth?
Purpose:	To describe and analyse the management control system of a medium-sized family-owned company from the perspective of Simons' Levers of control.
Research design:	An abductive, interview-based case study of Polykemi AB.
Conclusion:	Polykemi's management control system is primarily a traditional one which is rather strong in terms of Levers of control. It is changing to become more modern and several important developments are under way, particularly within the frame of the change program "Going for Gold". As an effect of growth, formalisation is probably required, since tacit and informal systems do not scale as well as formalised systems do.
Keywords:	Polykemi, case study, family-owned, management control system, budget, levers of control.



## **Acknowledgements**

We would like to thank Olof Arwidi and Peter W. Jönsson for being outstanding advisors, especially when we started veering away in different directions.

We are also very much indebted to everybody at Polykemi AB who agreed to interviews, and perhaps above all Ola Hugoson, with whom we spent a great deal of time.

Thank you for all your help. This thesis would surely have been much less interesting without it!

Lund, 21 February 2008

Jacob Gradén

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## 1. Introduction

*This chapter discusses the background to the thesis and presents a problem discussion, which leads to the actual problem: “What are the characteristics of Polykemi’s management control system and how is it affected by growth?” The purpose of the thesis, the constraints necessary to make it more specific, and the intended target audience are also presented, together with an overview of the thesis’ chapter structure.*

### 1.1. Background

Both large and small companies need some kind of management control system, which in turn needs to be rooted in the company strategy, to make sure that the company moves in the desired direction. A company’s management control is one of its basic building blocks – as Anthony & Govindarajan note, it is a process which allows managers to inspire and control employees so that they implement the company’s overarching strategic goals <sup>1</sup>; in other words, a very important condition for the company’s survival.

In the management control system there is often one or more tools or mechanisms which structure the process and facilitate implementation. Examples of such tools are budget, multi-dimensional control measures such as balanced scorecard, value-based management tools, etcetera. Often, it is not enough to have just one of them, so the company combines two or more to achieve all purposes that the management control system as a whole must fulfil.

Robert Simons introduced a framework with four perspectives for strategic management control in 1995, which he called the Levers of control and which this thesis uses as its primary theoretical basis. In this model, what for example Anthony & Govindarajan or Merchant & Van der Stede call management control system, Simons places as one lever – the diagnostic control system – which is primarily concerned with providing results to managers and to allow corrective actions when results are not satisfactory. The other three levers then expand on this to include the importance of visions, possible opportunities which should be ignored, and the need for continuous discussion regarding the strategy. <sup>2</sup>

A reasonable starting point is that companies need different tools and controlling mechanisms, depending upon size – in monetary as well as personnel terms – to achieve the management control which suits just their needs best. It is also reasonable to assume that when a company grows, its management control needs to be adjusted to be suited to new circumstances.

Large companies seem to be able to implement and use established control mechanisms, but what about smaller or family-owned ones? For both of these, the company is often more tightly connected to a smaller group of people, and it is not unusual for the company culture to be more personal and informal than is the case for larger companies. Depending upon what is valued,

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<sup>1</sup> Anthony, Robert N. & Govindarajan, Vijay (2003) *Management Control Systems*

<sup>2</sup> Simons, Robert (1995) *Levers of control: How managers use innovative control systems to drive strategic renewal*

strictly financial or business-rational control mechanisms and business ratios may be shunned in favour of other interests or ideas.

To study this area, this thesis describes and analyses a small-to-medium-sized company, Polykemi AB; specifically, their management control system. More information about Polykemi can be found in chapter 4.1: Presentation of Polykemi AB, but in all briefness it is a plastics compounder located in Ystad with about 200 employees and a turnover of around 600 million SEK. It was founded in 1968 and is wholly owned by one family.

The in-depth study of just one company allows for a strong insight into that company's situation and systems. Of interest is also the fact that Polykemi are currently revising their management control system, with the implementation of Going for Gold, a program for becoming more goal-oriented and in the end increasing turnover and results.

## 1.2. Problem discussion

That all successful companies become older is of course a truism. Generally, companies also grow in size over time. Both processes affect the company, and this in turn affects how the management control system should look and work. For larger companies owned by many different shareholders, this area has been studied rigorously – and taught at universities – but for smaller companies and perhaps family-owned ones in particular, there is less data available. This piqued our interest.

There are many possible starting points when describing and analysing a company's management control system. For instance, it is generally accepted that management control ought to be connected to strategy<sup>3 4</sup> which means that strategy would then become important too. It is also important to consider internal organisation and external environment, and not least how they affect the management control in terms of centralisation, necessary roles, formalisation, bureaucratisation, and which processes are needed, to name but a few.

One starting point outweighs the others though, namely the need to describe the system. Regardless of which other approach is later taken, the fundamental characteristics of the management control system need to be known to produce a useful analysis. Once this is known, other factors can be surveyed as well. The simple model in Figure 1: Fundamental model of interaction below presents a basic overview of how the most interesting such factors for this thesis' case company – both company-specific, such as being family-owned and in the process of growing, and external factors, which would on an abstract level be the entire environment – influence a management control system. The current system, together with influences from both within and without, is then the basis for change, extension and adaptation for the next system.

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<sup>3</sup> Anthony, Robert N. & Govindarajan, Vijay (2003) *Management Control Systems*

<sup>4</sup> Merchant, Kenneth A. & Van der Stede, Wim A. (2003) *Management Control Systems - Performance Measurement, Evaluation and Incentives*

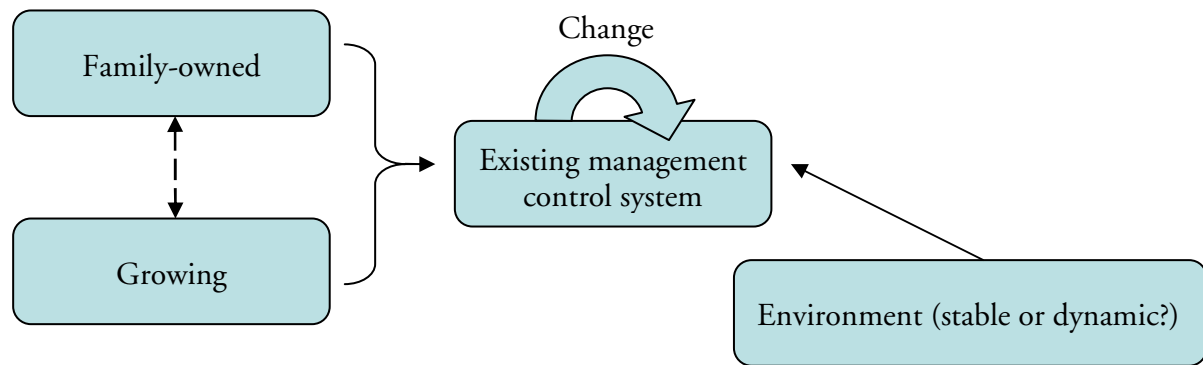


Figure 1: Fundamental model of interaction

The discussion above leads to the following fundamental question:

*What are the characteristics of Polykemi's management control system and how is it affected by growth?*

### 1.3. Purpose

The purpose of this thesis is to describe and analyse Polykemi's management control system from the perspective of Simons' Levers of control in order to highlight strengths and weaknesses, and in the process the effects of being family-owned and the fact that the company is in a growth phase are given extra consideration.

### 1.4. Scope and focus

To focus the thesis, certain constraints must be set. One such is quite simply that only one company is studied, namely Polykemi AB in Ystad. Also, neither Polykemi's strategy nor their organisational design is studied specifically; rather, they are taken for granted whenever they are used. The management control system is the focus of the thesis, with a special interest in the interaction with the goals set out in Going for Gold (see chapter 4.3: Going for Gold). At the outset, it was however necessary to create a broad understanding of the company as a whole, which is reflected in the interview questions in Appendix A: Interviews.

Theories were chosen to describe and analyse the phenomena above, which is another form of constraints. Given more time, more theories could have been utilised to highlight different aspects of the empirical data, to provide a fuller understanding, or to present alternative interpretations. Chapter 3: Frame of reference presents background theories used for general understanding as well as theories used specifically for analysis.

### 1.5. Positioning

There have been many theses on management control, but surprisingly few have dealt with family-owned companies. This thesis focuses on describing and analysing the current management control, the upcoming changes to it, and possible extensions or changes which might be interesting to consider; and the specific fact that the case company is family-owned is given some extra consideration, both in terms of theory and analysis.

Studies regarding management control in a family-owned company have been done earlier, for example in the form of a bachelor's thesis at Lund University by Andersson & Lindahl <sup>5</sup>. However, that thesis focuses on studying the management control with a basis in balanced scorecards, and on constructing a scorecard for the company. The whole, aggregated management control system is not dealt with in that study, and is, generally, lacking in studies of such companies.

Regarding theories, this thesis draws heavily on Simons' theory Levers of control (see chapter 3.3: The levers of control). There have of course been other theses which have used the same theory, for example Hedström & Nilsson <sup>6</sup> which deals with the control of intellectual capital, but overall, Levers of control occurs relatively rarely in Swedish academic theses and the application of that theory on a family-owned company seems well suited.

It is also worth noting that the system which this thesis studies is currently being developed and implemented, which in itself makes the thesis very current and empirically relevant. It also positions the thesis in the regard that it is by necessity unique, since both the case company and their management control system have been and are changing.

#### 1.6. Target audience

This thesis was written primarily with students at master level in business administration in mind, to ensure a consistent high level without requiring special knowledge. Another very important target audience is employees in a leading position at Polykemi – in other words, the interviewed persons and their colleagues.

#### 1.7. Structure

Structurally, this thesis can be said to consist of three blocks: The more formal chapters 1 and 2; the input data in chapters 3 and 4; and the results of the analytical processes in chapters 5 and 6.

The thesis begins with two chapters of a rather conventional character. Chapter 1: Introduction provides an opening description and presents the problem and purpose, and chapter 2: Research design presents how the study was done. Chapter 3: Frame of reference then aims both to give the reader a background to the subject, in terms of family-owned companies and the company life-cycle, and to present the central models – levers of control, development of budgeting, and balanced scorecard.

Chapter 4: Empirical data quite naturally contains the facts regarding Polykemi AB and its management control system. This chapter is then brought together with the frame of reference in chapter 5: Analysis, which presents the entire collection of the results of analysing the data. The results of this analysis are also given in condensed form in chapter 5.3: Conclusions. Chapter

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<sup>5</sup> Andersson, Sofia & Lindahl, Christina (2007) Kandidatuppsats: *Verksamhetsstyrning i familjeägda företag* (2007)

<sup>6</sup> Hedström, Marja-Lena & Nilsson, Hanna (2005) Magisteruppsats: *Styrning av humankapital utifrån Simons Levers of control*

6: Discussion, finally, gives a broader outlook on related topics which have not been covered, on problems and opportunities, and generally attempts to provide a higher level of abstraction.

Finally, there is a list of all references, and an appendix which provides information regarding the interviews and interviewees.

### 1.8. Summary

In this chapter, the discussion behind the central problem has been presented. This discussion leads to the actual problem: *What are the characteristics of Polykemi's management control system and how is it affected by growth?* The purpose of this thesis has also been stated, namely to *describe and analyse Polykemi's management control system from the perspective of Simons' Levers of control in order to highlight strengths and weaknesses*. Last but not least important, the scope, target audience and constraints have been specified, and an outline of the chapters has been given.





## 2. Research design

*This chapter describes the methodological choices behind the study, such as the type of study, the style in which it was performed, how data – in terms of both documents and interviews – has been gathered, and how reliability, validity and similar important characteristics have been maintained. At the end of the chapter, there is also an explanation of a few terms and abbreviations which the reader may find it useful to be acquainted with in reading the thesis.*

### 2.1. Choice of subject and company

A rough outline of the desired subject was set up initially, namely management control, preferably in a form of company which had not been previously covered in courses. Given this, a search for companies started. Early on, an opportunity practically knocked on the door – Polykemi AB.

Polykemi AB had been in touch with the university and stated that they would like to be the subject of a master's thesis regarding management control, and a first connection was made with them through the advisors to this thesis. During a precursory meeting with Polykemi's management, it became clear that the company was just about ideal – neither family-owned nor small-to-medium-sized companies have been dealt with very much during studies, nor companies in processing industry. Additionally, since Polykemi were in the process of renewing their management control system, the project seemed very interesting.

This management control system renewal – Going for Gold – and an interest from Polykemi in the question of formalising the management control without making it more cumbersome became the starting points for investigation. During the course of study, this grew to include the questions of what effect the fact that the company was family-owned had on its management control, and also how the latter was affected by the company's growth. This, together with Simons' theory as an aid to classification and analysis, became the subject for the thesis.

### 2.2. Choice of method

Since only one company was studied and the purpose was to understand as much as possible about it and its management control system, a qualitative in-depth case study – that is, an empirical study performed in order to examine the company and attempt to point to its specific characteristics<sup>7</sup> – seemed to be by far the best way to proceed.

There are basically three different ways of performing any sort of study: the deductive, inductive and abductive methods, although there are also a number of others which are less prevalent. Very briefly, the deductive method starts with general premises and aims for specifics, whereas the inductive starts with a set of specifics and attempts to create a generalisation from them. For academic articles based on deduction, this typically means that theories are chosen first and empirical

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<sup>7</sup> Bryman, Alan & Bell, Emma (2003) *Företagsekonomiska forskningsmetoder*

data is gathered and sorted to fit into the overall pattern of theories; inductive articles tend to start with finding the data and then selecting or even generating theories and models to fit that.<sup>8</sup>

Both types of reasoning have their strengths and weaknesses, and it is quite uncommon to find that either one is used exclusively. The abductive method is a middle-ground of sorts, where both deductive and inductive work is done to arrive at the best conclusion: Given a set of particular data, a reasonable general explanation can be produced or found, which can then be used to shed more light on the original data.<sup>8 9</sup> The abductive method is used in this thesis, for example in that theories were chosen based on the subject and data to be studied, and that the theories were then used to explain that same data as well as being applied to other aspects of the study.

The main reason for not solely using the deductive method was that choosing theories without considering the available data risks occluding important aspects, which if noticed could have led to other conclusions. Since this is an in-depth case study of one single company – and furthermore a company of a somewhat unusual type and for which, as a consequence, certain theories may not be sufficiently suited – that risk was in fact rather significant. On the other hand, the deductive method allows for the strength of using existing theories, which would increase the strength of analysis and hopefully bring out conclusions which might otherwise have been missed.

Similarly, the main reason for not solely using the inductive method – apart from the difficulty in applying theories – was that features in the company being studied risk becoming magnified in analysis. They may be important for the company but not be common among other companies, and there then needs to be some way of tempering their influence on the thesis. Again, since this is a case-study of one single company, that risk is present. The abductive method provides a good compromise between the other two methods and reduces the risks of either.<sup>9</sup>

### 2.3. Literature study

First of all, it is important to note that in line with the abductive method described above, literature lists have been revisited and revised continually as data gathering yielded new ideas and areas of interest – and conversely, literature studies have generated new questions for data gathering. In other words, the literature studies and other methods of gathering data have been used in turns.

Books, both course books and regular ones, and academic articles – including masters' and bachelors' theses – have been the fundamental starting places for finding theories. A small amount of non-academic articles and papers have been helpful, but they are the exception. Technically, references in existing books and articles, together with searches in Lovisa, Elin and Malmö Stadsbibliotek, and tips from advisors were the primary sources of new literature.

Leads from the above sources were investigated, both to refresh the knowledge and to find new. From this, a theoretical background was generated, some of which later became the frame of ref-

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<sup>8</sup> Björklund, Maria & Paulsson, Ulf (2003) *Seminarietboken*

<sup>9</sup> Bryman, Alan & Bell, Emma (2003) *Företagsekonomiska forskningsmetoder*

erence. The theories and models were chosen to provide a good backdrop and enable analysis without reiterating well-known knowledge. For this reason, some of the more obvious theories – such as a general overview of management control – which were definitely relevant, were shunned nonetheless because they were considered to be too basic.

## 2.4. Data collection

Data was collected using documents and interviews. The two are presented below.

### 2.4.1. Document studies

A veritable plethora of documents has been studied too, in order to generate empirical data. Descriptions of Polykemi's management control system as well as the rest of its business was available primarily as documents, electronic or printed, and formed the basis for later studies and for the first questions for interviews. After the interviews were held, the documents have been revisited, and some new documents were added during the interviews as well. This also allowed the interviews to focus more on the practical use of the systems and on personal reflection than on formal details.

The documents can roughly be classified as belonging to one of three categories: public documents from other parties, public documents from the company, and internal documents. Examples of the first are newspaper articles and financial information from Affärsdata, examples of the second are annual reports and the company homepage<sup>10</sup>, and an example of the third is the company management's review (see chapter 4.2.4: Other formal instruments). Electronic sources have of course been marked separately as just electronic, but their important characteristics are the same as those of other public writings from the company or other parties. The use of all types of documents was deliberate and served the dual purposes of providing width and depth, as well as helping to ensure data consistency and thus increasing reliability.

External documents are superior to internal in the sense that they tend to be more objective and have a more neutral perspective for criticism. For about the same reason, however, they are also inferior in the sense that they tend not to be able to describe internal processes and conditions, since the internal knowledge required for such descriptions is precisely internal. Internal documents may provide more details, but also represent another perspective.<sup>11</sup>

For both types of documents, a critical review is necessary, and was of course performed as a natural part of reading them. The type of scrutiny was however not exactly the same for both, for the simple reason that they have different strengths and weaknesses. It is also important to point out that since the documents are of different types, they were not used for quite the same purpose: External documents primarily provided background and promoted overall understanding,

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<sup>10</sup> <http://www.polykemi.se>

<sup>11</sup> Bryman, Alan & Bell, Emma (2003) *Företagsekonomiska forskningsmetoder*

rather than being central to the study itself, whereas internal documents provided more details and were more intimately connected with the case study.<sup>12</sup>

In spite of their usefulness, documents alone were not sufficient, for several reasons. To start with, they seldom contain information about courses of action which were not taken, even though they might have been possible – documentation tends to provide the foundation for making decisions and for following them up, not for evaluating ignored opportunities. For another thing, they seldom contain information about the process leading up to a decision, and they also tend to lack the personal reflections which can be enormously interesting. Additionally, especially in companies with less formal management control systems, documents seldom tell the whole story and company culture or other more personal tenets can be very important.<sup>12 13</sup>

#### 2.4.2. Interviews

Apart from document studies, interviews were also used – as a matter of fact, the interviews provided much more insight and details than document studies, but both were necessary. Since the study was qualitative but there were still specific questions or more general areas which needed answers and clarification, neither structured nor unstructured interviews were suitable, whereas semi-structured ones fit very well.<sup>12</sup> The purpose of the interviews was primarily to provide in-depth explanations about the studied system and phenomena, but also to answer specific questions brought up in earlier interviews or from the document studies. To accomplish this, both the flexibility of unstructured or semi-structured interviews and the possibility of structured or semi-structured interviews to set a direction were necessary, and for that reason, the semi-structured method was chosen.

If the advantages of semi-structured interviews are that they allow the interviewee to speak relatively freely, unlike structured interviews, and that there is still some measure of control over the direction of the discussion, unlike in the case of unstructured ones, the main disadvantages are that interviewees may attempt to avoid the questions in the interview guide and that some aspects, which might have been covered in a completely unstructured interview when the interviewee was allowed to associate freely, might be missed. Both risks can be mitigated by preparing a good interview guide and by keen attention to the discussion during the interview.<sup>12</sup>

The interview guides are available in appendix A, in their original form (Swedish), and were designed to be followed more or less in the order they are presented. In reality, some interviews were more ordered than others, but all topics were covered in all interviews. The questions were designed to be open and to further explanations and discussion, rather than just obtaining a short answer, and for that reason they were kept general enough not to hinder alternative ideas or points of view. They were also asked slightly differently for each person interviewed, to provide for the different persons' different jobs and perspectives. Altogether, four different interview guides were used.

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<sup>12</sup> Bryman, Alan & Bell, Emma (2003) *Företagsekonomiska forskningsmetoder*

<sup>13</sup> Anthony, Robert N. & Govindarajan, Vijay (2003) *Management Control Systems*

The interviewees were selected to provide experiences from different parts of the company, based in part on the recommendations of Polykemi's CEO, who was also one of the interviewees. Managers, both from within and outside the owning family were interviewed, as well as a number of persons who are not managers. Several different functions, such as marketing and sales, purchases and production were also represented. An overview of the interviewees is presented in Table 1: Interviewees. The organisational relation of interviewees to each other is presented in chapter 4.1.4: Internal organisation, and the interview guides used for each interviewee is detailed in appendix A.

Table 1: Interviewees

Name	Title	Comment
Jörgen Andersson	Laboratory manager	
Stefan Andersson	Controller	In charge of the budget process
Lena Hansson	Financial manager	
Ola Hugoson	CEO	Owner
Lars Hugosson	Executive vice president, Purchases manager	Owner, also CEO of Rondo Plast
Roland Persson	Head of operation and maintenance	
Mattias Persson	Sales manager	
Peter Åkesson	Executive vice president, Technical manager	

The interviews were performed in Swedish, and for this reason any direct quotes are presented in their literal form, in addition to the English translation. The same is true for direct quotes from documents, where applicable.

## 2.5. Critique

For empirical data to bring something of value, both its reliability and validity must be ensured. If either is missing or questionable, the thesis as a whole has a problem. Reliability and validity are therefore central for any thesis.

The basis of ensuring reliability is an ambition to avoid random or systematic errors in the gathering of data, from external factors, the selection of a particular subgroup of interviewees sharing certain characteristics, the characteristics of the interviewer, etcetera.<sup>14</sup> Four different methods formed the basis for ensuring maximum reliability for this thesis: Interview guides, recorded sessions, more than one interviewer, and summaries of sessions.

The interview guides were prepared in advance and updated for each interviewee, and then followed roughly during the interviews – if not exactly in the order the question were lined up –, which increased the likelihood that conflicting answers would be found. The interviews were also recorded for later use, which means that the risk that something was missed or misunderstood during interviews was mitigated. The mere fact that there were always two interviewers present also helped increase reliability, and additionally, each interview was summarised after it was held, to make sure that both interviewers had got the same impressions.

<sup>14</sup> Lundahl, Ulf & Skärvad, Per-Hugo (1999) *Utredningsmetodik för samhällsvetare och ekonomer*

If reliability is about getting correct answers to questions, validity is about asking the correct questions.<sup>15</sup> There are two parts to validity: internal and external, where the former deals with the risk that the question at issue cannot be answered by the empirical data and the latter with the possibility to generalise results. To ensure high validity, questions should therefore be asked to persons who are knowledgeable in the studied field, which was assured in the selection of interviewees, and the questions should be the same or similar so that answers can be compared and analysed, which was assured through the use of interview guides.<sup>16</sup>

To further ensure that the answers were relevant to this study, each interview was started with a short presentation of the goals of the thesis and the specific interview. By communicating this to the interviewees, they were able to answer general questions more to the point and the effectiveness of the interviews increased.

## 2.6. Terms

The following definitions aim to clarify the theoretical meaning of some terms which are important for the thesis. The problem with these terms is generally not that they are unknown, but that they can have many different meanings; to eliminate any confusion, they are therefore defined. Some acronyms are also explained, to facilitate for the reader.

*Management control* is often split up into two parts: “strategic control” and “operational control”<sup>17</sup>; however, sometimes<sup>18</sup> “strategic control” and “management control” are used as opposing terms. Strategic control is about making sure that the company’s strategy is still valid, which is arguably more important in dynamic environments than in stable ones; management or operational control is concerned with making sure that the everyday workings of the company run smoothly. This thesis deals primarily with the operational control aspects, but refers to them interchangeably as belonging to “operational control” or, more commonly, “management control”.

Simons (1995) argues that *management control systems (MCS)* are “the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities”<sup>19</sup>. There are several important keywords in this definition, but suffice to say that the “formal” requirement can be debated. On a more basic level, an MCS is anything which establishes desired outcomes and provides corrective actions if the actual result does not correspond to the desired; whether or not the desired outcome and the corrective actions are pre-planned and formalised or not is essentially a matter of how to implement the MCS.

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<sup>15</sup> Bryman, Alan & Bell, Emma (2003) *Företagsekonomiska forskningsmetoder*

<sup>16</sup> Lundahl, Ulf & Skärvad, Per-Hugo (1999) *Utredningsmetodik för samhällsvetare och ekonomer*

<sup>17</sup> Anthony, Robert N. & Govindarajan, Vijay (2003) *Management Control Systems*

<sup>18</sup> Merchant, Kenneth A. & Van der Stede, Wim A. (2003) *Management Control Systems - Performance Measurement, Evaluation and Incentives*

<sup>19</sup> Simons, Robert (1995) *Levers of control: How managers use innovative control systems to drive strategic renewal*, p. 5

*Multi-dimensional frameworks* come in many different shapes and sizes, the best-known of which is probably the balanced scorecard (see chapter 3.5: Balanced scorecard for more information on this specific version). Theoretically, any model which incorporates several different aspects, and perhaps specifically is not limited to accounting measures, could be considered multi-dimensional. For the purposes of this thesis, the term is used to describe any framework which employs perspectives other than the ordinary accounting perspective. Two such frameworks are the levers of control (see chapter 3.3: The levers of control) and the aforementioned balanced scorecard, although others could be included.

There are also a few acronyms which are used throughout the thesis:

- BSC is an acronym for Balanced ScoreCard. See chapter 3.5: Balanced scorecard.
- CMR is an acronym for Company Management's Review. See chapter 4.2.4: Other formal instruments.
- GfG is an acronym for Going for Gold. See chapter 4.3: Going for Gold.
- MCS is an acronym for Management Control System. See above.

## 2.7. Summary

This chapter has explained that the form of the thesis is an abductive case study of one company, primarily based on semi-structured interviews with owners, managers and employees of the company. Internal documents from the company have also been used, in order to generate a more complete picture, and so have external documents. In both cases, as well as for the literature study, a healthy dose of critical thinking has been used. Reliability and validity have been assured, and finally, some important terms and abbreviations have been introduced for later reference.





### 3. Frame of reference

*This chapter gives a background to the basic themes of the thesis, and perhaps specifically the analysis chapter. The two first theories below, while not used explicitly in the analysis, are basic model assumptions underlying the reasoning in later chapters. The study of family-owned companies highlights their specific characteristics and the company life-cycle describes how companies evolve. Together, these theories provide an important background for later theory and analysis. After this the chapter presents the main theories in the thesis. Since these theories – levers of control, development of budgeting, and balanced scorecard – are fundamental to analysing and explaining the case study, it might be prudent to keep them in mind for later chapters.*

#### 3.1. Family-owned companies

Family-owned companies are rather consistently different from other companies in some important aspects. First, though, a rough definition. Emling<sup>20</sup> sets up two mandatory requirements, followed by three optional ones, at least one of which must be fulfilled (additional formal requirements on the legal structure of the company have been omitted):

1. The company is controlled by an individual or a family
2. The interviewees must consider the company to be controlled by the family
3. One or more of the following:
  - The current owner plans to hand the company over to family members
  - The company has been owned by the same family for at least two generations
  - At least three representatives of the family are active in the company's management or hold seats on the board of directors

##### 3.1.1. Strategy

Barely one third of all Swedish family-owned companies have a strategic plan for the business, and the implementation of support tools as a part of strategic or management control is pretty rare. When such tools are used, it is primarily in the form of IT support systems, and quality and environment programs and certifications – but often because important customers or suppliers demand this, and not because the tools are in themselves part of the strategy. Family-owned companies are also less likely to hire consultants to develop strategy, perform internal change programs or execute similar plans.<sup>20</sup>

Another conclusion from Emling's study is that the strategy is less formalised than in other companies of corresponding size or age, despite the opinion in traditional management control research that formal strategic plans are of decisive importance for growth and long-term survival. He notes, however, that there is often a strong informal strategy, which is not necessarily described as a strategy but is nevertheless known throughout the company. This lack of formal strategy may be related to the fact that growth is ascribed relatively modest importance; what is

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<sup>20</sup> Emling, Emil (2000) *Svenskt familjeföretagande*

truly imperative is the survival of the company. Family-owned companies also tend to be more interested than comparable groups in being cost or price leaders.<sup>20</sup>

Emling draws the conclusion that the leadership styles of family-owned companies is slightly more informal and less dependent on existing models and tools than are those of otherwise similar companies which are not family-owned; and there is a slight difference in the views on ultimate goal as well. The implication is that the concentrated ownership and view of the firm as something to pass down for generations leads to increased cautiousness, both in terms of willingness to take strategic risks and in terms of investments.<sup>21</sup>

In general, family-owned companies view themselves as growing slower than other companies, which is also borne out in analyses of their age and size vis-à-vis comparable firms. Access to capital, however, is actually better – possibly related to the principle of caution, which would lead to higher solidity since capital is almost entirely risk-free.<sup>21</sup>

### 3.1.2. Leadership

Emling's study identifies two main points of interest regarding family-owned companies. First, the CEO (or equivalent) holds the position for much longer periods of time, and second, in more than 90% of the cases the CEO is a member of the owning family. Neither is very surprising, even though it would, for example, be perfectly possible for a family to own all shares of a company but select somebody else to be in charge of the company. In line with this, family-owned companies seldom hire external advisors or consultants. If and when it does happen, the primary groups to which they turn are auditors, banks, and other companies' managements.<sup>21</sup>

The advantages to this kind of leadership include stability in management philosophy, culture and strategic direction, focus on long-term issues, security for both employees and other stakeholders, and that it tends to result in shorter paths for decision-making. The disadvantages are of course the flip side of the coin: when it goes too far, the leadership may become inflexible and dictatorial, often accompanied by almost non-existent delegation.<sup>21</sup>

Johansson & Lewin identify a risk in this kind of leadership, namely that of nepotism. In itself, nepotism need not be negative – the person being hired is generally part of the family, often knows the company very well, shares the same basic beliefs and so on – but there is a risk that he or she is simply not fit for a certain position. Knowing the person who is being hired is by and large only positive, and family members tend to know each other very well, but positions cannot be given only because of family ties; if objective requirements are loosened in order to give a certain person a post, the actual requirements may turn out to be beyond the person's level of competence, which may have adverse effects later on.<sup>22</sup>

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<sup>21</sup> Emling, Emil (2000) *Svenskt familjeföretagande*

<sup>22</sup> Johansson, Sven-Erik & Lewin, Stefan (1992) *Det ägarledda företaget*

### 3.1.3. Culture

According to Johansson & Lewin, the corporate cultures of family-owned firms become very influenced by the families and their beliefs, especially since there is relatively little cultural stimulus from outside the companies. In addition to being strongly influenced by the family, the corporate culture is usually also remarkably strong. When this is used in a positive way, the employees get the benefit of feeling like they are part of a team, and the company gets the benefit that employees feel a responsibility to help the company become better. When it is used in a negative way, the risk is that employees' power is misdirected and used on meaningless projects.<sup>23</sup>

Johansson finds that sometimes, the underlying motives of family-owned companies go beyond strictly financial reasons. This can be seen in that owners abstain from high salaries or dividends, instead deriving satisfaction from reputation and social status. There is also a focus on strengthening the family fortune and making sure that the family will have work in the future. Family-owned companies also tend to place more weight on the welfare of employees and their financial security than do non-family-owned companies. Commonly, strong social bonds develop between the family, the company and the city of residence, which in themselves lead to a strong motivation to develop and maintain the survival of both the company and the community.<sup>24</sup>

### 3.1.4. Survival

Ordinarily, family-owned companies are older than other comparable companies, and have often been controlled by the same owner for longer. There is also, usually, a distinct wish that the next generation continue running the company; about 80% of companies express such a desire, and approximately 70% expect that this will actually be the case. Interestingly, Emling states that just below 30% of companies do in fact reach the second generation, and only about 15% for the third. Reasons include the lack of planning for the succession, the difficulty to find competent heirs, disputes within the family, unwillingness from the current generation to let go and lack of renewal in the company.<sup>25</sup>

Well planned and realistic business models and strategic targets are central for all companies, not just family-owned, but it is of particular importance to this group of companies for the simple reason that they are often neglected. In family-owned companies, strategies tend to be less formal and less clear than in other companies. The more the company grows, the more important it becomes to consciously work with planned goals, visions, strategies, business models, business plans and similar documents, and, in addition, to link them to each other. Emling notes that the best results in this area are achieved when management and employees work together in a dialogue to produce them.<sup>25</sup>

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<sup>23</sup> Johansson, Sven-Erik & Lewin, Stefan (1992) *Det ägarledda företaget*

<sup>24</sup> Johansson, Sven-Erik (2005) *Familjeföretaget*

<sup>25</sup> Emling, Emil (2000) *Svenskt familjeföretagande*

### 3.2. Company life-cycle

Several models of how companies develop over time exist, most of them with the same general idea: companies start small, informal and immature and grow over time to become large, formalised and centralised when they mature. During this process, they encounter different types of crises which punctuate the development and divide it into stages, each of which has its own requirements and areas of focus. The number of impasses and phases vary between models, as do their descriptions, but the overall idea is the same. Among the earlier was Greiner<sup>26</sup> who introduced five stages, outlined in Figure 2: The five phases of growth and Table 2: Organisation practices during phases of growth.

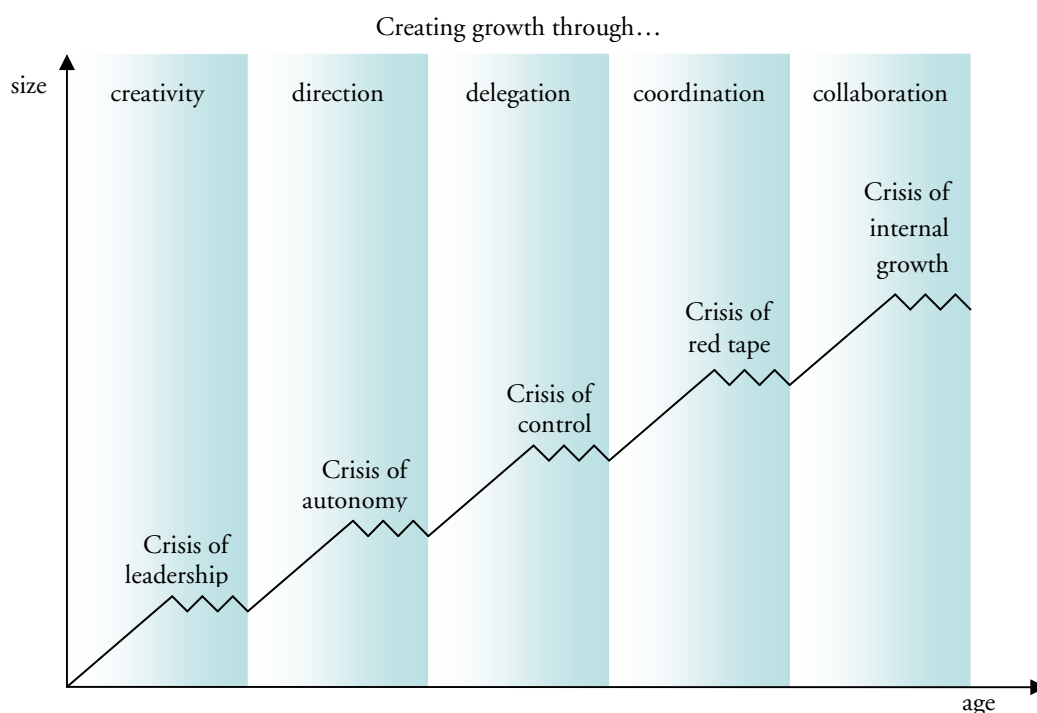


Figure 2: The five phases of growth<sup>27</sup>

Companies are assumed to start young and small, and then grow over time. Both age and size are determinants of crises – revolutions – meaning that even companies which do not become larger will one day hit a crisis; but companies which do grow will reach that problem sooner, and the faster they grow, the shorter the time between crises – evolution – will be. This also depends heavily on the surrounding industry and whether it in itself is fast-moving or mature and stable, as well as on the economic conditions – when times are good and profits come easily, revolutions can be avoided for longer than would have otherwise been the case.<sup>26</sup>

<sup>26</sup> Greiner, Larry E. (1972) *Evolution and Revolution as Organizations Grow*, Harvard Business Review 50 (July – August), pp. 37 – 46

<sup>27</sup> Adapted from Greiner, Larry E. (1972) *Evolution and Revolution as Organizations Grow*, Harvard Business Review 50 (July – August), pp. 37 – 46, p. 46

Each phase of evolution has its own characteristics, see table below. Each phase focuses on one type of problem – starting the company, bringing good leadership, allowing more autonomy and so on – and is in that way a solution, but each phase is also the cause of the next crisis. Allowing for more autonomy inexorably leads to a crisis of control as the company grows and matures, for example. Moreover, the company cannot go back to the solution of an earlier phase, though it may be tempting. Companies which try to do that, or which try not to change at all, may not survive to the next phase of evolution.<sup>28</sup>

Table 2: Organisation practices during phases of growth<sup>29</sup>

Category	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Growth through	Creativity	Direction	Delegation	Coordination	Collaboration
Management focus	Make & sell	Efficiency of operations	Expansion of market	Consolidation of organisation	Problem solving & innovation
Organisation structure	Informal	Centralised & functional	Decentralised & geographical	Line-staff & product groups	Matrix of teams
Top management style	Individualistic & entrepreneurial	Directive	Delegative	Watchdog	Participative
Control system	Market results	Standards & cost centres	Reports & profit centres	Plans & investment centres	Mutual goal setting
Management reward emphasis	Ownership	Salary & merit increases	Individual bonus	Profit sharing & stock options	Team bonus

The table above summarises the evolutionary phases. The crises, then, are of *leadership*, *autonomy*, *control*, *red tape* and *internal growth*.<sup>28</sup>

The first crisis occurs when the entrepreneurial founder needs to make way for a manager, because the company needs more attention to internal efficiency and centralised, formalised control. The second crisis occurs when lower-level managers and employees start to find it difficult to perform their jobs in the face of centralised procedures and directives, even though they are more in contact with the day-to-day workings than upper management can be at this point, and so centralisation needs to give way for autonomy. Typical problems in this crisis are an unwillingness from upper management to let go, but also that lower-level managers need to learn to make decisions for themselves.<sup>28</sup>

Over time, autonomy tends to lead to many different agendas being pursued with diminishing levels of central coordination. As a reaction to this comes the third crisis, a crisis of control. Top executives seek to regain control, but centralisation is no longer appropriate because of the sheer scope of the company at this stage. The solution is instead formalised coordination, and a move towards the popular view of a bureaucracy. Following on this evolutionary phase is the crisis of red tape – excessive regulations become a hindrance rather than a help, and the company needs to

<sup>28</sup> Greiner, Larry E. (1972) *Evolution and Revolution as Organizations Grow*, Harvard Business Review 50 (July – August), pp. 37 – 46

<sup>29</sup> Adapted from Greiner, Larry E. (1972) *Evolution and Revolution as Organizations Grow*, Harvard Business Review 50 (July – August), pp. 37 – 46, p. 46

move on to collaboration. This phase in turn ends up with the crisis of internal growth, when further growth can come only by developing partnerships with other organisations.<sup>30</sup>

However, as a final, brief, reflection, the model can also be questioned. Are the results typical for all societies and all times, or would different results be found if the same study were done on similar companies in a hundred years? And how general is it really – *all* companies can hardly be expected to develop this way? As a generic model, it probably works rather well, and it may indicate directions for individual companies, but it should not be taken as an absolute truth.

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<sup>30</sup> Greiner, Larry E. (1972) *Evolution and Revolution as Organizations Grow*, Harvard Business Review 50 (July – August), pp. 37 – 46

### 3.3. The levers of control

Simons<sup>31</sup> defines four “levers of control”, which are different systems making up a framework used to ensure that an organisation stays on track. They are *beliefs systems*, *boundary systems*, *diagnostic control systems* and *interactive control systems* – see Figure 3: The levers of control below. A fifth system, *internal controls*, while not a lever in itself, is necessary to provide correct information (primarily to the diagnostic control system) and is in that way required for effective control.

The framework is built upon two underlying ideas: That there is a virtually infinite amount of opportunities which the company could exploit but that this is unfeasible because the attention of its employees is a limited resource, resulting in the conclusion that this scarce resource must be utilised in the most efficient way so that return-on-management is maximised; and that in order to achieve this, both creativity and constraints are necessary – in fact, that the tensions between the four levers are what creates positive growth.

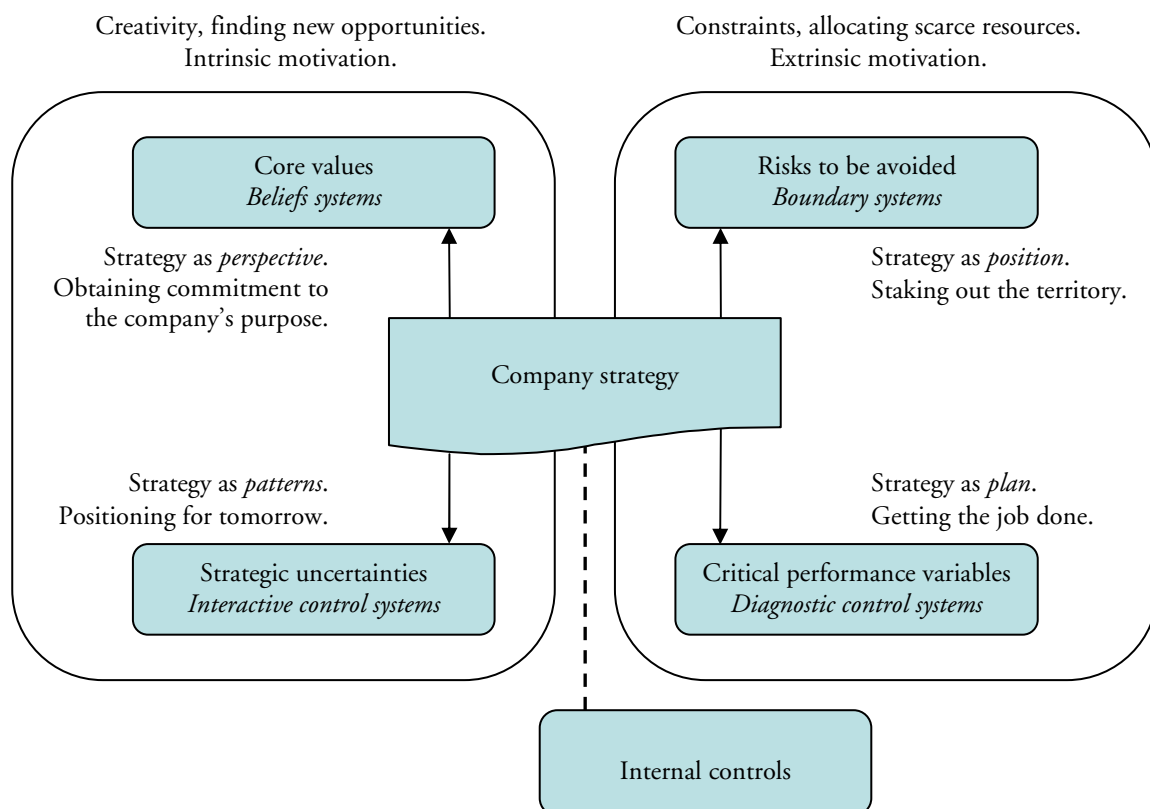


Figure 3: The levers of control<sup>32</sup>

<sup>31</sup> Simons, Robert (1995) *Levers of control: How managers use innovative control systems to drive strategic renewal*

<sup>32</sup> Adapted from Simons, Robert (1995) *Levers of control: How managers use innovative control systems to drive strategic renewal*, pp. 86 and 158 – 159

For information on strategy as perspective, position, patterns and plan, see Mintzberg, Henry (1987) *Five P's for Strategy*, California Management Review, June, pp. 11 – 24

### 3.3.1. Beliefs system

The beliefs system communicates the purpose, core values and direction of the organisation. In practical terms, this would be for example credos or statements of the company's vision, mission or purpose. It provides answers to questions like how the company creates value and what level of performance is expected, and helps guide employees towards what is most important for the company as a whole. Since beliefs systems are meant to cover the entire organisation, they must be broad and generic enough to be acceptable by all employees, which in turn means that they are too vague to be tied to incentive systems.

Beliefs systems are especially important in engineering organisational change, deriving a significant deal or their clout from the underlying discussions. This is not necessarily to indicate that beliefs systems need to be *created* by discussion and consensus – the dialogue employed in communicating and explaining them can simply fill the role of building commitment among mid-level managers and employees.

Finally, Simons notes that beliefs systems have become more formalised because the world has become more complex – companies had beliefs systems earlier on as well, but they were largely tacit. The increasing complexity of the organisational structures and the need to constantly reassess competitive positions, as well as new demands from employees who place more focus on personal fulfilment, have prompted the codification and formalisation of these systems. In the specific case of growing companies which were small enough to keep the purpose clear just by discussions, creating and communicating a single purpose now becomes, at the same time, more crucial and rather a lot harder.

### 3.3.2. Boundary system

If the beliefs system provides direction and gives a sense of what should be accomplished, the boundary system defines what should not be done – to help employees make the best choices by removing those which are clearly unwanted, or to set minimum standards to which to adhere. Together, beliefs and boundary systems divide the infinite area of opportunities into general areas of interest and non-interest (beliefs system), and inside the area of interest the boundary system further establishes a partition between unfocused and focused opportunities. Figure 4: Opportunity space partitioned by beliefs and boundary systems below illustrates how the beliefs and boundary systems interact to direct individuals' efforts.



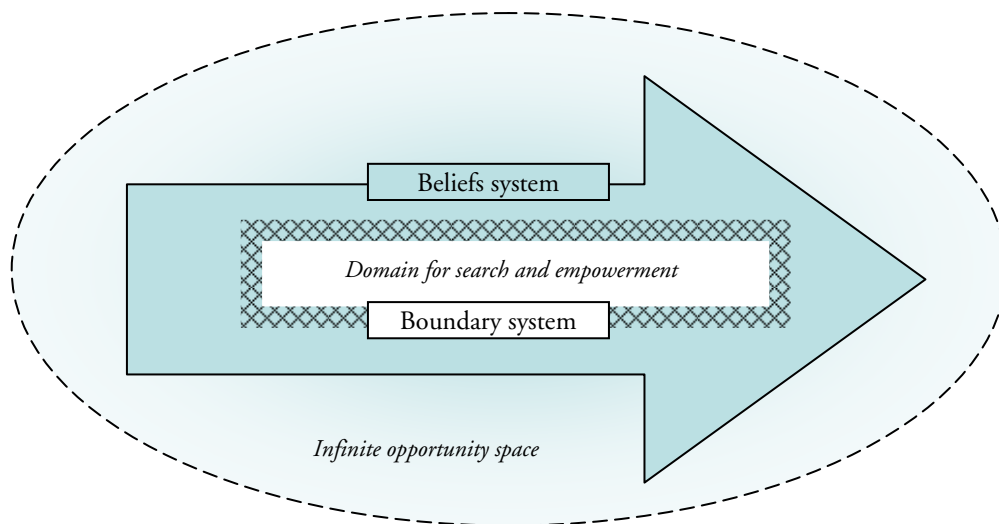


Figure 4: Opportunity space partitioned by beliefs and boundary systems<sup>33</sup>

Boundary systems tend to be specific – indeed, they are often created one rule at a time after something bad happened, to mitigate the risk of it happening again, and grow over time into a larger system – and can therefore be used with incentives. Since they define unacceptable actions, however, they generally use punishments rather than rewarding all those who conform.

### 3.3.3. Diagnostic control system

The diagnostic control system is the backbone of the traditional form of management control systems: it provides results information to managers and allows them to take corrective action if something is amiss. This system is in fact so common in management control that the very term “management control system” is sometimes used to denote it, ignoring other aspects.

Diagnostic control systems measure results in terms of output variables. Simons calls these “critical performance variables”, Kaplan & Norton call them “critical success factors” (see chapter 3.4: Balanced scorecard below), and other terms are used by other authors. Common for all of them is that the variables are selected primarily from two criteria: effectiveness and efficiency, where the first is primarily under internal control and aims to increase the probability of meeting required levels, and the latter is primarily under external control and aims to make sure that the right product is fashioned, in order to maximise the created value.

Since a key part of diagnostic control systems’ *raison d’être* is to enable management-by-exception, it is unsurprising that managers give them relatively little attention in daily work – they are largely self-regulating, operated by staff groups. There are however three important cases when managers use them: “setting and negotiating goals”<sup>34</sup> which are to be used as standards, “receiving updates and exception reports”<sup>34</sup>, and “following up on significant exceptions”<sup>34</sup>.

<sup>33</sup> Adapted from Simons, Robert (1995) *Levers of control: How managers use innovative control systems to drive strategic renewal*, p. 42

<sup>34</sup> Simons, Robert (1995) *Levers of control: How managers use innovative control systems to drive strategic renewal*, pp. 70 – 71

Determining the optimal difficulty level of the goals can be quite hard. Too easy goals means employees may not feel motivated to do their best, whereas too hard goals may cause them to give up. Open-ended goals, where more is always better, are less effective motivators than specific targets, and if the system is used both for follow-up and prognostication, setting lower goals can be tempting to ensure that the predicted levels are met or exceeded. If even more purposes are added on, the conflict becomes even worse.

Diagnostic control systems are constraints, and as such are well suited to use for incentives. Designing incentives is an art in itself and beyond the scope of this thesis. Suffice to say that there are many pitfalls, including whether to offer individual, group or company-wide incentives, whether to use a banking system where payouts can be carried over between periods to even the levels and prevent myopia, whether to have lower and / or upper cut-off limits, how large to make the incentives (or punishments) to motivate employees without making them afraid of failing (which might too cautious behaviour), not to mention how to design fair and objective measurement variables which are wholly controllable by the evaluated entity without being subject to chance or interference by others, and at the same time being meaningful and motivating. And the list goes on.

In order to work, the diagnostic control system needs accurate data. If the reports are inaccurate or false, exceptions may not be reported – and much less noted by managers. The component which safeguards against this type of problem is called internal controls and may contain safeguards in several areas, perhaps particularly structural safeguards (such as independent auditors and different authorisation levels), staff safeguards (such as sufficient training and resources) and system safeguards (such as recordkeeping and documentation). Like the boundary system, it defines minimum levels, but unlike it, internal controls specify detailed procedures for information handling rather than risks to be avoided. Internal controls are also absolutely necessary to guarantee that the other systems work as intended and that results are in line with goals.

#### 3.3.4. Interactive control system

If the diagnostic control system is about ensuring that predefined goals are set – strategy as a plan – the interactive control system is about the opposite: strategy as a pattern. The diagnostic system aims to make all small steps stay in line with the overall direction, whereas the aim of the interactive system is to look at all the small steps and possibly adjust the overall direction to match them. Managers use the interactive system to take part in the decisions of employees, and when they find strategic possibilities – or threats – they can take steps to look into the matter, which may prompt a shift in the current strategy. It could be said to be learning of a double-loop nature, as opposed to the single-loop nature of the diagnostic system.

Like the beliefs system, the interactive control system strives to release creativity and permit people to look freely and openly for new influences. Both positive and negative external influences – in Simons' words: strategic uncertainties – need to be part of the picture in order to find out what the company could do that it does not currently engage in, what changes could be coming and

bring about opportunities as well as threats, and what assumptions or external shocks that could prove hindrances for the company to achieve its goals.

The interactive system requires frequent attention from managers – at all organisational levels – to work properly. Since it gives rise to questions about strategic position, it also needs to be brought to the attention of managers at all levels, including the very highest, and to be able to provide the intended benefits the information generated by the system needs to be discussed as well hierarchically as laterally. It is aptly named, since the keyword is just interactivity, in both directions: just as managers listen to their subordinates, so managers must also reiterate the overarching agendas in discussions with them.

## 3.3.5. Overview of levers

Table 3: Characteristics of the four levers<sup>35</sup>

	Beliefs systems	Boundary systems	Diagnostic control systems	Interactive control systems
Nature of system	Explicit set of shared beliefs that define basic values, purpose, and direction	Formally stated limits and rules that must be respected	Feedback systems used to monitor organizational outcomes and correct deviations from preset standards of performance	Control systems that managers use to regularly and personally involve themselves in the decision activities of subordinates
Purpose	Provide momentum and guidance to opportunity-seeking behaviors	Allow individual creativity within defined limits of freedom	Provide motivation, resources, and information to ensure important organizational strategies and goals will be achieved	Focus organizational attention on strategic uncertainties and thereby provoke the emergence of new initiatives and strategies
Key design variables	Core value	Risks to be avoided	Critical performance variables	Strategic uncertainties
Examples	<ul style="list-style-type: none"> <li>- Mission statements</li> <li>- Vision statements</li> <li>- Credos</li> <li>- Statements of purpose</li> </ul>	Clear rules, limits, and proscriptions in: <ul style="list-style-type: none"> <li>- codes of business conduct</li> <li>- strategic planning systems</li> <li>- capital budgeting systems</li> </ul>	<ul style="list-style-type: none"> <li>- Profit plans and budgets</li> <li>- Goals and objectives systems</li> <li>- Project monitoring systems</li> <li>- Brand revenue monitoring systems</li> </ul>	Top managers can make any control system interactive by: <ol style="list-style-type: none"> <li>(1) ensuring that system is an important and recurring agenda to discuss with subordinates</li> <li>(2) ensuring that system is a regular focus of attention by operating managers throughout the organization</li> <li>(3) participating in face-to-face meetings with subordinates</li> <li>(4) continually challenging and debating data, assumptions, and action plans</li> </ol>

<sup>35</sup> Simons, Robert (1994) *How New Top Managers Use Control Systems as Levers of Strategic Renewal*, Strategic Management Journal, Vol. 15, No. 3, p. 172

### 3.4. Development of budgeting

Planning and budgeting systems are important parts of the management control in a company. In brief, budgeting means that a financial plan is produced for how the company management intends to run the company during a predetermined period of time, most commonly one year.<sup>36</sup>

The outcome of the budgeting process, the budget, is an important tool for managers at different levels within the company when they are exerting control. It is a short-time financial plan, which is structured to match the company's responsibility configuration regarding costs, revenues, profit, assets, etcetera. By delegating responsibility for parts of the budget to different persons, divisions or functions, a desirable result can be achieved. Another aspect of budgeting's role in management control is that it can be used to reduce insecurity among managers, and not least as a channel for information.<sup>36</sup>

Traditionally, budgeting has been the central tool for most organisations' control mechanisms. It has also served as the basic component for their management control systems. As such, the budget is a central component of management control.<sup>37</sup>

According to Arwidi, the use and even meaning of budgeting have successively been changed and developed, perhaps especially as a result of technological changes, the use of complementary management control systems and the rethinking of the role of budgets – the latter of which can in turn change both within a specific company and in an industry as a whole over time. Complementary systems affect the budget in that they can take on roles the budget previously filled, and in that simply by their existence the capabilities of the management control system may change and expand which in turn changes expectations of the budget.<sup>38</sup>

Arwidi further recommends that the different management control methods be seen in a wider organisational context; the reason being that they fill different functions and therefore for all intents and purposes are complementary. This view supports an evolutionary perspective, in which other management control methods such as balanced scorecard or economic value are added to the budget in order to control the organisation, rather than new methods replacing earlier ones.<sup>39</sup>

The actual roles a company's control system has depend on the company-specific organisational characteristics. One important first distinction is whether the system is common for the entire

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<sup>36</sup> Merchant, Kenneth A. & Van der Stede, Wim A. (2003) *Management Control Systems - Performance Measurement, Evaluation and Incentives*

<sup>37</sup> Otley, David (1999) *Performance management: a framework for management control systems research*, Management Accounting Research, 10, pp. 363 – 382

<sup>38</sup> Arwidi, Olof (2005) *Budgeteringens utveckling – evolution eller revolution?* In Ekonomistyrningens metoder, sammanhang och utveckling, edited by Lind, J. & Nilsson, G.

<sup>39</sup> Arwidi, Olof (2005) *Budgeteringens utveckling – evolution eller revolution?* In Ekonomistyrningens metoder, sammanhang och utveckling, edited by Lind, J. & Nilsson, G.

company or group, or whether it is merely used locally in subunits; systems common for the entire company typically fill the role of a framework for local systems. Other determinants are: <sup>39</sup>

- The company's requirement for planning and controlling
- The company's management philosophy
- The organisational form of the company
- Which other control systems the company uses

In addition to this, the industry in which the company is active, and the company management itself, affect how the role of budgeting is developed and changed over time. <sup>40</sup>

Arwidi further notes that when budget changes, there are five levels of possible change, where the first level denotes almost no change, and the fifth is rather a lot more radical: <sup>39</sup>

1. Budgeting virtually unchanged
2. The technique, in general terms, is changed to meet new demands
3. Redefined roles, possibly together with other changes
4. Other measures of control are used in combination with the budgeting
5. Budgeting is replaced by other measures of control

Management control systems, or parts thereof, can be roughly divided into two categories: traditional or modern, where the main characteristics of the latter are that decentralisation, the use of more than one method of control and they are used actively, for example in the form of forecasts or simply that they are revisited often. Budget is mainly to be regarded as a traditional management control tool; or possibly a complete management control system, but still of the traditional sort. How well a control system can be implemented in a company is largely decided by the external environment in which the company is active. In a stable external environment, both traditional and modern systems work well, but in a changing environment, a modern system is to be preferred over a traditional one, since the latter tend to simply not work as well. <sup>40</sup>

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<sup>40</sup> Arwidi, Olof, Lesson notes in Management Control, Autumn 2007, School of Economics and Management, Lund University

Management control system \ External environment	Stable	Changing
Traditional	<i>acceptable</i>	<i>not suitable</i>
Modern	<i>acceptable</i>	<i>suitable</i>

Figure 5: Matrix of the budget's usefulness <sup>41</sup>

Regarding the downsides to budgeting can be mentioned that it requires a lot of time, that it may become bureaucratic, can lead to manipulation of reports, and can induce myopic behaviour. It is also necessary to question whether budgeting is a relevant tool for planning under unstable circumstances, since it relies almost solely on financial data. <sup>42</sup> Furthermore, the critique can be extended with Wallanders budget-critical view, which can be summarised in three arguments: it is backwards-oriented, being based on prognoses; it gives the organisation a false sense of security; and the time period – mostly one year – is arbitrary and unnatural, since companies have continuous production. <sup>43</sup>

### 3.5. Balanced scorecard

The balanced scorecard (BSC) was introduced by Kaplan & Norton <sup>44</sup> in 1992 as a means to align strategy and management control. Its central theme is that instead of looking only to financial measurements, managers need to consider four different perspectives. The *financial perspective* is one of them, but it needs to be complemented with the *customer perspective*, the *internal process perspective* and the *learning and growth perspective*. Figure 6: Balanced scorecard perspectives below (adapted from Kaplan & Norton 1992, pages 72 and 76) illustrates the perspectives, exemplifies measures for each and shows how they relate.

<sup>41</sup> Adapted from Arwidi, Olof, Lesson notes in Management Control, Autumn 2007, School of Economics and Management, Lund University (Adapted from Gyllberg, Henrick & Svensson, Lars (2002) *Överensstämmelse mellan situationer och ekonomistyrningssystem*, Institute of Economic Research, Lund University, p. 234)

<sup>42</sup> Arwidi, Olof (2005) *Budgeteringens utveckling – evolution eller revolution?* In *Ekonomistyrningens metoder, sammanhang och utveckling*, ed. Lind, J. & Nilsson, G.

<sup>43</sup> Wallander, Jan (1999) *Budgeting – an unnecessary evil*, *Scandinavian Journal of Management*, volume 15, issue 4, pp. 405 – 421

<sup>44</sup> Kaplan, Robert S. & Norton, David P. (1992) *The balanced scorecard: measures that drive performance*, Harvard Business Review January – February, pp. 71 – 80

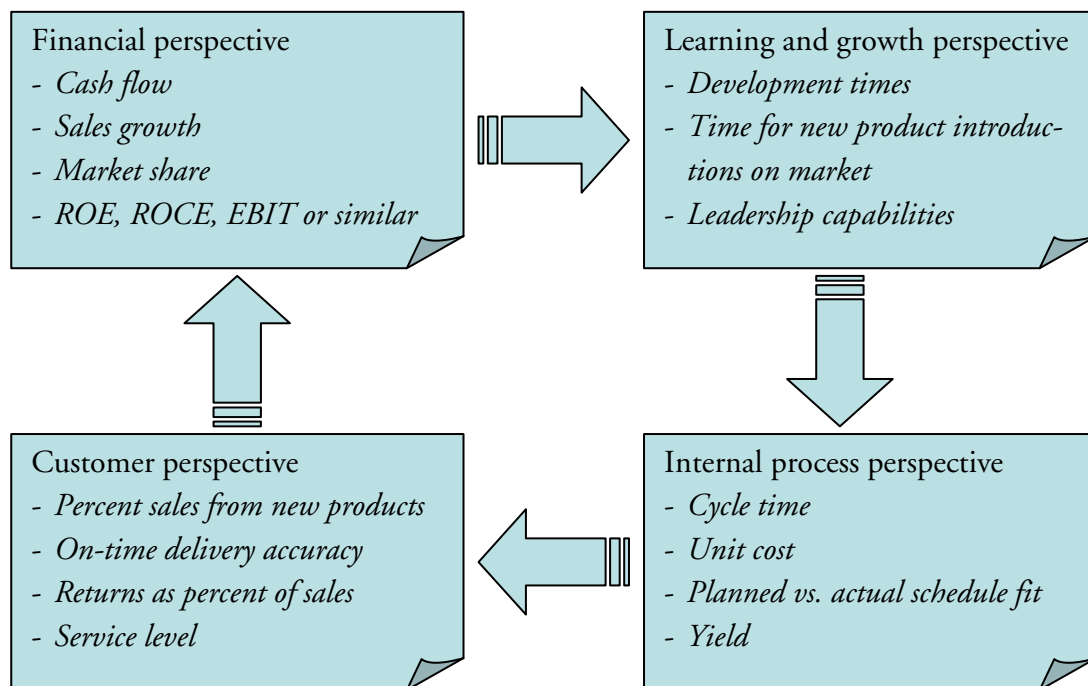


Figure 6: Balanced scorecard perspectives

In 2000, Kaplan & Norton overhauled the process of choosing performance measures by introducing the so-called strategy map<sup>45</sup>. This was partly a response to criticism that the process of determining which ones to include – starting with the company’s *business model and visions*, deciding on good *strategies*, identifying the most important *critical success factors*, and finally selecting *key performance indicators* as result measures – was subjective and that different deciding bodies might end up with different scorecards for the same company. With strategy maps, the process has become somewhat more formalised and specified. Figure 7: Overview of a strategy map shows how they work.

Two things stand out with strategy maps, as opposed to the original BSC. First, the relationships between the perspectives is decidedly more causal with the addition of strategy maps. Learning and growth is the basis for the internal process, and so on up the chain; but the relationships are not necessarily simple: lower levels can affect several higher, for example. Second, strategy maps lay out a template of paths which companies can (or should) use.

Starting at the top of figure 7, the general ways in which shareholder value can be improved are through increased *revenue growth* or increased *productivity*. Revenue growth, in turn, can be accomplished by *building the franchise* or *increasing value to customers*, whereas productivity depends on the *cost structure* and *use of assets*. A company can choose to focus on either or both of the two former, and also on either or both of their constituent parts. Focusing on both parts of both reve-

<sup>45</sup> Kaplan, Robert S. & Norton, David P. (2000) *Having Trouble with Your Strategy? Then Map It*, Harvard Business Review, September - October, pp. 167 – 176



nue growth and productivity may dilute attention, but may also be necessary to avoid harming one side in an attempt to improve the other.

For the customer perspective, there are three different customer propositions – *operational excellence*, *customer intimacy* and *product leadership* – which can be chosen between but only one should be focused upon (for the two other propositions, there are threshold standards to uphold concurrently, or customers will shun the offer); otherwise the company risks ending up with an unfocused strategy. This risk, as well as the propositions themselves, is somewhat reminiscent of what Porter describes in terms of stuck-in-the-middle and generic strategies, respectively. Operational excellence bears resemblance to cost leadership; customer intimacy is similar to a segmentation strategy; and product leadership can be likened to a differentiation strategy.<sup>46</sup>

The operational excellence path of the strategy map requires attention to price, time, quality and selection, whereas the relationship factors of service and customer relations are put on the back burner. The image of a company utilising this logic is one of “smart shopper”. On the other side of the spectrum is customer intimacy, where the image is one of “trusted brand”, and all attention is focused on the relationship variables – service and customer relationships – which leaves only minimum required attention to the attributes of the product or service. Between these extremes, we find product leadership, which focuses exclusively on time and selection. The associated image is one of “best in class”, which indicates a narrower focus – serving a smaller customer base but being the best option for them, and in that way bringing a better offer to just that group than either operational excellence or customer intimacy could.

While for the financial perspective both paths can be walked simultaneously, and for the customer perspective only one at a time is recommended, the picture is quite different for the internal process perspective. All four processes should be handled at the same time: innovations, customer management, operations and logistics, and good citizenship. One important reason is that they tend to have effects on different timescales – improvements in operations and logistics tend to cut costs immediately and thus have short-time effects, while customer management pays off in the medium term and innovations are required for the company’s long-term health. The fourth process can impact the result very differently for different types of companies: an audit company which relies on its reputation may find that damage here causes problems almost immediately, but for a producer of raw materials, changes here are more likely to have long-term effects.

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<sup>46</sup> Porter, Michael E. (1980) *Competitive strategy: Techniques for analysing industries and competitors*

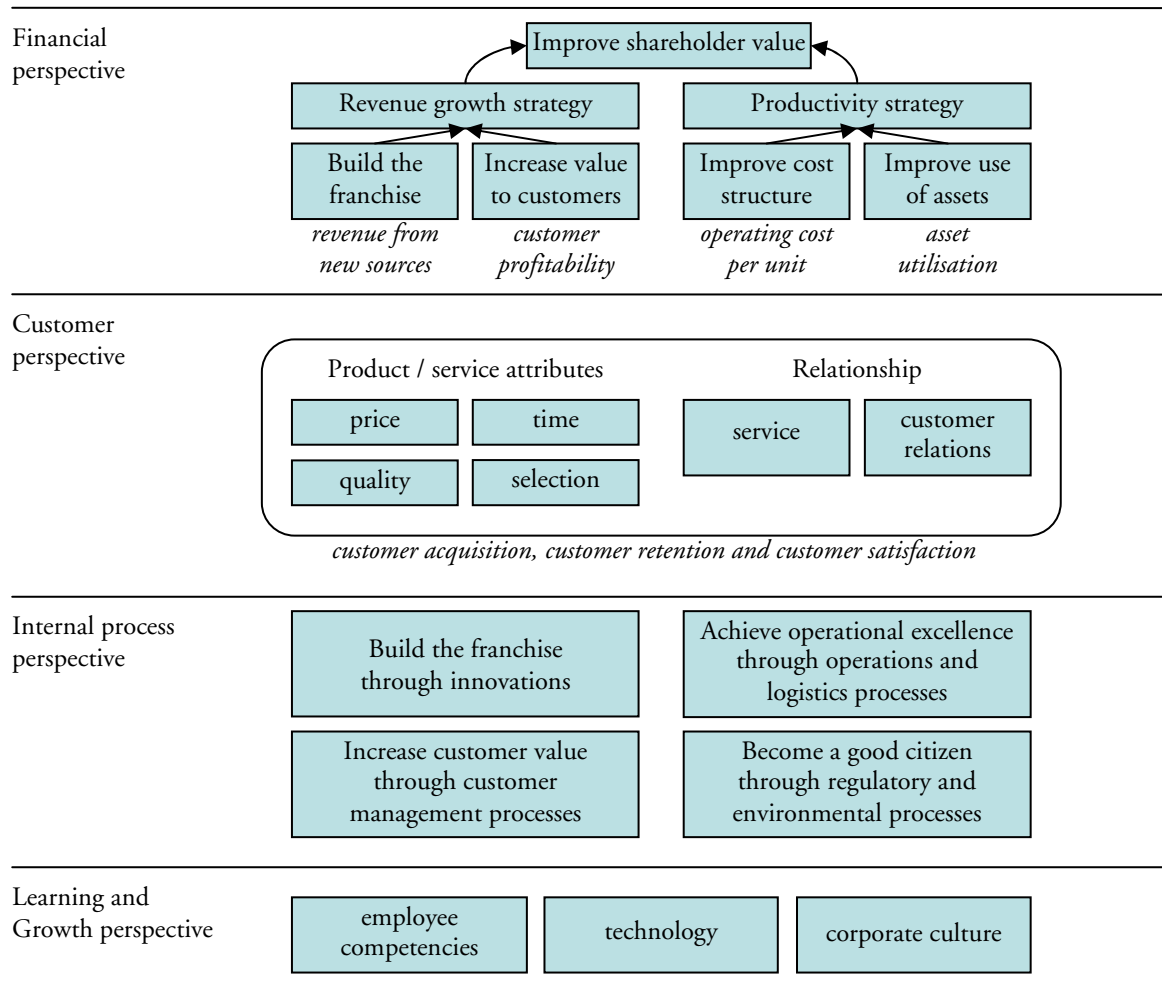


Figure 7: Overview of a strategy map <sup>47</sup>

On a final note, the balanced scorecard and its associated strategy map do not have to be used exclusively to break down visions to performance measures. It is also possible to go the other way around, and ask whether the currently reported measurements give enough information to make sure that the strategies are fulfilled and in the end that the company fulfils its purpose, and, if not, which measurements may need to be added. The most common use however is still to start from the top, with a defined purpose, mission and vision for the company, and arrive at the key performance indicators.

<sup>47</sup> Adapted from Kaplan, Robert S. & Norton, David P. (2000) *Having Trouble with Your Strategy? Then Map It*, Harvard Business Review, September – October, pp. 167 - 176, pp. 168 – 169

### 3.6. Summary

This chapter has presented theories and models, which aim to provide both a theoretical background and an analytical framework.

The study of family-owned companies suggests that they have a different set of ultimate goals than other companies do: survival is more important than profit, and management control tools are generally less common. There are also risks, specific for family-owned companies, regarding change and development. The company life-cycle presents the idea that as companies grow larger or older, they will face problems and will need to develop ways to deal with them. The solution to one problem then itself becomes the next problem, so companies can never rest; change is constantly needed.

The four levers of control are the beliefs, boundary, diagnostic control, and interactive control systems. A good management control system needs to use all levers, which is not always easy, since some of the strength lies in the tension between them. The balanced scorecard, too, relies on four pillars: the financial, customer, internal process, and learning and growth perspectives. Again, all four are needed, and there is also a causal link between them. However, the BSC works mainly within the beliefs and diagnostic control system, and is not a replacement for the levers of control. The development tendencies of budgeting are also presented, including how it is related to the overall management control system and different ways of change.



## 4. Empirical data

*This chapter introduces the case company. A general background to the company, its structure and its industry is given, and then the management control system is described from two different viewpoints: the current/past implementation, based on a less formalised system built around a budget, and the upcoming changes to become more goal-driven and meet the demands of expansion while retaining the advantages of the current system.*

### 4.1. Presentation of Polykemi AB

Polykemi AB is a plastics producer located in Ystad, Sweden. They have approximately 200 employees and a turnover of just over 600 million SEK, 2006. The company was founded in 1968 and focuses on customer adaptation of plastics, meaning that they buy generic plastic pellets and modify them with respect to colour, hardness, scratch resistance, density or other properties, and then resell the new plastics, again in the form of pellets. Since the demand for plastics has continued to increase, Polykemi has seen good times, albeit with the occasional hiccups – mostly connected to oil prices.<sup>48</sup>

The largest subsidiary is Rondo Plast AB, which has about twenty employees and works with recycling plastics. Both Rondo and Polykemi work solely with thermoplastics, that is, plastics which can be molten by heating them. Rondo buys plastics scraps – about 10% of which comes from Polykemi in the form of waste during Polykemi's production – which is ground into smaller pieces, molten, coloured black and resold in the form of pellets.<sup>48 49</sup>

Figures 8 through 11 give a quick overview of the development during the last years. The figures are for both Polykemi AB and Rondo Plast AB, presented together.<sup>50</sup>

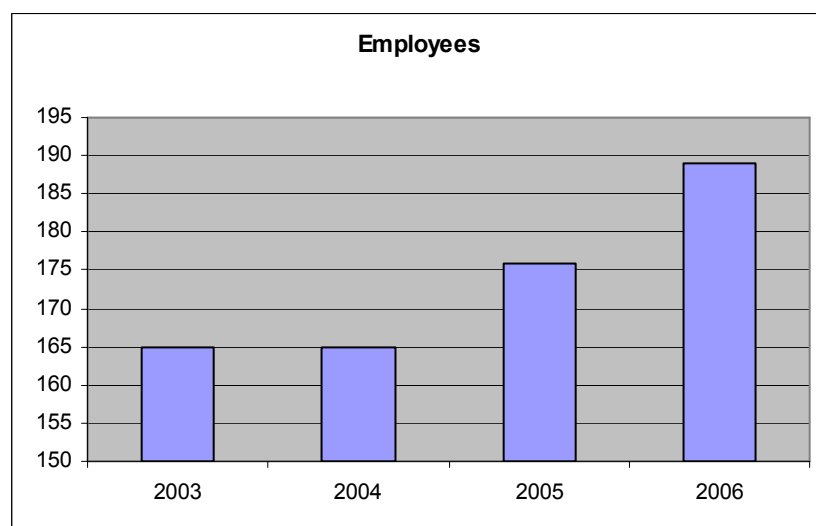


Figure 8: Number of employees

<sup>48</sup> Internal document: "Välkommen!"

<sup>49</sup> Interview with Lars Hugosson

<sup>50</sup> Electronic sources: Affärsdata, Företagsfakta om Polykemi AB and Företagsfakta om Rondo Plast AB

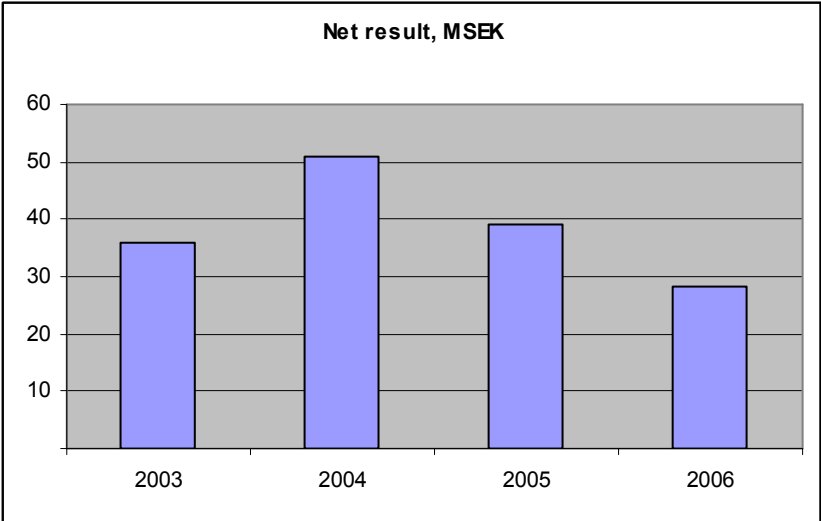


Figure 9: Net result

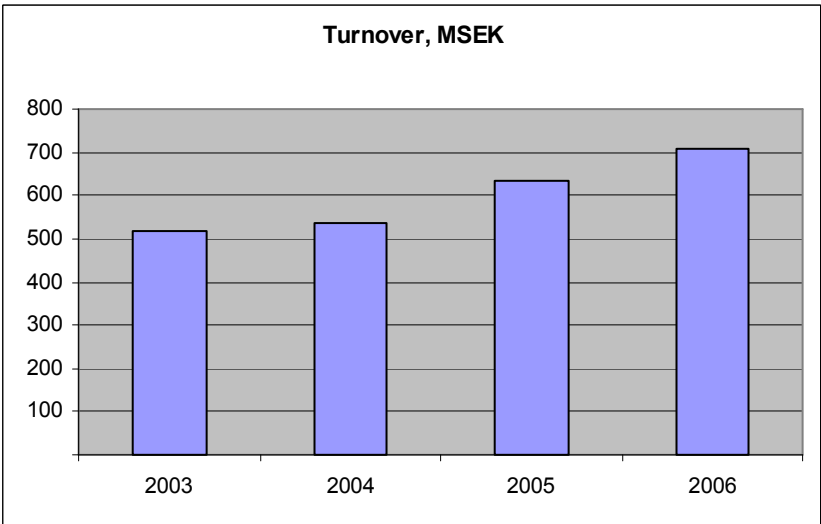


Figure 10: Turnover

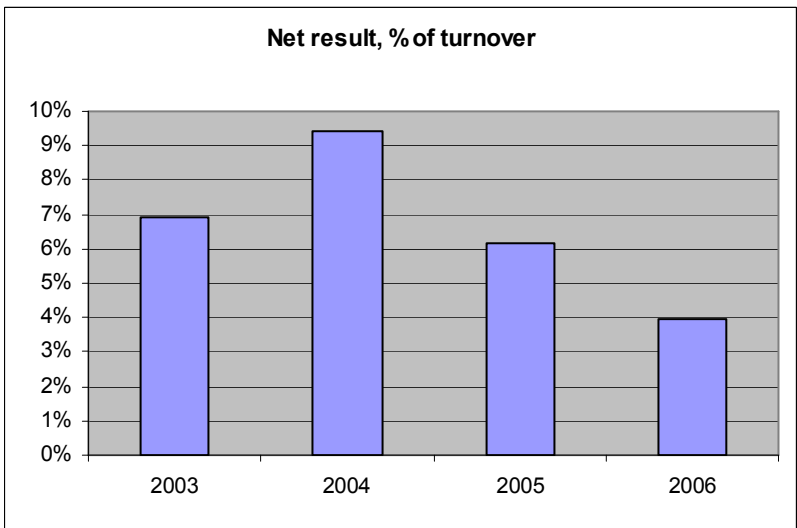


Figure 11: Net result, percent of turnover

Polykemi AB was started by Hugo Jönsson, who stayed on as CEO until 1997. The company is completely controlled by him and his family – his wife, their sons Ola Hugoson and Lars Hugoson, and their respective children. Mr. Hugoson is the current CEO of Polykemi AB, Mr. Hugoson is the CEO of Rondo Plast AB as well as the purchasing manager and executive vice president for Polykemi AB, and Mr. Jönsson is still active as senior advisor for product development in Polykemi AB. In other words, the owners are very much involved in the day-to-day operations.<sup>51 52</sup>

Polykemi has historically had production only in Ystad, but has recently opened a factory in Kunshan, China. There has however been international presence prior to this, in the form of wholly owned subsidiaries – sales offices – in Brazil, the Czech Republic, Denmark, France and Germany, and agents/distributors in Belgium, Norway, Finland, Holland, Iran, Switzerland and the United Kingdom. Brazil and the Czech Republic have local stocks of plastics, since the delivery times are longer for those countries.<sup>53</sup>

Additionally, Polykemi is also represented on the Austrian market and had a subsidiary in China even prior to the new factory. In total, slightly more than half the turnover is generated by international sales – Sweden is still by far the largest single market (around 40% of the total turnover), followed by the rest of the Scandinavian market, Europe, Iran, Brazil, and China.<sup>53</sup>

As a final note, their solidity is approximately 50% as an average over the last five years. This is not unusually high for the industry, but it is still a rather high figure in and of itself.<sup>52</sup>

#### 4.1.1. Company structure

The main company in the group is Polykemi AB, with the second biggest being Rondo Plast AB. Polykemi AB is however not the group parent; it is wholly owned by Polykemi Holding AB (see Figure 12: Company structure below). All shares in Polykemi Holding AB, in turn, are owned by Hugo Jönsson and family. Polykemi AB owns eight subsidiaries: Rondo Plast AB, Hugoson Electronics AB (no longer active; dealt in TVs earlier), and the subsidiaries in Brazil, China, the Czech Republic, Denmark, France and Germany.<sup>54</sup>

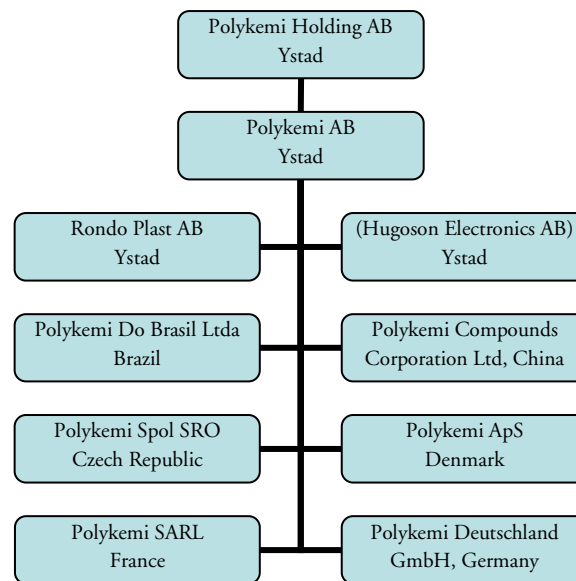
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<sup>51</sup> Internal document: "Välkommen!"

<sup>52</sup> Electronic sources: Affärsdata, Företagsfakta om Polykemi AB and Företagsfakta om Rondo Plast AB

<sup>53</sup> Interview with Ola Hugoson

<sup>54</sup> Electronic sources: Affärsdata, Koncernstruktur Polykemi Holding AB

Figure 12: Company structure <sup>54</sup>

#### 4.1.2. Products and industry

Since Polykemi are working with customer-adapted compounds, they have a very extensive product line. The basic plastics are always the same, but the colours can vary all over the spectrum. Together with different fillers which give the plastics individual properties (flame resistance, different levels of scratch resistance, hardness, density, resistance to chemical reactions, etcetera), there can be literally millions of end products. This, of course, means the demands on the tracking system are rather substantial. <sup>55</sup>



Figure 13: Plastic granulate

Polykemi is a relatively small plastic compounder. They buy plastics in the form of granulate (pellets), melt them, modify their properties, regranulate them and sell the new pellets to injection-moulding or extrusion companies, who then re-melt them and produce actual plastic parts for use in cars, furniture, electronics, etcetera. Polykemi's customers are primarily small-to-medium-sized producers, who in turn often have very large customers – carmakers, producers of household appliances etcetera. <sup>55</sup>

<sup>55</sup> Interview with Ola Hugoson, Lena Hansson and Stefan Andersson



The main competitors are very large companies, such as BASF (95 000 employees <sup>56</sup>), DuPont (60 000 employees <sup>57</sup>), Bayer (106 000 employees <sup>58</sup>), and GE (319 000 employees <sup>59</sup>). These groups have many different areas of interest with plastics being just one part, but even so their plastics divisions are huge. There are “smaller” competitors too, like Borealis (4 639 employees <sup>60</sup>), PolyOne (4 600 employees <sup>61</sup>) and Basell (6 850 employees <sup>62</sup>), who focus exclusively on the plastics industry; and there are a number of truly small companies, operating locally. For Sweden, examples of the latter are Materialdepån (20 employees <sup>63</sup>) and VTC Elastoteknik AB (46 employees <sup>64</sup>).

#### 4.1.3. Strategy

Polykemi’s strategy is somewhat vague. There are no formal documents regarding the company’s overall strategy, and according to themselves, their strategy is to “make money and survive by selling plastics” (“tjäna pengar och överleva genom att sälja plast”) <sup>65</sup>. They aim to grow, organically – in fact, they have never been interested in mergers or acquisitions. The closest explicit statements are that in their view, their smaller size and complete independence makes them flexible and that they wish to remain that way; and that they are not interested in competing directly with the huge plastics companies, but try to find niches in the market where they are not active. There are also statements on the border between strategy and internal operations, such as “Higher degree of utilisation of the human capital – create a high-performance culture! Increase efficiency of processes and organisation! Automate where this is cost-efficient!” (“Högre nyttjandegrad av humankapitalet – skapa högpresterande kultur! Effektivisera processer och organisation! Automatisera där detta är kostnadseffektivt”) <sup>66</sup>. <sup>65</sup>

They do, however, have an explicit *vision*: to become a “world-class compounder” <sup>67</sup> by 2010, although the word “vision” is not used, but rather “objective”. They also have marketing and sales strategies (but no company-general ones) for 2006 – 2010, where the former is based on the foundation of “not being like the others” <sup>68</sup> and the latter identifies the company as a “competent, flexible and efficient problem solver” <sup>68</sup>. These strategies have a number of sub-items, such as the ambition to offer a high degree of technical service, advanced development resources and a large product portfolio. <sup>69</sup>

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<sup>56</sup> Electronic sources: BASF Group, About us

<sup>57</sup> Electronic sources: Du Pont, Annual Review 2006

<sup>58</sup> Electronic sources: Bayer, Profile and organisation

<sup>59</sup> Electronic sources: General Electric, Annual Report 2006

<sup>60</sup> Electronic sources: Borealis Group, Key figures and market position

<sup>61</sup> Electronic sources: Poly One Corporation, Corporate

<sup>62</sup> Electronic sources: Basell Polyolefins

<sup>63</sup> Electronic sources: Materialdepån Norden AB

<sup>64</sup> Electronic sources: VTC Elastoteknik AB

<sup>65</sup> Interview with Ola Hugoson

<sup>66</sup> Internal document: Job satisfaction, p. 2

<sup>67</sup> Internal document: Business plan 2006 – 2010: Going for Gold, p. 2

<sup>68</sup> Internal document: Business plan 2006 – 2010: Going for Gold, p. 121

<sup>69</sup> Internal document: Business plan 2006 – 2010: Going for Gold

## 4.1.4. Internal organisation

Even though the company is characterised by “open doors”<sup>70</sup> and a general willingness for helping out with different tasks, which tends to blur the lines between different units somewhat, there is of course a basic organisational scheme underlying the company.<sup>71</sup> The company management is presented first (Figure 14: Company management structure), to give a general overview of the relations between the major departments, and the organisation scheme of the entire company (Figure 15: Organisation scheme) follows, to give a complete picture.

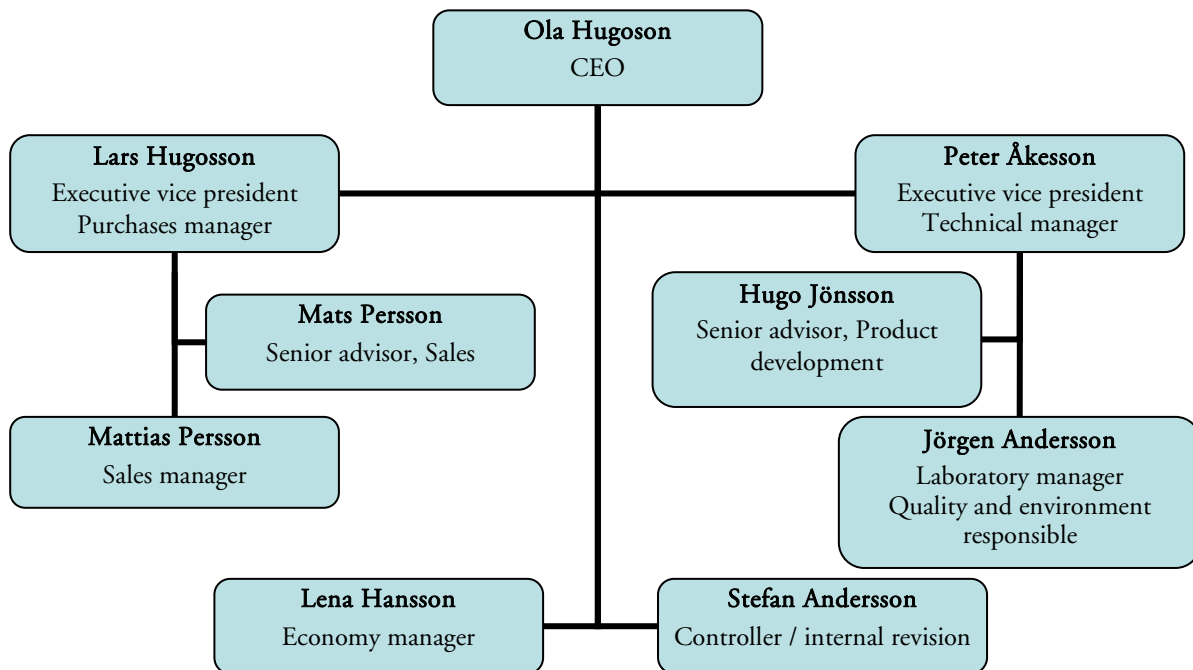


Figure 14: Company management structure<sup>72</sup>

The details of each department are beyond the scope of this thesis, but the overall design gives a good background to the company, which will be of use in the analysis later on. All in all, about three quarters of the employees work in production, quality control etcetera, and the other 25% handle managerial tasks, administration, sales, marketing etcetera.<sup>73</sup>

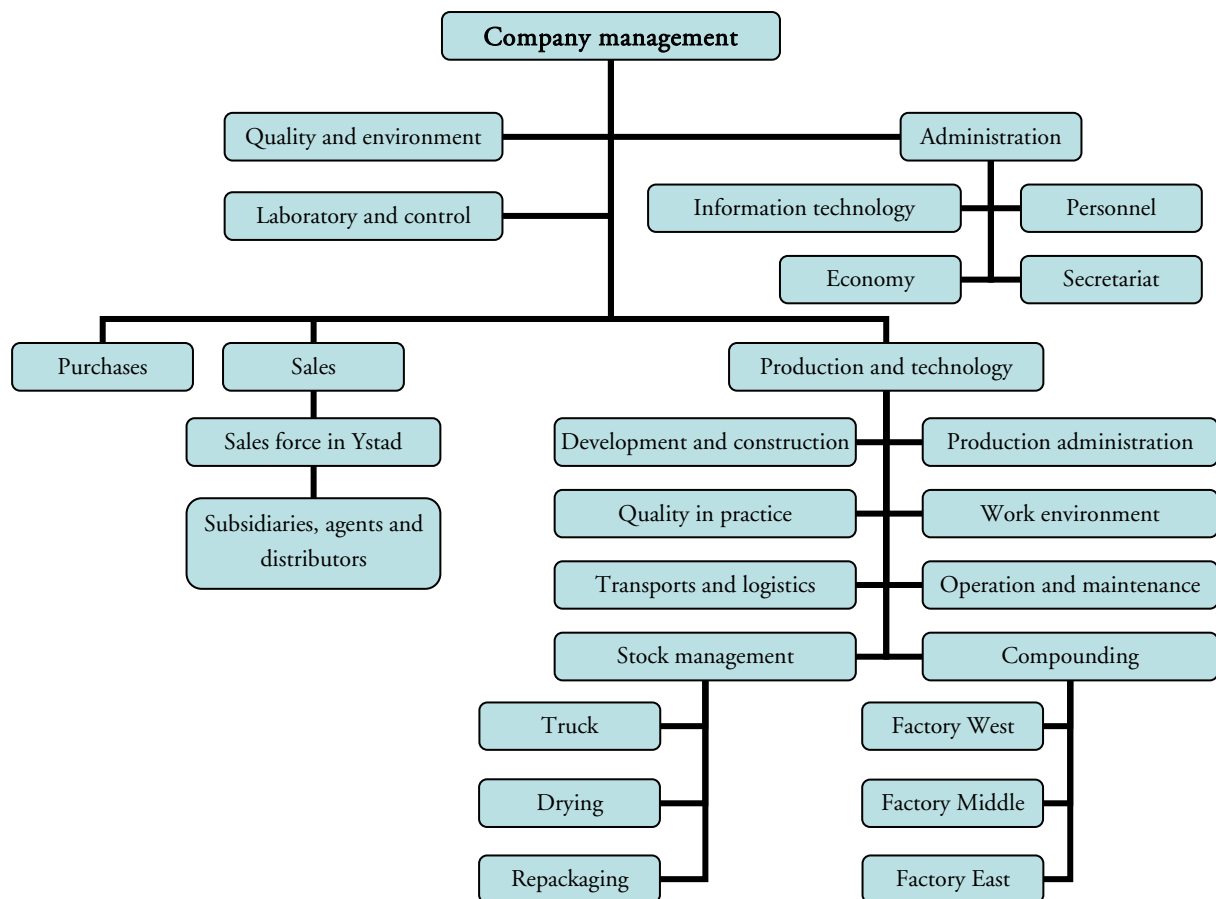
The policy of open doors is helped by several factors. One is that all employees are situated at the same place – with the exception of international offices, particularly China, which is the biggest of them – and so are the company owners. The very fact that the owners are also directly engaged in the company is also a contributing factor, since even tough problems can be resolved quickly. Yet another factor is the absence of incentive programs, which – if implemented on an individual level – could move the focus from what is best for the company in the direction of what is best for an employee’s bonus.<sup>70</sup>

<sup>70</sup> Interview with Mattias Persson

<sup>71</sup> Internal document: “Organisationsschema”

<sup>72</sup> Internal document: “Organisationsschema”, p. 2

<sup>73</sup> Interview with Ola Hugoson, Lena Hansson and Stefan Andersson

Figure 15: Organisation scheme <sup>74</sup>

Peter Åkesson states that well-defined and reasonable goals serve to keep the communication efficient in that questions about what to do and how to achieve it are kept at bay. Unambiguous goals allow employees to act without consulting superiors, and at the same time they allow managers to focus on better things than micro-managing subordinates. Polykemi are working deliberately with this, particularly in the form of Going for Gold, and are attempting to formalise the process. <sup>75</sup>

#### 4.2. Current management control system

It is worth noting that owners and employees alike say they do not have any management control system. <sup>76</sup> They all know, of course, that the budget is used, but do not really consider this an MCS, primarily since there is no method for correction when aberrations occur – there are no responsibility centres, no incentive system (not in the administrative department; production has one however), no “employee of the month” or similar structures. <sup>76</sup> It appears, however, that there *is* some sort of deviation control, for the simple reason that there are hardly ever any large deviations from the budget; this is touched upon a little bit in chapter 5: Analysis.

<sup>74</sup> Internal document: “Organisationsschema”, p. 1

<sup>75</sup> Interview with Peter Åkesson

<sup>76</sup> The actual question asked was: “Please describe your management control system” (“Kan du beskriva ert ekonomistyrningssystem?”). The answer was invariably a statement to the effect that none was used.

Polykemi's MCS is currently changing, with the introduction of Going for Gold (see chapter 4.3: Going for Gold). This causes a slight problem with defining what their "current" and "future" management control systems look like. For clarity, the "current MCS" actually means the MCS which was in use some two years ago, before Going for Gold was introduced, and "future MCS" refers to the system which will be in place in a few years, when GfG has been fully implemented. Today, there is a mixture of their traditional system and the goal-oriented structures which are being put into operation, but the traditional components are still dominant – which is also the reason for arguing that their current system is still more akin to their earlier MCS than the one which is being implemented.

With that said, Polykemi's management control system consists primarily of budget (see chapter 4.2.1: Budget), organisational structures in the form of departments, reports, meetings, and complementing processes, the most important of which is the company management's review (see chapter 4.2.4: Other formal instruments). There are also supporting structures, notably the IT system (chapter 4.2.2: IT support systems) and informal instruments (chapter 4.2.5: Informal instruments). For the production division, there are also some interesting incentive plans (chapter 4.2.3: Variable payment systems).

Among the problems which need to be handled is the fact that raw plastics and other materials make up about two thirds of the sales price. Since contracts are often negotiated with a set price level for some amount of time – usually between one and six months – raised costs can be hard to pass on directly. A related problem, which is not handled today but for which a solution is on the drawing-board, is how to correlate process times and costs. Material requirements to produce a certain amount of finished plastics can be calculated today, but there is no way to find out how process-intensive different products are, that is, how much time each product requires – at least not without manually studying the production for each product.<sup>77</sup>

One peculiarity is the philosophy regarding stock management. Polykemi have a very sizable supply of particularly raw materials, and it is also rather common for them to store finished plastics; typically, this would be because they produce all of it at the same time, but deliver to their customer in portions.<sup>78</sup> They are not only aware of this, but proud of it, and are not interested in attempting to reduce their stock; their stance is that the cost of blocked production, the delays this would cause for other production, and particularly the damage to their reputation is not worth the monetary gain which stock optimisation could bring.<sup>79</sup> Stock management is still important to ensure that they never run out of, or perhaps rather low on, materials, but a deeper study is beyond the scope of this thesis. See however chapter 6.2: Further research.

A final note is that subsidiaries have no or very limited access to administrative systems; agents, of course, have none. Subsidiaries make no product calculations of their own, for example.<sup>79</sup>

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<sup>77</sup> Interview with Peter Åkesson

<sup>78</sup> Interview with Hugo Jönsson, Ola Hugoson and Lars Hugoson

<sup>79</sup> Interview with Ola Hugoson

#### 4.2.1. Budget

The basic component of Polykemi's management control system is the budget, which is prepared in the ordinary functionalistic manner. The sales department predict how much they will be able to sell during the coming year, which is used as input to the other departments – production, purchasing, transport, IT etcetera. For production, the personnel requirements and operations & maintenance are closely tied to the sales budget, and the same is true for for example sales. Some parts of the investment budget – such as machinery – are also linked to predicted sales, whereas some others – such as computers – may not be.<sup>80</sup>

In the end all the separate parts are compounded into a single company-wide budget, which also contains overheads for administration and similar functions. Since the sales budget is necessary to construct the other parts, it is the first to be produced and is also very detailed, containing budgeted sales of each quality to each customer.<sup>80</sup>

The subsidiaries generally do not make any budgets of their own, since the personnel requirements are rather static, their costs correspond directly to sales from the production plant in Ystad, and their income is often handled directly from Ystad too, in the form that international customers simply get an invoice directly from Polykemi Ystad, regardless of which subsidiary actually brokered the deal. One important exception is the plant in China, which sets up a budget of its own, since the operations there are rather more extensive than the other subsidiaries'. The agents, of course, do not hand in budgets to Polykemi; rather, they report to the sales department how much they expect to be able to sell. The sales department then has a discussion with them, to make sure that their targets are neither too low nor too optimistic.<sup>80</sup>

The budget is primarily constructed in a bottom-up fashion, but there are discussions in both directions. The final targets have to be approved from above, but this does not mean there is any direct responsibility. Explanations are required in the case of deviations, however; and generally, the budget is rather good and large differences are uncommon.<sup>80</sup>

The different departments have slightly different time periods between reports and follow-up. The default is that reports are sent in quarterly – for example sales and subsidiaries – but some areas – specifically operations & maintenance costs – do it every month; partly because it is a rather large part of Polykemi's finances, and partly because the O & M staff themselves want to have a tighter follow-up. Reporting is done through the accounting system, but the idea is to use the IT system Polca (see 4.2.2: IT support systems) in the future. Another idea for the future is to increase follow-up for all parts of the company to once a month.<sup>80</sup>

The budget is being used more and more like a tool for better control, in line with the development towards goal-orientation, and this change will likely continue. What will probably remain constant though, is the fact that the budget is updated only once a year – primarily because the sales department needs to put so much time and effort into creating their budget.<sup>80</sup>

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<sup>80</sup> Interview with Stefan Andersson

## 4.2.2. IT support systems

A thorough study of the IT system is beyond the scope of this thesis, but it will be described to the extent that the IT system is relevant for accounting and management control issues. Chapter 5.1: Management control system picks up the thread in the analysis.

Polykemi use two separate computer programs to manage accounting-related activities. One is called Polca – short for Polykemi ComActivity – and is used for production planning, laboratory control, inventory management, invoices, sales statistics and similar activities; it is a fully integrated business system based on the Polykemi quality and environmental systems. The other is named Pyramid and is more of a traditional accounting system. The two systems are connected, but a certain amount of manual work is necessary for this interconnectedness; it is not wholly automatic. Just about all relevant information is stored in digital form nowadays, and there are plans to expand use of the system beyond the office in Ystad, so that certain subsidiaries may for example have limited access.<sup>81</sup>

The first version of Polca is currently in use. It does not yet have a complete feature set, as desired by the company management, but a second version is under development, which will support more functions, more information and more fine-grained control.<sup>81</sup> Also, the current summary, which can be viewed for different time periods (from years down to weeks), per function, per responsible person, per customer and so on, will most likely be extended with more powerful overviews: both in the form of aggregated summaries and in the form of more details.<sup>82</sup> Figure 16 and figure 17 below show a possible development of the IT support system, to allow the program to display results and aberrations directly.

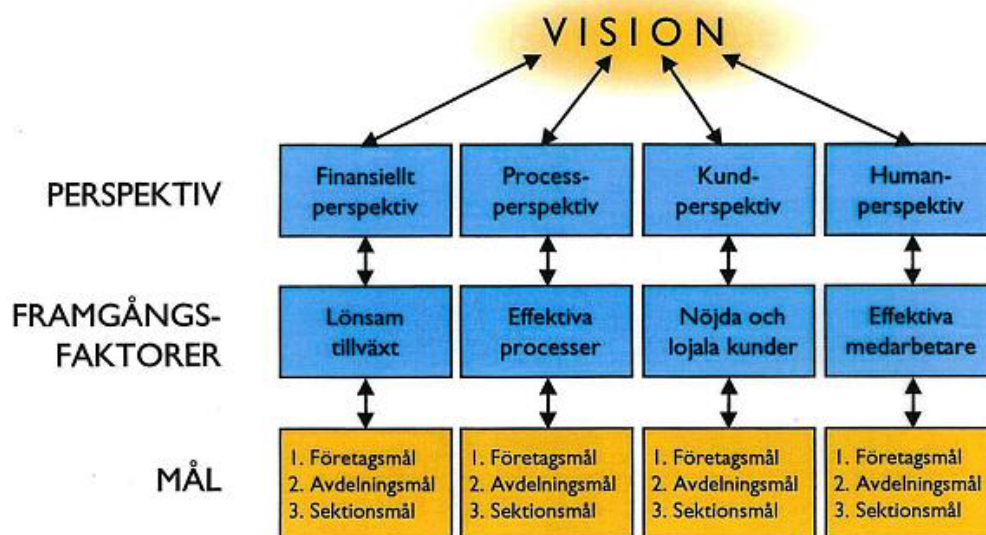


Figure 16: Concept design for future IT system, vision<sup>83</sup>

<sup>81</sup> Interview with Ola Hugoson, Lena Hansson and Stefan Andersson

<sup>82</sup> Interview with Ola Hugoson

<sup>83</sup> Internal document: "Uppföljning av mål: Utnyttjande av Polca"



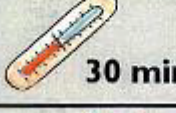

Produktion X	Mål	Resultat	Avvikelse
Lönsam tillväxt	Produktionskostnad 900 kr/ekv.enhet		+10%
Nöjda kunder	Servicegrad 98%		30%
Effektiva processer	Produktivitet 30 min/enhet	 30 min	+ 0%
Effektiva medarbetare	Sjukfrånvaro 3,5%		-15%

Figure 17: Concept design for future IT system, follow-up <sup>84</sup>

#### 4.2.3. Variable payment systems

There are no incentive systems for managerial or administrative personnel today, but there will likely be within a year. <sup>85</sup> For production personnel, however, there are a number of different systems. Apart from salary – which in itself has individual components based on internal education, team leadership, suggested improvements and inconvenient working hours – there are two bonus systems: production related and waste related. <sup>86</sup>

The production bonus measures productivity and is calculated as approved kilograms of produced plastics per work hour, which is then compared to the target. The figures are presented each day, and the average for a month is used to determine the payable bonus. For each bonus team, 50% of the bonus comes from their own performance and 50% from the company-wide performance, and the actual bonus is determined from correlating extra productivity with a predetermined table. An extra efficiency for a team of 100 kg / hour might for example mean a bonus of 14. If the company as a whole has reached 12 during the same month, then that specific team will receive a bonus level of  $(14 + 12) / 2$ , or 13, which is then converted to money according to the table. <sup>86</sup>

The waste bonus is relatively straightforward. The basic measurement is the amount of plastics lost in production (kilograms), divided by the amount of plastics produced. Obviously, the lower the ratio, the less waste, which is good. The thusly derived number is again correlated to a table, on a monthly basis, to determine the actual bonus in money. <sup>86</sup>

<sup>84</sup> Internal document: "Uppföljning av mål: Utnyttjande av Polca"

<sup>85</sup> Interview with Ola Hugoson, Lena Hansson and Stefan Andersson

<sup>86</sup> Internal document: "Välkommen!"

#### 4.2.4. Other formal instruments

Aside from the budget, the IT systems and the bonus systems in production, there are other formal instruments which are used to maintain control. One of the most important of them – in some regards more important even than the budget – is the so-called “company management’s review” (“företagsledningens genomgång”). This is a tool which has existed and been used for several years, and which has only grown in importance.<sup>87</sup>

The company management’s review (CMR) consists of two parts: the underlying report, and the quarterly meetings where that report is discussed. Attendees at said meetings are the CEO, the two executive vice presidents (who are also the purchases manager and the technical manager), the sales manager, the laboratory manager (who is also responsible for quality and environment), and the economy manager; the controller does not attend the meetings, but is involved in preparing the underlying report.<sup>88 89</sup>

The CMR report is in written form and documents the current state of the company’s accounts and important business ratios, and how they hold up to goal levels. It is a very concise summary of important indicators of how Polykemi is doing, managing in about 15 pages to show the current state as well as comment upon current changes and how and why goals are met or not. Highlights from the overall structure of the report are presented below.<sup>89</sup>

- Issues from last meeting
- Management: financial result, customer satisfaction, resource requirements, personnel, equipment, infrastructure
- Quality and environment: stakeholders, results of previous actions
- Production: productivity goals and results, internal quality complaints, external quality complaints, waste, power consumption, water consumption
- Market / technical support; Product development; Purchases; Laboratory; Stock and transport
- Personnel: turnover, short-time sickness absence, long-time sickness absence, work environment, education

When applicable, there are three formal elements to evaluate the status: Goal fulfilment, Comment, and Corrective action. Generally, if a goal is not met, corrective action has already been taken. For most of these areas and sub-areas, the concluding remarks state that no further actions are required, or at most that the implemented actions will need to be attended to.<sup>88 89</sup>

There is a lot of information in the CMR report and it takes some reading to get used to the format. Some of the data is presented as tables or diagrams, but the sheer amount of information

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<sup>87</sup> Interview with Stefan Andersson

<sup>88</sup> Interview with Ola Hugoson, Lena Hansson and Stefan Andersson

<sup>89</sup> Internal document: ”Företagsledningens genomgång 2007/02”



makes it rather hard to comprehend at a glance; which is however not a problem, since the CMR is used to study and analyse the current situation and make decisions, which requires active understanding. Still, it is compact and informative and could easily, if desired, be adapted in order to be presented to other people outside the management in a more easily accessible format.

Before each offer, a cost estimate is drawn up, which forms the basis for the lowest acceptable price. After the order has been produced, an ex post measurement is performed to make sure that the cost estimate was correct. If the ex post measurement indicates that there was an irregularity, that costs exceeded (or were significantly below) what the cost estimate indicated, the person who created the initial estimate is notified and a routine check is performed to understand what caused the difference. This way, errors can be corrected for next time.<sup>90</sup>

Another formal instrument is the introduction which all new employees get. The two most important components of this are the folder of general information (company introduction, salary and contract information, safety instructions, truck management, general production guidelines etcetera) and the prescribed training and education. For two weeks, the new employee works with a tutor who has already been with the company for some time; later on, there is additional education which must be begun no later than after three months, and finished within an additional three months. This is a formalised way of welcoming new colleagues into the organisation and at the same time making sure that they know not only what is expected of them but also that they understand the principles and basic values of the company culture.<sup>91 92</sup>

Polykemi also have an internal newspaper, Polynews, which is written by employees, circulated in four issues a year and provides information on several different areas. The CEO writes an editorial and comments on important news, beliefs and the current state of the company, and there are frequently articles by colleagues who have travelled either as part of the work or in their spare time. The paper has a light tone but is definitely an instrument to bring employees up to speed and to build a common platform. New recruits are presented and people who have left the company are thanked for their time there, and it is not uncommon to present financial or strategic information. Whether this is to be seen as formal, since it is in writing and available to all employees, or informal, since it works mostly with culture, could possibly be debated.<sup>93 94 95</sup>

#### 4.2.5. Informal instruments

Informal control instruments are common, to at least some degree, in the absolute majority of companies, and Polykemi is no exception. Since it is a small-to-medium-sized company, family-owned no less, and primarily concentrated to one geographical place, informal instruments may in fact be more prominent than in larger, more market-oriented or more dispersed companies.

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<sup>90</sup> Interview with Peter Åkesson

<sup>91</sup> Internal document: "Basutbildning"

<sup>92</sup> Internal document: "Välkommen!"

<sup>93</sup> Internal newspaper: "Polynews nr. 1 2007"

<sup>94</sup> Internal newspaper: "Polynews nr. 2 2007"

<sup>95</sup> Internal newspaper: "Polynews nr. 3 2007"

A problem with informal aspects, however, is that they can not normally be found in documents – and sometimes they are tacit enough that even interviews may not reveal them. This thesis does not focus specifically on informal instruments, but it would be wise to bear in mind that they do exist and that they may have a strong influence. One example, which *can* be found in documents, are the core values: professionalism, responsibility, respect, cooperation and honesty (“affärsmässighet, ansvar, respekt, samspel och ärlighet”) <sup>96</sup>. Still, these are just words, and their effect as control measures arises only when people act accordingly – *this*, then, would be the informal instrument, and the words as such would just be the vehicle to convey it.

Some informal aspects are, despite their nature, visible, and then primarily in interviews. The notion of “open doors” (see chapter 4.1.4: Internal organisation) occurs several times, along with statements to the effect that if something needs to be done, it will be done, even if there are no formal requirements or procedures for doing it. The same holds true for decisions, both small and large: large investments, even if they have already been approved in the budget, are double-checked with a superior manager – often ending up with the CEO – before the actual purchases are made, and even small investments are sometimes checked in discussions. On the flip side of the coin, surprise investments or unexpected orders can be made quite simply by getting permission from top management, even if they were not initially present in the budget.

#### 4.3. Going for Gold

Going for Gold (GfG) is a long-term change program, initiated by the CEO. In the documented form, there are two specific goals, namely that by 2010 the turnover should be one billion SEK, and that the net profit margin (earnings after depreciation according to plan and financial netto, divided by turnover; in other words: return on sales, ROS) should be at least 7%. The turnover is interchangeably discussed in terms of metric tons, in which case the goal is 55 000 tons. The current (2006) level is about 37 000 tons, or 600 million SEK. The profit margin has varied during the last years, averaging 7.4% since 1999 but repeatedly dipping down to just over 6%. <sup>97</sup>

The most important document within Going for Gold is “Business Plan 2006 – 2010, Issue 1, May 2006”. This is essentially an overview of Polykemi’s markets with overviews and details of competitors, SWOT analyses and market analyses. There are later documents in the same series being produced, focusing on aspects other than markets, marketing and sales, but they were not available for this thesis. <sup>97 98</sup>

During the interviews, another picture dawned. It became clear that the goals of 1 billion SEK and 7% ROS were not set in stone, but were rather to be considered as levels to strive for. The general idea is to create an indication of where the company could be, and to motivate employees to do their very best. Statements to the effect that if Polykemi do not become more efficient, they will fall behind and eventually be out of the game, and that standing still means falling behind,

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<sup>96</sup> Internal document: “Värderingar”

<sup>97</sup> Internal document: “Business Plan 2006 – 2010: Going for Gold”

<sup>98</sup> Interview with Ola Hugoson, Lena Hansson and Stefan Andersson

occurred frequently, and Going for Gold started to seem more like a vehicle for introducing and sustaining organisational change.<sup>98 99</sup>

Polykemi are consciously aiming for a goal-oriented leadership. In a future version of the IT system, the plan is to permit more focus, automatically, on the goals, results and aberrations of the management control system.<sup>100</sup> This, to us, sounds distinctly like a balanced scorecard (see chapters 3.5: Balanced scorecard and 5.2.3: Diagnostic control system), which is also borne out by the concept designs in Figure 16: Concept design for future IT system, vision and Figure 17: Concept design for future IT system, follow-up, found in chapter 4.2.2: IT support systems.

The goal orientation is obvious also from other interviews and internal documents. Peter Åkesson, technical manager and executive vice president, describes GfG as an umbrella project and goes on to introduce some rather detailed tools – report templates, checklists for meetings and similar supporting structures – to make sure that the goals are properly conveyed down the line, and that employees are motivated and focused on achieving desirable results. In his opinion, employees tend to become more enthusiastic about their work when they get personal or team-level goals, and especially when the results are measured and incentives are paid out.<sup>101</sup>

A clearly defined goal of GfG is to formalise previously informal knowledge and routines. This in turn requires the codification of tacit knowledge – know-how, know-why and know-who – which is also a deliberate attempt to capture knowledge inside the organisation. Currently, when people leave Polykemi, their wisdom is effectively lost unless somebody who remains in the organisation also knew it. Even if the employee turnover is low and people sometimes return to the company after a couple of years, this loss of knowledge is negative, and Polykemi are trying to minimise these effects. One step in this direction is the implementation of the IT systems; the more data the company has in digital form (in addition to tacitly, in the people who work with it), and the less that is stored solely in employees heads, the smaller the risks that knowledge will be irretrievably lost when people quit.<sup>100 101 102 103</sup>

Related to the goal orientation is an increased amount of delegation. Formalisation of knowledge and routines, and a centralised support structure (the IT system), actually allow managers to empower subordinate managers and employees further, because so long as the formal elements are followed and the support system used correctly, higher levels can still have good control.<sup>99 103</sup>

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<sup>99</sup> Interview with Ola Hugoson

<sup>100</sup> Interview with Ola Hugoson, Lena Hansson and Stefan Andersson

<sup>101</sup> Interview with Peter Åkesson

<sup>102</sup> Interview with Mattias Persson

<sup>103</sup> Interview with Lars Hugoson

#### 4.4. Summary

Polykemi as a whole consists of nine companies, the two largest of which are Polykemi AB and Rondo Plast AB; the group is wholly family-owned. They work with customer-adapted plastics compounding, with competitors ranging from rather small to extremely large companies. Altogether, there are about 200 employees, turnover of about 600 million SEK, and production facilities in Ystad and China. The main markets are Sweden, Europe, Iran, Brazil and China.

There is currently a change in progress in the management control system. The previous, and still dominant, tools are the budget and the company management's review; the new focus on goal-orientation, formalisation and delegation are introduced in the form of Going for Gold (although some aspects of this change were present even before GfG was initiated). The formal goal for GfG is to increase both turnover and ROS, but it also fills a very important role for internal change.

## 5. Analysis

*This chapter draws on the chapters on theory and empirical data to highlight and explain important aspects of Polykemi's management control system. First, some general thoughts regarding the management control system are presented, and then the specific results of using the levers of control as a means of analysing it. Finally, the condensed results of the analysis are presented in the section Conclusions.*

### 5.1. Management control system

Both strategy and organisation are, of course, very important for a company, and they both influence the design of the management control system rather directly. Neither is a part of the MCS though; they are surrounding systems dictating requirements for the MCS.

The interviewees stated that Polykemi have no formal strategy, except possibly to “make money and survive by selling plastics” (chapter 4.1.3: Strategy). This is however closer to a long-term vision, and a rather generic one at that. The business plan for 2006 – 2010 outlines marketing strategy, which is a start, but without a more company-general strategy it seems hard to decide what venues to pursue.

On the other hand, the company is still small and coherent enough that this kind of decisions can be made in formal meetings or discussed when people meet in the hallways – but that may very well change when the plant in China becomes larger, and the simple fact that there is half a world between Ystad and Kunshan will certainly be an inhibiting factor for this type of discussions. It may still work, but probably only at the cost of a rather centralised decision-making process; formal company-wide strategy and guideline documents would support delegation of authority and responsibility much better than the current informal and tacit ones can do by themselves. Optimally, of course, both would be used when appropriate, but in order to achieve that, the current strategy would have to be put down in writing. Delegation is further discussed in chapter 5.2.2: Boundary system.

This thesis has considered Polykemi's strategy as a given thing and has therefore not tried to analyse it in any depth, but in all briefness there are a few points which have become obvious in interviews and through documents. Apart from the marketing strategy – which focuses on standing apart from competitors, having customers visit Ystad and also visiting one customer at a time, and on avoiding broad marketing – there is a positioning strategy, which is quite simply to not compete directly with the truly large companies.

Further, there is a strong sentiment to follow customers if and when they move abroad, if there is a continued profitability; but on the other hand there is no blind loyalty: customers who demand too low prices to make a profit on are, very sensibly, not accommodated. Regarding growth, the goal is to grow organically – acquisitions are not a part of the core strategy for growth, even though they are not completely ruled out. And within the process of Going for Gold, finally,

there is a vision for 2010 which could very well be extended into a general vision for the entire company and revised as needed, for example when it has been fulfilled.

These and other building blocks for vision, strategy and business model already exist, and it is clear that top management has a good understanding about what they want to achieve and how to do it. As long as all important decisions on strategic level can be made by them or other people who also tacitly share the same beliefs, all will be well. The problem comes if and when delegation calls for these decisions to be made by people outside that circle – which may not be for some time yet, but if the goal is to allow delegation, then a formal strategy and similar documents are probably quite necessary to ensure that decisions are in line with the overall direction of the company. This is touched upon in chapters 5.2.1: Beliefs system and 5.2.2: Boundary system.

As with strategy, Polykemi themselves argue that they have no management control system, but from documents and interviews it appears that in fact they do. While it may not be a completely formal MCS, their current system is definitely strong enough to be called a management control system, and certain elements – notably the budget, against which the real results are followed up, the company management's review, which is used to track problems, and the IT system, which encompasses several different areas of management control – are quite definitely formal.

Apart from the direct view, which looks at whether there are elements of an MCS, there is an indirect approach. The interviewees state that there have seldom, if ever, been any large deviations from budget. One explanation could of course be that Polykemi are masters of forecasting the development for the year ahead, and their budget *is* admittedly very detailed – however, with all due respect to that prowess, it appears likely that this is only one part of explaining the absence of aberrations. Given the conditions on the market and the simple fact that predictions are almost always wrong to some degree, it seems improbable that there would be no larger deviations from budget for a period of many years. The conclusion is that there is likely another explanation to why there are no aberrations, namely that there is some kind of management control, formal or otherwise, which ensures that results are in line with the budget.

In other words, from both a direct perspective – what the management control system looks like – and an indirect – how the absence of deviations between the budget and results can be explained – there are indications that there is an MCS. Furthermore, this MCS works rather well, simply because there are no large deviations. If, as argued in chapters 5.2.2: Boundary system and 5.2.3: Diagnostic control system, formalisation is to be undertaken, it would be important to keep in mind that the current system works well and that care should be taken to preserve it even if it is transformed from tacit to explicit form.

Even though it is currently changing, the current management control at Polykemi is still more akin to the earlier system than to the one they are implementing, as explained in chapter 4.2: Current management control system. It has developed in an evolutionary nature over time and is at present changing rather much with the implementation of Going for Gold, but the main pillar of the current system is still the budget. There are however also elements of more modern

management control, particularly the company management's review, which is decidedly goal-oriented. There are also informal elements – quite a lot of them, in fact – the most noticeable of which is the company culture, which are important parts of the management control system.

A traditional MCS is fine on stable markets, where competitors and customers change relatively little and where prices are somewhat stable, but on changing markets such a system is not the best of options. With rising oil prices and an ever-more globalised world with all that means in terms of increased competition, volatility, current customers moving production to other countries et-cetera, a change to a more modern MCS would seem to be wise; perhaps especially since Polykemi focus on customer-adapted materials, where the odds for change are greater than in more generic plastics. It is fortunate then, that Polykemi have taken steps to change their MCS.

Some aspects have already been implemented, as noted above. Others are somewhere in between – the budget, for example. It is still a budget, and there are no revisions – no forecasts or quarterly updates – but it is constructed very much in a bottom-up process, save for the target levels, which are set top-to-bottom in a discussion regarding what is possible. It is clear that the currently used budget process is different from the one used a few years ago, and that the direction of change takes it from a traditional to a more modern version. This is also the case for bonus systems, which are used in production on both individual groups and for the entire company, and again have not always been there.

If the current management control is the result of earlier changes, what is special about the current change? The sheer scope of it would seem to be one important difference. With Going for Gold, Polykemi has set out to change not only the management control system, but to increase sales, maintain profitability and increase efficiency, all at once. GfG is also a project which runs over a rather long time – at least four years, and possibly extending beyond 2010. It is wise to allow the change process to take time, and that also means that larger changes can be effected within the scope of the program and that the adjustments are more likely to actually become permanent than if the rather sizable changes were pushed through in shorter time.

According to several interviewees, the need to change the MCS has become more pronounced as the company has grown, in terms of both turnover and number of employees. New demands on the organisation would then appear to be one reason why change is perceived to be necessary. This is consistent with Greiner's idea of alternating evolution and revolution – Polykemi have enjoyed a long time of stability in one phase, but are now approaching a shift to another phase.

Without going too much into the details of this theory, Polykemi are probably best described as currently being in phase three – growth through delegation – even though there are still traces of phase two, for example in the control system and partly in the organisational structure. Interestingly, this mix between phases shares many characteristics with the general results from the study on family-owned companies and might form the basis for a modification of the life-cycle model.

The mix of management control tools in the MCS and their practical use have in some sense been at the centre of change – both in previous change instances and currently – because they are so central to achieving any change. Over time, the mix has evolved to include more tools, and GfG is now attempting to bring along yet more – in this case, goal-orientation, delegation and possibly a greater use of incentives on a personal level or group level. This has also introduced changes in how the system can be used, and when new capabilities are added, the result is changing patterns of use. For example, a new version of the IT system is planned (which is also a tool in itself), to support both the changes mentioned above, and others. Overall, this is in line with the evolutionary progress in Arwidi's model – parts are mostly added to the MCS, not replaced, and the effect is that changes in use are also gradual.

Moving in this direction, the possibility of a balanced scorecard is one future development. The pictures in chapter 4.2.2: IT support systems indicate that Polykemi are interested in developing something akin to a balanced scorecard, and in having this built in as a part of the IT system. This is also borne out by interviews. If this is the case, it might be prudent to bear in mind a few common mistakes in the implementation phase, as pointed out by Scapens<sup>104</sup> and Modell<sup>105</sup>, and where one of the more severe is to treat it primarily as an IT system: In order for the system to work properly, all concerned personnel needs to accept the ideas and use it fully – the balanced scorecard must in fact be used along the lines described in chapter 3.4: Development of budgeting in the entire company, and not just be a tab in the IT system. In this specific case however, the actual problems will most probably be limited, for three reasons.

First and foremost, Polykemi are, since earlier, already familiar with the principle of “garbage in, garbage out” – they are aware of the need for employees to actually use the IT system in the way it was designed to, and will likely work to minimise this kind of problems. Second, Polykemi have already laid the foundation, in the form of starting a process to become more goal-oriented, for also introducing a practice similar to a scorecard. Third, the organisational climate on the site appears to be conducive to fostering new practices in the administration – it is unlikely that employees would be adverse to a new initiative of this kind; not least because the current IT system works well and has contributed to easing some of the workload, so there are no previous reasons for employees to be sceptical to new systems, even if they are different.

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<sup>104</sup> Scapens, Robert, Lesson notes in Management Control, Autumn 2007, School of Economics and Management, Lund University

<sup>105</sup> Modell, Sven (2007) *Managing accounting change*, in Issues in management accounting, edited by Hopper, Trevor, Northcott, Deryl and Scapens, Robert



## 5.2. Levers of control

In this chapter, Polykemi's management control system is analysed with Simons' theory as a raster, essentially providing an overview of the MCS as categorised by the levers. The theory itself is presented in chapter 3.3: The levers of control, and the summary in 3.3.5: Overview of levers may be handy to make the most of this analysis. There is also a summary of results in 5.2.5: Summary of levers of control, which provides an overview of the results in this analysis.

### 5.2.1. Beliefs system

The purpose of a beliefs system is to provide momentum and guidance to employees. To do this, it needs to communicate the company's vision, core values and similar tenets. Overall, Polykemi appears to have a very strong beliefs system – as an example, several interviewed employees echoed the sentiment from top management that the company's purpose is to survive and make money by selling plastics.

In several internal documents, particularly documents within the frame of Going for Gold, the core values are presented – responsibility, respect, cooperation and honesty. GfG is a good vehicle for promoting awareness of this kind of sentiment, but it is important to realise that there will be a need to continue spreading this creed even after GfG has run its course, in the form, for example, of exposure in the internal newsletters, in introduction documents for new employees, and not least importantly, in making sure that management keeps acting according to them, thereby setting an example for other employees.

This will probably pose no great problem, since it appears to be done quite well even today; the only point to take note of is that the values introduced with GfG must be followed up in later communications even after GfG is done. Polykemi have already managed to communicate values and ideals to the entire organisation, all the way from production up to the very top or vice versa. One reason why this has been so successful is probably the use of understandable metaphors, especially in GfG, where sports terms like coaching, training, team setup etcetera are common.

Another strongly contributing factor to the solid position of the beliefs system is almost certainly the concentrated ownership, which is of course a natural effect of the company being family-owned. The owning family's values and management philosophy have had every chance to greatly affect the company, and there are several characteristics of the culture which are surely related to this – for example the close relations between managers and subordinates as well as between employees on the same organisational level; strong traditions; the habit of helping each other out with different tasks and the notion of open doors; the partial focus on person rather than position, etcetera. This is all the more prominent since the owners also make up the top management and are present on site in the daily work, which allows for a close personal communication.

Polykemi appear to be scrupulous in who is hired and in ensuring a good personal match between employees, which is probably facilitated by the even growth of less than a dozen employees per year; an increased speed of personnel growth would likely make this harder. A connection to the

region appears to be another factor, and rather a lot of effort is put into the early socialisation of new employees, in the form of introduction documents and, primarily, older employees acting as tutors for new ones. At the same time, this means that if the company were to grow faster, some new method would have to be devised to keep the beneficial effects of the current approach.

Altogether, Polykemi appears to be a company with a strong beliefs system, which is most likely the result of its concentrated ownership by one family, the fact that owners are also managers and present in the daily work, the conscious effort in communicating values and beliefs in the organisation, and the selection and socialisation of new employees.

#### 5.2.2. Boundary system

The underlying idea of a company's boundary system is to limit the acceptable actions for employees so they know what they can and cannot do, for example in stressful situations when values and possibilities may lead in different directions. If a boundary system is well implemented, it supports delegation, since the risk that employees make wrong decisions is limited. Polykemi try to use delegation quite a lot, and are aiming to move even more in that direction with the introduction of their new management control approach, which makes the boundary system important – without it, time and resources risk being squandered on efforts which do not support the overall goals of the company but which seem to make sense in the separate case.

The ideology presented in the beliefs system becomes important in the boundary system as well, and when employees act in accordance with both, they are working within an accepted area, as illustrated in Figure 4: Opportunity space partitioned by beliefs and boundary systems . A strong communication of company culture, important values, which areas to focus on and which to ignore thereby creates an intrinsic control of employees who start acting in accordance with company goals and direction without even having to think about it.

Incentives and punishments are also among the useful tools to uphold a boundary system. Polykemi use incentives in production in order to minimise waste and at the same time maximise production. The use of an incentive system makes these two factors extra important to production personnel, and the fact that they are used collectively – on both production teams and the entire production department – helps to also create common boundaries for the production personnel, since if an individual were to step outside the boundary there would be adverse effects not only to him but to both his team and the entire staff.

The use of a collective incentive system also supports the beliefs system by creating goal congruence among employees, which is not automatically true when incentive systems are used because of the risk for suboptimisation. The use of a group-based system eliminates disputes between colleagues and problems regarding individual territories in a convenient way and the goals of the company end up in focus. There are discussions regarding an incentive system for the administrative parts of the organisation as well, and if properly designed, the same advantages can be expected there too.

Polykemi appears to also employ a mild form of admonishments, for example in that when ex post measurements differ from cost estimates the person who made the cost estimate has to follow up the difference. The primary reason for this appears to be simply to correct errors and improve precision in estimates, but it arguably also helps in reinforcing acceptable beliefs and boundaries. There are however no actions which can be construed as exclusively being a punishment system, nor would such a system be advisable.

The budget is another boundary-creating system. As a concrete example, it is an unwritten rule at Polykemi to generally not perform large investments in the first quarter of the year. The reason is that they first want to see to which degree the budget agrees with the actual results, and if there is a negative difference investments which were not pre-planned in the budget are kept low for the rest of the year. The creation of the budget is also interesting to note here since it is primarily a bottom-up process, which means that employees play an important part in creating their own boundary system. This allows for a good degree of employee involvement, in other words both control and enthusiasm at the same time. This, too, is connected to the delegation of responsibility, and to not limiting the flexibility and creativity of employees unnecessarily.

Another aspect of the boundary system at Polykemi is that it is partly tacit and informal. Employees know what is expected of them, and what they are expected to avoid. This can be seen as the intersection of both beliefs and boundary systems in the communication of company values. Since the boundary system has this characteristic, formal and written rules are not as essential as they would have otherwise been. On the other hand, if growth results in greater geographical spread and less possibility for informal communication, a formalised boundary system becomes all the more important, and must probably be implemented both overseas and at home, to avoid creating separate company cultures at different locations; unless separate cultures is desirable, in which case it would of course be unfavourable to create a single set of company-wide boundaries.

The welcome document and tutorship which new employees get, referenced in the chapter on Beliefs system above, also help with the boundary system. The socialisation process of the tutorship presents several possibilities for communicating the basics of the boundary system, and the document states formally certain things which are expected and others which are prohibited.

Altogether, the boundary system appears to work well at Polykemi, just like the beliefs system but perhaps not with quite as strong a presence. An important vehicle of the boundary system is, just as for beliefs, the communication of the company culture; another is the budget, and then there is the incentive system. Employees know what to do and what to avoid, and it is clear that the management have confidence in their subordinates and use delegation efficiently.

### 5.2.3. Diagnostic control system

The diagnostic control system focuses on the inner effectiveness to support the implementation of the company's strategy, in line with the view of strategy as a plan. The basis of the system is to measure how well goals are achieved, preferably in an objective and complete way, and to allow for correcting deviations in order to minimise dysfunctional behaviour. It is also important to measure what is *needed*, and not measure everything, because then the control risks becoming too large and expensive. Deciding what to measure can be a tricky balancing act.

The diagnostic control system is the part which is normally called "management control system" when the phrase is used in everyday language – Merchant & Govindarajan, for example, place very much emphasis on this aspect of management control, and when Polykemi state that they do not have any MCS, what they actually mean is most likely that they have no formal diagnostic control system – a view which can in fact be debated.

Polykemi's primary control tool is the budget, and two of the budget's greatest advantages are that the entire business is reflected in one document and that it is easy to follow up on deviations from it. To affect decisions, the budget's financial goals must however be transformed into business goals, in this case by the person making the decisions, and in order to follow up on actual results, financial data is then gathered concerning the outcome and compared to the budgeted targets. This is a drawback of the budget, since it can be argued that this translation between financial and business goals is unnecessary and steals time which could be better spent on other endeavours.

Although the budget remains the backbone, Polykemi are moving in the direction of using more non-financial targets directly in the management control – in other words, moving away from a traditional MCS and towards a more modern one. This approach will ultimately lead to a more diversified use of business ratios, where the focus on the financial side is dampened somewhat and increased instead on goal orientation and empowered employees who can look to other guides than just financial targets to determine what they should do. The diagnostic system will thereby change shape somewhat, from solely measuring financial data to also measuring business goals and softer aspects.

In many ways, this use of budgeting is in line with recommendations from Arwidi and Gyllberg & Svensson: The budget is the basis for modern management control, but it is complemented by other mechanisms of control. Apart from the company management's review and the associated goal orientation, there are clear signs that some kind of multidimensional framework is being considered; as discussed above, there are for example pictures closely resembling a balanced scorecard in the outline for the next version of the IT support system.

Kaplan & Norton also represent the view that in today's changing world, there is a need for management control systems with more viewpoints than just the financial. Their solution is to split the diagnostic control system into the four perspectives of a balanced scorecard – the financial, customer, internal process, and the learning and growth perspectives. There are two very notable

differences between a BSC and a budget, namely that the BSC explicitly contains non-financial goals, and that while the budget is primarily oriented towards historical accounting data, the BSC also focuses on the future in terms of learning and growth, but to accomplish this it needs to be based in the company's vision and strategy.

Currently, these higher-level requirements for producing a good balanced scorecard – business model, strategy and to some degree also critical success factors – are fuzzy or unknown at Polykemi, as explained in chapter 5.1: Management control system. There is an awareness of the need to formalise several aspects of Polykemi, such as these, and it is being done to some degree, but until that work is complete it may even be inadvisable to develop a BSC. The reason is quite simply that if the early stages of work are imprecise, the selection of key performance indicators (KPIs) risks resulting in a scorecard which measures other aspects than the truly important ones, thereby in fact driving attention away from what is important and towards what merely *seems* important.

One way of doing this is by using strategy maps, which provide a little bit of guidance in breaking down the business model, vision and similar very high-level goals to strategy, critical success factors and finally key performance indicators. Other ways could be used too, but whichever approach is eventually decided upon, it is important to involve the entire organisation – or at the very least the employees who will be working with the scorecard – in the discussions; it cannot be done exclusively by a third party, and if the selection of KPIs is not specifically customised for Polykemi, they may not be relevant.

In other words, good balanced scorecards which are generic for many companies simply do not exist. They must be customised, and they must be done so in a dialogue. A balanced scorecard may very well be a good direction in which to take Polykemi's diagnostic control system, and it may certainly help formalise some of the tacit control in the current system, but it must then be implemented as a whole management control tool, not merely as eye candy in a program.

Returning to the change of the management control system, the matrix by Gyllberg & Svensson – Figure 5: Matrix of the budget's usefulness above – can be used to clarify the transformation. Polykemi appears to be moving from a steady position in the upper left box towards the lower left. In both cases, the market seems to be stable, but increased turmoil regarding primarily the oil may change this in the future. The marked difference is however the design of the management control system, which is obviously moving from traditional to modern by complementing the budget with goal-orientation and non-financial business ratios.



External environment Management control system	Stable	Changing
Traditional	<i>This is where Polykemi were before</i>	<i>Unwanted position</i>
Modern	 <i>This is where they are heading</i>	 <i>Possible destination, owing to increased oil prices and market turbulence</i>

Figure 18: Polykemi's position in the matrix of the budget's usefulness

In terms of Arwidi's five-level scale of change regarding the development of budgeting, Polykemi appears to lie between steps three and four. The roles of the MCS have been redefined as other changes have been implemented, but there is so far no new formal management control system fully complementing the budget, although the company management's review is a good step towards that function. One appears to be under development, however, namely the balanced scorecard referenced above, but the budget will almost certainly remain very important even if a BSC is implemented, especially since the former is currently as detailed as it is.

It appears, on the topic of change, that Polykemi want to bestow ownership of employees' goals on the employees themselves, to achieve a truly goal-oriented approach. The parameters and business ratios of both the budget and more non-financial control measures should then be designed so that employees can relate to them in the daily work, and they also need to be visible and spur employees to actually work towards fulfilling them. It is obvious that Polykemi's management have adopted the old mantra that what gets measured gets done, and it would seem that the change towards becoming more goal-oriented will work out nicely.

There are also plans to intensify the follow-up against pre-planned values in the second version of the IT system, Polca 2, to increase support for goal-orientation. This, too, indicates that even though the budget is being completed by other measures, it will not be replaced. In line with this, there is also work in progress to increase goal congruence between the budget and the operational control in day-to-day business. It is important that the goals set up in the budget and communicated through it are the same as the measurements which are used in the daily work, and this is also something which is taken into account when creating the budget.

On a final note, an MCS should be no more complicated than absolutely necessary, but on the other hand needs to be complete enough to provide a full picture. Polykemi have clearly managed to combine both aspects, and there seems to be little need for worry that the diagnostic control system will become unwieldy even in the face of growth. The new control approach which combines non-financial measures with the existing budget also serves to ensure a complete picture.

#### 5.2.4. Interactive control system

There are three central aspects within the interactive control system which are worth a closer look in the case of Polykemi, namely the information system, benchmarking against other companies, and analysis of strengths, weaknesses, opportunities and threats regarding the own company. The interactive control system, which focuses on strategy as a pattern, helps companies to become more agile, leading to less risk when market turbulence increases and a greater potential in meeting new customer demands and new technologies. It also stimulates searching and learning, which are other activities allowing for the development of new strategies to handle upcoming opportunities and threats.

For the interactive control system to work properly, it is important to maintain an open and continuous discussion between management and employees regarding basic aspects of the organisation, perhaps specifically regarding future strategic issues, and it is helpful if the same kind of discussion is also present between people on the same organisational level and not just vertically.

In Polykemi's case, both kinds of discussion appear to exist and several different channels are used, such as Polynews, formal department meetings, and not least spontaneous talks when people just happen to meet. Polca also has a role to play in this context, as would an intranet, and both of these also have the distinct advantage that they scale very well, so they can be used even if the company grows rather a lot. Since impromptu conversations are much harder to scale up in the same way and to apply across geographical distances, discourses online as well as more formal meetings can be expected to become more important over time.

One formal tool which could be used for this kind of communication is the company management's review, even though information dissemination is not its primary purpose. The CMR contains an overview of the company which is at once both broad and focused, and which is a good start for a dialogue regarding strategic possibilities. Another is the business plan which has been created within the boundary of Going for Gold, and which contains not only a detailed market overview, including a SWOT analysis of each country, but which also provides an outline of planned activities and strategic positioning as well as a digest of competitors, which could serve as a basis for benchmarking.

The business plan has an advantage over the CMR, in their current forms, in that the former is already presented in an easily-accessible format, making good use of graphs, tables and a repeated structure to enable readers to quickly and easily understand the contents, whereas the CMR is presented in a way which requires more familiarity and understanding to use it. On the other hand, the CMR has the advantage that it is updated often. If both of these characteristics were combined, Polykemi would have a very strong formal tool which could be used to generate discussions, formal as well as informal, in the company, in addition to the already existing ways of enabling and following up on this kind of discussions.

Unlike the diagnostic control system, which provides stability in the management control system, the interactive control system allows for greater dynamics. It is obvious that Polykemi are aware of the need for both, although the interactive system – probably as a direct consequence of the company's values and history – is stronger, and both systems are rather informal. Despite this, the combination appears to be well set up, and there are already several key elements in place which could develop into a more formal system if desired.



## 5.2.5. Summary of levers of control

Since the analysis of Polykemi's management control system presented above is by necessity somewhat lengthy, a summary is presented in Table 4: Polykemi's management control system in terms of levers below. This table can be compared with Table 3: Characteristics of the four levers in chapter 3.3.5: Overview of levers, which outlined the general characteristics of the levers of control.

Table 4: Polykemi's management control system in terms of levers

	Beliefs systems	Boundary systems	Diagnostic control systems	Interactive control systems
Purpose	Communicate desired behaviour and action patterns.	Promote desired behaviour within defined limits.	Provide motivation, resources and information to ensure results are in line with pre-determined levels.	Focus attention on important strategic decisions and allow for new strategic directions by stimulating discussions.
Key design variables	Core values within the frame of GfG. Company culture, characterised by the company being family-owned.	Clear outlines of risks to be avoided.	Pre-determined goals to achieve. Goal orientation. Deviation reports.	Information dissemination and active listening to subordinates.
Examples	Clearly communicated values using both formal and informal channels. Scrupulousness when employing new people. Owners always on site.	Reward system within production department. Budget usage. Informal directives and rules of thumb.	Detailed budget with very thorough process. Focus on goal congruence between budget and operational goals. Company management's review.	Business plan including SWOT analysis, basis for benchmarking and marketing strategy. Polca, which allows information to travel in both directions.
Lever's state in Polykemi	Strong, but may need more formalisation to fully support growth.	Rather strong, but needs more formalisation to fully support growth.	Still rather tacit and informal. In the process of changing and becoming stronger.	Strong, but several important parts are tacit and informal, and may not scale well with growth.

### 5.3. Conclusions

*This chapter attempts to summarise the central aspects of the analysis in a short and dense form, which is presented below to give an overview of the results of this thesis. The primary theory giving rise to the items below is Simons' levers of control, but budget and balanced scorecard also provide insights.*

Polykemi's current management control system is still more like their traditional one, with the budget being very important, but it is moving towards a more modern design. This development appears to be an evolutionary process where the financial goals are being complemented with non-financial ones. There is also a move towards greater use of delegation and goal-orientation.

There is a change process in the company within the scope of Going for Gold, which started around 2005 and continues until 2010. The goal is to achieve one billion SEK a year in turnover and a net result at 7% of the turnover. This seems possible, but a company of the resulting size would probably require a more formal management control system, especially if other places than Ystad also grow to become important.

Regarding Simons' Levers of control, the beliefs system is very strong and connected to the fact that Polykemi is family-owned. The company culture is very noticeable and employees seem to know what is expected of them. The culture also appears to be shared by Polykemi's employees.

The boundary system is created using tools such as a reward system for the production (and one is planned for the administrative side as well), the budget and its associated processes, and informal directives and rules of thumb. It is not quite as strong as the beliefs system and it is to a large extent informal and tacit. In order to support the management control system of a larger Polykemi, the boundary system would probably need to be formalised.

The diagnostic control system is primarily made up of the budget and the thorough process through which it is prepared, and by the company management's review. Polykemi's ambition to move towards goal orientation appears to be becoming an important parameter for this lever, and there also seems to be a development towards non-financial business ratios. Like the boundary system, the diagnostic control system is still largely informal.

The interactive control system appears to be working well, but is even more informal than other levers in some very important regards. There are certainly formal elements, such as the internal newspaper and formal meetings, but there is also a great deal of informal communication between managers and employees when they happen to meet on site. If this lever is to work well when Polykemi grows larger, formalisation will most likely be required here too, perhaps in the form of increased digital communication, which could allow for informal communication even over large distances. An amalgam of the business plan's structure and readability and the company management's review could be useful to inspire discussions regarding the company's strategy.

Overall, the management control system at Polykemi appears to be strong in terms of Levers of control. Most parts are informal, which could use a change, but they appear to work well given the current circumstances. The weakest of the levers appears to be the diagnostic control system.

It appears that Polykemi are aiming to implement a form of balanced scorecard in the second version of the IT support system, Polca 2. This would definitely mean another evolutionary step towards a more modern management control system, which would most likely be beneficial, but a common mistake in starting to use balanced scorecards is to regard them as primarily IT systems. In order to be effective, balanced scorecards need to be used also outside the IT system, and they need to be constructed from the company's strategy in a company-wide discussion.

Being family-owned has had a great effect on Polykemi, and still does, especially since the owners are also available on site as managers in the daily work. One result of this is the view that a strictly financial rationality is secondary to carefulness and long-term survival, which is exemplified in large stock, a somewhat higher avoidance of risk than is usual for comparable companies which are not family-owned, and a desire for high solidity.



## 6. Discussion

*With the analysis done and conclusions presented, this chapter presents a few reflections about the management control system at Polykemi and suggests what further studies might focus upon – notably, a follow-up review of what actually happened after Going for Gold is advocated.*

### 6.1. Reflection

It has been rather complicated but also very rewarding to study a company which is both small-to-medium-sized and family-owned from the perspective of academic theories and approaches which were predominantly designed for large business groups in Anglo-Saxon cultures, and which often also have a rather sizable international presence. With the analysis done, the conclusion regarding the theories is that they are applicable to other types of companies too – and specifically, of course, this study's case company – albeit with a few exceptions and limitations.

The theory on levers of control appears to be applicable in a good manner, even in a small-to-medium-sized family-owned company in Sweden, but its focus on only formal elements can be debated. Arguably, the still largely tacit and informal management control system at Polykemi can be classified using the levers, and this classification provides insights into the actual workings of the system.

Evaluating the theories used was not a primary purpose of this thesis, but it is obvious that Simons' theory on levers of control can be used to structure empirical data efficiently and that it provides a good raster for analysis. It is equally obvious that a balanced scorecard can serve its purpose in this kind of organisation. Regarding the contents of the chapter containing the frame of reference, it is hardly surprising that the study of family-owned companies was useful and applicable, but perhaps a little bit more so that the company life-cycle seems, overall, to fit rather well, if not perfectly. The latter is after all a theory based on macro-level studies. The evolution of budgeting, finally, is a very fitting description of how the case company has been working with their MCS.

Polykemi repeatedly state that in their view, they do not really have any management control system, since it is not formal but rather inherent in their organisation, which is still small and geographically concentrated enough to allow a more informal system. Our position is however, based on the analysis performed above, that they have a widespread and well functioning management control system which is built on both formal as well as informal elements. It could be debated whether a company of Polykemi's size and character really needs a formal MCS, but regardless of the current situation it would seem to be beneficial when the business becomes larger and more scattered around the world.

Polykemi are performing an evolutionary change of their MCS. It seems that their aim – a multi-dimensional framework – is a good one, and it is consistent with theory. They are not attempting to replace their budget, but complement it, hence the description as evolutionary. The overall

feeling is that GfG is a good initiative, and that the business plan – both in itself and in terms of what it contains – is a good thing, which is in line with both theory and common sense.

If there is one thing which could use a little extra problematisation, it is the tendency to be highly risk-averse, as evidenced by large stocks, around 50% solidity with an informal goal to minimise debts, and a focus on survival rather than expansion. While it certainly reduces the risk to the company, thereby increasing its chances of survival, it may also become a hindrance to growth. A slightly less risk-averse attitude could allow for continued security while at the same time increasing the possibility for expansion and change, which, in themselves, can help the company to become stronger and to survive better.

The answer to the fundamental question in chapter 1.2: Problem discussion, *What are the characteristics of Polykemi's management control system and how is it affected by growth?*, has several facets. First and foremost, Polykemi themselves take the view that they do not actually have a management control system. This thesis finds, however, that one does exist and that it consists of both informal and formal elements. The most prominent formal element is decidedly the budget, but it is complemented by other tools, such as goal orientation, the company management's review, and a plethora of informal elements such as values and company culture. The existence of a management control system, of whatever kind, could also be expected from the simple fact that the company is doing very well – it is unlikely that this would be the case if there were *no* MCS.

The details of the management control system have been analysed in chapter 5: Analysis, and summarised in chapter 5.3: Conclusions. As a reflection, it appears that the control system has a high degree of acceptance among the employees and that the requirements have been communicated well inside at least the Swedish part of the company, which has been the focused geographical area of the thesis. Polykemi might do well to formalise their existing system, partly to move the system from tacit to explicit knowledge which can be passed on much easier to for example new employees, and partly to facilitate further changes of it. Formalisation is also something which Polykemi themselves are interested in, and hopefully this thesis can provide a starting point by describing the different measures currently in use and how they can be seen from the point of view of Simons' theory.

## 6.2. Further research

There are several areas which could be very interesting to study in some depth. One possible idea for further research would be to map Polykemi's current strategy, which in this thesis has been taken for granted and not analysed specifically, and write it down in a formal document. Several different aspects could be taken into account, such as marketing, expansion, financial strategy etcetera. This could also be used as a basis to help Polykemi in creating a balanced scorecard, by tracing the thus found strategies down through critical success factors and key performance indicators, eventually ending up in specific business ratios.

Another interesting approach would be to start with a question similar to the one used in this thesis, but to perform a quantitative rather than a qualitative study and attempt statistical gener-

alisation to find out how unique Polykemi is, related to other family-owned companies, in terms of management control.

One prominent aspect of Polykemi's management control system is its detailed and very exact budget process and the resulting budget. A closer look at the budget process itself could be interesting, perhaps in a comparative study with similar companies which fare less well, to highlight what importance the process has and how important the final document as such is.

Also, a study of what the effects of Going for Gold are once it is fully implemented would make very exciting reading. GfG is a large change program and will most likely affect the entire organisation in some way; and in particular management and the management control system will be very much part of this adjustment. A study of a brand new MCS in a family-owned company which will by then have grown larger, probably with a larger part of its production located in China – that is, significant production in more than one place – would shed light on both the differences between one single centre of production and a more distributed production, and on how the aspect of being family-owned affects such change.

### 6.3. Summary

This chapter has presented thoughts and ideas regarding theories as well as Polykemi's management control system. Overall, the theories were suitable even though the context is different from what they are usually used for, and Polykemi's MCS gives the impression of being very solid and based on common sense, despite – or perhaps because? – its lack of formality and the fact that important parts of it are tacit. Ideas for further research have also been suggested, primarily based on examining specific areas which have been brought to light in this thesis, such as strategy, generalisation, and what the effects of Going for Gold will be once it is fully implemented.





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## Appendix A: Interviews

In total, interviews with eight persons at Polykemi were performed in just over a month. In this chapter, the interview guides are presented as well as whom was interviewed. Since the interviews were performed in Swedish, the interview guides are given in the same language.

### Initial interview

For the first actual interview, we interviewed three persons at the same time:

- Ola Hugoson, CEO
- Lena Hansson, financial manager
- Stefan Andersson, controller and internal audits

The purpose was primarily to get answers to the questions which had been raised from studying internal and external documents, and to gain a deeper understanding for the company's management control system's structure.

### Allmän förståelse

- Hur ser värdekedjan ut? Har Polykemi funderat på att integrera vertikalt framåt?
- Vem är det som bestämmer plastleverantör, är det primär- eller sekundärkunderna?
- Har Polykemi övervägt utflyttning ur Sverige? Vad fick Polykemi att bestämma sig för att vara kvar? På vilket sätt är det ett hot att annan skandinavisk industri flyttar utomlands?
- Polykemi verkar ha bilindustrin som huvudsakliga slutkunder, stämmer det?
- Vilka andra slutkunder har Polykemi?
- Polykemi säljer till kunder som plastjättarna bedömer olönsamma. Hur erhålls lönsamhet? Är det för att den interna processen skiljer sig åt?
- Värderingarna verkar inte vara med i introduktionsmaterialet? Kommuniceras de på andra sätt? Är de förankrade? Har de betydelse i praktiken – vilken?
- Vad är det för skillnader på olika plaster? Rent tekniskt, samt vad gäller användning / kunder. PP = Polypropylen(?), osv.

### Going for gold

- Varför just en miljard i omsättning?
- Varför just 7% i lönsamhet?
- Varför beräknas lönsamhet så? (Nettoresultat / Omsättning)

### Ekonomisystem

- Berätta om hur Polykemi gör ekonomiuppföljning och vilka system som används.
- Berätta lite mer om belöningsystemet. Är det bara i produktionen, eller har ledning / administration också belöning? Hur funkar det med utbildningsbonusen?
- Hur ofta används bidrag till studier? Hur många genomgår vidareutbildningen?

- Hur många personalförslag förekommer?
- Hur ser siffrorna (framförallt lönsamhet och omsättning) ut om man rensar för underliggande plastpriser? Är det missvisande att göra det?
- Hur beräknas spill som kan återanvändas? Hur mycket av spillet kan återanvändas?

#### Multidimensionellt styrkort

- Används multidimensionellt styrkort?
- Vad är Polca 1? Vad är ComActivity? Används de? På vilket sätt är Polca 1 inte ett multidimensionellt styrkort?
- Vilka nyckeltal mäter ni / följer upp? I Polynews 1/2007, s. 19, har ni ju exempel på KPI.

### In-depth interviews 1

For the first series of in-depth interviews, we interviewed four persons, one at a time:

- Mattias Persson, sales manager
- Peter Åkesson, technical manager and executive vice president
- Jörgen Andersson, head of quality and development
- Roland Persson, head of operation and maintenance

The questions we asked are presented below.

- Beskriv ert ekonomistyrningssystem.
- Berätta lite om hur ni gör med budgeten.
  - Vem gör vad?
  - Vad gör du?
  - Vem är inblandad?
  - Hur går en budgetuppföljning till?
  - Hur ofta görs de?
- Har ni personer som är ansvariga för olika enheters kostnader och intäkter?
  - Vem är ansvarig för kostnader och intäkter på din enhet?
  - Vem ansvarar för mätningen av kostnader och intäkter på din enhet?
- Kan du berätta lite om Going for Gold?
  - Vad är målet med Going for Gold – varför har ni det?
  - Hur påverkar det ditt dagliga arbete?
  - Hur såg det ut innan Going for Gold?
  - Hur ser det ut nu?
  - Vad tycker du om det?
  - Vad är viktigast i Going for Gold?
  - Saknas det någonting annat som du tycker skulle behöva förändras?
- Berätta lite om miljökontrollen.
  - Varför har ni den?
  - Vilken nytta gör den?

- Hur sker rapportering?
  - Vad: Nyckeltal, exempel på tal som rapporteras
  - Hur: Affärssystem
  - När: Veckovis, månadsvis, kvartalsvis etc.
  - Vem: Vem rapporterar till vem
- Hur fungerar kommunikationen?
  - Hur går den till rent praktiskt?
  - Vem får du information från?
  - Vem pratar du med?
  - Finns det någon sorts information som du skulle vilja ha mer av?
  - Kan du berätta lite om intranätet?
  - Hur gör ni för att prata med agenter och dotterbolag?
- Vilken sorts beräkningar gör ni inför försäljning och produktion? Påläggskalkyl, målkostnads-kalkyl etc?
  - Hur går det till?
  - Hur ser marginalerna ut på olika produkter?
  - Hur plockar ni fram marginalerna i praktiken?

## In-depth interviews 2

For the second series of in-depth interviews, we interviewed three persons, one at a time:

- Lars Hugosson, purchasing manager and executive vice president for Polykemi, and CEO for Rondo Plast AB
- Ola Hugosson, CEO
- Stefan Andersson, controller

The questions for Mr. Hugosson were the same as in the first series, but for Mr. Hugosson and Mr. Andersson we had two different sets.

### Ola Hugosson

- Hur ser VD-rollen ut i ett mindre och ett större företag?
- Hur har den förändrats över tiden?
- Hur har ekonomistyrningen förändrats?
  - Tar den mer tid idag, när företaget är större?
  - Har du delegerat ut mer?
- Hur har själva företaget förändrats i takt med tillväxten?
- Hur ser planeringen / visionerna ut för framtida tillväxt?
- Vilken position hade du innan du blev VD?
- Behöver Polykemi växa – för att kunderna behöver det, exempelvis – eller är det ett mål som ni helt enkelt *vill* uppnå?
- Vad är det viktigaste syftet med Going for Gold?

- Har ni övervägt att köpa upp andra företag?
  - Om nej, varför inte?
- Vill ni rent faktiskt ha ett ekonomistyrningssystem, eller skulle det göra saker svårare?
- Ni använder budget idag, och ni gör uppföljningar... på vilket sätt har ni *inte* ett ekonomistyrningssystem?
- Rätt upp och ned: Vad har ni för strategi?

#### Stefan Andersson

- Hur ser budgetprocessen ut nu, och hur såg den ut tidigare?
- Hur ser uppföljningen ut nu, och hur såg den ut tidigare?
- Hur hanteras dotterbolagen i budgetprocessen?
- Vem ansvarar för budgetens delar, dels i framtagandeprocessen och dels vad gäller resultatansvar?
- Hur ser kopplingen mellan budgeten och målstyrningen / Going for Gold ut?
- Hur ser budgetens framtida utveckling ut?