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Examining the nature of management control system interrelationships

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ABSTRACT
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EXAMINING THE NATURE OF MANAGEMENT CONTROL SYSTEM INTERRELATIONSHIPS

RESEARCH OBJECTIVES

This study contributes to the literature of management control systems as a package by examining the interrelationships between the control components. Moreover, the study aims at explaining the control configuration present at a Finnish technical wholesale company and identifying what type of relationships exist between the controls and which relationships seem more crucial than others.

DATA SOURCES AND RESEARCH METHOD

The theoretical references of this study encompass journal articles and books discussing MCS as a package, with a specific focus on examinations on the component interrelationships. The research was executed as an explorative case study. Empirical data was primarily collected from 35 interviews between January and August 2010, all of which were recorded and transcribed. Additionally internal written materials of the case company were utilized in the analysis.

RESULTS

The interrelationships of MCS elements were identified and categorized as complementary and supplementary. Complementary relationships were distinguished as those between the core control components of the package, with aligned behavioral control effect. Supplementary controls support the core control package, but do not directly align the behavior. In addition, this study argues for an alternative option to rigorous cybernetics-based control configurations.

KEYWORDS

Management control system package, interrelationships, internal consistency, complement

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TIIVISTELMÄ
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TARKASTELU JOHDON OHJAUSJÄRJESTELMIEN VÄLISISTÄ SUHTEISTA

TUTKIMUKSEN TAVOITTEET

Tämä tutkimus osallistuu johdon ohjausjärjestelmäkokonaisuuksien tutkimukseen tarkastelemalla ohjauselementtien välisiä suhteita. Tutkimuksen tavoitteena on selvittää, mikä selittää tapaa, jolla ohjausjärjestelmäkokonaisuus suomalaisessa teknisen tukkukaupan yrityksessä on muotoiltu. Lisäksi tavoitteena on tunnistaa, minkä tyyppisiä suhteita ohjausjärjestelmäpaketin sisältä löytyy ja mitkä näistä suhteista vaikuttavat toisia tärkeämmiltä.

TUTKIMUSMENETELMÄ JA LÄHDEAINEISTO

Tutkimuksen teoreettinen lähdeaineisto koostuu johdon ohjausjärjestelmäkokonaisuuksia ja erityisesti järjestelmien välisiä suhteita käsittelevistä tieteellisistä artikkeleista ja kirjallisuudesta. Tutkimus toteutettiin eksploratiivisena case-tutkimuksena. Empiirinen aineisto kerättiin ensisijaisesti 35 haastattelusta tammi-elokuussa 2010. Kaikki haastattelut nauhoitettiin ja aukikirjoitettiin. Lisäksi case-yrityksen sisäisiä kirjallisia materiaaleja hyödynnettiin analyysin tukena.

TUTKIMUSTULOKSET

Tutkimuksen tuloksena luokiteltiin ohjausjärjestelmien väliset suhteet komplementaarisiksi ja täydentäviksi. Komplementaariset suhteet muodostuvat ohjausjärjestelmän ydinkomponenttien välille, sillä ne ohjaavat yhtenäiseen käyttäytymiseen. Täydentävät ohjauskomponentit tukevat ydinkomponentteja, mutta eivät suoraan ohjaa käyttäytymistä. Lisäksi tutkimuksessa havaittiin kyberneettiselle ohjausjärjestelmälle vaihtoehtoinen tapa järjestää ohjaus.

AVAINSANAT

Johdon ohjausjärjestelmä, vuorovaikutussuhde, sisäinen yhtenäisyys, komplementti

KIITOKSET

Tutkimuksen empiirinen data on kerätty yhteistyössä Mikko Sandelinin kanssa (Aalto-yliopiston kauppakorkeakoulu).

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1. INTRODUCTION

The aim of this empirical case study is to investigate management control systems (MCS) as a package with a special emphasis on attempting to identify the nature of the interrelationships between the various components of the package. The specific objective of the research is to explain why these controls appear together in the context of the chosen case company and to distinguish which relationships seem more crucial than others. With this approach the study aims to respond to the demand for qualitative empirical descriptions of MCS configurations and the interrelationships of MCS components in different contexts needed for the development of MCS theory (Otley, 1999; Malmi & Brown, 2008; Berry et al., 2009).

Recently MCS have been subject to a fair amount of research with various suggestions of what constitutes a MCS package (Flamholtz et al., 1985; Simons, 1995; Merchant & Van der Stede, 2007; Malmi & Brown, 2008; Ferreira & Otley, 2009). However, prior empirical research has mainly focused on investigating a small control subset in isolation of the entire control package and other MCS components potentially affecting them. Contingency theory, which has perhaps been the dominant logic in MCS research, has provided important insights into the subject of MCS as well (see e.g. Drazin & Van de Ven, 1985; Milgrom & Roberts, 1995), but the number of empirical studies tackling the joint effect of multiple control mechanisms has remained few. Therefore, many researchers have been expressing the need to gain empirical descriptions of the reality in which the MCS packages operate in order to fully understand whether the frameworks are going in the right direction in trying to describe the phenomenon (Otley & Berry, 1980; Flamholtz, 1983; Abernethy & Chua, 1996; Fisher, 1998; Otley, 1999; Malmi & Brown, 2008).

The importance of studying MCS comprehensively stems from the recognition that making conclusions of the performance influence of a single control component without identifying the impact of other prevailing controls could easily lead to misleading conclusions (Fisher, 1998; Chenhall, 2003). MCS have emerged as the means for managers to accomplish their task of coordinating and directing employees towards the goals of the organization. It is almost a norm for a contemporary organization to have numerous control systems at place, sometimes even without any further understanding of their collective effect on how employees behave and what it means to bring a new control alongside with the already existing ones. Therefore, the practical motivation for investigating MCS as a package is to assist managers in designing and implementing more effective control systems which then would contribute to more effective operations (Otley, 1980; Flamholtz et al., 1985).

While recently some researchers have been adopting the package approach to MCS in their case studies and provided important insights into the concept (Alvesson & Kärreman, 2004; Ahrens & Chapman, 2004; Tuomela, 2005; Mundy, 2010), a still rather unexplored area is the question of how the elements within a MCS package relate to each other. Malmi and Brown (2008) suggest that through examining the ways various MCS are used as parts of the organization's control mix a better understanding on the effectiveness of the individual elements could be achieved. Other researchers have also mentioned that understanding on how different controls could be combined to fit the specific circumstances of an organization is necessary for gaining knowledge on which controls actually are needed (Fisher, 1995; Chenhall, 2003). Despite the advances each of the existing theoretical frameworks has brought to our understanding of MCS, none of them really gives any specific tools in analyzing these interrelationships. Consequently, only few empirical studies have been addressing the issue (Abernethy & Chua, 1996; Sandelin, 2008).

This empirical case study attempts to answer to these demands by providing a detailed description of a MCS package at a Finnish technical wholesale company, aiming at identifying the nature of the relationships between its control elements. The case company has been chosen as the site of research because its fairly simple control configuration seems significantly different from those of the company's main competitors. In addition, the company has constantly been outperforming its competitors in terms of profitability in a fairly competitive field with no chance of differentiation by products.

The rest of the paper is organized as follows. The next section addresses our existing knowledge concerning MCS as a package, mainly from the viewpoint of the interrelationships between control systems. The third section presents the research method applied, as well as a concise description of the research site and data acquisition processes. This is followed by the illustration and findings regarding the MCS package present at the case company. Finally, in the discussion section the empirical findings are analyzed in the light of previous knowledge and in the concluding section central findings will be wrapped together and the study's contribution to MCS literature will be discussed.

2. MCS INTERRELATIONSHIPS

MCS have received several definitions in academic literature, ranging from encompassing strictly formal control mechanisms to covering a variety of informal controls of more implicit nature (e.g. Anthony, 1965; Ouchi, 1979; Flamholtz, 1983; Simons, 1995; Abernethy & Chua, 1996; Fisher, 1998; Merchant & Van der Stede, 2007; Malmi & Brown, 2008). The breadth of different definitions of MCS has even grown to the extent that discussing and comparing MCS research has proved problematic (Fisher, 1998). This research is conducted utilizing the behavioral congruence viewpoint in defining MCS: the means to ensure that the behavior of the employees is consistent with the attainment of the organization's objectives (Merchant & Van der Stede, 2007; Malmi & Brown, 2008). By this definition MCS is seen to solve three types of management control problems: lack of direction, lack of motivation or personal limitations of the organizational actors (Merchant & Van der Stede, 2007). Another widely used viewpoint on the purpose of MCS is the one of ensuring the accomplishment of organizational goals by aligning the goals of the employees with these mutual objectives (Flamholtz et al., 1985). The behavioral congruence approach is chosen for this study because it includes both formal management accounting based controls as well as motivators and incentives aimed at reinforcing behavioral congruence and recognizing that individual objectives might still differ from the ones of the organization.

The variety of defining MCS is repeated in the definitions of what constitutes a MCS package. As a concept the term 'MCS package' stems back from over 30 years (Otley, 1980), so the notion is definitely not new. The concept could be interpreted as referring to the issue that in most contemporary companies there is not only one management control system present, such as an incentive compensation system, but many others as well, which originating from different needs of different managers form the whole package of control systems under which the organization operates to achieve its goals (Malmi & Brown, 2008). The contents and uses of the package have been described and classified in several ways in various frameworks (Flamholtz, 1983; Flamholtz et al., 1985; Simons, 1995; Otley, 1999; Merchant & Van der Stede, 2007; Malmi & Brown, 2008; Ferreira & Otley, 2009).

The concept of MCS as a package seems to boil down to the question that if we can identify a well-performing company with a certain visible control element, then why do not just every firm copy this feature and perform equally well? Contingency theory suggests that this is because contingent variables define an optimal control solution for each specific situation (Fisher, 1998). However, since this rarely seems to happen successfully even in the face of similar contingencies there has to be something more besides the particular best practices as themselves that make a certain company perform successfully. Milgrom and Roberts (1995, p. 204) pointed out that the reason why copying one seemingly superior practice[1] just won't do the trick is that the practice is *"a part of a system of mutually enhancing elements, and that one cannot simply pick out a single element, graft it onto a different system without the complementary features, and expect positive results."*

This kind of notice regarding some type of complementary or reinforcing relationship between MCS elements has been common in prior literature (Otley, 1980; Flamholtz, 1983; Merchant, 1985; Brickley et al., 1997; Alvesson & Kärreman, 2004; Kruis, 2008; Mundy 2010). Despite all these notices, specific knowledge about the interrelationships between the components of MCS package has thus far remained fragmented and controversy (Chenhall, 2003). One of the reasons for the fragmented results has definitely been the conceptual variety in describing the nature of relationships within a MCS. First of all, contingency theorists have been discussing fit in so many different forms that the comparisons between different studies has been difficult and conclusions perhaps even incorrect (Gerdin & Greve, 2004). The fundamental idea of contingent control literature is that desired outcomes are achieved through a correct match between contingent variables and the MCS package (Fisher, 1998). From the viewpoint of this study the matter of interest is not the fit or relationship between MCS and contingent variables, but rather the relationships between MCS elements. This has been somewhat noticed in contingency literature as well: for example Kennedy and Widener (2008) examined how different control components influence each other at the basis of two types of contingency-based definitions on fit. In addition, Drazin and Van de Ven (1985) described a systems approach to fit not only as the match between organizational structures

[1] Case Lincoln company's piece rate

and processes with the set of contingencies facing the firm, but also as the internal consistency of the structures and processes in an organization. Furthermore, management literature has defined consistency of activities with performance declining if any single activity is changed alone without changes in the other activities (Porter & Siggelkow, 2008).

The term 'internal consistency' is used in more recent empirical MCS literature as well. Abernethy and Chua (1996) define the concept of control system package as the collection of internally consistent controls, in which internal consistency refers to controls being designed to achieve similar ends. This viewpoint is supported by Mundy (2010), who argues that the successful balancing of different MCS uses requires that the messages towards employees about desired behavior are coherent. Sandelin (2008), on the other hand, suggests a different viewpoint on the concept and argues that internal consistency is built from reciprocal processes, where *"primary mode of control shapes the design of the control package whereas the use of the secondary modes of control complements the primary one"* (ibid. p. 338). All of these researchers conclude that the functionality of MCS package appears to be dependent on its internal consistency, but do not further elaborate the nature or dynamics of it.

Alvesson and Kärreman (2004) commented on complementarity as different control forms, rather than MCS elements as such, linking to, supporting and sustaining each other. They concluded that the two forms of control investigated in their case study, technocratic and socio-ideological, act as complements and cannot necessarily be handled separately. Sandelin (2008) also notes that none of the control elements present at the case company of his study was sufficient alone for achieving desired control effect, but required the existence of the other components of the control package. His main conclusion was the complementary reciprocal relationship between primary and secondary modes of control in the design and use of control packages.

Economics-based literature has addressed the concept of complementarity more rigorously. Milgrom and Roberts (1990) defined elements to be complementary if the marginal benefit of element A increases with the level of B, and vice versa. Their mathematical modelings (1990, 1995) on this definition have attempted to provide a formal method in identifying the fit between strategy and structure, for example. However, from the viewpoint of MCS component relationships this definition only indicates the mathematical relationships of the investigated variables, and does not account for the purposes of MCS or the relative importance of the control elements. In addition, the organizational economics literature has also discussed management control from the viewpoint of organizational architecture. Brickley et al. (1997) defined delegation of decision rights, performance measurement and reward systems as the three primary components of organizational design and argue that when balanced correctly *"like three legs of a stool"* (ibid. p. 181) the control system consisting of these three elements provides a solution to controlling agency problems (Jensen & Meckling, 1976). These three blocks of organizational design have been researched considerably; in fact many of the quantitative empirical MCS investigations are examining these three components or different combinations or subsets of them. Some have found complementary relationships between the studied components (Abernethy et al., 2004; Widener et al., 2008), while others have recognized substitutional relations or no relationship at all (Nagar, 2002).

Widener et al. (2008) have perhaps gone furthest with their examination on interdependencies between all the three primary organizational design components. Their results indicated complementary relationships between all of the three design components. However, this kind of complementarity conclusion based on statistical positive interdependency does not really assist in evaluating the importance of the relationships of a MCS package, since the mere increase in the use of two components is interpreted as a complementarity. In addition, the study does not make a difference between reciprocal and unidirectional relationships, but instead concludes both types as complementarities. Moreover, this view on MCS package by Brickley et al. (1997) is quite narrow and does not account for informal control mechanisms at all.

In addition to complementary relationships, many researchers have been suggesting that the various elements of control might operate as substitutes to other control choices (Mintzberg, 1983; Dent, 1990; Fisher, 1995; Abernethy & Chua, 1996; Huikku, 2007). Substitution is suggested by Fisher (1998) to be referring to the possibility of multiple control configurations resulting in similar outcomes. Consequently, all control systems would not need to be activated simultaneously. Substitutional relationships have been identified by Abernethy and Chua (1996), who noted that complex accounting controls may be substituted by simpler budgetary controls and sufficient non-accounting control mix elements. Huikku (2007) investigated whether alternate capital investment controls could act as substitutes for post-completion auditing (PCA), but ended up in the conclusion that adopting PCA rather acts as a complement to the existing controls. However, his findings also suggest that at least partially a more informal control practice can replace the adoption of a strictly formal one (PCA). Sandelin (2008) further extends the concept of substitution by arguing that a substitutional effect can be identified at a more comprehensive level of control modes as well, so that formal results controls could be substituted by more informal cultural, personnel and action controls.

To sum up, it seems that we are lacking consistent concepts to describe and understand the variety of the relationships between MCS components. The concepts of fit, consistency and complementarity have been used in so many slightly differing ways that a coherent picture remains missing. For the purposes of this single-case study the economics-based definition on complementarity would not provide much value because the increase or decrease in performing a control activity cannot easily be identified. In addition, the economics-viewpoint ignores completely other possible substitutional or complementary effects than mere increases or decreases. Therefore, the viewpoint on internal consistency of MCS as achieving similar ends and supporting each other in directing the behavior is utilized in this study (Abernethy & Chua, 1996; Alvesson & Kärreman, 2004; Mundy, 2010). More specifically, this paper draws on analyzing the interrelationships of MCS elements from the viewpoint of the purpose of a control activity and the signal it mediates to the organizational actors. While the choices about the MCS characteristics are to describe what purpose the MCS serves, the interactions of the purposes are to reveal whether a set of MCS is mutually reinforcing in the pursue of aligned behavior. The identification of signals is essential for the purpose of behavioral alignment to be fulfilled, because a control element can serve alternative purposes, or, respectively, many alternative controls can serve the same purpose.

3. RESEARCH METHOD AND DESIGN

This empirical case study draws on explorative methods in order to gain knowledge on the essence of the controls present at the case company and further enlighten current academic knowledge on MCS component interrelationships. Case study method was chosen because it provides the means to go deep into the structures of the organization and reveal the fundamental relationships between MCS package components in order to facilitate understanding of the comprehensive use of these controls within a single organization (Ahrens & Dent, 1998; Otley, 1999, Berry et al., 2009).

The study was conducted at a Finnish technical wholesale company, TechWholesaler Ltd.[2], henceforth referred to as TWS. The company is a medium-sized country unit of a Nordic sub-group and further part of a large European group, employing roughly 350 people in 27 offices around Finland. The case company was chosen for this research because of its history of making excellent profits compared with its main competitors, which makes it interesting to examine how management control issues are being tackled at the company. Another issue contributing to the suitability of the chosen case company is the fact that it is not too complicated in terms of size and organizational structure which might be of help in gathering adequately information to get a comprehensive view of the entire package (Malmi and Brown, 2008). Instead, in a larger organization bureaucratic structures and processes might easily be concealing informal control practices (Mitchell & Reid, 2000).

The primary empirical data for the research consists of 35 semi-structured interviews conducted between January and August 2010, with most of the interviews taking place in June (see appendix A for a complete list of the interviews, and appendix B for the interview outline). The interviewees represent all levels of the organization: senior management, middle management, as well as employees from the functions of warehousing, sales and purchasing. The coverage of all organizational levels is important in order to gain profound understanding on the use of MCS and, consequently, the true nature of each control component (Ferreira and Otley, 2009). The interview material adds up to a total of 43 tape-recorded non-stop hours of interviews, all of which were transcribed. The average duration of the interviews was

[2] The name of the case company has been changed for guaranteeing anonymity.

approximately one hour and they were conducted at the head office and five local offices around the country. For the purpose of retaining the anonymity of the company, the local offices (profit centers) included in the interviews have been renamed for this study as Alpha, Bravo, Charlie, Delta and Echo.

In addition to the interviews, frequent informal discussions were conducted by the interviewer around the research subject. These discussions provide important additional insights to the interview data. As interviews were proceeding the understanding reached so far was widely utilized in refining the themes of subsequent interviews. Moreover, specifying inquiries could be made in retrospect when needed. To further improve data triangulation, some internal written materials were also received from the case company for the purposes of this research. These include for example strategy materials and the latest employee satisfaction survey.

Data analysis was conducted by listening to the interview tapes and reading through the transcriptions several times with the aim on attempting to identify the key elements of TWS's MCS package. The theoretical classifications of MCS by Simons (1995), Merchant and Van der Stede (2007) and Malmi and Brown (2008) as well as the organizational design component framework by Brickley et al. (1997) were all utilized in this process of identification in order to gain a comprehensive look on the possible control elements present at the company. The recognized control elements were grouped together according to each of these frameworks and these groupings were compared to each other in order to find the most suitable one to assist in analyzing the interrelationships of the components. While all of the discussed frameworks provide important insight for this study, none of them addresses the nature of control component interrelationships and therefore cannot be expected to be able to explain the empirical findings alone regarding the main objective of the study. This is why the empirical description does not rigidly follow any of the existing frameworks, but rather draws on the information gained from them in the attempt of recognizing how the MCS elements present at the case company relate to each other.

4. A MCS PACKAGE DESCRIPTION

Background of the company

TWS began its operations in 1995 when the company's designated CEO and a number of others decided to leave their current employer operating in the field of technical wholesale, and build up a competing business of their own. The new company was established as a country organization operating under a Baltic-area based group, which later became part of a large European multinational currently operating in more than 60 countries.

The two corner stones of TWS's strategy were fast determined as providing the best customer service of the industry and having the most cost-efficient operating model. These dimensions were, according to the CEO, the two key factors which the company could influence with its own efforts. The former of the two was seen as the best way for differentiation in the industry where all the participants basically sold *"the same product to the same customers at the same price"*, as the CEO described. To serve the target of providing superior customer service, a decentralized network of local fast-delivery warehouses was established to form the basis of the company's structure. While decentralization seemed more costly than centralization, a very lean organization was established to drive cost-efficiency. These strategic choices and assumptions related to them have remained untouched during the fifteen years of TWS's operations, even though in 2005 the Baltic mother group of TWS was acquired by a European multinational. This change in the ownership brought along significant pressures for formalizing the operating principles and procedures at TWS. However, the company's management has firmly believed in the adopted management model and fought for the continuance of their well-perceived practice of operations.

Throughout its history the company has continued to grow organically focusing only on those areas of business in which they could perform at their best and that way beat up competition. The strategic objectives of the company have remained the same. In fact, the only strategic objective has been to grow every year five percent faster than the market. Besides the numerical objective, the company has specified vision statement that the CEO addressed with the following words:

"No organization can operate well without its participants sharing the same view, the same belief about the future and thus, the same preconceptions and shared experiences within the organization."

While emphasizing shared future beliefs, the CEO continued on more detailed meanings of the vision statement:

"Hence, we believe that by encouraging TWS employees to personal development, and by enabling them to express themselves, and by allowing them to do the job as they wish, we think, we will achieve such a service level and productivity what we are aiming at."

The focus on employees and especially their possibility for autonomous conduct are, as will be shown, guidelines for organizational design that is believed to facilitate critical success factors of service level and productivity (efficiency). Moreover, the CEO further explained the vision statement and came to the very core of it:

"But even if we did not achieve better service, even if we did not manage to make the company more secure employer and more productive, all that would be worth of trying. It would be worth of trying just because it is right. Thus, we TWS employees want to respect our work and the success of this company. This is the way of ensuring our position."

The last part of the vision statement essentially points toward entrepreneurship. The vision statement is not about setting targets or direction as much as it is about laying ground for the internal mindset – the culture of the company. With these minimum mechanisms of setting strategic direction, namely means of a single specified growth objective and vision statement, the company has succeeded well in terms of performance. In 2010 TWS holds second position at the market with presence at 25 localities around Finland, while specifically in pick-up business the company has reached market leadership.

Structural choices and delegating decision rights

Contrary to the common practice of centralizing purchasing and warehousing in the retail and wholesale business, TWS's decision was to rely on radical decentralization. Working on against consultancy advice and mainstream carried high risk, but the management was convinced that not only sales but also purchasing and warehousing had to be decentralized in order to gain strategic advantages. Each local office became to have its own purchasing, warehousing, sales and management functions, so that a local office would appear like the company in a smaller scale. The decisions about the product mix, warehouse levels, suppliers, logistics, and customers were to be made within an office, "within a mini-company", rather than at a distance. This structural choice of decentralization established settings for local adaptation to customer needs. It also set office managers into an entrepreneurial position having all the necessary resources in their command. Other functions were centralized, with minimum staffing, to support the performance of the offices.

The decision to structurally decentralize the core functions was not an independent choice. To make a local office appear as the company in miniature to as high extent as possible and to translate the vision of the entrepreneurship into action, the senior management paid specific attention to the administrative structures of the company. The underlying idea was to promote the vision of entrepreneurship by assigning authority and responsibility to the front line, as the CFO commented:

> *"The idea is that people carry responsibility for their actions, they are given chance to make decisions and they are supported. They are the experts of their fields. Of course we need some coordinating forces; I mean that we need to check that we are going to the same direction and that we know where we do stand."*

The key decisions were made about decision authority, responsibility, and incentives. In addition, specific attention was to be paid on coordination, support, and viability of a particular kind of culture. These choices have remained the same since the establishment although constant fine-tuning is made in daily practices and information systems.

In addition to the fact that the company is radically decentralized in terms of core functions, there is also very little hierarchy present at TWS: the organizational levels consist of the head office, business regions, and local offices. However, only head office and local offices are considered as accounting entities, and local office managers (named profit center managers in the company language) report directly to the head office. The key organizational unit at TWS is the local office, or profit center. The role of business managers, as described by the CEO, is one of *"supporting and coordinating the offices placed at their regions"*. Besides this coordinating role, the business managers are responsible for company-wide development programs, and they also form the management board with the CEO, the CFO and the Purchasing Director. Two of the four business managers are in addition profit center managers, but respectively having smaller regions to coordinate.

In fact, profit center managers are perceived to be operating nearly as local CEOs of their units due to the freedom of decision-making regarding the key functions and processes at the office. Some examples of the matters under the responsibility of the profit center managers are taking care of employee healthcare, security and maintenance of the unit, and contracting with local transportation companies. The profit center manager of Bravo described his position by stating: *”In practice I’m local CEO since I need to make contracts with cleaners, maintenance, etc.”* He continued on the operational autonomy by providing the following example:

> *“We have very little rules here. Earlier we were constrained only by Finnish Criminal Act. For example, once I reviewed our equipment and realized that the fax machine is not good enough for us. So I took it to an office equipment store and got a good resale price and a new machine. When I informed the accounting apartment about my purchase a problem came up – the old machine was on lease hold.”*

The autonomy of operations extends beyond the profit center managers as well. For example the salesmen and purchasers are allowed to conduct their tasks very independently. This brings most of the business decisions to the people in the front line who are perceived to be in the best position to evaluate, for example, what are the most demanded products in their particular business area. The CFO described:

> *”The idea is that people are given the chance to make decisions and they are supported. They are the experts of their fields.”*

The profit center manager of Bravo shared this view: *“There is no such a smart manager in this company that he would know any issue better than the one who works with these issues on daily basis.”* This indicates, as the manager continued, *“we are allowed to make mistakes.”*

The minimum number of organizational levels with extensive delegation implies that decisions are not made through hierarchy. The underlying idea is that the one who identifies a problem is also the best one to solve it, irrespective of the organizational level. Everyone is encouraged to act like an entrepreneur. The profit center manager of Bravo clarified this mindset as follows:

> *"Sometimes I find it kind of funny when a salesman comes to you with a huge problem expecting you to help him solve it. You ask him what he thinks would be the best solution to the problem. Then the salesman tells you his solution, and you just nod and totally agree with him. After all, the salesman is the expert in his field."*

The underlying reason for functional decentralization and extensive delegation of decision-making authority is to enable adaptation to local customer needs. According to the purchaser of Bravo, this allows for local trade-offs and enables competitiveness:

> *"With the decentralized warehousing for example, which to me as a purchaser is close to my heart, it feels that we can respond to the local needs in so many more different ways than our competitors."*

Moreover, the delegation of decision rights allows for offering tailored local product mix and thus contributes both customer service and cost-efficiency. On the other hand, delegation is also considered a prerequisite for employee satisfaction which in turn is seen to improve customer service as well. Customer service, according to the CEO, "*is an immediate reflection of the well-being of the personnel and employee satisfaction."* He continued on the well-being as follows: *"I believe that it stems from the fact that they are able to express themselves."*

The extensive delegation is not unproblematic, however. The controller illustrated the freedom resulting from delegation very aptly: *"In one of these meetings someone stated pretty well that there is merely a fine line between operational freedom and abandonment."* Nonetheless, without exception the interviewees at all levels of the organization felt that the freedom of executing one's tasks independently and choosing the best ways of action themselves is definitely an appreciated feature of their job, as the purchasing manager of Charlie commented:

”I think one of the best features of how the CEO has been managing the company is that decision-making is placed in the customer interface where the actual work is done as well. And not having the head office compiling all these rules of operations to be distributed downwards to the field.”

In addition, the warehouse manager of Alpha described:

“It illustrates well that when you hear our new guys talking to their friends in the phone back there, they are constantly expressing how good place this is to work and how great it is when bosses are not lurking behind your back but rather let you do your own job.”

The autonomy of the local offices reflects to the role of the head office and management group as well. The head office with all its functions is intended to serve and support the local offices. *“Our purpose is to make the life of the units as easy and comfortable as possible so that they can run their operations at the best way possible with as little distractions as possible,”* explained the CFO. For example, the Group requires the subsidiaries to compile a five-year plan and annual budgets. At TWS the CEO and CFO prepare these without the involvement of the rest of the organization. On the other hand, the Group also requires reporting and compliance to EHS[3] policies. This reporting requirement, as well as financial planning, is filtered by the CEO and CFO. Moreover, when it comes to the purchasing function only major international purchases are made centrally by the purchasing director, otherwise each unit has their own purchaser working at the site of operations right next to warehousing and sales functions. According to a founder of the company this enables a better response to the actual circumstances rather than dealing with things from a distant purchase center of some sort:

“We have never liked the idea of all the purchasers sitting on their own in some mutual office. This is why they are placed in the units where they even might see some real customers as well.”

[3] Environmental, health and safety

A purchaser at profit center Echo commented on the same topic:

> *"If I sat in some office, it is very likely that I would have more like a tunnel vision on this. I would see nothing else, I mean, whether salesmen are busy, whether phones are ringing, whether truck drivers are coming and going, whether warehouse staff is having time for a chat or for a cup of coffee."*

Similarly to purchasing, no other centralized support functions like HR or marketing were created because they were only seen as unnecessary additional costs when decision rights had been delegated so deeply into the organization. In a similar vein, the role of the management board is to support the local offices. Although the management board monitors profit center performance on a monthly basis, primarily based on budget reviews, it is not involved in making operative decisions. Since the basic strategic assumptions have not been subject to change during the entire life span of the company, no formal strategy-making procedures are present, either. The primary role of the management board lies more in subtle coordinative and supportive actions.

While management board and nominated regional managers provide support to local offices, the functional steering groups in purchasing, warehousing and sales serve the same purpose. These steering groups consist of experts from the largest offices and typically they convene in a teleconference on a monthly basis. They seek to develop and search for the most effective ways of operations and provide an important source of support to the employees in a decentralized organization. However, the initiatives introduced by the steering groups are subject to the acceptance of profit center managers, so whether the decisions of these groups actually make a difference is dependent on profit center managers. A business manager playing also the role of a profit center manager (Alpha) summarized the autonomy of local offices and its implications as follows:

> *"I have absolutely enough autonomy as a profit center manager, but as a business manager, the profit center structure limits my authority. […] The implementation of management group decisions in profit centers is sometimes extremely challenging, because you cannot step over the profit center managers' authority. We are very delicate to protect that authority…"*

To sum up, operational activity and decisions are conducted in the local offices. All other bodies of management board, steering groups, and regional managers are to support these entities rather than monitor or control their plans and performance. Structural decentralization and extensive delegation enable entrepreneurial activity, an independent running of business in the local office.

Measuring performance

Performance measurement at TWS is organized around the local offices; business regions are not considered as accounting entities. Although called profit centers in the company language, the offices are measured at a broader aggregate measure: the economic value added (EVA). Consequently, they are held accountable not only for profit and loss but for cost of capital as well. Instead of defining strict targets for costs and revenues in detailed line-item budgets, the company respects the autonomy of the units and measures performance by an aggregate measure. EVA is thought to effectively capture the responsibilities of a profit center manager without consisting of too many complicated measures and calculations. The CEO explained that *"the measure is clear, simple, and the same for everyone"*. The CFO further mentioned that additional measures are not wanted to be hanging over employees because that would ruin the atmosphere and sense of responsibility currently prevailing at the company.

The aggregate nature of EVA gives plenty of room for the profit center managers to make decisions regarding revenues, expenses and working capital. Thus performance measurement at TWS does not really direct attention at any specific component of profitability, or directly at cost efficiency. Since warehousing plays an important part in TWS's business especially regarding cost efficiency, the significance of working capital management has been emphasized by specific accounting choices: besides already bearing their share of capital costs in the EVA-based measurement, the head office overhead costs are allocated to the profit centers on the basis of capital employed, too. This way attention is directed towards managing the size of the warehouse, receivables and payables, which as components of capital employed have direct effects on the quantity of overheads received.

The allocated overhead costs are shown as a separate line item in the profit centers' monthly P&L statements, which the profit centers follow and examine carefully. The controller explained that they are extremely conscious of the overheads: they are quickly calling to the head office if costs begin to rise or if they feel they have received too much allocation. He further described the issue as follows:

> *"Many times they call and wonder why these specific costs have now risen. Or ask where their sales margin has disappeared when they had been expecting this and this much more, wanting to know all of the adjustments probably affecting it."*

Similarly to performance measurement the CEO has wanted to keep the overhead allocation base simple and understandable, as he explained:

> *"In my philosophy it is extremely important that the allocated overheads are simple and as translucent as possible. This is because all the time you need for discussing or explaining them is just a waste of time."*

When it comes to measuring other aspects than financial ones, the practices at TWS are definitely playing a minor role. Although the CEO mentions four non-financial aspects that the company aims to follow at a regular basis (customer and personnel satisfaction, availability development and the number of complaints), in practice the employees seem to have the skill and expertise to gain the same or even better knowledge from their immediate surroundings without waiting for the actual measured results. For instance, instead of being dependent on actual customer satisfaction measurements once or twice a year, people try to catch the signals from their everyday operations, as the warehouse manager of Echo stated:

> *"When you don't receive any feedback (from customers) or the phone doesn't ring, it means that everything is proceeding smoothly and the customers are happy."*

Another applicable example is that the numerical measure developed for following availability development is not considered suitable enough for its purpose by the purchasers at the profit centers. Rather than relying on this easily misinforming formula the purchaser of Bravo mentions a simpler way of keeping in touch with the availability development:

> *"Actually what I consider more as an availability measure is the fact how much I hear feedback in the corridors on how goods weren't sufficient or I didn't get enough or things were left into post-delivery."*

This kind of reliance on informal daily feedback has been enabled by the structural choice of decentralizing the key functions, such as warehousing or purchasing. The company could have constructed a detailed scorecard for measuring and following turnovers, but instead they saw that a better way was to respect the autonomy of the profit centers and create the premises so that the business can be controlled and directed without too fastidious measurements and boundaries set by the head office. This supports the profit center managers' freedom of directing their units into the direction they feel most suitable for that particular unit. Moreover, according to the CFO the monitoring of profit center performance is mainly the responsibility of profit center managers:

> *"I think that something must be totally wrong if I need to constantly monitor and lurk what is going on in a unit. It is their responsibility to keep the shop in shape."*

EVA is calculated at a monthly basis side by side with basic profit and loss statements and reported publically in the company's internal reporting system so that everyone can see and compare how other offices are performing. Although no kind of formal competition is established between salespeople or local offices the public figures are seen as a significant motivator of trying to keep up with the neighboring units. The business manager of South described:

> *"I would say that nine film stars (salesmen) out of ten read their sales figures very closely when they are public. Everyone can see them, everybody's sales and accumulated margins. So I believe that it has a big directing effect."*

The management control at TWS is not based on predictive logic: planning is conducted separately from operational functions. The company does compile a company-wide five-year plan, which is updated every spring to roughly outline the future and serve as a starting point for the financial budget for the following year. However, this seems more like compliance to the practices of the Group than an actual control component. This is because, according to the purchasing director, the plan is mainly built up by the CEO and CFO and then delivered to the Group without much getting back to the delivered numbers later on. Action plans, on the other hand, are created in the minds of the profit center managers or operational managers and not regulated by the head office. For example, warehouse manager is most likely the one to be developing plans for how the warehouse at profit center Bravo should be functioning.

Annual budget, although constructed and shown in the monthly reports, does not create a control effect at TWS. The intention of the budget is not to serve as target, as the CEO explained:

> *"For us the budget is not binding and we do not reward for keeping the budget. We would rather see it so that the budget would represent the optimistic-realistic outlook of the following year at the time it is being prepared."*

This view seems consistent with the autonomous character of the profit centers: essentially the budget is thought to assist profit center managers in planning and anticipating their future actions. According to the CFO possible large deviations from the budget at profit center level are discussed by business managers with the profit center in question:

> *"[if a unit underperforms] we do not point with a stick nor do we ask any detailed plans for corrective actions. Our culture is rather to discuss and wonder."*

This type of practice allows people to make their own choices about critical issues and occasions at their responsibility area, and thus creating commitment into the choices they have made. Actually, many of the operational managers consider using previous year's realized figures as a point of comparison much more informative than the budget. The profit center manager of Charlie explains:

> *"I personally consider following trends more important than comparisons with the budget. This winter (2010) provides a typical example, because at the time the budgets were set there was a pretty uncertain situation: we knew that okay, now we are already at the bottom so the direction is probably upwards, but in what manner? The presumption was that this winter would become even tougher than it actually proved to be. And now we easily boast about beating the budget, but the budgets have been based on mere guesswork from January to March."*

Performance measurement at TWS thus strongly focuses on following EVA as the main measure. Operational measures are followed, too, but not because of dictations from above or targets set by the management. Instead, the employees and profit center managers know themselves well which are the measures or signals they should be aware of in order to run their daily operations smoothly. Quite surprisingly the measurement practices at TWS do not include any formal financial target setting at all, not by annual budget nor anything else.

Rewarding employees

The operational freedom granted to the people by the choices about delegation of decision rights and performance measurement enables employees' inherent motivation to prosper, because they are allowed independently to contribute to the daily operations with individual skills and capabilities, as the CFO commented: *"You cannot motivate anyone, but you can create premises in which a person can become motivated, find one's motivation."* Since individual motivations, however, are not necessarily aligned with the interests of the company, TWS has also set a formal incentive system based on financial rewarding. The purpose of these rewards is to achieve *"best service with the lowest costs"*, as the CEO commented. In other words, these rewards are for directing behavior towards the company goals. The CEO described financial rewarding as follows:

> *"Some, not all, salesmen have very minor sales commissions, but the most significant performance-based pay is for the team, I mean, for the profit center. They are rewarded very generously, if they succeed."*

Individual rewards are very rare. Some commissions exist just because by granting them, the company has avoided permanent salary increase. The core of the rewarding focuses on team-performance. In line with portraying a profit center as the company in smaller scale, the profit center performance is evaluated by EVA. The CEO further explained the underlying rewarding philosophy:

> *"We reward only for results, not for anything else. [...] We have no capped model, but just plain mathematics. We have no different criteria, I mean, if you achieve these numbers then you will get 15% and if you will achieve those numbers, then you will get 10% and so forth. Nothing like that. We have made the system crystal clear, because otherwise there will be too much debate."*

To avoid game-playing and unnecessary debate, performance contracts are the same for each profit center. Profit center EVA determines the size of the bonus pool. On the other hand, the people at the head office and business managers are rewarded based on company level EVA. This is because their role is to serve profit centers and make them to co-operate for the best of the whole company. However, the reasoning behind rewarding each profit center only on its own performance is clear, as the CFO explains:

> *"We do embrace a fairly pure profit center mindset. Why should we punish the people at Bravo if Delta is underperforming?"*

More precisely, 10 percent of the after-tax EVA is the bonus pool to be distributed to the staff. Three criteria are applied in determining individual bonus: one third is divided according to headcount, one third in proportion to salaries and one third based on judgmental appraisal by the profit center manager. While the rewarding system seeks to promote equity and team-effort, the subjective performance evaluation component seeks to resolve possible free-riding problems. In addition, the reward system at TWS does not include a cap: the higher EVA an office produces, the more people receive as compensation. Thus, there is an incentive for entrepreneurially seeking more effective processes and practices.

The company sets no target for performance; compensation is received every time EVA merely is produced. The CEO defends this procedure as follows: *"I am against target setting because EVA calculation already takes into account owners' expectation in the capital charge."* He also wants to avoid unnecessary debate of determining appropriate targets, waste of time on such debates, and ambiguity of what is deemed appropriate performance.

The CEO emphasizes that the choice to base the annual compensation on team (profit center) performance is one of the key issues to ensure cooperation of different functions and thus smooth running of the order-delivery process within the profit centers. However, the current compensation system may also encourage sub-optimized behavior. That is, the people at the local offices may only strive for the best of their own unit rather than what would be best for the company as a whole. The profit center manager at Echo describes the issue:

“The fact that EVA is profit-center-specific makes it kind of a sub-optimization factor. I mean in practice then for example Echo and Foxtrot are each other’s competitors, and in that sense it is just fine that it (the annual bonus) won’t count for half of the yearly salary, because then things could be turning pretty interesting.”

The company has sought to overcome such competitive dysfunctions by dedicating customers to profit centers. The selling unit gets the revenues and if the products are delivered by another unit, then delivery costs are allocated to the selling unit on the basis of transfer prices. The compensation system induces very strict cost consciousness. The extreme cost-efficiency was apparent in stories. Whether this awareness is already at too high a level to prevent profit center managers from making investment decisions can be contemplated because when yearly EVA is the only measure followed there is practically no explicit incentive to encourage longer-term thinking in terms of investments. The controller commented on the flipside of cost consciousness:

“Regarding accounting the major problem is indeed the fact that it takes courage from the decision maker to reason an investment decision to the employees and push your idea through. It has to contain long-term focus, we cannot only be optimizing the result for this year. Instead we have to make sure that growth and profitability are continued in the following years as well.”

As much as EVA is followed and costs thus kept down with every possible means, the incentive system based on the yearly profit center EVA seems to be appreciated by the employees because of its decent ability of producing monetary rewards for each member of the organization and not being just a sales provision for certain people. The real motivational or committing effect of the annual bonus can be seen controversial, however. When directly asked about the motivational effect of the EVA-based compensation most of the employees saw it as one of the minor drivers of motivation. For example the warehouse manager at Bravo commented:

”The annual bonus or receiving it a bit more than before really is not the thing that motivates. The main point is that operations are aimed towards producing more EVA, both for the company and for us. The reward is only one consequence of doing your job well.

What comes to the other common purpose of compensation systems, namely commitment building, the interviewees mainly commented the one-year payment period being too sparse for creating actual commitment to the company. Near the payment date in March people might consider not leaving the company before receiving the annual compensation, but otherwise it is not the money that would seem to keep the people at the company. As a salesman at Delta replied when asked whether annual EVA payment creates commitment to the company:

> *"But I don't see it (EVA) much engaging me to this job. If I wouldn't like it here otherwise then EVA wouldn't keep me here either."*

However, it might perhaps be a little naive to claim that the annual bonus has no motivational or committing influence. The purchasing manager of Delta put this well in words:

> *"I think that regardless of what people say the annual bonus is definitely one of the factors committing the people to this company. Although it does not remain in your mind for too long, but likewise you never remember a rise in salary for much longer than a few months."*

After all, EVA-based bonus does direct attention at profitability and team effort as well as facilitates entrepreneurial atmosphere, which in turn clearly is appreciated by the employees. Consequently, although not directly stated it seems that the reward system might nevertheless have an effect on how people build their motivation.

Besides pure monetary reward systems another way traditionally perceived to create commitment is to establish non-financial reward systems, such as training programs. However, no such formal non-financial reward systems are present at TWS. This is something the CEO sees as a difficulty and expresses his worry of whether the employees are thanked enough for their efforts. Regarding training the business manager of East stated:

> *"We actually have very little such training, or with a bit of exaggeration the philosophy goes so that if we have a person who does not know how to read or calculate then we teach him how to, but we don't have such proper systematic training plan for people. We do have a sales training et cetera to be presented to the group, but these are more for the purpose of the group letting us alone."*

The non-financial rewards thus remain modest at TWS and consequently are of little help in commitment-building. Informal recognition of good performance of duties is not found much present, either. The warehouse manager of Alpha commented:

> *"Many people tell in developmental discussions how nice it would be to get positive feedback when it is appropriate. Well, then I ask them how will it go if you are making collections and I come to you and say that now you did very well. I mean, you definitely then think like okay, what is wrong with him now."*

Regardless of this perception that the reward system does not create commitment among employees the average duration of career at TWS of the interviewees is an astonishing eleven years of the fifteen that the company has been operating.

Control through culture

The choices made at TWS regarding organizational structure, delegation, performance measurement and compensation provide some insight into how the management is trying to ensure that behavior throughout the company is consistent. In fact, these choices set the premises that enable entrepreneurial behavior and local adaptation to customer needs because only broad boundaries are established. However, besides these quite visible control system design choices, the desired behavior is sought to be facilitated by cultural controls. Indeed, it seems that these controls are effective since almost without any exception the same kind of expressions, same kind of worries about future and pride for one's own effort for the unit's success are repeated over and over again in the stories of the interviewees. In most parts of the organization a unique entrepreneurial atmosphere seems to be dominant. A warehouse manager at Bravo stated:

> *"We have been talking about it… […], if this (company) was ours. So what would we do differently? I don't think we could do any better even if this were our own."*

From the very beginning senior management has perceived active promotion of values and culture as the most important element of control at TWS. The CEO solidly believes that shared values serve as important controls for the company's operations: *"If I wouldn't count on that then I… the strategy would look very different."*

Rather than formally and regularly communicated, the values at TWS appear to be more implicit. This has been a deliberate choice by the CEO because written values become easily detached from actual behavior. Although not explicitly stated, the values at TWS can be condensed into three issues: entrepreneurship, trust and mutual respect. Entrepreneurship is a necessary value because the other controls provide little structure, incentive or sanction to act in a particular way. Broadly defined autonomy and accountability call for entrepreneurial mindset from the local CEOs. The relatively loose control and minimum monitoring also requires that superiors trust in the skills and ethics of their subordinates. In addition, mutual respect is necessary between superiors and subordinates, the functions within a profit center, and between profit centers. This is because no mechanistic coordination of these interactions exists.

Despite the lack of explicit value statements approximately 75 % of the respondents in the latest employee survey answered that they are familiar with the company's values and equally many felt that their working efforts were aligned with the values and strategy. More importantly, more than 95% of the staff responded to this survey, the rate indicating the importance of the survey for the employees. Instead of relying on written value statements the CEO has sought to promote values and particular culture by role-model-like behavior, as he described:

> *"Passionate talk of course in its own way with one's own words brings forward, but this type of re-ignition of the strategy… that kind of walking the talk, or not exactly that but maintaining credibility, it could be said that it is my primary duty in this company."*

Through stories and slogans employees are sought to get engaged in particular behavior. Numerous slogans live all around the organization. For instance several interviewees somehow referred to the CEO's view on the nature of the operational freedom in the company, as the business manager of Central and North described:

> *"He (the CEO) sometimes then said that we have such freedom in operations that in the one end we are constrained by our own imagination and in the other end by the Finnish Criminal Act."*

The slogan also illustrates trust on the ethics. In fact, the CEO cannot understand such formal statements as *"we operate according to law"*. For him it is self-evident. Moreover, he pointed out that:

> *"It is part of our culture that…We want to say that this company is safe and a good place to work. I mean that showing your position, status, or authority does not belong to our culture. We fire only if an employee ethically misconducts herself, any other problems (such as alcoholism) will be resolved."*

A range of other slogans are circulated within the company. Entrepreneurship is facilitated by the phrase *"it is easier to apologize than ask permission",* the slogan reflecting allowance for trial-and-error behavior and focus on action over planning. A slogan *"do not provoke the competitor"* was often referred to as an explanation why the company grows organically and does not want to take benefit of the competitors' problems. While the slogan points to humility in relation to competitor, the slogan *"who has the joy is to hide it"* points more specifically at humility within the company. Furthermore, equality is promoted by the expression *"one of the best"* whereas *"there is fine line between the care and abandonment"* is about to reinforce the meaning of profit center autonomy. As the CEO explained, other slogans have been used more specific purposes:

> *"We have used internal marketing slogans like: 'The salesman has the authority of a marketing director when making a deal'."*

While the CEO has found slogans as an effective way to keep the values alive, he is active also in behaving as a role model. The warehouse staff recalled how the CEO has appeared into warehouse to just discuss with them. They also recalled how the CEO's role model has, not perfectly but to great extent, led the other managers to adopt similar type of behavior. The CEO has a personal, if not entrepreneurial, touch to the business even though the ownership of the company lies rather far in the hands of the European mother group. An excellent example of the CEO's leadership style is the way he succeeded to convince the Group of not initiating any lay-offs or denunciation at TWS during the latest financial crisis, even though all other country units of the Group were exercising restructurings. The CEO saw prevailing culture too valuable to be sacrificed and much more severe problems to arise if people were laid off. The CFO explained this further:

> *"In all of our neighboring countries they were cutting down headcount and stuff. Because we are operating in a different way we then tried to tell (to the Group) that with our system, our organization… we cannot start to cut, we cannot lay people off without the engine starting to cough; that it will become much more expensive."*

The CEO, rather than just defending the company against the group, stick his neck out and visited each of the profit centers, albeit that required two months his working time. He wanted to personally explain, *"in his realistic and understandable, non-engineering language"*, as a purchaser commented, the facts of the situation to employees. He explained to employees that he will do anything to avoid lay-offs and encouraged employees to work harder, but did not deny the fact that co-operation procedures are taken if nothing else resolves the situation. In fact, his message and behavior turned out to be a good remedy for the recession as the turnover and gross-margin kept growing.

The slogans and role-model behavior are aimed at keeping values alive and blowing the right spirit into the behavior of the employees. The culture is further supported by the way everyday operations and routines are arranged at the company. No formal codes of conduct nor explicit rules or regulations are dictated by the HQ, which gives room to the entrepreneurship as well as trust prevailing in the organization. For example such common examples of mutual organization policies as monitoring of working hours or formal procedure descriptions are practically completely missing at TWS. The minimum rules are for highly exceptional situations such as significantly increasing credit limit of a customer or ordering exceptionally high volumes for a large scale customer.

The profit centers have much freedom in organizing their operations and procedures as they feel most suitable. Some of them have constructed own task descriptions of critical functions while others are relying on tacit knowledge of the old-timers. Recruiting process provides a good example of a process to which typically there would be at least some type of directions dictated by the headquarters on how the process ought to be carried out, but which in the case of TWS has been handled as the CFO described:

"Really there haven't been any aptitude tests; on the contrary, every time recruitments have been on, at least during my presence here, it has been more a question of personal type, that kind of person who fits into this shop…"

The same aspect was echoed by the CEO: *"In my opinion it is far easier to teach skills or provide training than change personality."* The focus on personality in personnel selection is seen critical, because the organizational spirit and behavior are highly dependent on people, rather than the mere organizational design. The CFO commented on this as follows:

"Besides clear culmination into the CEO's personality, the development of our culture has required successful selection of the people involved. In the end it is very much dependent on the people how things can be developed."

The crucial role of personalities became evident in two profit centers, where the managers did not enjoy the respect of the employees. This was reflected also onto the performance of the profit centers. However, the CEO viewed the situation problematic because, as promised to employees, nobody will be laid off as long as there are no ethical problems. This situation remains to be solved by the senior management, where for example rearrangement of some of the duties of the managers has been considered as an option.

Besides values, the shared experiences through the history seem to play a significant role in shaping employee behavior. A significant part of the entire personnel has made a long career at the company; many of them have been present since the very beginning of operations. While the organization design allows for various subcultures or clans to exist at the profit centers, the shared experiences at the company level seem to maintain coherence, as the sales manager at Bravo commented:

"We have been able to maintain a good spirit. We have experienced upturn and now during the last few years markets going down. And I don't think it has been visible in the feeling: we are all still in the same boat and we haven't started to pull into different directions."

This strong cultural cohesion does not stem from traditional visible symbolic controls put in place by the company, such as consistent designs and interiors at offices around the country, as a profit center (Bravo) manager commented:

“The company image is not standardized which can be weakness. But if you consider a typical customer here, that guy hardly gets kicks of the similar office elsewhere. I mean that locality may be a value as such.”

The CFO explained how the company image is used for managing customer interface rather than cultural belongingness:

”Our offices look quite different; there is no standard for visual outlook. […] We want to signal that we are working here to serve you and we have just the suitable facilities for that.”

Even though cultural controls such as role-model behavior, slogans, and personnel selection play a role in shaping the behavior within the more broad management control premises, these premises not only enable particular behaviors to arise but also affect behavior. The profit center as a mini-company, the rewards based on its financial results, and most importantly, the distribution of rewards somewhat equally to employees within a profit center, seem to affect the sense of responsibility. A purchaser of Bravo commented:

“EVA is a measure that is rewarding, I mean, makes you feel that now we have done right things. And it motivates you to continue the next year.”

While EVA-based financial rewards motivate employees to varying extent, the purchaser continued on the meanings due to evaluating and rewarding profit center as a team:

“I don’t look at the business only from purchasing perspective. Instead I do worry about outbound logistics and other issues related to sales, even though these matters do not belong to my responsibilities. I think about them anyway. I think more broadly our business.”

Another purchaser at Echo explained her perception of the success by stating:

“I am interested in knowing how we are performing. We analyze our results, especially sales. It is sum of everything. But it is not only the merit of the sales, but result of the joint effort from warehouse to truck drivers. It is on everyone’s credit.”

While rewards seem to direct employees towards sharing responsibility within profit centers, the existence of the rewards seems to facilitate entrepreneurial action. The purchaser continued: *"Even if we did not receive the reward, certainly we have tried to do our best to get it."* The design of rewarding system focuses on profit center. While rewards set an incentive for self-interest, many respondents were concerned of the whole, as a warehouse manager at Bravo commented:

> *"It is our profit center and the whole company. […] If something is our advantage but not the advantage of the whole company, you need choose for the whole. You need to look at it this way."*

It seems that shared responsibility for the company performance is due to the excellent financial performance operating as a buffer against the corporate pressures. The CEO explained the actual meaning of strong performance:

> *"On the other hand if you continuously keep growing faster than the market, keep winning market share, and there is a world of difference in terms of ROI between you and any of your competitors in Finland, then we have been leaning on the fact that these are sufficient signals of us not being entirely wrong yet, so to speak."*

People seem to be aware that if the company EVA decreases, the CEO is unable to defend the quite unique operating model against corporate standardization and budgetary control pressures. Whilst people are committed to their targets, i.e. profit center EVA, they are also committed to the company. They have been actively creating the story of the company from the beginning, which has created the sense of family, as a purchaser at Bravo commented: *"Once you have started with pencil, from scratch, with these people, it establishes affinity."* She further continued:

> *"We are a family because we have been long together. The personnel turnover is low. You know these people and you can read so much from their faces."*

The long careers in the company, in turn, seem to be explained by the organization design, as a purchaser at Delta explained:

> *"We have been allowed to do this (profit center) in our way. The people are extremely committed because they have been and still are able to affect their doings."*

Finally, a purchaser at Echo with a 15-year experience echoed the commitment as follows:

> *"There is no Monday morning I had felt uncomfortable to go to work. […] It is our gang, the atmosphere."*

5. DISCUSSION

In this section the narrative described above is attempted to be drawn together by discussing the findings related to the objectives of this study.

First of all, an objective of interest was to examine what explains the occurrence of a particular control configuration. The conventional viewpoint of a cybernetic-based[4] control system has been prevailing in management control literature, if not explicitly, at least implicitly (Green & Welsh, 1988; Flamholtz, 1983; Otley, 1999). Moreover, much of the management control literature builds on the assumption that strategy or objectives determine the MCS package (Langfield-Smith, 1997; Ittner & Larcker, 2001; Ferreira and Otley, 2009; see also Chenhall, 2003). The MCS package implemented at TWS, however, does not seem to conform to this view, since the only formal objective of the company, to grow five percent faster than the market, or the strategic critical success factors of superior customer service and most cost-efficient operating model are not directly visible in any of the concrete control choices made. More specifically, the only performance measure in use at the company, namely EVA, cannot be directly linked to these objectives. The entire package of controls cannot be seen leaning as much into the cybernetic-based thinking as perhaps traditionally has been the view in MCS research. Therefore, the control choices made cannot be explained by the desire to meet the company's objectives through goal alignment.

[4] See e.g. Hofstede, 1978.

Instead, accordingly to the definition of MCS presented by Merchant and Van der Stede (2007), the objective to reach behavioral congruence rather than goal congruence seems to be the explaining factor of TWS's control choices. The impression gained from TWS's vision statement suggests that the main objective of control seems to be to create an entrepreneurial mindset according to which the behavior of the employees should be aligned. This entrepreneurial behavior is in the vision seen as the primary means for achieving the targets of superior customer service and cost-efficiency.

The entrepreneurial mindset is pursued with various control elements. First of all, the structural choice of decentralizing all of the key operational functions was made in order to differentiate TWS from its competitors and to aim for superiority in pick-up commerce. However, without the extensive delegation of decision rights and thus placing the decision power in the front line, the functional decentralization would not have been of much use in creating independent and customer-focused behavior. The freedom granted to subordinates regarding decision-making signals them appreciation of entrepreneurship. The employees are expected to consider the full range of variables, from customers and suppliers to business and support functions. They are expected to carry responsibility but not limited of trying something new. This is essentially complemented with measuring performance with EVA, which allows the independent decision-making regarding trade-offs between revenues, operative expenses and capital costs. In addition, since the incentive compensation as well is solely based on the EVA produced by one's unit without any upper limits, it signals an entrepreneur-like thinking on getting rewarded more for a better performance and not playing games with the desired or adequate level of profits. An element of uncertainty – a fundamental feature of entrepreneurship – is brought to the incentive system with the subjective evaluation as the basis for one third of the annual bonus. The combination of performance measurement, evaluation and rewards directs attention at the achievement of profitability while the means remains unspecified. The MCS design establishes motivation in terms of entrepreneurship whilst it also directs attention at the company objectives.

This entrepreneurial mindset is further complemented by grass-root level fine-tuning of cultural controls. The active shaping of culture by the means of delivering values into the organization using slogans and role-model-like behavior is all aimed at increasing the independent atmosphere. The culture with its shared values allows the decision power to be decentralized all over the company, because the people can be trusted and motivated to do their best every day. If the prevailing organizational culture was entirely different and motivation created only through financial rewards, then probably this wide delegation would not work as well towards entrepreneurial thinking. And vice versa, because authority is given to the employees they feel appreciated and thus foster even further the atmosphere of entrepreneurship and commitment.

From this behavioral perspective the above described MCS choices seem to be coherently aiming towards encouraging value-based behavior and, consequently, towards the strategic targets of the company. Although the controls as such independently do not necessarily direct towards the organizational goals, their mutual consistent signal towards entrepreneur-like behavior provides the means to achieve the targets and thus aiming towards realizing the vision. Therefore, consistently with Abernethy and Chua (1996) and Mundy (2010) these above described MCS choices can be regarded internally consistent and thus mutually reinforcing and complementing each other. This core structure of the MCS package serves two purposes of management control simultaneously: motivation and direction setting. The definition in the managerial literature (Porter & Siggelkow, 2008) on consistency can also be identified in this case, since for example the CEO sees the design of the incentive compensation system as something that maybe should be reconsidered, but something he does not dare to change because it could jeopardize the balance of the entire control system. Another example is that more limited decision rights would make broad performance measurement less meaningful and lead easily to frustration and motivational problems. Thus introduction of any additional controls or changing the nature of the existing ones would probably result in a decrease in the entrepreneurship and clarity of direction. Referring to the metaphor by Brickley et al. (1997) it can be questioned what would happen to the balance of the three-legged stool if one of the legs were shortened dramatically. Therefore, we argue that these controls are complementary to each other in aligning the behavior of the organizational actors.

As many of the MCS package descriptive frameworks suggest, the variety of MCS present at a company can many times be vast. At TWS this is seen as well: besides the above described control components there are a number of other elements that fall into the classifications of the types of MCS. However, the control effect of these elements is not necessarily a direct or a strong one, but rather supporting in regard with the complementary choices described above. At TWS planning and annual budgeting appear to possess this type of a less significant role in controlling the organizational behavior. Plans and budgets are neither consolidated nor prepared for the head office, but rather built for the own purposes of the profit centers, thus leaving space for the independent decision-making of the units. Budgeting is directly mentioned and aimed at only providing the profit center managers a chance to *"stop and think about the future",* instead of setting performance targets to strictly direct the actions with rewards or sanctions. The profit center managers do not see budgeting as an important feature either, and rather compare the performance of the units to previous trends. Based on this we argue that those controls that could be removed from the package without causing changes in the entrepreneurial signal sent by the core package are of weaker relationship and importance. Thus these controls could be labeled as supplementary controls, because they do help in reinforcing the desired control effect of the primary controls, or at least do not prevent it, but their removal would not cause changes in control effect.

Therefore, this study proposes a hierarchy between the complementary relationships of the control choices in an organization. Based on the evidence of the case study it is argued that the strongest alignment between MCS is found between those elements that are behaviorally aligned giving the same signal to the organizational actors in guiding their behavior and thus as mutually reinforcing elements act as complements to each other. The analysis of the interactions at TWS points out that the choices on delegation, performance measurement, performance evaluation and rewarding are complementary in that of serving the vision of entrepreneurial behavior. The entrepreneurship, in turn, contributes to motivation and commitment of employees whose attention is primarily directed by the aforementioned choices. These primary complementary controls form the core of the MCS package. The core level of controls identified in this case seems to be consistent with the findings of Widener et al. (2008) on the complementarities of the three core components of organizational design. However, cultural controls are identified to be an essential part of the core control system, complementing the design components significantly in fostering aligned behavior. This is in line with the notion by Merchant and Van der Stede (2007, p. 92), who note that while empowering employees has become the main direction in the organizations instead of rigorous hierarchies and action based controls, the importance of organizational values has increased dramatically in ensuring that people are acting in the organization's best interest.

The importance of organizational culture as part of the control configurations has been stated by many other scholars as well (e.g. Kunda, 1992; Flamholtz, 1983; Malmi & Brown, 2008).

The secondary level of complementary relationships seems to consist of controls bringing extra insurance to the signal sent by the core MCS configuration. However, we argue that their absence would probably not significantly change the signal. For example if annual budgeting were to be removed at TWS, it can be speculated that it would not probably decrease the intensity of the entrepreneurial signal very much, since employees do not perceive the budget to be directing their behavior. In addition these secondary choices are not directly aimed towards aligning the behavior of the employees towards entrepreneurship, but rather towards self-control and support. Therefore, these choices are labeled as supplements, indicating a complementary relationship to the primary control elements, but because the behavioral alignment is not present the distinction between complements and supplements is introduced.

Prior MCS literature has identified subtle findings on the different importance of MCS elements as well. Sandelin (2008) identified a primary mode of control with regard to secondary ones, and Simons (2005) implicitly argued for the need for supplementary controls ensuring ethical behavior when the entrepreneurial gap in targets is present. Abernethy and Chua (1996) noticed that accounting control systems were not playing a particularly important role in controlling the organization, but were regarded as rationalizing and supplementing other more visible elements of the package. Finally, Mundy (2010) also concluded that belief systems exercised a powerful influence over other types of control in her case study. Therefore, the notion of difference in the strength of the interrelationships is backed up by previous studies, and now further elaborated with the distinction of the strength being defined through the behavioral alignment concept.

As an additional notice, some of the controls present in our empirical data, such as steering groups, monthly performance reviews by management board and monthly reporting to profit centers are not MCS as such, because they do not ensure by any means desired employee behavior (Merchant & Van der Stede, 2007; Malmi & Brown, 2008). Accordingly to the distinction by Malmi and Brown they can be regarded as decision support systems that support the core MCS structure. Their role is not, however, insignificant. For instance, reporting to profit centers is necessary so that subordinates can receive feedback, yet drawing the conclusions and making decisions about what the right things to do are remain their sole responsibility. Therefore, these decision support systems realize the third purpose of MCS: to help employees overcome personal limitations. We argue that when investigating the relationships inside package of controls it is important to notice this distinction between controls and decision support systems.

Finally, the findings at TWS demonstrate how a rigorous cybernetics-based system is not necessarily the only way to construct a well-functioning control system package. With an extremely simple system where cultural controls and autonomy are emphasized instead of placing dozens of accurate measures and targets in place the organization seems to be controlled (and performing) just fine. Thus the design of the MCS package at TWS seems to be somewhat substituting for a more tightly coupled formal cybernetic system. This observation is consistent with previous MCS theoretical research as well: researchers have suggested that especially shared values and beliefs in organizational cultures can reduce or substitute the needs for a tight formal control system (Fisher, 1995; Merchant & Van der Stede, 2007, p. 91). However, despite the nature of the control at TWS is more of self-controlling than senior management dictating rules and procedures, the desired targets and feedback are still communicated to the people through different control and decision support systems, so entirely the thought of cybernetics can not be thrown away. Instead, cybernetic principles just perhaps lie more subtle in the control system package and the basic idea of setting targets and finally getting feedback is after all realized, but through means of self-control.

6. CONCLUSIONS

Although management control has been subject for considerable amount of research recently, previous research has been lacking in-depth analysis on the interrelationships between control components from a holistic viewpoint. This study sought to provide a comprehensive description of a MCS package configuration in a case company with a focus on analyzing how different control systems relate to each other and which of the interrelationships are more crucial than others. The study has the potential to contribute to our understanding on the nature and intensity of MCS linkages through arguing that it is important to distinguish between different types of complementarity. Consequently, a distinction between complementary and supplementary controls was presented.

Firstly, those controls with consistent signals towards a desired type of behavior are argued to form the core of the company's control system. This is because through the behavioral alignment organizational objectives are thought to be attained more easily. These control elements are defined as complements to each other, since it can be speculated that if any of the controls would be altered the signal would be affected with the change. Secondly, supplementary controls were identified as those controls that support the core control package but do not as themselves directly align the behavior accordingly. Therefore it is argued that these controls could be removed from the package without significantly changing the signal sent by the entire control package. Finally, this study argues for an alternative option to prescriptive cybernetics-based target-plan-feedback thinking in management control research by demonstrating a responsive way of practicing management control. With these findings the study goes beyond mere description what is and contributes to our knowledge by providing theoretical ideas about why and how MCS elements are related in a certain way.

Since this paper only investigates the operation of MCS package in one case company, the analysis has the opportunity to reach deeper than by surveying several companies. The large number of interviews conducted, as well as the secondary empirical data available provide significant reinforcement to the reliability of the data because over time same kinds of answers were repeated from different parts and organizational levels of the case organization. The possibility to afterwards revise unclear issues from the case company assisted in gaining sufficient empirical evidence for this study as well. In addition, the size and fairly simple structure of the case company provided an excellent basis for investigating MCS as a package, because the specification and analysis of all the potential interrelationships in a complex and manifold organization would definitely be challenging. As a part of a large multinational the results indicated by the case company could be speculated to be possible and comparable in other types of divisional parts of organizations as well.

The study does not come without limitations, however. Of course, generalizations can rarely be made based on a study of a single company. Instead, we have sought to draw theoretical generalizations. The data is cross-sectional, but we do not see it as a problem, because we are not theorizing about longitudinal cause-and-effect relationships. Finally, we want to stress that the illustrated MCS package is not argued to be an optimal configuration of control, at least if perfect control is the criteria, because clear evidence of suboptimizational behavior was found in the study. Furthermore, it is important to notice that the findings of this study only provide one description of MCS configuration in a certain context. The concept of equifinality suggests that differently composed packages can prove equally effective even in the face of similar contingencies (Sandelin, 2008). This is why several empirical studies are needed for collecting the knowledge of the various possibilities in configuring MCS packages.

We encourage future studies to pay attention to signals and roles played by the MCS together and alone, because we believe, that understanding their nature and purpose is the precondition for understanding their meaning in the context of the entire package of controls. A more specific intriguing line of research would be examining MCS package over time to see if some controls are more likely to remain in place through time than others and how potential changes in the control mix potentially affects the mutual control effect of the entire control package.

APPENDICES

Appendix A: List of interviews

Business Region	Profit Center	Position	Date and duration
	Headquarters	CEO	21.1.2010 1h 30 min
			29.1.2010 2h 10 min
			4.3.2010 0h 40 min
			2.7.2010 1h 20 min
			19.8.2010 3h 10 min
		CFO	31.5.2010 1h 55 min
		Purchasing Director	7.6.2010 1h 35 min
		Founding Member	18.6.2010 1h 40 min
		Controller	24.6.2010 2h 10 min
South	Alpha	Business Manager/Profit Center Manager	22.6.2010 1h 15 min
		Warehouse Manager	22.6.2010 1h 20 min
		Warehouse Complaints	22.6.2010 0h 45 min
		Logistics Developer	22.6.2010 0h 50 min
		Sales Manager	22.6.2010 0h 55 min
		Salesman	22.6.2010 0h 55 min
South-West	Bravo	Business Manager/Profit Center Manager	1.6.2010 1h 30 min
		Warehouse Manager	1.6.2010 0h 55 min
		Purchaser	1.6.2010 0h 55 min
		Sales Manager	1.6.2010 0h 55 min
		Salesman	1.6.2010 1h 00 min
East	Charlie	Business Manager	8.6.2010 1h 30 min
		Profit Center Manager	8.6.2010 1h 20 min
		Warehouse Manager	8.6.2010 0h 50 min
		Purchasing Manager	8.6.2010 0h 45 min
		Salesman	8.6.2010 0h 50 min
Central and North	Delta	Business Manager	21.6.2010 1h 35 min
		Profit Center Manager	21.6.2010 1h 10 min
		Warehouse Manager	21.6.2010 0h 40 min
		Purchasing Manager	21.6.2010 1h 00 min
		Salesman	21.6.2010 0h 35 min
	Echo	Profit Center Manager	9.6.2010 2h 15 min
		Warehouse Manager	9.6.2010 0h 45 min
		Purchaser	9.6.2010 0h 55 min
		Salesman	9.6.2010 0h 50 min
		Salesman	9.6.2010 0h 35 min
Total:			35 43h 00 min

Appendix B: Interview outline

The interviews were conducted around the following themes, with variations and expansions when needed:

STRATEGIC ISSUES

- How do you see the company's strategy in your work?
- How do you know you are doing the right things? What kind of targets have you been given? Are you being measured for your performance?
- Does EVA motivate/commit you?
- Issues in budgeting and reporting practices

POWER

- Decision power and how it is delegated
- Restrictions faced in operations, e.g. power, money, time, lack of support

RESPONSIBILITY

- What do you feel you are responsible for in your work?
- How does the responsibility occur? Through measurement, rewards etc.
- What kinds of measures and targets are there?

INFLUENCE

- Do you feel you can influence in changing issues?
- Participation in projects, cooperation with others
- Do you feel you gain enough information regarding organizational issues? Where do you get the information you need?

SUPPORT

- How/when do you get support in your work?
- What motivates you?
- How committed do you feel to the company?
- Do you enjoy working here? How do you like the atmosphere?

FUTURE

- Beliefs, worries and challenges

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