

## **The role and use of management control systems in integrating multinational organizations in a family business setting**

An exploratory case study on the role of technocratic and socio-ideological control mechanisms in a family owned manufacturing firm

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### **Abstract**

This paper answers recent calls for more research on the role and use of management control systems (MCS) in integrating multinational organizations (MNO). In contrast to the case of publicly owned firms, this topic has not yet been investigated in a family business (FB) setting. By conducting an exploratory single case study on a German manufacturing company, this paper shows how FB managers use holistic MCS based on the combination of technocratic and socio-ideological controls in order to manage three tensions arising in the course of MNO integration as outlined by Busco et al. (2008): vertical vs. lateral relations; standardization vs. differentiation of practices; centralization vs. decentralization. Hereby, the importance of socio-ideological control both in terms of its self-reliance as control type and its interplay with technocratic control represents a particular point of difference between the use of MCS in FBs and non-family firms. Furthermore, we could identify a fourth tension that is unique to FBs: informal family culture vs. the need for formalization.

**Keywords:** Management control systems; Tensions in integrating multinational organizations; Family business; Technocratic controls; Socio-ideological controls

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# 1 Introduction

The last three decades have confronted world economies and its corporate players with many competitive challenges but also a variety of business opportunities. The common source of this blessing and curse for corporations is globalization. The transformation of the business world forced firms to redefine their strategies, seek new opportunities and keep their organizations flexible for new challenges to come (Busco et al., 2006).

The phenomenon of doing business internationally is no longer an option but a must-have for many corporations to stay competitive. Globalization has acquired an “aura of inevitability” (Cooper & Ezzamel, 2013, p. 290) and cannot be neglected. Along with growing multinationals comes the question of how management must be calibrated to ensure the integration of new international subsidiaries into the corporate context. In this coordination attempt however the appearance of tensions between different organizational units is inevitable, yet manageable with the help of different techniques. One suggested tool debated in research as enabler of successful global management is the use of management control systems (MCS). While some decades ago MCS used to have quite a narrow definition solely as a process that steers the effective and efficient allocation of resources, there are much broader definitions available nowadays (Ferreira & Otley, 2009; Anthony, 1965). While Simons (1995) views the MCS as a mean used by executives to implement strategy, Ferreira & Otley (2009, p. 264) define it more holistically as all “formal and informal mechanisms, processes, systems, and networks used by organizations for conveying the key objectives and goals elicited by management”. Well established, MCS can ease organizational change and support learning in times of accelerated environmental changes (Bhimani & Roberts, 2004; Kloot, 1997).

However, a review of theory reveals that research on the role of MCS is quite limited, especially with regard to the topic of global integration and mechanisms to balance the arising tensions of internationalization. Also, so far neglected by academia seems to be the internationalization of family businesses (FBs) and their ways to deal with the integration of international subsidiaries. Since more than fifty percent of all products and services offered worldwide are offered by businesses that are owned by families and more than half of the world's working population is employed in a FB, their importance in world economy is obvious (Poza, 2010). FBs do not only remain small and national but especially in Europe there are several entrepreneurial families controlling a considerable share of large multinational corporations. Examples are the Wallenberg family in Sweden, the Haniel foundation in Germany and the Agnelli family in Italy (La Porta et al., 1999).

The vast majority of family ownership however can be found among mid-sized firms. In southern Germany for instance almost 15,000 firms in the range of 50 to 500 employees are family owned and often run by their founders or their descendants (Speckbacher & Wentges, 2012; Simon, 2009). Having efficient and profitable business models in place many FBs demonstrate their right to exist and continue

to form the business world (Audretsch et al., 2013; Craig et al., 2013). Not surprisingly, the arising global opportunities of new markets and local cost advantages have not left the FB community unaffected either. In order to further grow and to battle global competition, expansion is on the agenda of most FBs (Wen-Ting, 2012; Kontinen & Ojala, 2010). In this field FBs already proved that their speed and scope of internationalization can keep up with non-family firms and that they are able to become key players on a global level as well (Zahra, 2003).

#### *An existing gap in research and contribution*

The impact of globalization on business, especially how management control can support firms in remaining reactive to all upcoming international challenges are topics that gained attention in academic research. The potential of management control for organizational learning, transformation and measuring the business have been illustrated in literature. Busco et al. (2008) provided fundamental research with their set of distinctive tensions arising at the integration of international subsidiaries. They call for further research due to the fact that global organizations are diverse and continuously changing. Especially the interplay of formal and informal governance mechanisms needs to be investigated to understand how successful companies apply these coordination tools (Busco et al. 2008).

So far, mainly large corporations were the subjects of case studies in the field of management control. They are however substantially different from for instance FBs in several aspects such as strategy, governance and other dimensions (Goel et al., 2012; Kontinen & Ojala, 2010). Therefore, research in FBs can potentially uncover new control mechanisms and tools that are used to integrate a global or multinational organization. As Speckbacher and Wentges (2012, p. 35) point out "no analysis of the impact of family control on MCS characteristics and, in particular, on strategic performance measurement and incentives can be found in the available literature". Research in the fields of management control has not yet put FBs onto the agenda (Salvato & Moores, 2010; Dyer, 2003).

Considering the previously illustrated importance of FBs in global economy and their organizational differences from other types of business, understanding how specific features of FBs are reflected in the firms' MCS, represents a field of great interest. Not surprisingly, academia therefore calls for more research in the field of management control in FBs (Segaro et al., 2014; Songini et al., 2013; Astrachan, 2010; Kontinen & Ojala, 2010; Salvato & Moores, 2010). With this paper we aim at answering this call and contributing to management control research by adding the FB perspective and therefore formulate the following guiding research question:

**How do family businesses design and use MCS to manage tensions arising when integrating their international subsidiaries?**

The paper offers one step towards a deeper understanding of international business integration in a specific context. We combine theoretical insights from international business research, management control research and FB research with the findings of a case study on a German mid-sized industrial manufacturing FB. The use of a case study in a representative FB will deliver tangible and concrete insights from a real life case.

Our motivation for this topic is not only that control and steering techniques in an international arena are under-researched but also the fact that FBs as important members of the corporate world have received little attention in management control research so far. This paper should induce a further discussion on how management control processes can improve the integration of MNOs. The example of German FBs might serve as a good step towards an indicative research approach in the aforementioned field.

### *Outline*

The remaining paper is structured as follows. In section 2 we look at previous research in the field of international business integration and control followed by a review of FB peculiarities. Since MCS proved to be a reliable means by which to integrate MNOs, section 2 additionally suggests a MCS framework that can accommodate identified FB prerequisites. Section 3 presents the methodological approach of an extensive case study carried out in our research. Section 4 then introduces the case company and empirical findings. In section 5, these findings will be discussed and used to contribute to existing management control literature. Eventually, section 6 briefly summarizes the main contributions of this study, highlights its practical applications and limitations and finally motivates for further research within the field of management control.

## **2 Theoretical context**

In order to examine the role of MCS in FBs, firstly we review previous research on internationalization and specifically the tensions arising at integrating MNOs. Then, since this paper focuses on a FB case, we continue by investigating what peculiarities are inherent in FBs and might have an influence on the design of control tools (Songini et al., 2013). This is followed by a review of a MCS framework especially suitable for the FB prerequisites. As a result of the literature review we ultimately present two tentative propositions as basis for the further research process.

### **2.1 Managing the tensions in integrating multinational organizations**

During last decades the omnipresent phenomenon of globalization brought manifold opportunities to the business world, but also the challenge to survive in a globalized world influenced corporate organizations. Internationalization goes along with increasing size and scope and thereby the coordination and integration of subsidiaries are getting more complex. With the attempts of aligning the local, inherent business conduct with their internationalization process, many companies have been facing tensions. A tool often used to pursue global alignment and integrate subsidiaries is the use of MCS (Busco et al., 2008; Vance, 2006). This approach however has been presenting new challenges to global organizations. Legal, economic or social differences outside the company but also internal heterogeneity in terms of governance, values and corporate culture make the successful implementation of a holistic MCS difficult (Busco et al., 2008). Additionally the status of having control is never enduring and management must be revised to balance this steady state of tensions (Quattrone & Hopper, 2005).

#### **2.1.1 Tensions when integrating multinational organizations as outlined by Busco et al. (2008)**

In an extensive case study with Nestlé Waters, Busco et al. (2008) identified the following three central types of tensions that unavoidably emerge at the integration of a MNO:

(1) Vertical relations between the headquarters (HQ) and the subsidiaries and lateral relations among subsidiaries is one area where tensions occur. Vertical relations are the classical channel through which the HQ can govern and control its international entities. This control however appears in variable intensity and is also perceived differently by individual subsidiaries, mainly depending on local culture. Changed business environment enforced the need for more flexibility and individual responsibility, which paved the way for more lateral relations between the subsidiaries. Consequently, the more dispersed power and authority distributions require trust and new informal ways of control. A MCS that is capable of integrating a global organization needs to find the right balance between vertical and lateral relations and between HQ dominance and local autonomy (Busco et al., 2008).

(2) For a mutual understanding of values and targets, a global organization is reliant on having common practices for instance in terms of communication, business behavior and corporate learning. Typically, the HQ's practices are transferred to the subsidiaries for local application, which bring high degrees of



standardization and economies of scale. This approach however would neglect local differences that stem from a deviating country and business culture at the subsidiaries' locations. A too intense assimilation to HQ country practices would constrain mutual understanding, make coordination less efficient and miss out on local opportunities. To deal with this often labeled "global integration vs. local responsiveness dilemma" (Busco et al., 2008, p. 106), a firm has to balance the tension of convergence and differentiation suitably with the appropriate management tools (Busco et al., 2008).

This dilemma of global integration vs. local adaptation has been described by others as "an ongoing task (...) of achieving global operation integration, synergies, and economies of scale, while at the same time remaining sensitive and responsive to local business conditions" (Vance, 2006, p. 38). The main underlying reason for the appearance of this tension is cultural disparity. Since this difference is deeply rooted in human mankind it is persistent and can never be eliminated but needs to be handled with sensitivity, pertaining to the demands of the local context (Vance, 2006).

(3) Lastly, an organization needs to find a good level of centralization and decentralization. While in a centralized company, all decision power emanates from the HQ, a decentralized company delegates power to subsidiaries and allows them great flexibility in steering. Again the MNO is confronted with a tension between leveraging competitive advantage throughout the organization (by centralization) and gaining from local opportunities (by decentralization) (Busco et al., 2008).

Interest in the tension of centralization vs. decentralization can also be found in the research of Cooper & Ezzamel (2013). In an extensive case study with a large German multinational firm, they were able to identify several so-called "molestations" that arise between different hierarchical levels of a MNO and reflect organizational necessities to find a balance between HQ dominance and local independence. Molestations by lower level managers are necessary when questioning the "HQ's dreams" and subjecting them to a reality check. Through this discourse of authority (from higher management) and refusal (from lower hierarchies) both forces interact and thereby create a balance and an eventual compromise (Cooper & Ezzamel, 2013). Additionally, they find that the enabling qualities of this discourse depend on the relationship between HQs and local units. A more flexible management style creates better conditions for the discourse of authority and molestation and therefore it is more likely that they end up in a feasible compromise. Provocations for molestations can either come intentionally or unconsciously from a higher managerial level. Such intentional authority for instance happens when management tries to convey optimism and overstretched targets to the organization. On the other hand, inadequate knowledge and a lack of managerial understanding can be a source of unconscious molestation of subsidiary managers. Additionally, in an international context, locations and traditions can be sources of molestation between HQs and international subsidiaries (Cooper & Ezzamel, 2013).

Furthermore, Quattrone and Hopper (2005) elaborated on the tension of centralization vs. decentralization by exploring the phenomenon of different forms of distance between the controller and the controlled and the impact of this on management control. Intra-organizational distance becomes noticeable in the two dimensions of space and time. Space expresses the local separation of center (i.e. HQ) and periphery (i.e. subsidiaries) and time conveys the period passing between planning at the HQ and execution at the subsidiary (Quattrone & Hopper, 2005).

### **2.1.2 The role of management control systems in managing the tensions**

Since the heterogeneity of HQs and subsidiaries in the course of globalization became a main obstacle in contemporary business, it found attention in academic literature with researchers suggesting ways to balance the emerging tensions. Quattrone and Hopper (2005) refute the idea that solely a higher degree and speed of information availability can diminish tensions. Vance (2006) focuses on so-called “upstream and downstream processes” between HQ and local country unit that must work in sync to build global synergies and effectively implement company strategy (Vance, 2006).

Busco et al. (2008) take this approach a step further and see the firm’s well-calibrated MCS as the enabler to achieve global unity and at the same time to leave space for local adaptation (Busco et al., 2008). This type of MCS should monitor performance, support strategic decision-making and improve communication and learning. As previously defined, a MCS is a set of rules, routines and roles and is thought to be a mean to create trust, “facilitate the acceptance and (...) sharing of new rationales and routines” (Busco et al., 2006, p. 11) in the organization and thereby create a balance of the tensions (Busco et al., 2006; Burns & Scapens, 2000).

A MCS can not only measure the current business and justify managerial actions, but also positively influence the commitment and motivation of employees by giving clear direction and a good understanding of the firm’s vision and philosophy (Jazayeri & Hopper, 1999). The MCS influences the decisions of local managers since firstly it highlights relevant problems and secondly provides alternatives to solve problems. This way the HQ can exercise subtle influence and make the local managers act towards the global strategic plan (Dossi & Patelli, 2008).

Also Cooper and Ezzamel (2013) study the use of a formal management control systems as the preferred choice to balance the dynamics between authority and molestation. Accounting data can translate management aspiration into procedures and work practices. The Balanced Scorecard, developed by Kaplan and Norton, together with a set of global Key Performance Indicators (KPIs) can be operationally applied. Using data from these tools will help local subjects to successfully enact the HQ’s ideas (Cooper & Ezzamel, 2013).

A more technologically advanced, although still a performance and information system is an Enterprise Resource Planning (ERP) system. It can help to make accounting controls more timely and accessible.

Referring to Busco et al.'s (2008) tension between centralization and decentralization, an ERP system can help to alter distance between HQ and subsidiaries. While ERP can be used to completely eliminate distance and create absolute central control, it can also be configured to maintain distance and solely support prevailing reporting practices and leave space for local adaptation (Quattrone & Hopper, 2005). The total elimination of distance however was perceived as being very minimalistic control, which was not effective in creating long-term integration of the entire organization. Also ad hoc reporting especially with the support of ERP can become a source of conflict when measures seem to be detached from the overall company objectives (Busco et al., 2006; Quattrone & Hopper, 2005).

The above described research on the integration of MNOs with regard to formal systems driven by routines and often times supported by ERP systems as solution to balance tensions. The high degree of formalization goes in line with international business theories (Hedlund, 1986; Perlmutter, 1969) that suggest that a high degree of internationalization tends to result in more formal types of control. Informal cultural controls become more and more frequently replaced by calculative controls using financial performance measures. Furthermore, the degree of formalization with regard to knowledge exchange and information sharing (best practices, shared service centers, etc.) increases.

An important commonality of the aforementioned studies is the case study subjects, which are large multinational corporations, often times engaged in manufacturing. Only using very homogenous firms for this investigation is a limitation to the validity of the outcomes. FBs as described earlier contribute significantly to the performance of economies not least through their internationalization path. So the idea that the integration of subsidiaries works in the same formalized ways as it does in large corporations is however questionable. To convey a better understanding of FBs the following section will review literature on FB specificities.

## **2.2 Family businesses as an own subject in research**

During the past thirty years, FBs as a research subject of its own gradually gained more attention within the research community and an increasing number of researchers started to examine the differences of FBs compared to other types of corporations. The following section summarizes the academic findings on FB specific features due to their impact on the design and use of MCS.

### **2.2.1 History in family business research**

In the history of management research, the field of FB studies had been neglected up until thirty years ago. Although several FBs are among the oldest organizations in the world with their foundation dating back to the 6th century, little attention has been paid to this subject. Since the 80's however, the interest in FBs increased in research but the subject is still underrepresented in academic literature (Astrachan, 2010). Contemporary management research around FBs finds its audience nowadays mainly in the following three journals: Journal of Family Business Strategy, Family Business Review and Journal of

Family Business Management (Wilson et al., 2014). Topics that are of interest are FBs specificities in governance, strategy, ownership, succession, agency cost and economic performance and other socio-psychological dimensions. Possible explanations for the small share in FB research are seen in restricted data access due to private ownership and low response rates in business surveys (Wilson et al., 2014).

### **2.2.2 Definition of family businesses**

Although FB research has not yet reached a comprehensive level, academia has already been providing an abundant amount of definitions of what can be considered a FB. Abdellatif et al. (2010) deliver a definition that classifies firms as FBs when (1) one or more families hold a significant part of the company's capital, (2) family members have control over the company, for example through capital shares and voting rights and (3) family members hold top management positions. Probably since the research field is still in an undeveloped state, there is no agreement on the definition above. While there is consensus about the prerequisite that an individual or a family must own firm capital and exercise influence on the firm's business, the question whether family members need to be active top managers is debated. Nowadays many families and heirs appoint non-family executives that lead the firm's affairs (Miralles-Marcelo et al., 2014).

King and Peng (2013, p.282) define a FB as a firm that "was created and maintained by the founding family". Additionally, more than 50% of the voting rights must be held by the founding family to be considered FB. Other sources neglect ownership but see the involvement of family in the top management as an attribute of a FB (Anderson & Reeb, 2003). In fact the engagement of family members in the management appears in a majority of available definitions of FBs but by far not in all of them (Miller et al., 2007).

### **2.2.3 Specific features and characteristics of family businesses**

The growing FB research body has been analyzing a broad range of different circumstances and practices unique in FBs and has tried to outline the differences to non-FBs. Succession procedures, governing structures, financial structure and economic results are amongst others topics of contemporary research (Astrachan, 2010; Gallo et al., 2004). Moreover, research also tends to emerge towards a more detailed understanding on how FB specific features affect accounting phenomena and strategy implementation (Songini et al, 2013; Astrachan, 2010; Salvato & Moores, 2010). The following sub section is dedicated to review literature that points out main peculiarities of FBs that impact control designs and that are therefore relevant for the further course of the paper.

#### *The ambition to maintain control*

Generally, a family that owns a FB derives its wealth from the firm. Since often one family is the only owner of the business, a concentration of the family's assets in that specific company can be observed. It is the family's inherent desire to maintain and pass down the fortune to heirs. Consequently, the family

managers have a natural desire to both keep control and lower risks and threats (Wen-Ting, 2012). This strategy of continuity considerably influences the control practices of family managers. Literature agrees that this pursuit of survival makes it a principle in FBs to act conservative, keep control over all parts of the business at all time and to act risk averse (Abdellatif et al., 2010).

One tangible consequence of the ambition to maintain control is the FB's leverage and choice of debt. Since the likelihood of losing control to the creditors, such as bank and bondholders, rises with high debt positions, FB managers avoid credit risks and have significantly lower debt levels than average firms (Mishra & McConaughy, 1999).

As a consequence of risk aversion, FBs also have longer time-spans for business growth. This conservative path helps to protect the FB from financial distress and aggressive competitors pursuing a hostile takeover on one hand and can on the hand create opportunities for the next generations (Wen-Ting, 2012). Meanwhile, several researchers come to a different conclusion: This fear of losing the family wealth makes family managers prefer the status quo and miss out necessary innovations and investments for future success (Segaro et al., 2014).

#### *Socioemotional wealth*

A large body of literature deals with analyzing and eventually proving that FBs often outperform firms without family involvement (Maury, 2006; Anderson & Reeb, 2003). One explanation often given for this phenomenon is the creation and preservation of "socioemotional wealth" (Songini et al, 2013; Salvato & Moores, 2010; Stockmans et al., 2010). Socioemotional wealth summarizes "the impact of family values, personal ties and family objectives on a company's vision, strategic goals, organizational dynamics, time horizon of decisions, intangible resources, capabilities, and relevant stakeholders (...). Socioemotional wealth originates from the strong emotional overtone characterizing various dynamics of family business, from strong family values permeating the organization, and from altruistic behavior typically found among family owners" (Songini et al., 2013, p. 77).

Due to the overlap of business values and family commitment to the business, company culture represents a distinctive feature of FBs (Songini et al., 2013). As a consequence of this overlap, the creation and preservation of socioemotional wealth becomes a key objective next to economic success. Non-economic goals such as company reputation and long-term survival lead to a rather long-term orientation and might be even more important than financial performance (Songini et al., 2013).

The involvement of the owning family in management brings a more personal and informal way of leading. This personal relationship to employees and other stakeholders is seen as a valuable asset and specific to FBs (Songini et al, 2013; Speckbacher & Wentges, 2012). With the help of informality, a feeling of teamwork, strong relationships and high employee motivation are reached (Mayson & Barret, 2006). The resulting strong personal attachment to the company then leads to high employee loyalty,

which in turn creates a strong competitive advantage for the firm. The loyal employees that feel a personal commitment and attachment to the company will support the FB even in economically weak times (Segaro, 2012; Abdellatif et al., 2010).

Furthermore, this personal attachment creates trust and makes formalized controlling processes less important (Songini et al., 2013; Carney, 2005; Habbershon & Williams, 1999). A cause of this redundancy is that trust reduces misunderstandings, cognitive distance and opportunistic behavior (Speckbacher & Wentges, 2012). A trustful collaboration makes some tedious controlling processes and assessments of business cases obsolete. Opportunistic investments can be quickly analyzed “on the back of an envelope” (Carney, 2005) and not go through a long lasting assessment process. This flexibility opens a rapid decision process that enables the FB to react quickly to opportunities. Overall, family owned and managed firms make less use of multi-perspective performance measures (Speckbacher & Wentges, 2012).

#### *Informal strategy communication*

The informal and personal relationship with employees also affects the way in which strategy is communicated and implemented. Instead of using solely formal communication channels for the firm strategy, the owners’ social network can also act as a carrier for transmitting company values and strategy (Carney, 2005; Habbershon & Williams, 1999). This informal strategy implementation is frequently the only way since family managers use their intuition as a source for their entrepreneurial direction and that is hardly transferable into measurable target systems. It is rather the owners’ presence in the firm that implements strategy and that substitutes formal instruments of management control (Mintzberg & Waters, 1985). With these implicit goals and strategies, formalized management control tools with explicit and strategic performance measures will consequently be underdeveloped (Speckbacher & Wentges, 2012).

#### **2.2.4 Impact of firm size on family business characteristics**

Previously, we elaborated on features of FBs that, in comparison to non-family owned firms, are special or unique. However, several scholars, that conduct research on these characteristics, make limitations to their own findings. Speckbacher and Wentges (2012) point out that the larger a firm gets, the less it has this typical attributes and Mintzberg and Waters (1982) clarify that “the entrepreneurial mode is powerful so long as the business is concentrated enough to be comprehended by one brain”. They assume that the informal strategy implementation on a personal level is not possible in a large firm, even if it is family owned (Speckbacher & Wentges, 2012). This argumentation can also be found in general literature on budgeting and control. Bruns and Waterhouse proved in 1975 that “size is highly correlating with structuring activities”. These findings are justified with the assumption that responsibilities in larger firms are distributed among many executives on several hierarchical levels. This requires increased

planning, greater management participation in budgeting and induces thereby a feeling of intensified control (Merchant, 1984; Bruns & Waterhouse, 1975).

Other researchers in contrast - for instance Ezzamel - could not find a correlation of budgeting system dimensions with firm size. In this study however the managerial autonomy has an impact on the design of the budgeting system (Ezzamel, 1990). Interestingly this is consistent with FB literature insofar as managerial autonomy is also heavily guided and influenced by the family manager and will thus reflect the personal and informal leadership style.

## **2.3 A management control framework for the family business setting**

In the previous review of existing literature we discovered that literature mainly focuses on the use of formal controls when discussing the moderation of tensions arising when integrating MNOs. In a FB setting however this approach seems a great deal too narrow, when taking into consideration specific features of FBs that impact the design and use of MCS (Songini et al., 2013; Astrachan, 2010; Salvato & Moores, 2010). Due to FB peculiarities like the ambition to maintain control, the creation and preservation of socioemotional wealth and informal strategy communication FBs make use of a broad range of informal controls, which even leads to a certain level of reluctance to adopt formal managerial mechanisms (Songini et al., 2013; Segaro, 2012; Astrachan, 2010; Upton et al., 2001; Moores & Mula, 2000). In order to investigate the role of MCS in integrating MNOs in a FB setting, we consequently need a MCS framework that considers both formal and informal controls. Alvesson & Kärreman's (2004) framework of the interplay between technocratic and socio-ideological control provides such a framework. This is outlined in the following section.

### **2.3.1 Delimitations**

Since literature does not offer a concise definition of FBs we will firstly determine the range of FBs that are within the scope of our investigation. Hereby, the aim is to ensure that all of the abovementioned FB specific features are of relevance when discussing an MCS framework for the FB setting.

Taking the previously described different approaches to define FBs into account, our definition of FBs used in the further course of this paper includes most characteristics found in previous research. As suggested by Upton et al. (2001) we take the approach of using multiple conditions to identify FBs and hereby concentrate on ownership-related and managerial criteria (Segaro, 2012; Kontinen & Ojala, 2010). Thus, a FB must be majority-owned by one or few families that are descendants of the founders (Kontinen & Ojala, 2010; Salvato & Moores, 2010). Furthermore, the family must have control over the firm (Miralles-Marcelo, 2014; Salvato & Moores, 2010) and influence on decision-making (Miralles-Marcelo, 2014; Upton et al., 2001). This is ensured by also having a family member in a CEO position (Miralles-Marcelo et al., 2014).

A reason for this rather narrow delimitation of FBs in this paper is to ensure that only a case study firm that possesses the highest possible differentiation to the general corporate spectrum is analyzed. Additionally researchers found that FBs with only external managers hardly act as a FB, even though the ownership remained with the founding family (Speckbacher & Wentges, 2012). This way the results will become more relevant and credible attributes of FBs.

### **2.3.2 Alvesson & Kärreman's (2004) holistic management control framework consisting of technocratic and socio-ideological controls**

According to Stockmans et al. (2010), FB specific features are the outcome of two overlapping and interacting systems. On one side FBs are results-oriented business systems focusing on economic goals like in any other firm. On the other side, FBs also contain an emotion-oriented family system focusing on non-economic goals. A MCS framework applicable for FBs therefore must deal with the interplay of these two systems and provide controls that deal with the organizational and managerial consequences of both systems. Alvesson and Kärreman (2004) offer such a framework.

On the contrary to other widely used frameworks that rather focus on the use of formal controls (Busco et al., 2008; Otley, 1999; Simons, 1995; Anthony, 1965), Alvesson & Kärreman's (2004) framework goes in line with a group of management control research (Ferreira & Otley, 2009; Malmi & Brown, 2008; Henri, 2006; Chenhall, 2003) stressing the importance of a coexistence of formal and informal controls. Instead of formal and informal controls Alvesson & Kärreman's (2004) use the labels *technocratic* and *socio-ideological* controls.

Like many others (Speckbacher & Wentges, 2012; Ferreira & Otley, 2009; Malmi & Brown, 2008; Otley, 1999; Simons, 1995; Anthony, 1965), Alvesson & Kärreman (2004) start from the idea that MCS are needed to steer employees' behavior towards a common goal. According to them, "management control includes the exercise of power (influence) in order to secure sufficient resources, and mobilize and orchestrate individual and collective action towards (more or less) given ends" (Alvesson & Kärreman, 2004, p. 425). This goes in line with the view that MCS encompass all control tools that help management to communicate the firm's objectives to employees (Speckbacher & Wentges, 2012; Malmi & Brown, 2008), shaping their practices and thereby supporting strategic implementation (Songini et al. 2013). Hereby, technocratic controls are designed to directly influence employees' behavior while socio-ideological controls are used to indirectly shape their practices.

#### *Technocratic controls*

"In the technocratic type, management works primarily with plans, arrangements and systems behavior and/or measurable outputs" (Alvesson & Kärreman, 2004, p. 425). Comprising both, output and behavioral controls technocratic forms of control represent a traditional, objectivistic view on management control (Alvesson & Kärreman, 2004). In order to assure that all resources are used in a way to best support strategy, managers must design MCS that allow them to gather information from all



parts of the organization and to use this information as efficiently as possible (Ferreira & Otley, 2009; Otley, 1999; Simons, 1995; Anthony, 1965).

Output controls hereby are similar to Simons' (1995) concept of diagnostic controls. With the help of this type of control, managers monitor "organizational outcomes and correct deviations from preset standards of performance" (Simons, 1995, p. 59). Management focuses on traditional monitoring and controlling for goal achievement (Simons, 1995). This can be assured by the diagnostic or interactive use of various financial and non-financial key performance indicators that are linked to rewards and information flows. Therefore, integrated ERP systems and the use of multi-dimensional control tools such as the Balance Scorecard serve as helpful tools (Tessier & Otley, 2012; Dossi & Patelli, 2010; Alvesson & Kärreman, 2004; Otley, 1999; Simons, 1995; Kaplan, 1984). Other terms that research has been using synonymously to output control are operational performance control systems (Tessier & Otley, 2012) organizational controls (Chenhall, 2003) and performance measurement systems (Tessier & Otley, 2012; Dossi & Patelli, 2010).

By including behavioral controls, Alvesson & Kärreman (2004) follow the approach that MCS are not restricted to the *measurement* of performance but rather concerned with the *management* of performance (Dossi & Patelli, 2008; Otley, 1999). Including controls such as direct supervision, business policies, codes of conduct, standard operating procedures, and rules, Alvesson & Kärreman (2004) take managerial motivation and behavior into consideration as proclaimed by Otley (1999). In line with Simons' (1995) four-levers-of-control framework, Alvesson & Kärreman (2004) view a company not just as an organization created to achieve specific goals, but also as a social system where dynamics of human behavior need to be considered when designing MCS.

A broad view on MCS that goes beyond measuring performance is necessary to deal with the key concern of MCS. Managers need to manage the tension between creative innovation and goal achievement and balance the basic organizational dilemma between flexibility and control (Henri, 2006; Simons, 1995). Tessier & Otley (2012) refer to this as the dual role of controls. MCS must take into consideration the enabling and constraining role of controls. To have MCS in place that simultaneously control goal achievement and motivate the search for opportunities and encouraging innovation as well as knowledge sharing and learning (Songini et al., 2013; Dossi & Patelli, 2010; Ferreira & Otley, 2009; Simons, 1995) is of special importance for many mid-sized FBs especially in the German "Mittelstand" (ger.: medium-sized businesses) which base their market leadership on innovativeness and quality (Craig et al., 2013). The combination of output and behavioral controls hereby represent the formal part of a MCS that is designed to cope with the dual role of controls.

#### *Socio-ideological controls*

In order to cope with the dual role of controls, MCS can also comprise socio-ideological controls (Songini et al., 2013; Tessier & Otley, 2012; Ferreira & Otley, 2009; Collier, 2005). Socio-ideological

controls are defined as “efforts to persuade people to adapt to certain values, norms and ideas about what is good, important, praiseworthy, etc. in terms of work and organizational life” (Alvesson & Kärreman, 2004, p. 426). They are used to target employees' minds through norms, emotions, beliefs and values and thereby indirectly influence their behavior (Alvesson & Kärreman, 2004). Socio-ideological controls represent the entirety of informal controls (Ferreira & Otley, 2009), social controls (Tessier & Otley, 2012), cultural controls (Malmi & Brown, 2008) and clan controls (Moores & Mula, 2000; Ouchi, 1979). Especially clan controls play an important role in FB research (Songini et al., 2013; Salvato & Moores, 2010; Moores & Mula, 2000). Since the clan or family rests on a “social agreement on a broad range of values and beliefs” it “relies for its control upon a deep level of common agreement between members on what constitutes proper behavior, and it requires a high level of commitment on the part of each individual to those socially prescribed behavior” (Ouchi, 1979, p. 838).

Socio-ideological controls represent the manageable aspect of organizational culture (Malmi & Brown, 2008; Merchant & Van der Stede, 2003). They represent strong control tools and heavily influence the design and use of MCS especially in smaller organizations (Ferreira & Otley, 2009; Moss Kanter, 2008; Järvenpää, 2007; O'Connor et al., 2004). Common values are often seen as important resources (Grant, 1991) and represent a relevant control tool to find the balance between innovation and control and “allow people at the front lines to make consistent decisions” (Moss Kanter, 2008, p. 46). While technocratic controls govern day-to-day activities with the help of rules, procedures and standards that are written down (Tessier & Otley, 2012; Simons, 1995), socio-ideological controls deal with social relations and identity formation and ideology (Alvesson & Kärreman, 2004). This is in line with the idea that MCS are designed to serve strategic objectives which are unique for each company and depend on cultural particularities (Songini et al., 2013). “When engaged in ideological control efforts, managers more or less consciously and systematically, try to make the employees adhere to values and ideals which they believe in - or at least the values and ideals which they believe that the company would benefit most from the employees believing in” (Alvesson & Kärreman, 2004, p. 426).

As a consequence of the previously outlined peculiarities that result from the existence of an emotion-oriented family system, socio-ideological controls play an important role in FBs (Moores & Mula, 2000). Particularly, the creation and preservation of socioemotional wealth necessitates socio-ideological controls that can cope with the resulting informality and management by culture (Songini et al., 2013). The emotion-oriented family system rather looks for employees' adherence to the family's values than for alignment with economic goals (Stockmans et al., 2010). With the help of socio-ideological controls, FB managers aim to encourage employees' personal attachment to the firm, thereby manage employee motivation and loyalty (Songini et al., 2013; Segaro, 2012; Speckbacher & Wentges, 2012; Mayson & Barret, 2006).

### *The interplay of technocratic and socio-ideological controls*

Central to Alvesson & Kärreman's (2004) framework is the idea that technocratic and socio-ideological controls cannot be seen as two autonomous systems but rather as interconnected tools that influence each other. While technocratic controls can communicate ideals and have a strong symbolical content they are simultaneously influenced by the firm's beliefs and norms of behavior (Tessier & Otley, 2012). In the end, Alvesson & Kärreman (2004, p. 423) identify technic controls as "non-obvious sources of socio-ideological control".

By focusing on the interplay of technocratic and socio-ideological controls, Alvesson & Kärreman's (2004) framework allows a broad view on MCS that goes in line with previous research on the role of MCS in FBs. Moores and Mula (2000) for example point out that FBs strongly rely on the use of both, formal and informal controls. According to them, MCS in FBs consist of combinations of clan, bureaucratic and market-based controls. In line with Moores & Yuen (2001) the "salience" (Moores & Mula, 2000) of the respective type of control hereby depends on the life cycle of the business. The more mature the business becomes the more important formal accounting-based controls such as elaborate planning (budgets, etc.) and organizational (profit or investment centers) tools become. Consequently, the majority of FBs uses a range of formal controls that "are in sufficient detail to enable the business to tie planning to actual performance and to adjust management compensation accordingly" (Upton et al., 2001, p. 60). Nevertheless, family influence still results in less formal governance structures and the prevalence of more informal or socio-ideological controls compared to other businesses (Astrachan, 2010).

In general, FBs professionalize differently due to the fact that cultural issues play a more important role than they do in other businesses (at the same life cycle stage). Without the ability to maintain culture FBs will likely not support professionalization initiatives (Astrachan, 2010), showing the necessity of a holistic MCS that allows technocratic and socio-ideological controls to merge and interact with each other (Alvesson & Kärreman, 2004).

## **2.4 Tentative theoretical propositions**

By reviewing both research at the interface of management control and international business and research on FB peculiarities that impact the ecosystem of control we mapped requirements that a MCS has to fulfill in multinational FBs. With our guiding research question in mind on how FBs design and use MCS to manage tensions we take Alvesson and Kärreman's (2004) framework on the interplay between technocratic and socio-ideological control as base to analyze the subject. This will be done in the following by means of a single company case study.

Before conducting the case analysis we take the opportunity to briefly summarize the main outcomes of our screening of previous research. In line with other research (Salvato & Moores, 2010; Ditillo, 2004) we therefore formulate tentative propositions. The preceding review of theory can be summarized in the

form of two tentative propositions. These propositions, which are of course subject to refinement, will help us later to discuss the findings of the case analysis. Furthermore, the discussion will respond to the ideas outlined in the two propositions.

As Busco et al. (2008) point out, three main tensions must be managed when integrating MNOs: vertical vs. lateral relations; standardization vs. differentiation of practices; centralization vs. decentralization. Like any other internationalizing business, FBs need to find the right balance between HQ dominance and local autonomy, between global integration and local responsiveness as well as between leveraging competitive advantage throughout the organization and gaining from local opportunities (Hedlund, 1986; Perlmutter, 1969). In order to find the right balance, multinational firms use MCS (Busco et al., 2008). Hereby, literature focuses on the use of MCS in the form of rather technocratic systems driven by routines and often times supported by ERP systems. The use of socio-ideological controls has not yet been investigated in detail (Cooper & Ezzamel, 2013; Busco et al., 2008; Vance, 2006; Quattrone & Hopper, 2005). Importantly, the majority of previous research in this field investigates only the case of large corporations (cf. Cooper & Ezzamel, 2013; Busco et al., 2008; Quattrone & Hopper, 2005). However, FBs exhibit major differences to other types of businesses (Songini et al., 2013; Speckbacher & Wentges, 2012). Therefore, the findings of previous research cannot be translated to the case of FBs without further investigation.

Contrary to the case of larger corporations, FB managers must deal with the existence of two overlapping systems; one of them being a results-oriented business system, which also exists in larger corporations, and the other one being an emotion-oriented family system (Stockmans et al, 2010). As a consequence of the interplay between these two systems, FBs exhibit specific features that impact control mechanisms and differentiate them from other types of business. Hereby, the most important FB specific features are the ambition of family owners to maintain control, informal strategy communication and the existence of a strong corporate culture that is based on the creation and preservation of socioemotional wealth (Songini et al., 2013; Segaro, 2012; Speckbacher & Wentges, 2012; Astrachan, 2010; Upton et al., 2001). In general, these FB specific features require a more extensive use of socio-ideological control than in other types of business (Moore & Mula, 2000). Consequently, it may be disputed that the integration of subsidiaries works in the same formalized way for FBs as it does in large corporations. More precisely, FBs need to have in place MCS that comprise not just technocratic but also socio-ideological controls and addresses the interplay between both these control types (cf. Alvesson & Kärreman, 2004).

Finally, the first proposition can be expressed as the following:

**P1: In a FB setting, MCS must comprise both, technocratic and socio-ideological controls and address the interplay of these two control types in order to manage the three main tensions that arise in the course of integrating MNOs.**

As Tessier and Otley (2012) pointed out, the degree of formalization of MCS is based on the proportion of socio-ideological and technocratic controls. As previously highlighted, it can be assumed that the use of socio-ideological control in FBs is more extensive in the course of integrating MNOs than it is in other types of business (Songini et al., 2013; Moores & Mula, 2000). Due to FB specific features family managers strongly rely on the use of socio-ideological control. This however can pose some conflicts in the firm's internationalization path (Segaro et al., 2014; Astrachan, 2010). According to literature, in general, MCS tend to become more dependent on a high proportion of technocratic control with an increasing degree of internationalization (Speckbacher & Wentges, 2012; Moores & Yuen, 2001; Moores & Mula, 2000; Hedlund, 1986). The more international the organization becomes, the more important are technocratic controls like internationally standardized performance measures, procedures and routines supported by ERP systems.

Since the system “family” is strongly linked to the emphasis on socio-ideological control, an extensive formalization of the MCS might be neglected. Consequently, if a higher proportion of technocratic controls were necessary in order to successfully integrate MNOs, the use of an inappropriate MCS would be the consequence. A potential need for a higher MCS formalization might represent a much bigger challenge for FBs than it does for other types of business. The potential conflict between the reliance on socio-ideological control and the necessary MCS formalization represents an international control tension that is unique for FBs.

Therefore, the second proposition can be expressed as follows:

**P2: Due to their specific features, FBs need to manage a fourth tension when integrating MNOs: the emphasis on socio-ideological controls vs. the need for increasing formalization.**

### **3 Methodology**

In order to answer the research question of this paper as outlined above, we chose a qualitative research approach. By conducting a single company case study we were able to explore the previously developed propositions based on theory and contrast them with empirical evidence. This in turn allowed us to find a concrete answer to our research question. Our study is designed for conducting deductive research in the form of an exploratory case study. In this section the methods used for investigation will be described and motivated.

#### **3.1 Motivation for choosing the case study approach**

Due to the fact that the existing contributions on the role of MCS in integrating MNOs in a FB setting are limited, we decided to do a case study as the preferred methodology to build knowledge about our phenomenon under investigation (Salvato & Moores, 2010; Ditillo, 2004). As management control practices can be characterized as "highly context specific interpretations (...), the unearthing of local meanings and uses of management control has often been regarded as central to the task of the qualitative field researcher" (Ahrens & Chapman, 2006, p. 832).

Furthermore, case study analyses are thought to create knowledge with the highest managerial impact and are frequently considered the 'most interesting' studies (De Massis & Kotlar, 2014). A potential explanation for the usefulness of this type of fieldwork is the possibility to understand on the one hand the technical procedures and systems in management control and on the other hand the ways in which they are actually applied in the corporate context (Scapens, 1990). Kaplan as a pioneer of case studies already urged in 1984 that researchers should "leave their offices and study the practices of (...) organizations" (Kaplan, 1984, p. 415).

Moreover, our study aims to explain *how* MCS are used in a specific context. Qualitative case studies are especially suitable for answering this type of research question. As Salvato & Moores (2010, p. 202) point out, questions such as "How does family involvement in management and in governance influence the choice of management accounting practices?" (...) are not easily addressed through the traditional quantitative methods used in accounting research (...). Rather, they are better investigated by means of rich, in-depth, and longitudinal studies of single-family firms, possibly compared with each other."

Finally, for research in the field of management control, a case study seems to be the most promising tool not only because it is the most commonly used for qualitative methodology but also because research reviewed in section 2 makes use of case studies as well. In this way we can ensure that our results can add seamlessly to previous findings.

### 3.2 Research design

Our case study is based on a deductive research approach. In line with positivistic tradition of deductive research we used *ex ante* theoretical constructs and frameworks in order to describe and analyze our empirical data (De Massis & Kotlar, 2014; Ahrens & Chapman, 2006). Through the combined use of the frameworks of Busco et al. (2008) and Alvesson & Kärreman (2004) as well as other theoretical concepts within management control and FB research, we interpreted observed human experience and practices. In contrast to other views on deductive research (cf. De Massis & Kotlar, 2014; Ahrens & Chapman, 2006) we thus followed the approach that the "practice of doing qualitative field studies involves an ongoing reflection on data and its positioning against different theories such that the data can contribute to and develop further the chosen research questions." (Ahrens & Chapman, 2006, p. 820). This had major implications for the process of data collection and analysis since we continuously interpreted and modified formed knowledge and made ongoing changes to some aspects of the research design based on the idea to find new issues of relevance for the research objective (cf. De Massis & Kotlar, 2014).

As pointed out by De Massis & Kotlar (2014) before starting the process of data collection and data analysis, three critical aspects have to be decided on: the particular case study design, the unit of analysis and the case selection.

#### *Choosing the case study design*

The type of case study applied in our research design can be considered an *exploratory* case study. As being a variant of the traditional case study approach it tries to "understand a subject through systematic gathering of empirical data. Emphasis is on ensuring that the research evidence is accurate and unbiased. As a result much of the case study report is spent describing and justifying the specific methodological decisions made and elaborating on detailed findings. It involves accurate observation and rigorous collection of evidence" (Capam, 2010).

With the help of exploratory case studies researchers look beyond descriptive features and study the surrounding context and thereby gain an understanding of how organizational dynamics or social processes work (De Massis & Kotlar, 2014; Capam, 2010). In our case we explore how and with which tools companies, FBs in this case, manage to integrate international subsidiaries and overcome prevailing tensions

#### *Defining the unit of analysis*

An important subsequent step after deciding on the case study design is to define the unit of analysis: the case itself (De Massis & Kotlar, 2014). In this paper it is the set of tools applied to overcome tensions occurring in FBs in the course of internationalization and to achieve multinational integration. While our research objective is to understand *How do FBs design and use MCS to manage tensions that arise when integrating MNOs?*, the unit of analysis is the entirety of technocratic and socio-ideological control tools

used by FB managers to integrate MNOs. Since a MCS is the management tool to implement strategy, the unit of analysis of this study is the holistic system of control tools that FB management uses to implement an internationalization strategy. What consequently will be analyzed in this case study is the process of this strategy implementation that addresses the entirety of global staff, all hierarchical levels and every single global business unit.

#### *Selecting the case - motivation for choosing TransFo Ltd.*

The last important decision to be made is to choose between a single case and a multiple case study approach. We chose to conduct a single case company study. The motivation for selecting a single case is closely related to the motivation for choosing TransFo Ltd. Briefly; there are three reasons for our case selection.

Firstly, previous researchers in that field have frequently chosen a single-case study method as well. This way we can ensure a seamless integration of our findings into the academic context.

Secondly, it is the high level of access that we gained to this firm. We had access to employees in all hierarchical and spatial levels and to internal company documentation. This is significant because it guarantees relevant input, even with regard to detailed questions and also poses an opportunity for in-depth research access (De Massis & Kotlar, 2014).

Thirdly, the firm fits the requirements developed above, namely being family owned and family controlled at the same time. Limiting the study to a specific case of FB that is in line with our definition of FBs is crucial due to the fact that MCS vary across organizations of different size and managerial autonomy (Speckbacher & Wentges, 2012; Ezzamel, 1990). This variation in the research setting can be detrimental to the power of the research outcome (Ditillo, 2004).

### **3.3 Data collection**

Empirical input is essential to understand tensions and determine practical ways to deal with them. Previous researchers stress that a diversity of empirical data collection methods makes a study relevant. Interviews, observations and review of company documentation are regarded as most yielding tools and therefore also used in our research process (Jönsson, 1998).

#### *Interview process*

The main tool for data collection was the use of semi-structured interviews. Within a time span of ten weeks, a total of 19 interviews were conducted with employees all within the case company. Two employees from the Finance department in the HQ were interviewed twice since they are key personnel in our research setting and new aspects and questions came up during the interview process. Thus a total of 17 different individuals were interviewed.



Conducting interviews as a mean of data collection has been deemed a fruitful tool by renowned researchers, especially in international studies. Busco et al. (2008) conclude that “the opportunity to conduct interviews in Italy, the US and the UK, enabled us to understand the process from the perspective of managers in diverse international units” (Busco et al., 2008, p. 110). Especially in a study investigating the relations between a company’s HQ and subsidiaries, an extensive inclusion of subsidiary employees from different locations is crucial. We therefore conducted interviews with employees not only from the firm’s head office in Germany but also from subsidiaries in Sweden, South Africa, Canada, USA and Brazil. This way we can ensure that also cultural differences are taken into account.

Also the inclusion of a broad range of hierarchical levels was a focus in the selection of interviewees. To capture many different points of view and ensure data was as accurate and unbiased as possible, the hierarchical and functional background of interviewees was manifold (De Massis & Kotlar, 2014). Besides talking to the family CEO, CFO and other managers and experts in the Finance division, also managers and non-managerial employees in functions such as sales, HR and production were interviewed.

Prior to the interviews a series of questions were prepared. The questionnaire consisted of general questions that everyone was asked as well as specific questions that were specifically developed depending on the interviewee’s position. The questionnaire consists of three main parts with equal importance: *Introduction & management control system*, *International control challenges*, and *Specific features of family businesses*. After each interview day the questionnaires were revised and continuously modified as a consequence of new insights and newly upcoming fields of interest. An exemplified questionnaire can be found in the appendix.

The duration of interviews varied mainly depending on the function and hierarchical level of the interviewees. While interviews with managers in Finance as experts in our topic lasted up to 120 minutes, interviews with employees in an international production sight (e.g. Sweden) lasted only 20 minutes. The average interview length was close to 60 minutes. In terms of language a total of 10 interviews with German natives were conducted in German, while the other 9 interviews with non-German speaking employees were conducted in English. Interviews were recorded with the permission of the interviewees, which gave the opportunity to re-listen to the interviews and summarize the main findings in a database for later use. A detailed overview of interviewees and their positions as well as excerpts from the interview database can be found in the appendix.

#### *Company documentation*

Company documentation served as another important source of information. There were mainly three categories of documentation used: (1) publicly available sources such as the company webpage, flyers and newspaper articles about the company and its management; (2) internal presentations that are

designed for public presentation such as a company presentation, a HR presentation prepared for a lecture at a university and ‘stories of success’ found in the corporate intranet; (3) strictly confidential material for instance documentation about the budgeting process especially for subsidiaries, the calculation of bonuses of sales employees and local P&Ls for the subsidiaries.

### **3.4 Data analysis**

To ensure that the collected data was converged in an attempt to understand the overall case and ensure a systematic link between data collection and case findings (De Massis & Kotlar, 2014), four main aspects were considered in the course of data analysis: *Concurrence of data analysis and data collection, preparation of data, presentation of data and interpretation of data.*

#### *Concurrence of data analysis and data collection*

As pointed out above, the deductive research approach of this study based on ongoing reflection and interpretation of data impacts the process of data collection and data analysis. More precise, by making ongoing changes to some aspects of the research design, based on the idea of finding new issues of relevance for the research objective, an overlap between data collection and analysis exists. In our case, this concurrence of data collection and analysis appeared in the form of modifications of questionnaires that were made after each interview day. By taking newly acquired knowledge into consideration when formulating questions for upcoming interviews, we were able to continuously discover aspects within the case company that were worthy to be addressed in other interviews in more detail or from another perspective. By having a set of questions that were asked in every interview, maintaining the structure with regard to the three parts of the questionnaire outlined above and giving each of the three parts the same weight we reduced potential risks involved in the concurrence of data collection and analysis (De Massis & Kotlar, 2014).

#### *Preparation of data*

Before starting the actual process of data analysis we first "prepared" the data (De Massis & Kotlar, 2014). By means of constructing a database consisting of transcripts of the respective interviews we *reduced, displayed, categorized and contextualized* the data, which ensured that data was analyzed systematically (De Massis & Kotlar, 2014). After each interview we listened to the auditory records and selected relevant information (data reduction), organized and compressed the information in form of a standardized self-created text form (data display), decomposed information by aggregating them into specific topics (data categorization) and finally assembled the collected information and identified links and connections to previous research and the applied MCS framework outlined above (data contextualization).

### *Presentation of data*

After reviewing every interview we were able to extract a broad range of controls used by the management of TransFo Ltd. in order to integrate their foreign subsidiaries. In line with Alvesson & Kärreman's (2004) framework, our data allowed us to observe two types of controls. During the process of data categorization and contextualization we allocated every control tool observed to either a technocratic or socio-ideological control. Subsequently, we decided on a few topics within each control type that related to the categories used in the transcripts of interviews. Thus, we used a two-level aggregation of the collected data on used controls. After presenting the data under the two headings *Technocratic controls at TransFo Ltd.* and *Socio-ideological controls at TransFo Ltd.* - each subdivided into several main topics - we summarized the findings by visualizing the entirety of used controls with the help of a table. Furthermore, we recapitulated our findings by focusing on the interplay of technocratic and socio-ideological controls within TransFo Ltd.

### *Interpretation of data*

In order to finally ensure that the case findings contribute to existing research and theory building at the intersection of management control research, international business research and FB research we put the case findings in a broader context. In the final discussion we contrasted the case findings with previous research. Therefore, the previously outlined propositions played an important role. Since the propositions represent suggestions on how FBs in general use MCS to manage international control tensions based on existing theory we were able to contrast theory with empirical evidence in a systematic way. In turn, this allowed us to formulate our main contribution, present limitations of our research and indicate suggestions for further research.

## 4 Case analysis

The following section summarizes the findings of our single company case study that we conducted with TransFo Ltd. a German family owned and managed manufacturing company. Firstly, background information on the company structure and its business is provided followed by extensively describing TransFo Ltd's use of different MCS tools. This section demonstrates how a manufacturing FB uses technocratic and socio-ideological controls to integrate international subsidiaries and to manage international control tensions.

### 4.1 The case company - TransFo Ltd.

The case company TransFo Ltd. is a typical example of a FB belonging to the German "Mittelstand" (cf. Speckbacher & Wentges, 2012). TransFo Ltd. exhibits main characteristics of a so-called "hidden champion" (Simon, 2009). Within its core markets of power transformers, TransFo Ltd. represents a global key player with regional market shares of partially more than fifty percent. The majority of sales are generated abroad even though more than eighty percent of global staff is still working at the German HQ or domestic production sites. With around 3,000 employees the firm generates annual revenues of around 650 mEUR (2013). As many other privately held FBs, also TransFo Ltd. has neither long-term bank loans nor any other major financial obligation. Its core operations compile the production and sales of high voltage devices as well as respective after sales services. Today, TransFo Ltd. as a group comprises six production factories and twenty-six sales and service subsidiaries in eighteen countries.

#### 4.1.1 Company background

##### *Family & local embeddedness*

TransFo Ltd. looks back on a company history of around 150 years. Since its foundation, TransFo Ltd. is under family control, now in the fifth generation. Apart from short transitional phases when external management led operations, top executive positions have been held by family members.

As many other mid-sized FBs, TransFo Ltd. relates to its geographical and social environment (cf. Simon, 2009). The firm has been loyal to the location where it was founded and necessary enlargements of offices and other operational facilities have been pursued in proximity to the HQ. Consequently, the firm's history is linked to the economic, political and social development of its geographical environment. Its embeddedness is fostered by the family's presence in social and political life. The firm is one of the most important employers within the respective region.

##### *A business model based on innovation*

TransFo Ltd. is a typical case of a German medium-sized manufacturer that could benefit from the post-war boom after World War II. By investing in production facilities and qualified staff early on, TransFo Ltd. focused on offering quality products that require a continuous innovative process. Therefore, steady

infrastructure and R&D investments are pillars of the business model. The majority of staff have an engineering background and work within production, R&D and sales. Being central to maintaining its competitive advantage, TransFo Ltd. shows strong patenting efforts.

#### **4.1.2 Internationalization & growth**

During the last thirty years, TransFo Ltd. has been experiencing substantial growth. Diversification both in geographical and product-related terms led to a steady increase of operations.

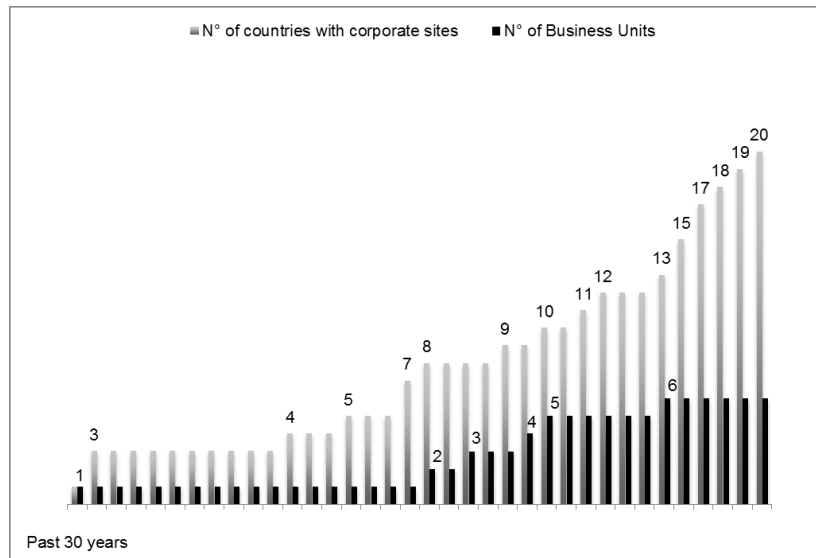
##### *International expansion*

In the early 1980's the firm started to acquire and found subsidiaries abroad. Jumping on the bandwagon of globalization, TransFo Ltd. gradually increased its foreign commitment, entered new markets and thus experienced an increase in its international operations. As a first international step, the firm opened a production site in Brazil and a sales office in Australia. After several stagnant years, the pace of internationalization increased and production sites in the US, China and India were established. Due to legislation requirements some of them were formed as joint ventures with local partners and therefore were not in total control of the group. While production in Brazil was abandoned, facilities in North America and Asia still represent an important pillar of manufacturing activities.

Furthermore, TransFo Ltd. gradually established a worldwide network of sales and after sales service subsidiaries. Today, the group comprises of twenty-six international subsidiaries and is present worldwide. The majority of foreign staff have an engineering background and are employed in sales and after sales operations. By now, the majority of sales are generated outside Germany.

##### *Home-based acquisitions*

The international growth was backed up by investments in enlarging the product and service offering. Through the creation of new brands and business units in niche markets of the global high voltage industry and a series of national acquisitions, TransFo Ltd. further increased its operations. Especially through both horizontal and vertical integration of other mid-sized manufacturers, TransFo Ltd. gradually enhanced its market share. By acquiring suppliers, customers and competitors the firm diversified its product portfolio and increased its turnover and headcount.



### 4.1.3 Organizational aspects

As a consequence of the aforementioned growth efforts, the organizational structure of TransFo Ltd. developed from a purely functional structure towards a more complex matrix-like structure with emphasis on business units and global regions. Sales, Marketing, Technology and Production form the main business processes, supported by five corporate services such as Finance or Quality Management.

Nevertheless, TransFo Ltd. remained a quite centralized organization. More than eighty per cent of staff is employed in Germany. At the top management level the general family manager works side by side with one external manager who focuses primarily on the technical side of the firm. People located at HQ hold all first and second level management positions. Furthermore, the majority of employees working at corporate services are located at the home base. Importantly, Controlling (as a subsection of Finance) and Sales are both location-wise and operationally closely linked at HQ.

Foreign subsidiaries mostly are sales and service units managed by Area Sales Managers (Managing Directors) that represent third level managers and are either locals or sent to the country as expatriates. Only a small share of foreign staff is concerned with sales-supporting tasks (Finance, HR, Marketing). Next to sales and service activities, foreign production units are mainly concerned with manufacturing activities. Most of the R&D competences are concentrated at HQ or business units located at Germany.

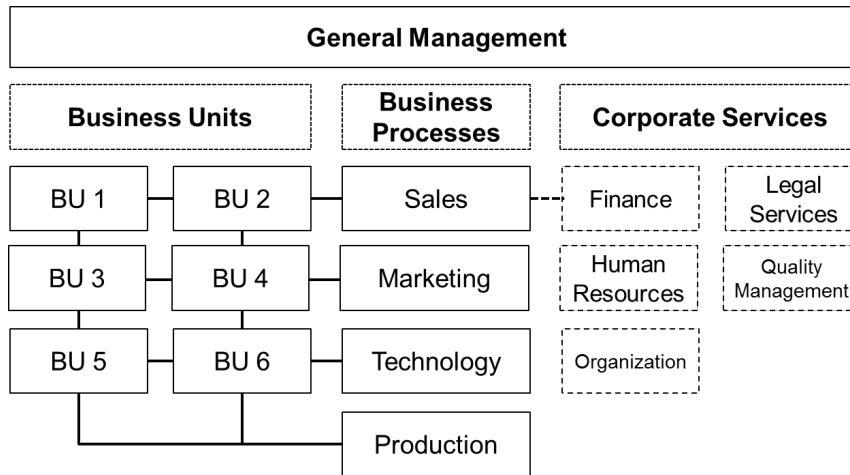


Figure 2: TransFo Ltd. organizational chart

## 4.2 The MCS at TransFo Ltd. outlined according to Alvesson & Kärreman (2004)

Previously we introduced the MCS by Alvesson & Kärreman (2004) as a holistic framework that focuses on the mix and interplay of technocratic and socio-ideological controls. As expected in a FB setting, at TransFo Ltd. we identified control tools that influence behavior and create structure and others that are able to influence mindset and form corporate culture. In the following section we present the most important control mechanisms in TransFo Ltd., support them with examples and quotes from our interview process and assign them to one of Alvesson & Kärreman's categories. However this is not trivial, since there exists an interface between the two forms of control and they cannot always be seen as isolated from each other. We therefore aim to show in the analysis where technocratic tools function as non-obvious source of socio-ideological control.

### 4.2.1 Technocratic controls at TransFo Ltd.

Technocratic controls are according to Alvesson & Kärreman (2004) formalized procedures, systems and standards that focus on measurable output and behavior. In TransFo Ltd. we identified the *Annual Budgeting Process*, the *TOP10 KPI navigator*, the *Use of IT systems*, *Employee evaluation*, *Formalized working procedures and meetings* as well as *Communication of corporate values* to be the most prominent technocratic instruments.

#### *Annual Budgeting Process*

The most important financial control tool is TransFo Ltd.'s Annual Budgeting Process (ABP) that has its peak season in September and October. The Group CFO is the process owner of the ABP and is responsible for the timely preparation, execution and implementation of the ABP and its results (see ABP process below).

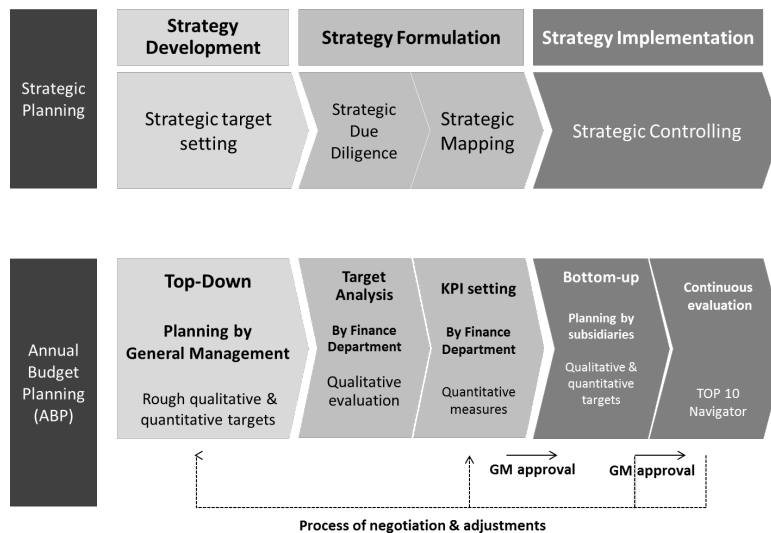


Figure 3: Annual Budgeting Process

The core components that are planned in this process are sales (revenue and sales quantity), cost (material and other operating expenses), manpower (head-count and cost), and investment activities (capital expenditures and depreciation/amortization). The granularity of the finished budget is quite detailed: It is an individual target on a monthly basis for all subsidiaries.

According to the Group CFO, the ABP is a dual system of top-down and bottom-up planning. This process however gained complexity since the amount of international subsidiaries increased from three to twenty-six within the last two decades. This growth process also requires a clear structure for the ABP to keep it in time and make it reliable and helpful for the upcoming year. The two managing directors of TransFo Ltd. translate the current macro-economic circumstances, expectations from main projects and their strategic focus into high level revenue and EBIT targets for the three business units and the five global regions in an early stage of the ABP.

*“We as management use input from our marketing cockpit about markets and macroeconomic data and combine them with our expectations of key- and strategic projects. This way we start setting top-down targets already during the summer.*

*Usually top-down is always a bit higher than bottom-up, but that is just the nature of things. We place a carrot above them that can be reached with some effort. If there is only a discrepancy of less than 5% it is totally ok for us.”* (General Manager and member of the owning family)

Generally, the targets set by management are respected by employees and perceived as an understandable and reasonable guideline.



*“They don’t come up with a utopia but also rely on what people around them say.”*

(Director Sales Middle East India Africa)

Parallel to that, the regional controllers start with their bottom-up process. According to the financial controller in the Brazilian subsidiary in Sao Paulo, local sales people are talking to customers and try to estimate next year’s likely demand. The HQ at the same time supports the subsidiaries in their planning process with, for example, planning expenditures according to expected revenues and already advise them of what is feasible. Furthermore, the HQ controllers ensure that all corporate and audit requirements are fulfilled in the ABP and that data is integrated into the corporate reporting.

*“The bottom-up process starts simultaneously (with the top-down process) in the regions by sales teams with support of headquarters controllers. It’s an interactive process in which it is the regional managers’ task to translate their business expectations into figures. We check plausibility, for instance if the staff planning correlates with expected revenues and we give critical comments. There is a lot of discussion; it is an intense communication process.”*

(Manager Controlling Middle East India Africa)

The regional managing directors also take this process as an opportunity to discuss their ideas and business expectations with their local controllers and the finance department in the HQ.

*“Key is: I try to be honest, not only simplify and get away with it. Improvements of the tensions can be made if both sides try to make deviations understandable.”* (Managing Director USA)

The CFO explained that subsidiaries are free to act as they wish as long as they are within their budget. The amount of KPIs is perceived as adequate by the most controllers, although a local production technician in Sweden acknowledged that after the Swedish entity was acquired by TransFo Ltd. in 2012, the amount of paperwork increased in comparison to their previously independent firm. During the business year there is a monthly follow-up on reaching targets.

*“For my country (Sweden) I get a report from the headquarters every month to see the status. If there are deviations to our budget plan I have to comment and explain what happened.”*

(Managing Director Sweden)

In addition to the ABP there exists the so-called “Ex-budget request”. This is a formal yet flexible and quick tool to get additional budget approved during the year if important circumstances arise. This is used for expenses that are not covered in the budget such as additional employees, replacement of large machinery and other unforeseeable purchases. The local managing directors ask their controller in the HQ for approval of extra budget. After screening, evaluating and deciding on the importance of the proposal, the controller presents the request to the CFO and director of TransFo Ltd. All involved and interviewed parties emphasized that this process works quickly and with little hierarchy. This short-term reactivity was highlighted as a competitive advantage of TransFo Ltd.

### *KPI scorecard: TOP10 Navigator*

Some of the resulting figures from the ABP are then further used to fill an elaborated KPI system, called ‘TOP10 Navigator’. As explained by the CFO, the TOP10 Navigator comprises of the most important performance measures of TransFo Ltd. The numbers are collected on a monthly basis for all divisions and regions, compared against the previous year’s values and budgeted plan values. The TOP10 Navigator is then presented to the top executive committee<sup>1</sup> and used by the management as an instrument to identify deviations and to decide on managerial actions.

*“My CFO collects data monthly from all operations here at the headquarters and from the foreign subsidiaries as well. They are put together in our TOP10 Navigator. The traffic light system shows us where large deviations from our expectations are and where we potentially have to intervene. This way we can achieve a continuous process improvement.”*

(General Manager and member of the owning family)

The TOP10 Navigator consists of the following six key areas with a total of ten different indicators: market position (incoming orders, acquired gross revenue, acquired net revenue), innovation (relative R&D expenditures, revenue with new products), productivity (manufacturing productivity, revenue per employee), attractiveness (number of employees) and liquidity/profitability (gross profit, operating income).



Figure 4: TOP10 Navigator

Although the TOP10 Navigator is in principle applied in all subsidiaries, the Head of Controlling Regions acknowledged that the KPI system is very complex and that adaptations are occasionally made due to differing sizes of subsidiaries. Also the responsible managers in the subsidiaries see the KPI system as ambivalent. While it certainly shows them the general and strategic direction of TransFo Ltd, the KPIs can still not be directly applied in any subsidiary likewise.

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<sup>1</sup> Internally called “oberster Führungskreis”, a committee of the ten most executive members of the company

<sup>2</sup> SAP Business Warehouse delivers reporting, analysis and interpretation of business data

<sup>3</sup> We acknowledge that family culture might also depend on national culture. In line with Hofstede (1980) we hypothesize that cultural origin of the owning family impacts family culture. Since this relation however is not

*“I see the KPIs given by the headquarters as a general path that we as a group are going, but to control my own people, other kinds of tools are needed. We translate headquarters KPIs to our needs (e.g. overtime hours, kilometers of company cars) and thus have our local KPI system in Brazil.”* (Managing Director Brazil)

Enabling mechanisms for the TOP10 Navigator are IT tools. Since they are used in TransFo Ltd. in a large bandwidth and as a mechanism of control, they are explained in detail in the following sub-section.

#### *Use of IT tools and systems*

Enterprise resource planning (ERP) and other IT applications are tools often used in modern organizations to create structure and implement strategy. They are integrated into the organization and provide real time information about, for instance, financial and operational indicators and can therefore be used as a control system. Within TransFo Ltd., ERP systems play an important role and according to the Head of HR, they have created a lot of transparency (referring to SAP). Especially in the finance organization of the company, the SAP system is used as an important control and integration tool that is supposed to be further rolled out in the upcoming years.

*“Generally all subsidiaries have SAP information access, however only the large subsidiaries are fully integrated in the system by now. Smaller or newer subsidiaries such as Dubai use local software; we use a mapping to upload their data to the group SAP reporting; Integration is a continuous rollout process, also new subsidiaries should be integrated in the long run; in the end, we want to have a 100% ERP coverage inside the organization.”*

(Head of Controlling Regions)

For instance, the Swedish subsidiary is not integrated yet. The Managing Director Sweden sees advantages in being on a system. However, he acknowledges that the integration only works with huge efforts. The HQ of TransFo Ltd. also sees clear advantages in ERP system applications. Referring to the Manager Controlling Middle East India Africa, the currently lacking comparability of regions can be resolved with a full integration. Having the same preconditions for all subsidiaries will ease calculating KPIs and comparing subsidiaries' performance. For the before explained financial budget process, the SAP BW module<sup>2</sup> is used as a platform for entering and tracking the KPIs in a plan/actual comparison.

A further ERP system is the customer relationship management (CRM) tool used by the sales organization, which is supposed to be further upgraded in 2015. The Director Sales Middle East India Africa sees benefits for his sales teams in the permanent accessibility of updated information about clients, current tender processes and activities of sales staff in all regions. Also he as supervisor of several

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<sup>2</sup> SAP Business Warehouse delivers reporting, analysis and interpretation of business data

area sales managers can use the CRM system to track and steer sales activities if he feels it to be necessary.

### *Employee evaluation*

A further technocratic control within TransFo Ltd. is the periodical evaluation of employee performance and tying their bonus component of the salary to individual goal achievement. As the Director Sales Middle East India Africa explained, the bonuses of his Area Sales Managers are coupled with reaching agreed sales targets. The CFO added that it is not only revenues, but also gross margin of clients that influence the bonus. This is important to ensure that not revenue creation at all costs and with negative gross profits is the misleading goal of the sales organization.

The system however is not trivial since several markets interrelate in some ways and can therefore not be seen isolated. One region's sales can decline because a globally acting original equipment manufacturer might have moved sourcing to another country or region. For TransFo Ltd. in total there is no change in sales, for individual sales agents however there is. According to the Manager Controlling Middle East India Africa these complications need to be kept in mind when evaluating employees.

*“It is really not measurable in a standardized way; success and failure always have several fathers, so how can we correctly allocate success and failure to a specific salesperson? Simply using sales KPIs is just not suitable and comparable.”*

(Manager Controlling Middle East India Africa)

To solve this dilemma in a fair way, an individual assessment also takes sales agents' actions into account such as the amount of customer visits, documentation of proposals and intensity with which sales teams tried to get into new projects. Furthermore good knowledge of the regions and personal contact to sales staff is necessary to do a good and reasonable evaluation.

Also for other employee groups target agreements with individual goals depending on their role exist. According to the Managing Director USA, employee satisfaction also influences his personal pay. Generally HR wants to ensure that only KPIs that an employee can actively influence will determine the individual bonus payment.

*“It depends of course on the employee's position. With regard to managing positions abroad, we rely more on fixed salaries in the beginning. This takes into account that things first have to be built up. Later on, we increase the flexible income part in order to account for managers' willingness and ability to create and form sustainable success.”* (Head of HR)

Employee evaluation is not only a necessary tool to calculate bonus components, but also a way to foster career development. According to the Manager Finance & HR in South Africa, regular meetings with

employees are used to discuss their progress and develop and review their career path within the company. This system is driven and implemented by the headquarters worldwide.

#### *Standardized working procedures*

Standardized working and operating procedures also exist in TransFo Ltd. as a typical form of control. These standards create a clear structure, ensure a uniform way of executing work processes and thus influence the behavior of employees. This phenomenon became apparent to the Swedish subsidiary in 2012 when TransFo Ltd. acquired the previously relatively unstructured start-up firm.

*“The production was completely changed. New screwdrivers, soldering irons and other equipment came in big containers from Germany and three guys from TransFo Ltd. built up everything according to their plan. We got a lot of process documentation and instructions, but it was an improvement. Now we are able to produce more in the same time.”*

(Production Worker Sweden)

Standardized working procedures do not only exist in production but also in Finance departments. This ensures that employees have processes that they are supposed to follow. As the Head of Controlling Regions stresses, all foreign subsidiaries receive and utilize standardized templates for reporting local monthly P&Ls, sales reports and other financial indicators. To make sure that key personnel know the standards and approaches well, continuous training is conducted. The production manager of the Swedish unit is therefore regularly at the HQ of TransFo Ltd. to familiarize himself with new standards. Furthermore, employees from the quality control department at the HQ travel to subsidiaries to ensure compliance with formalized working procedures as the Controller in Brazil reports. Overall the interviewed employees of foreign subsidiaries agree that work procedures are quite standardized and specified by the HQ.

*“You can go in and recognize that it is a company with a German background.”*

(Managing Director USA about the US production plant)

Further formalized features of expected behavior are the ‘Memorandum of Director’s Conduct’ and the ‘Code of Conduct’. Both are formal documentation of corporate standards and expected behavior. The Memorandum of Director’s Conduct is an appendix to all Managing Directors’ contracts, as the CFO explained. It regulates what Managing Directors of foreign subsidiaries are allowed to do without formal approval from the HQ and what is outside their authorization. For instance, it prohibits them from signing contracts for bank loans and buying property and real estate without prior permission by the HQ.

The documented Code of Conduct applies to all employees and is available in the corporate intranet and in office and production facilities as printed flyers. It gives formalized guidance on the behavior of employees and forbids, for example, the disclosure of confidential company information to third parties, bribery activities, theft and undeclared acceptance of valuable presents for procurement employees.

These formalizations allow the HQ to set boundaries to the activities of employees and to structure the operation of foreign subsidiaries.

#### *Formally scheduled meetings and conferences*

In the view of several interviewees, TransFo Ltd. also uses prescheduled, periodic and structured meetings as a tool to control corporate activities. These meetings take place on all hierarchical levels, within the HQ, between the HQ and the subsidiaries and also on an inter-subsidiaries level. The form of meeting can either be personal or with the use of communication technology such as telephone conference and video calls.

*“For foreign subsidiaries there are regular jour fixe video calls. Part of my role description is also to organize visits whenever I think it is needed. Especially now during the budgeting process I travel to the subsidiaries to support them in the process. You won’t get their commitment and understanding when you only sit at your own desk (and not visit them).”*

(Manager Controlling Middle East India Africa)

Not only do members of the Finance functions meet foreign subsidiaries but also senior managers and the Head of Sales visit foreign operations at least quarterly, the Managing Director South Africa reported.

Conferences are also organized on a large scale. TransFo Ltd. brings together all managing directors and the top executive team annually to inform about the business strategy, new products, the development of markets and financial key indicators. This meeting is a platform to transfer top management targets to next level hierarchies and thus guide the business behavior of the foreign subsidiaries’ managers.

An extension to formal meetings is to send expatriate employees from the HQ to a subsidiary with the purpose of transferring knowledge, implementing strategy and supervising business processes. According to the HR Manager International, a head office manager has lately been sent to the subsidiary in China to control the local management.

*“One reason for delegating expats is also control: if there are processes that do not work as expected then someone will be sent there, always with the target to find someone local to hand over. We send someone to clean up and then to instruct someone local. In this case we would send someone that ideally has been learning and working here at the headquarters for a longer time and is thus tied very closely to TransFo Ltd.”* (HR Manager International)

#### *Implementation of ‘5 TransFo Ltd. Values’*

Another formal tool that ensures the consistency of employee behavior and actions within management guidelines, are the five corporate values. According to the General Manager and member of the owning family, formal values accompanied by a brand-value campaign were introduced around 2008. These five emphasized values are: being progressive, competent, reliable, safe and networked. To get employees’

commitment for these values, workshops were conducted in all subsidiaries to develop local ideas how these five rather abstract attitudes can be translated into daily actions.

*“Together with the brand value campaign we run regional workshops where people could develop own ideas for the implementation of the values. Since they all are culturally different they might have different views on how to be reliable, to work safe or to get connected. Afterwards all employees were happy because they could contribute with their own thoughts.”*  
(General Manager and member of the owning family)

According to the Head of HR, the values together with the regional suggestions for implementation were published in the employee magazine and are available in the corporate intranet in German, English and Chinese.

#### *Structure as a cultural phenomenon*

The preceding section shows that TransFo Ltd. has several distinct formal control tools that create structure and influence behavior. At the same time, following Alvesson & Kärreman (2004), we acknowledge that different control forms might be linked and support each other. They argue further that mechanisms that clearly have a structural form of control could be cultural controls themselves depending on the cultural context they are placed in. Several foreign interviewees made clear that they see some of the formal controls not as a TransFo Ltd. specific phenomenon but rather as a German national approach.

*“I worked for a Portuguese company (in Brazil) before and for me it was even more difficult with them, in a German company processes are more clear and better structured. The planning process is more detailed but also clearer.”* (Managing Director Brazil)

Also on a more personal level these national differences become obvious. Employees in the Swedish subsidiary were not used to paying attention to academic and job titles, which is however very common and important in the German culture.

*“I noticed this Mr. this and Mrs. that. Here in Sweden it is not like this, we don’t have the titles like you, Doctor and so, here we use the first names. You also call the high managers with their first names. We are not politicians and it is only a small company so we should not care too much about that.”* (Production Technician Sweden)

Since especially formality, hierarchy and structure are inherent attitudes of German business culture, we can argue that the outward technocratic controls must not be seen isolated from the following socio-ideological controls. They have the ability to interact as it will be shown in the later discussion of the case.

#### 4.2.2 Socio-ideological controls at TransFo Ltd.

Next to the broad range of technocratic controls, a number of socio-ideological controls support the process of integrating international subsidiaries. Defined as "efforts to persuade people to adapt to certain values, norms and ideas about what is good, important, praiseworthy, etc. in terms of work and organizational life" (Alvesson & Kärreman, 2004, p. 426) we consider all control mechanisms that are not within the scope of technocratic control and used by the management of TransFo Ltd. to target employees' minds through norms, emotions, beliefs and values as socio-ideological. With the help of socio-ideological controls managers at HQ try to make the employees of international subsidiaries adhere to the values and ideals which they believe in or at least which they believe that the company would benefit most from and thus indirectly influence employees' behavior (Alvesson & Kärreman, 2004). Even though they are often closely linked and thereby hard to separate from each other we identified the following six main socio-ideological control tools used to manage international control challenges: *"Give and take"-philosophy, Informal information exchange, Importance of values, Family feeling as a binding tool, Attachment to the firm and product and Cultural and managerial flexibility.*

##### *"Give and take" philosophy*

One important tool of socio-ideological control at TransFo Ltd. is the creation and preservation of a corporate culture that stimulates trust and support. This stimulus relates to the idea that socio-ideological control is based on a combination of convictions and calculations of key actors (Alvesson & Kärreman, 2004). On the one hand, managers at TransFo Ltd. take for granted a social environment within the organization that is characterized by trust and support due to the fact that these values exist and have prevailed for generations. On the other hand, they systematically control that these values are continuously lived and preserved. An important control tool hereby is the existence of an ideology that is described by a sales director as a *"Give and take' philosophy"*.

*"As many other family businesses, the firm has a "Give and take" philosophy, which employees understand and live. It is a philosophy that grew over more than a century and is backed up by internal support and great collaboration. It creates trust, which is a giving and taking in both directions. Also the family is giving and taking. If we would be a stock listed company, returns would be distributed to shareholders. Here we see that the family reinvests and does not only take money out of the firm."* (Sales Director Middle East India Africa)

A main premise for the existence of this *"Give and take' philosophy"* is an HR policy based on promoting and rewarding long-term attachment of the employees to the firm.

*"It is the continuity and reliability of colleagues and the firm. I am a good example, I have been general manager now already for 18 years and will probably be here for another 12 years or longer. Usually you don't find that somewhere else. This brings continuity. If there would be a*



*new manager every five years then things would change all the time. And that also applies for all other hierarchical levels where you can find the same phenomenon."*

(General Manager and member of the owning family)

Long-term attachment of employees to the firm is fostered by continuously investing in training and personal development at every hierarchical level at the home base and abroad. This HR approach is backed up by a philosophy that sees each employee as *"investment and not as cost"* (Head of Controlling Regions). This again is based on the *"Give and take" philosophy* where the firm gives training and takes their long-term commitment to the firm so that *"costs of training pay off in a way"* (Managing Director USA).

*"When it comes to employees attachment to the firm let me quote Richard Branson: 'You have to train people good enough so that they want to leave but you have to treat them good enough so that they don't want to'. That is what we do at TransFo Ltd."* (Managing Director South Africa)

By strongly fostering a sense of long-term belonging to the firm, management at TransFo Ltd. creates and preserves a dynamic system based on mutual trust.

*"You have to work for your standing, titles don't help. If you develop trust, they (i.e. colleagues and management) will value your expertise and use your contribution."*

(Manager Controlling Middle East India Africa)

Management shows trust and strong attachment to the individual employee, which in turn reduces competitive behavior among employees due to the lack of opportunity to undermine someone's position. This in turn reinforces the culture of trust and support within the whole organization.

*"The fact that there is support from every part of the organization is an outcome of a 'culture of accepting mistakes'. My people are allowed to make mistakes, they can learn from them. I give them a lot of responsibility together with trust. If something goes wrong, there is always somebody there to help and support."* (Sales Director Middle East India Africa)

*"We don't say colleague Mr X or Ms Y have to leave because there are deviations. No! We know them already for very long and they are part of the family, and we trust them."*

(General Manager and member of the owning family)

This culture of trust finally affects the ABP as well. By having domestic and foreign managers in place that know the firm, its business and each other since many years, expectations of senior management and management of the subsidiaries do not deviate much.

*"There is a great honesty in the planning process. That's why it goes smoothly. The country managers understand that general management is not demanding something impossible, so they also do a reasonable bottom-up planning. That's why there are no problems."*

(Head of Controlling Regions)

#### *Informal information exchange*

The prevalence of a corporate culture based on trust and support within the whole organization is closely related to management's encouragement of informal information exchange. While technocratic controls such as the ABP, conference calls or formal global management meetings set a platform for key actors of HQ and subsidiaries to get to know and regularly meet each other, a great proportion of inter-divisional and inter-regional information exchange takes place rather informally, which is encouraged or at least accepted by senior management. In general, informal information exchange at TransFo Ltd. happens both between subsidiaries and between subsidiaries and HQ.

On the one hand, management at TransFo Ltd. encourages or at least accepts informal information exchange between subsidiaries. A lot of information is exchanged between key actors of foreign subsidiaries without the involvement of HQ or the existence of formal guidelines.

*"We have close contact to other subsidiaries, especially the American and Australian ones. There is a very open communication among the managing directors, which is not enforced by HQ."*

(Managing Director South Africa)

Inter-regional information exchange and support outside the scope of centralized and formalized routines is prevalent especially between subsidiaries of local or cultural proximity but takes place throughout the whole network of foreign operations in case of technical or customer-related questions.

*"It is a direct relationship and we have a good exchange of information. For example, we have often supported colleagues in China with technical questions or customer requests."*

(Managing Director Sweden)

*"We three managing directors from the American subsidiaries have monthly calls with the purpose of discussing the economic situation of the region and also have frequent email exchange, without involvement of HQ. There is also contact between us and for example Italy or China. Most of the time it is a direct connection which is supported by HQ."*

(Managing director Brazil)

On the other hand, informal information exchange also between subsidiaries and HQ is encouraged. Therefore, an important tool is the local and organizational affiliation of the sales and controlling department. After a period of growth, sales and controlling staff are re-allocated at the HQ and placed

together. This re-allocation relates to a certain understanding of the role of controlling, which again is anchored in a corporate culture of support.

*"Controlling is a partner of sales; they bring the necessary financial understanding to assess the effects of sales activities."* (Executive Director Finance)

This approach towards the role of controlling makes a close collaboration between the two departments necessary. The formal re-allocation aims at achieving this close collaboration by enabling the exchange of information even without the means of formal meetings or working procedures. It fosters information exchange on a daily basis that lies outside the scope of formal processes and thereby facilitates mutual support.

*"Some years ago controlling was put close to the sales organization, also from their physical location. Now, they can directly support us for example in tender and bidding processes."*  
(Sales Director Middle East India Africa)

The business-oriented role of controlling that is supported by local consolidation with sales also fosters the integration of subsidiaries. As a partner of sales, controlling staff are deeply involved in the communication process and information exchange between sales managers at HQ and key actors at the subsidiaries. This involvement of controlling in turn creates proximity between the controlling staff and the staff at subsidiaries, which is supported by controlling managers' regular visits to foreign facilities. Their close relationship between controlling staff and key actors at subsidiaries facilitates informal exchange of information and the creation of a spirit of mutual support.

Their close collaboration with key actors at subsidiaries lets the controlling staff act as a mediator between general management and subsidiaries. Their close attachment to foreign operations eases communication and information exchange between general management and subsidiaries. The high level of trust between general management and controlling staff reduces the amount of information exchanged between subsidiaries and general management and thereby allows for quick decision-making.

*"We as controllers are quite deeply involved in the real business, which is probably a bit untypical. We are not the typical controller but we rather support the business with our numbers. I was in South Africa last week. The local management there made clear that their growth is so rapid that they need expansion, also in terms of office facilities. I emailed the CEO to get access to a high six digit-Euro-extra budget to take part in a bidding process for real estate this week. I had direct contact to the CEO and got his quick reply, in this case a "go" for extra budget without any large approval process. Trust facilitates this."*  
(Manager Controlling Middle East India Africa)

Informal communication between HQ and subsidiaries is prevalent also without the involvement of the controlling department as a mediator. In general, an important contributing factor to informal information exchange is flexibility with regard to inter-hierarchical communication.

*"There is also an informal exchange between hierarchies. If somebody wants to talk to me, he or she can just come by and doesn't need an appointment or the involvement of the respective manager." (General Manager and member of the owning family)*

*"I'm meeting the Head of HR about twice a year, whenever I'm in Germany. I appreciate having the chance to have close contact even with top managers at the firm. That is something special about TransFo Ltd." (Manager Finance & HR, South Africa)*

### *Importance of values*

The use of socio-ideological control at TransFo Ltd. becomes very obvious by the strong consensus among the interviewees, regarding the importance of a common set of values.

*"Honesty, loyalty and respect are values that people need to bring to work for the firm in South Africa as well as in Germany." (Manager Finance & HR, South Africa)*

The existence of technocratic control in the form of a formal set of five values as outlined before does not contradict the idea of viewing values at TransFo Ltd. as a socio-ideological control tool. When asked about values several employees referred to the formal set of values, however they did not focus on wording but rather on their grounding in traditional values.

*"Well, the values of TransFo Ltd. exist somewhere. There is a flyer somewhere saying that TransFo Ltd. is reliable followed by a row of values and attributes how TransFo Ltd. is. These values exist and are not just invented. TransFo Ltd. and the business really work a bit like this. Sometimes, these values sound heroic and we will not achieve them in every single case, but generally we stick to our values." (Manager Controlling Middle East India Africa)*

The formalization of values rather represents the outcome of a formalization process within the whole organization as reaction to growth (cf. General manager and member of the owning family). With regard to influencing employees' behavior, the fact that values are actually lived represents a much stronger control tool for TransFo Ltd. than the pure formalization of values.

*"I don't think that these five values are family values. But what might be typical for a FB is the seriousness with which we try to live the values. A lot of companies only write them down without living them." (General Manager and member of the owning family)*

The importance of values is obvious also in the case of the encouragement of local interpretation of the formal set of five TransFo Ltd. values. As pointed out by the General manager and member of the

owning family, after having been sent the formal set of values, local subsidiaries have been encouraged by general management to adapt these values to local meanings and publish them in internal sources of information (Intranet, internal firm brochure).

*Family as a binding tool and source of reliability*

As explained above by the General Manager and member of the owning family, FBs have a special seriousness in the way they do things, which is a further expression of the firm's reliability towards its employees and customers.

*"It is also part of the whole message to customers that TransFo Ltd. is a family firm. Customers see stability and reliability, not least because somebody is putting their family name on a product"* (Managing Director Canada)

Both this stability and this reliability have influences on the mindset of employees. There is a social agreement among employees, but also towards the company as an institution, which functions as a strong bond. This social affiliation to the corporate family is visible in subsidiaries, not only in the HQ where the family is present. The annual Christmas party, that even subsidiary employees are invited to, is perceived as a 'family gathering' by the Swedish Production Technician. And also the continuous visits of the General Manager and member of the owning family to subsidiaries contribute to that feeling. The fact that even the wife and daughter of the General Manager and member of the owning family joined him on a visit to the Swedish production plant, shows the close relationship that the family demonstrates.

*"I worked for a large state owned company in South-Africa before. There you are always a number and have no individuality. In TransFo Ltd. I get noticed and recognized; that is the family spirit"* (Managing Director South Africa)

One reason why the family and firm can transfer this stability to corporate culture, and eventually also to the mindset of employees, is the longevity the company works with. As the Manager Controlling Middle East India Africa explains, the company does not have a financial focus on short term results (for example quarterly reporting) since it is not stock listed and does not feel any pressure from outside. This long term perspective also shapes the staff in a way that everyone works towards the long term success of the firm, rather than the fulfillment of short-sighted targets.

*"We have a very long time horizon, it is eternity. We don't care about quarters and annual results. Of course we plan and observe them but we have the freedom to live with deviations. Deviations are a learning curve for us rather than a problem."*

(General Manager and member of the owning family)

A particularly interesting aspect of this longevity is explained by the Head of HR. At the headquarters it is a typical phenomenon that three generations of the same family work at TransFo Ltd. at the same time.

Not only that this is a special motivation for older employees to work for the success of the company and thus secure job and income for their own offspring, but also is this social control in a special form. The Head of HR pointed out that these family members control each other to make sure that their reputation as a family within the social community is protected. Misbehavior of one family member would inevitably also damage the reputation of the other family members that work in TransFo Ltd.

#### *Cultural and managerial flexibility*

Another socio-ideological control tool to manage international control tensions is the management's acceptance of a diversity of cultural and managerial practices. This could be referred to as *cultural and managerial flexibility*. International subsidiaries are entitled to a great amount of independence with regard to managerial and cultural practices.

*"We want that they themselves feel to be an entrepreneur rather than an employee of a company. We give them frame conditions, but how they control and do their business, that is up to them."*  
(General Manager and member of the owning family)

*"The question is: do we want to build up a lot of small TransFo Ltd.s or do we want to leave them as they are? In the acquisition in Luxembourg for instance we changed nothing other than the name on the door sign and conducted some training. When they are successful with their practices and ways of working we do not come and tell them how to work."*  
(HR Manager International)

The acceptance of a certain degree of polycentrism is closely related to a corporate culture that is based on mutual trust and the previously described *"Give and take' philosophy"*. Divergent forms of management throughout the organization are fostered by employing and trusting international managers that possess a high degree of entrepreneurial spirit and set high targets themselves. Furthermore, successful long-term divergence is sustained by long-term orientation in terms of financial planning, internal support, and clear communication of expectations by HQ.

*"We always try to make all subsidiaries local; it's their own markets, so it should not be the Germans in the long run that are in the driver seat. We don't want to be the Germans invading other countries. Success makes them independent. If they perform they can act freely."* (Manager Controlling Middle East India Africa)

The existence of different management styles also impacts certain behavior at HQ. Allowing for managerial differences and a more open attitude towards opportunity and risk-seeking activities even influences the key personnel at HQ and opens the field for changes in traditional behavior and procedures.

### *Attachment to the firm and the product*

Another more or less consciously used control tool that steers employees' behavior towards a common goal is the close attachment of employees to the company and its products. As the HR Manager International points out for the HQ, people perceive TransFo Ltd. as more than an employer. It is an honor to work for the company and, as explained by the Manager Controlling Middle East India Africa, an offence to quit the job. But also international interviewees could confirm this sensation.

*"Workers are proud and like to tell others that we are part of a German company."*

(Manager Finance & HR, South Africa)

This strong corporate identity and good reputation functions as socio-ideological control and fosters employee loyalty.

Also the product seems to be responsible for the close attachment of employees to the firm. One interviewee even mentioned the fascination for the product as the main reason to join TransFo Ltd. Also others mentioned that the high product quality of TransFo Ltd.'s engineering fascinates them and binds them to the firm.

*"I myself have been working here for more than 20 years and don't think about leaving. Foreign sales managers set themselves high sales targets because they have a strong belief in the products they sell and the company they represent. Personally, I would buy our products myself if I were a transformer manufacturer."* (Sales Director Middle East India Africa)

It is the quality of the product that leads to a special attachment of employees to the company. This emotional attachment to the product and company leads employee behavior beyond rational reasoning and works as an effective socio-ideological control mechanism.

### **4.2.3 Summary of technocratic and socio-ideological controls at TransFo Ltd.**

The previous subchapter provided an extensive overview of control mechanisms facilitating global integration within TransFo Ltd. By using Alvesson and Kärreman's (2004) structuring MCS framework we showed that besides formalized, technocratic tools also a series of normative, socio-ideological mechanisms are at work to achieve a state of control:

**Technocratic controls**

Financial Budgeting Process

KPI scorecard: TOP10 Navigator

Use of IT tools and systems

Employee evaluation

Standardized working procedures

Formally scheduled meetings and conferences

Implementation of '5 TransFo Ltd. Values'

**Socio-ideological controls**

"Give and take" philosophy

Informal information exchange

Importance of values

Family as a binding tool and stability

Cultural and managerial flexibility

Attachment to the firm and the product

Figure 5: Summary of technocratic and socio-ideological controls at TransFo Ltd.

Already at this stage it is clear that some technocratic controls have their equivalent on the socio-ideological side, namely corporate values as well as personal contact and meetings. Both were identified as having traits of technocratic as well as socio-ideological control. Following the literature of FBs, the appearance of socio-ideological control mechanisms is inherent in this type of business. Simultaneously, for a global company of this size it is not surprising to have in place a broad range of formalized structures. Consequently, the fact that several controls exist in both the technocratic and socio-ideological category is not surprising. In this context, the Head of HR made clear that gradual renewal of structures must be the consequence of an increasing number and size of subsidiaries. A detailed analysis of how these different control forms are linked and how their mix balances control tensions will follow in the subsequent chapter.



## 5 Discussion

By screening our empirical data with the help of Alvesson & Kärreman's (2004) framework we were able to outline several technocratic and socio-ideological controls that are part of the MCS implemented at TransFo Ltd. In order to align the case findings in context to previous research and understand how technocratic and socio-ideological controls are used to facilitate the integration of international subsidiaries we will draw on literature previously reviewed. Therefore, we will use the two tentative propositions (section 2.4) as the base for the discussion. We will highlight the importance of socio-ideological control for balancing the three control tensions outlined by Busco et al. (2008) both in terms of its self-reliance as control type and in terms of its interplay with technocratic control. Furthermore, our empirical data supports the idea of the existence of a fourth control tension that FBs in particular have to manage in the course of increasing internationalization: informal family culture vs. the need of formalization.

### 5.1 Socio-ideological controls in multinational family businesses as the anchor to manage the three control tensions outlined by Busco et al. (2008)

In line with previous research at the interface of management control and international business, TransFo Ltd. uses technocratic controls to manage the three main tensions that arise when integrating MNOs as outlined by Busco et al. (2008): vertical vs. lateral relations; standardization vs. differentiation of practices; centralization vs. decentralization.

In addition, socio-ideological controls play an important role. Moreover, sometimes it is not possible to draw a distinct line between technocratic and socio-ideological control. While the existence of socio-ideological control in the form of cultural or normative controls has already been discussed in the context of MNOs (Busco et al., 2008; Moss Kanter, 2008; Hedlund, 1986), its specific use and interplay with technocratic controls has neither been analyzed in a FB setting nor discussed with regard to its concrete role in managing the three tensions outlined by Busco et al. (2008) in general. Therefore, the following section discusses the case findings by focusing on the role of the entirety of controls used at TransFo Ltd. with regard to managing each of the three tensions. Hereby, we contrast the empirical data on the MCS at TransFo Ltd. with the first proposition previously outlined:

**P1: In a FB setting, MCS must comprise both, technocratic and socio-ideological controls and address the interplay of these two control types in order to manage the three main tensions that arise in the course of integrating MNOs.**

#### 5.1.1 Fostering lateral relations through the feeling of family

The main challenge of MCS is to address the dilemma between control and flexibility. This relates to the idea that managers must simultaneously take the enabling and the constraining role of controls into consideration. They need to have MCS in place that control goal achievement and at the same time

motivate the search for opportunities while encouraging innovation as well as knowledge sharing and learning (Songini et al., 2013; Tessier & Otley, 2012; Dossi & Patelli, 2010; Ferreira & Otley, 2009; Simons, 1995). In MNOs the dual role of controls becomes even more challenging. As a consequence of their complexity, which is due to their political, economic, legal, social and cultural heterogeneity, MNOs have to manage competing pressures and make various trade-offs (Busco et al., 2008).

One pressure stems from the tension between vertical and lateral relations. In order to understand the process of integration within MNOs, managers have to consider the whole relational context of the MNO (Busco et al., 2008). They have to find a balance between the necessity of communicating objectives and information through vertical relationships between HQ and subsidiaries and the need for knowledge exchange between subsidiaries through lateral relations. A main task of MNO integration resides in the efficient communication of key objectives and coordination of tasks throughout the whole organization while simultaneously exploiting value creation opportunities that stem from knowledge and information sharing (Busco et al., 2008; Simons, 1995).

Consequently, vertical relationships hereby represent the main channel through which to communicate key objectives between HQ and subsidiaries and also allow for controlling with regard to the strategic alignment of the subsidiaries (Busco et al., 2008; Otley, 1999). "They define (and are defined by) the extent of the centralization vs. decentralization, and are closely related to the way in which decision-making authority is delegated by the corporate superiors to their subordinate operating managers" (Busco et al., 2008, p. 105). The type of HQ-subsidiary relationship impacts the effectiveness of MNO integration since it affects the way in which the pressures from HQ are perceived and interpreted within each subsidiary (Busco et al., 2008; Kostova & Roth, 2002). Furthermore, it impacts the degree of opportunity-seeking behavior within foreign subsidiaries (Birkinshaw & Hood, 1998).

At TransFo Ltd., vertical relations are strongly reliant on the ABP. The ABP represents the most important tool to communicate next year's objectives between HQ and subsidiaries and coordinate tasks within the whole MNO. Through the process of communicating top-down objectives to foreign subsidiaries and taking their bottom-up plans to compare to general management's detailed planning schemes an intense process of communication and planning takes place. This form of coordination is supported by a monthly follow-up on key figures in form of the KPI scorecard, the formal process of employee evaluation and facilitated by the use of the SAP system. All these tools represent the main diagnostic controls (Simons, 1995) that are used to communicate information vertically. They allow strategic alignment of subsidiaries through linking key objectives and strategy with formal levels of performance, reward systems and feedback loops (Otley, 1999).

Due to its gradual increase of foreign commitment, TransFo Ltd. as any other MNO faces the need for various channels of information sharing. Therefore, lateral relations are fostered. By encouraging information exchange between subsidiaries themselves, managers of MNOs exploit the opportunities that

lie within internationalization through the creation of value by combining resources, sharing knowledge and risk and gaining access to markets, technologies and complementary skills. Despite the potential gain from encouraging lateral relations, agency-related risks must be considered and reduced by respective formal or informal controls (Busco et al., 2008).

At TransFo Ltd. formally scheduled meetings and conferences are an important tool to foster the exchange of information among managing directors and other key actors of the subsidiaries. On the one hand, formally scheduled meetings, seminars or videoconferences in which managers from HQ and key actors from diverse subsidiaries participate directly influence the exchange of information among subsidiaries. Their agenda consists of the exchange of market information, strategic opportunities and risks, best practices and more. On the other hand, these formal meetings benefit from the fact that key actors from subsidiaries get to know each other which in turn fosters their willingness to share information and even schedule formal meetings without the involvement of HQ. Other formally scheduled get-togethers like Christmas parties have the same effect.

At first sight, MNO integration at TransFo Ltd. seems to be mostly based on the use of technocratic controls and clearly dominated by HQ with the exception of some independent lateral relations. However, the effectiveness of technocratic controls at TransFo Ltd. strongly depends on their interplay with socio-ideological controls (cf. Alvesson & Kärreman, 2004). With regard to finding a healthy balance between vertical and lateral relations one specific socio-ideological control is used by the management of TransFo Ltd.: *the feeling of family*.

Since the greater the HQ control over subsidiaries is, fewer subsidiaries are willing to share knowledge with each other (Tsai, 2002). Put differently, in centralized organizations like TransFo Ltd. information flows are mainly vertically driven and coordination is achieved through the mediation of the HQ. Since HQ encourages no direct lateral ties, subsidiaries normally show reluctance to the lateral exchange of information (Busco et al., 2008).

However, in the case of TransFo Ltd., lateral relations are still prevalent due to the existence of what we can call *the feeling of family*. In this way, *the feeling of family* represents a summary of several socio-ideological tools used by the management of TransFo Ltd. and relates to the FB specific feature of socioemotional wealth (Songini et al, 2013; Salvato & Moores, 2010; Stockmans et al., 2010). As outlined above, socioemotional wealth "originates from the strong emotional overtone characterizing various dynamics of family business, from strong family values permeating the organization, and from altruistic behavior typically found among family owners" (Songini et al., 2013, p. 77). Altruistic behavior of employees is fostered by a couple of socio-ideological tools previously described. This refers to the idea that family commitment develops into organizational culture, which in turn leads to the fact that employees share commitment to organizational goals (Segaro et al., 2014).

The existent "Give and take" philosophy, employee attachment to the firm and the product, family as a binding tool and stability as well as informal information exchange represent socio-ideological controls that create and preserve *the feeling of family*. Closely intertwined with *the feeling of family* is the existence of long-term relationships both between foreign employees and HQ managers and between foreign managers themselves and an HR management that encourages long-term job tenure. This in turn fosters a corporate culture of trust and support and thereby encourages lateral exchange of knowledge and ideas. Employees help each other and best practices and experiences are shared informally without the pressure of formal information systems.

The fact that lateral relations are encouraged by rather socio-ideological controls is in line with Busco et al. (2008) who explain the dependence of inter-regional communication on the level of trust between the respective parties. This relates to the idea that technocratic controls are somewhat colored by socio-ideological controls and that the interplay of technocratic and socio-ideological control is decisive for having an effective MCS in place (Alvesson & Kärreman, 2004). In the end, *the feeling of family* represents the anchor for the existence of lateral relations despite the high degree of centralization and HQ dominance at TransFo Ltd.

### **5.1.2 Managing a lack of convergence through common values**

The relational context of MNOs also impacts the processes of convergence towards standardization of multinational practices and the possibilities for local differentiation, which represents the second tension that arise when integrating MNOs (Busco et al., 2008). How the interplay of technocratic and socio-ideological control is used at TransFo Ltd. in order to find a balance between the necessity of standardization and the need for accepting local differences is outlined in the following.

An unavoidable challenge that every MNO faces is the diversity of individual, cultural and socio-economic backgrounds that easily create conflicts between the routines and procedures that are inherent in different foreign subsidiaries (Busco et al. 2008; Ghemawat, 2001; Hedlund, 1986). Convergence towards a standardized set of common practices needs to be encouraged in order to minimize these conflicts and achieve multinational coordination. Simultaneously, local practices must be preserved to firstly promote opportunity-seeking behavior of foreign units (Birkinshaw & Hood, 2001) and secondly to account for the need to respond to heterogeneities in different markets (Busco et al., 2008; Ghemawat, 2001; Gupta & Govindarajan, 2001; Hedlund, 1986).

Consequently, managers of MNOs need to find a balance between convergence and differentiation. By simultaneously supporting multinational strategy and local business processes they can secure cost savings and leverage opportunities both through foreign market integration and standardization, as well as through local adaptation (Busco et al., 2008).

At TransFo Ltd. each technocratic control outlined above fosters convergence towards a common set of practices. By having in place the ABP, KPI scorecard and employee evaluation, multinational standardization with regard to planning and evaluation is achieved. These three controls are designed and communicated identically for each foreign subsidiary, which secures cost savings and achieves coordination. This coordination is backed up by the use of IT tools such as SAP and CRM. Furthermore, these systems as well as the existence of formally scheduled meetings and conferences ease the exchange of ideas and best practices which in turn fosters convergence towards a common set of practices.

Furthermore, the existence of standardized working procedures for several organizational units and functions represents another technocratic tool that encourages multinational convergence. Formalized features such as the "Memorandum of Director's Conduct" and the "Code of Conduct" allow management at HQ to impose important limits on subsidiaries' opportunity-seeking behavior (Simons, 1995) through standardized rules. Moreover, the use of expatriates fosters convergence throughout the MNO. By using their expertise generated by home-based training and development, their transfer of knowledge, strategy implementation and supervision of foreign business processes is colored by HQ practices and thus consolidates HQ-alike practices at foreign subsidiaries.

Even though technocratic controls foster convergence at TransFo Ltd., several interviewees pointed out a certain lack of standardization, which represents opportunities with regard to cost savings and knowledge exchange. According to them this mostly relates to the fact that task and IT integration (Birkinshaw et al., 2000) could not keep up with the quick and vast organizational growth as the result of recent external and internal growth both domestically and abroad. Furthermore, divergence is prevalent in the form of a high degree of flexibility of foreign managers. Managing directors of foreign subsidiaries are quite independent from HQ with regard to operational decisions that are within the scope of the annually fixed budgets. This refers to small polycentric tendencies within the fairly centralized organization. Aside from the great advantages that lie within this divergence of managing styles, it represents the risk of strategic misalignment. This risk however should be reduced by a stronger use of financial result-oriented performance measures and rewards (Hedlund, 1986) as it is the case at TransFo Ltd.

The existing lack of convergence and the potential risk of divergent foreign management styles are managed by adding socio-ideological controls. Through the existence of a strong corporate culture the co-existence of managerial diversity and strategic alignment throughout the whole organization is supported and other channels for the exchange of knowledge are used. All socio-ideological tools used at TransFo Ltd. including managerial and cultural flexibility create a culture of trust, altruistic behavior and bring together key actors with a common mind-set, which facilitates value creation through knowledge exchange and reduces risks stemming from divergence (cf. Songini et al, 2013; Salvato & Moores, 2010; Stockmans et al., 2010).

Especially the existence of common values is an important socio-ideological control to manage a certain lack of organizational convergence. Importantly, this rather relates to values actually lived and not just formalized. Common values shared by each employee, especially expatriates, key actors at HQ and foreign managers, represent the glue that holds the organization together and enables an organization to stay agile and reactive (Moss Kanter, 2008). Furthermore, common values foster the human integration process (Birkinshaw et al., 2000) as an important step of the complex process of full MNO integration.

Again, the effectiveness of MCS relies on the congruence of technocratic controls such as the "5 TransFo Ltd. Values" and socio-ideological controls such as the actually lived common values. In order to find a balance between convergence and differentiation, management must thus consider the interplay of technocratic and socio-ideological controls.

### **5.1.3 Trust as the mediator between centralization and decentralization**

Finding a balance between vertical and lateral relations and between convergence and differentiation is closely related to the often-called "global integration vs. local responsiveness dilemma". This dilemma expresses the third tension that has to be managed in MNOs: centralization vs. decentralization. With the help of MCS that consists of technocratic and socio-ideological controls, managers of MNOs must find a balance between centralized decision-making authority and local autonomy (Busco et al., 2008).

Centralization represents the organizational premise for the existence of vertical relationships that allow controlling for goal achievement and the encouragement of convergence towards standardized practices. Centralization reflects the extent to which the HQ retains decision-making authority and controls strategy formulation and strategy implementation (Busco et al., 2008). In centralized organizations power is concentrated at a specific local or functional center. On the one hand, centralization is determined by the formalization of specific organizational structures. On the other hand, the complexity of organizational power relations makes it necessary to also consider informal interpersonal relations when defining an organization's level of centralization (Quattrone & Hooper, 2005).

Finding an appropriate level of centralization vs. decentralization is determined by the capability of maintaining or collapsing distance between HQ and subsidiaries. Hence, distance refers to both local distance between HQ and subsidiaries and distance in terms of time lags between planning by HQ, execution by subsidiaries and the transfer of feedback (Busco et al., 2008; Quattrone & Hooper, 2005). The capability of maintaining or collapsing distance in turn depends on cultural aspects. Consequently, by considering a certain level of centralization vs. decentralization, managers need to consider also cultural distance between HQ and its subsidiaries (Ghemawat, 2001; Brock et al., 2000).

TransFo Ltd. is a quite centralized organization. Firstly, this is supported by its previously outlined organizational structure that clearly concentrates decision-making authority at HQ. Secondly, the high degree of centralization and the resulting high power distance between HQ and subsidiaries are

maintained by the use of technocratic controls as outlined above. Thus, the ABP backed up by the KPI scorecard, formal employee evaluation and the use of IT tools represent the main control tools for managers at HQ to delegate decision-making authority. The ABP is based on a top-down budgeting process and key actors at HQ design the entirety of diagnostic controls. Furthermore, many of business-supporting roles at foreign subsidiaries are inherited by expatriates, which additionally fosters centralized authority through the transfer of home-based knowledge and practices and close relationships between expatriates and key actors at HQ. Finally, the formalization of the '5 TransFo Ltd. values' maintains a high degree of centralization by steering opportunity-seeking behavior of foreign employees through guidelines that are closely linked to traditional values deeply rooted in the owning family's understanding and lived by home-based employees for a long time.

However, the formalization and a high degree of centralization pose certain risks. By maintaining high power distance between HQ and subsidiaries, the need for local adaptation might be neglected. This refers to both, the need for a diversity of managerial styles due to different cultural and social environments and the need to unleash innovation that responds to market opportunities arising at foreign markets (Birkinshaw & Hood, 2001; Ghemawat, 2001; Perlmutter, 1969).

At TransFo Ltd. these risks are reduced by the use of socio-ideological controls. Even though the formalized organizational structure and the set of technocratic controls foster a high degree of centralization, the set of socio-ideological controls informally undermine this centralization. The creation and preservation of socioemotional wealth (Songini et al, 2013; Salvato & Moores, 2010; Stockmans et al., 2010) and the informal transmission of values (Speckbacher & Wentges, 2012; Carney, 2005; Habbershon & Williams, 1999) again represent important tools to manage the tension between centralization vs. decentralization.

Having a strong corporate culture in place reduces the *formally* high power distance. Decisively, this corporate culture is based on the importance of values. Hereby, the individual local interpretation of the formalized values represents an important control tool. The fact that management encourages that values are rather lived than just formally written down reduces the risk of missing local adaptation of centralized values. Furthermore, the strong corporate culture fosters the building of support and trust. This in turn allows managerial and cultural flexibility despite high HQ dominance. Informal information exchange and the existence of a "give and take" philosophy, which are based on long-term personal relations, enable subsidiaries' influence in planning and decision-making. This is obvious in the case of the ABP.

The centralized planning tool of top-down budgeting is supported and measured against bottom-up numbers. Hence, input from subsidiaries is taken seriously, which is due to the fact that management at HQ has a high level of trust towards key actors of subsidiaries. As many interviewees from both, HQ and subsidiaries pointed out, the actual link between top-down budgeting and bottom-up planning is rather trust than the formal existence of a planning process. This trust closely relates to long-term planning and

a culture of accepting mistakes, which again is the outcome of the entirety of socio-ideological controls used at TransFo Ltd. With the help of trust, potential reluctance of foreign subsidiaries towards centralized structures (Larsson & Finkelstein, 1999) is reduced.

Finally, it is the interplay between technocratic and socio-ideological controls that facilitates MNO integration at TransFo Ltd. In order to find the right balance between centralization and decentralization, management at TransFo Ltd. uses a MCS that backs up technocratic control by the reliance on a strong corporate culture. Therefore, trust becomes a sort of mediator between formalized centralization and informal decentralization.

## **5.2 A fourth control tension in family businesses: Informal family culture vs. the need for formalization**

The previous section pointed out that management of TransFo Ltd. uses a MCS based on the interplay of technocratic and socio-ideological controls in order to manage the three tensions prevalent in every MNO. Throughout the process of data collection and data analysis, we found that the empirical data on TransFo Ltd. supports the idea of the existence of another tension prevalent in multinational FBs that has not yet been discussed in theory. The following section contrasts the empirical data on the MCS at TransFo Ltd. with the second proposition and summarizes the main aspects that refer to this fourth tension.

**P2: Due to their specific features, FBs need to manage a fourth tension when integrating MNOs: the emphasis on socio-ideological control vs. the need for increasing formalization.**

### *The need for increasing formalization*

As pointed out above, management at TransFo Ltd. uses substantial socio-ideological control to achieve strategy implementation within the whole MNO. Socio-ideological controls like the feeling of family, common values or trust represent important tools to manage the three control tensions outlined by Busco et al. (2008). As many other FBs, TransFo Ltd. comprises a strong corporate culture, which reduces the need of technocratic tools that focus on disciplining and monitoring employee behavior (Audretsch et al., 2013; Hiebl, 2013; Songini et al., 2013; Segaro, 2012; Astrachan, 2010; McConaughy et al., 1998). Socio-ideological controls counteract formal imbalances in form of a strong focus of vertical relations, a lack of convergence or a high degree of centralization.

However, with increasing internationalization and maturity of the business, the organization needs to get increasingly adapted to the use of technocratic controls (Moore & Yuen, 2001; Moore & Mula, 2000; Simons, 1995; Perlmutter, 1969). With the increasing degree of internationalization firms need to have in place MCS that allow them to move from organizational forms that are strongly based on normative controls towards organizations that control through a common set of formal controls and practices



(Hedlund, 1986). The strength of socio-ideological controls that are based on informal family culture gradually declines in the course of increasing internationalization. As just one out of many examples at TransFo Ltd. one can present the fact that the general family manager's capability to physically visit foreign sites decreases with increasing number of foreign subsidiaries. As our empirics suggest, the presence of the general manager as a representative of the owning family represents an important tool to foster employees' identification with the firm. Thus, the important socio-ideological control tool of the omnipresence of the family (Speckbacher & Wentges, 2012) gradually disappears with increasing internationalization. In order to achieve effective return on management (Simons, 1995), a stronger use of technocratic controls becomes necessary. Since the feeling of family gradually decreases with increasing distance (Speckbacher & Wentges, 2012), the formalization and convergence towards a common set of practices becomes more and more important (Hedlund, 1986). At TransFo Ltd. this phenomenon can be seen by the fact that employees report the need for more standardization even though they simultaneously fear the consequences of the loss of informality.

The need for more standardization is closely linked to a stronger encouragement of lateral relationships and less centralized processes. Centralized organizations that strongly relate to vertically driven information flows achieve coordination through the mediation of HQ (Tsai, 2002). However, the greater the control that the HQ exercises over its subsidiaries is, the less those subsidiaries are willing to share knowledge with each other. This becomes increasingly problematic considering the previously outlined need for unleashing innovation that responds to local market opportunities (Birkinshaw & Hood, 2001; Ghemawat, 2001). Consequently, with increasing firm size and greater distance between HQ and the subsidiaries, centralized mediation becomes more complex and riskier. In order to coordinate an increasingly complex and independent organization, firms need to aim for a more collaborative approach between HQ and subsidiaries and between subsidiaries themselves, backed up by a globally common set of practices and values (Busco et al., 2008; Moss Kanter, 2008; Hedlund, 1986; Perlmutter, 1969).

#### *Informal family culture as inhibiting factor of formalization*

The high degree of centralization at TransFo Ltd. is in line with previous research on FBs. Theory suggests that FBs are typically quite centralized organizations, which relates to their strong concentration of decision-influencing power within the family and their high degree of informality (Segaro et al., 2014; Hiebl, 2013; Speckbacher & Wentges, 2012). Due to the existence of an emotion-oriented family system (Stockmans et al., 2010), the creation and preservation of socioemotional wealth, long-term view and commitment, and informal strategy communication are prevalent FB features. These FB peculiarities in turn relate to a strong reliance on socio-ideological control. The importance of common values and the creation of an environment of support and trust allow FB managers to less focus on formal monitoring and disciplining than other types of organizations (Hiebl, 2013; Segaro, 2012; Zahra, 2003; McConaughy et al., 1998). By managing through culture, FB managers decrease the need for formal controls and standardized routines and procedures. The reliance on socio-ideological control requires the mediation of

corporate culture and values through HQ, which relates to a high degree of centralization with substantial planning and decision power located at HQ (Busco et al., 2008; Hedlund, 1986).

As previously outlined, this concentration of planning and decision power at the home base however represents great risks in the course of the internationalization of a FB. A high degree of centralization conflicts with the need for opportunity-seeking behavior at subsidiaries (Busco et al., 2008; Hedlund, 1986). In order to translate the firm-specific advantage to culturally and economically distant markets, there is a need of decentralized structures and the use of lateral relations, fostered by the formalization of routines and procedures (Busco et al., 2008; Birkinshaw & Hood, 2001; Ghemawat, 2001; Hedlund, 1986).

However, moving towards a more decentralized organization, backed up by the formalization of routines and procedures, conflicts with an important FB specific feature: the ambition to maintain control. Theory agrees that FBs have a natural desire to act conservative and keep control over all parts of the business (Kontinen & Ojala, 2010; Wen-Ting, 2012; Abdellatif et al., 2010). This conservatism stands in stark contrast to the idea of assigning decision-making authority to foreign subsidiaries. In the end, the fear of losing the family wealth makes FB managers prefer the status quo and miss out necessary innovations and investments for future success (Segaro et al., 2014). Furthermore, other FB peculiarities such as the creation and preservation of socioemotional wealth and informal strategy communication will at least challenge FB managers' willingness to foster necessary formalization processes and to adapt to diverse local environments (Segaro et al., 2014; Kontinen & Ojala, 2010). All in all, the ambition to maintain control, the existence of socioemotional wealth and informal strategy communication can represent inhibiting factors of formalization (Segaro et al., 2014). Since these FB specific features relate to a strong use of informal family culture as a control tool, one can state that informal family culture increases the challenge of FBs to manage the "global integration vs. local autonomy" dilemma. Family culture in this context refers to the part of corporate culture that relates to the emotion-oriented family system (Stockmans et al., 2010), which is expressed by informal strategy communication or the existence of socioemotional wealth.<sup>3</sup> Opportunity-seeking behavior within the MNO is limited by the fact that innovative ideas will only be considered if they involve the maintenance of family culture (Astrachan, 2010). This increase can be attributed to a unique fourth tension that is prevalent in FBs: the need for formalization vs. informal family culture.

#### *Managing the fourth tension: informal family culture vs. the need for formalization*

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<sup>3</sup> We acknowledge that family culture might also depend on national culture. In line with Hofstede (1980) we hypothesize that cultural origin of the owning family impacts family culture. Since this relation however is not central to our research purpose and cannot be investigated in this study's setting, we leave the discussion on the relationship between family and national culture to further research.

On the one hand, several socio-ideological controls at TransFo Ltd. serve as a "smoothing factor" between the opposite poles of the three tensions and especially its interplay with technocratic controls somewhat facilitates managing these three tensions. On the other hand, this informal family culture opens the field for another tension that challenges the integration of foreign subsidiaries. In the course of increasing internationalization, FBs must find a way to enable necessary formalization processes in order to translate the firm-specific advantage to distant markets (Busco et al. 2008; Birkinshaw & Hood, 2001; Ghemawat, 2001; Hedlund, 1986) without disrupting the socio-ideological structure.

At TransFo Ltd. key actors try to manage this tension by focusing on the interplay of technocratic and socio-ideological control. On the one hand, management at TransFo Ltd. has gradually increased the use of technocratic controls. As pointed out by several interviewees, with increasing internationalization and firm size convergence towards a set of standardized practices was fostered in the form of integration of IT systems, the existence of formal global meetings or the formalization of values. Furthermore, changes of the organizational structure towards more decentralization enabled organizational flexibility. On the other hand, informal family culture based on long-term orientation, support and trust remains an important control. At TransFo Ltd., the tension between the need for formalization and informal family culture is managed in a way that the implemented technocratic controls still reflect corporate culture. One could state that the formalization of the MCS is integrated in socio-ideological control rather than implemented separately.

The key aspect behind using the interplay of technocratic and socio-ideological as a mediator between formalization and informal family culture relies on the fact that FB specific features remain prevalent in the ecosystem of control without conflicting with formalization processes. Without the ability to maintain culture, formalization and the resulting organizational changes will most likely not be supported (Astrachan, 2010; Kontinen & Ojala, 2010). Consequently, MCS must assure that formalization does not go beyond the organization's ability to maintain corporate culture and to ensure that deeply rooted family values are actually accepted and lived within the whole organization. Management at FBs must design MCS that addresses a family's ambition to maintain control and simultaneously allow local adaption.

At TransFo Ltd., the ambition to maintain control relates to strong HQ dominance, which is reflected especially in the top-down dimension of the centralized ABP. In order to simultaneously allow local adaption management at TransFo Ltd. uses its culture of mutual support and trust. Instead of promoting local adaption by the means of individual local strategy formulation or by the implementation of locally different sets of KPIs, HQ devotes a lot of attention to communicating and reflecting centralized targets and planning through its bottom-up planning. Importantly, the firm's culture of mutual trust allows this bottom-up communication to be truly valued by HQ and impact the design of the MCS. Thus, subsidiaries somewhat informally participate in designing the MCS. This is in line with research of Dossi & Patelli (2008) who suggest that subsidiaries' participation in designing the MCS positively impact its

functionality and other recent management control studies that "emphasize the role of subtle socializing mechanisms to manage internal strategic differentiation and organizational complexity. (Dossi & Patelli, 2008, p. 143). Instead of formally setting individual targets and thereby conflicting with the idea of strong HQ dominance, subsidiaries at TransFo Ltd. rather participate by acting in an environment of support and trust that allows them to have a certain power of participation in a centralized organization. In line with Dossi & Patelli (2008) cooperative processes and shared values become effective control mechanisms for local adaption.

Furthermore, by emphasizing the importance of values, management at TransFo Ltd. minimizes the need for organizational change while simultaneously addressing the risk of commitment to the domestic business. Segaro et al. (2014) suggest that one important reason for the fact that family culture represents an inhibiting factor for MNO integration relates to the tendency of FBs to exhibit a culture of commitment to the domestic business. The more a FB is committed to the local environment, the less likely it will be able to adapt to an international context. By formalizing values that are interpreted locally but remain close to traditional HQ values and simultaneously emphasizing the importance of values within the whole organization, MCS at TransFo Ltd. reduce this risk of commitment without disrupting the socio-ideological structure.

In brief, management at TransFo Ltd. addresses the need for formalization by focusing on three mechanisms that soften the potential conflict between the formalization of the MCS and the adherence to informal family culture.

Firstly, main attributes of corporate culture are rather just *formalized* than newly created. Even though local adaptation of traditional, home-based beliefs and boundaries (cf. Simons, 1995) are encouraged, the use of the socio-ideological control of the importance of values reduces conflicts between standardization and informal family culture.

Secondly, a slow pace of formalization plays an important role. In line with theory on FB internationalization (Segaro, 2012; Zahra, 2003) the pace of organizational changes at TransFo Ltd. relates to gradual foreign commitment. Even though TransFo Ltd. has recently experienced dynamic sales growth in foreign markets, its foreign commitment with regard to translating the whole value chain to foreign markets stays rather static and resembles only gradual commitment to internationalization based on risk aversion and long-term orientation. This in turn allows a rather slow pace of organizational change and slow adaption of culture towards more formalization. This rather gradual than dynamic cultural adaptation might be necessary in order to ensure that formalization does not conflict with traditional family culture (Claver et al., 2009). Dynamic change processes might be completely neglected by the whole organization taking into consideration that family culture is deeply anchored in the business and in existence for generations. This again refers to the peculiarities of FBs previously outlined and

represents the most striking difference between internationalizing FBs and other multinational mid-sized firms and corporations (Claver et al., 2009; Zahra, 2003).

Thirdly, expatriates serve as a mediator between standardization and informal family culture. The use of expatriates fosters convergence throughout the MNO without the necessity to formalize. By using their home-based knowledge and emotional attachment to the firm, globally standardized processes and foreign employees' attachment to the home-based values are fostered (Abdellatif et al., 2010). The use of expatriates serves as a tool to enable organizational changes that allow local opportunity seeking and standardization while keeping in place socio-ideological control (Hedlund, 1986).

## **6 Concluding remarks**

This thesis answered the call of Busco et al. (2008) for more research at the interface of management control and international business research. It picked up their suggestion to analyze the role of informal controls in the context of integrating international subsidiaries. An especially suitable research object, that requires according to Speckbacher & Wentges (2012) also further academic attention, are FBs. Following these suggestions we contributed to research with a case study on a FB. This concluding chapter will be used to summarize our main findings and to highlight academic contribution, practical implications, limitations and suggestions for further research.

### **6.1 Main findings and contribution**

This paper has investigated the role and use of MCS in integrating MNOs in a FB setting with the help of a single company case study on TransFo Ltd., a German family owned and managed manufacturing company. The analysis of this topic was possible by using the theoretical MCS framework established by Alvesson & Kärreman (2004) that stresses the coexistence and interplay of technocratic and socio-ideological controls. The inclusion of socio-ideological and its interplay with technocratic control is especially important in a FB setting due to existence of FB specific features that impact the control environment of FBs such as informal strategy communication, family attachment and socioemotional wealth. Consequently, MCS used in FBs need to cover the substantial socio-ideological management practices to successfully integrate international subsidiaries.

Firstly, our empirics showed that both technocratic and socio-ideological controls coexist and together form a holistic MCS at TransFo Ltd. The three inherent control tensions formulated by Busco et al. (2008) are managed and somewhat balanced by the mutually supportive interplay of technocratic and socio-ideological control tools. Whereas several tools are strictly technocratic (e.g. the KPI scorecard or the use of IT tools) or socio-ideological (e.g. "Give and take philosophy" or attachment to the firm), others exhibit traits of both, technocratic and socio-ideological control. Corporate values for example are in fact documented and formally communicated but still informally lived and emotionally anchored in the organization.

Secondly, our case analysis revealed a fourth tension that is especially prevalent in FBs. As proven by academia, a need for formal structures and formalization emerges in businesses with increasing internationalization and maturity. FBs however are used to manage with a high degree of informality due to the existence of an emotion-oriented family system. FB managers therefore need to be aware of this tension and balance it by carefully introducing technocratic controls and at the same time ensuring that established socio-ideological controls remain powerful tools in the organization.

Overall, our paper adds to management control research by answering the call for more and diverse case studies in this field of global integration tensions. Furthermore we prove the importance of socio-ideological controls, which has long been neglected in terms of successful MCS design. The fourth tension that emerged from this research process shows that differences in corporate layout (such as ownership and size) can have a substantial impact on the right design of MCS.

Finally, our thesis provides empirical results that also seem to be original and insightful for FB literature. By conducting research at the interface of FB and management control, our paper answers several calls of FB researchers for qualitative investigations of control aspects prevalent in FBs in particular.

## **6.2 Practical applications**

Our study should not only contribute by complementing academic research but also by providing managerial implications for practice. With the main findings and especially the fourth tension for FBs in mind, we can advise FBs to heighten their awareness of the value of their socio-ideological controls. In our case we observed that they substantially contributed as a control mechanism. At the same time they should keep in mind that an internationalization process requires a certain degree of formalization and technocratic controls to manage multinational integration. Cultivating both will allow a FB to balance the fourth tension and to successfully integrate its global organization.

This paper might also have practical applications for non-FBs. Socio-ideological controls, as we learned in the case of FB, do have a strong effectiveness as a control mechanism. Since they are more inherent in FBs, their non-FBs counterparts might not have all of these mostly informal tools by nature. Still, non-FB managers can learn from the power of these socio-ideological controls and try with adequate measures to also establish them in their organization for the benefit of better integration.

## **6.3 Limitations and suggestions for further research**

Referring to our previously outlined methodological motivation we provided detailed argumentation for our choice of research design and case company. However, we acknowledge that this chosen approach brings some limitations to the generalizability of our findings with regard to the case of other FBs and the management control research in general. A main constraint of the study is the single case company approach. TransFo Ltd. might not be representative for the whole FB spectrum. Particularly the long

product life-cycle of its industry and products might influence the highlighted stability and longevity in the case company. Therefore, results in a fast-moving consumer goods environment might be different.

A further limitation to the validity of our findings might be the geographic and cultural influence of the HQ location. Some of the empirical findings could be traced back to German national culture rather than purely FB inherent attributes. We assume that in geographically and thus culturally different HQ locations various other control tools or similar tools with differing importance are managing the integration of international subsidiaries.

A potential extension to our research could thus be to conduct similar studies on companies with different HQ nationality and also to take various industries into account when designing further research. Hereby, the case of FBs represents a particular under-researched area. Only by extending our research sample the findings of this thesis can be brought to a high level of practical reliability.

Overall, we can repeat the call of Busco et al. (2008) for more investigation of control in global organizations since the macroeconomic environment for MNOs is always changing and will thus also impose new requirements and challenges on global organizations that surely alter their control mechanisms.

## 7 References

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## 8 Appendix

### 8.1 List of interviews

No	Position	Date	Communication medium	Language	Duration (mins)
1	Head of Controlling Regions	9-Sep-14	in person (HQ)	German	120
2	<i>see above</i>	3-Nov-14	in person (HQ)	German	60
3	Managing Director USA	17-Sep-14	in person (HQ)	English	60
4	Managing Director Canada	17-Sep-14	in person (HQ)	English	45
5	Managing Director Brazil	17-Sep-14	in person (HQ)	English	65
6	Manager Controlling Middle East India Africa	17-Sep-14	in person (HQ)	German	65
7	<i>see above</i>	2-Oct-14	telephone	German	60
8	Managing Director Sweden	15-Oct-14	in person (subsidiary)	English	90
9	Production Worker, Sweden	15-Oct-14	in person (subsidiary)	English	20
10	Production Manager, Sweden	15-Oct-14	in person (subsidiary)	English	30
11	Production Technician, Sweden	15-Oct-14	in person (subsidiary)	English	45
12	Director Sales Middle East India Africa	3-Nov-14	in person (HQ)	German	60
13	HR Manager International	3-Nov-14	in person (HQ)	German	45
14	Head of HR	3-Nov-14	in person (HQ)	German	70
15	Managing Director South Africa	5-Nov-14	telephone	English	40
16	Manager Finance & HR, South Africa	5-Nov-14	telephone	German	55
17	Controller, Brazil	10-Nov-14	telephone	English	50
18	Executive Director Finance (CFO) & Manager Controlling MEIA	13-Nov-14	in person (HQ)	German	60
19	General manager (CEO) and member of the owning family	13-Nov-14	in person (HQ)	German	60

### 8.2 Excerpt of questionnaire

#### Interview guide - Manager Controlling Middle East India Africa

##### Topic 1: Introduction & MCS (around 20 minutes)

*The information we would like to get here:*

- Concrete design and use of MCS
- Reception of MCS

*Questions:*

- **Introduction question:** In a few words, how does the planning process work (time frame, people & functions involved, pre-meeting preparations) and what is your role/contributions in this process?
- What is the main goal/purpose of the MCS system/KPIs?
- Who is participating in designing the MCS?
- Who has the main influence / decision right on setting up the KPIs?
- Is the amount of KPIs and indicators too few/right amount/too many? Why this?
- How much can the MCS also be seen as a control tool?
- How do you communicate the firm's main goals?
- What is the predominant source of strategy formulation? How is strategy formulation done? How is strategy cascaded down in the organization?
- How far can the corporate strategy be found in the MCS?

- How do you control for people's operating range?
- Do you have formal codes of conduct or corporate values?
- How do you stimulate learning and innovation?

## **Topic 2: International control challenges (around 20 minutes)**

*The information we would like to get here:*

- How MCS deals with control challenges that arise from international expansion
- The integration of cultural aspects in the MCS

*Questions:*

- How is strategy translated into actions at a local level?
- How much can each identity decide on actions and measures to implement strategy?
- How intense is the contact between you and staff in foreign regions?
- Who is your main communication partner at the foreign subsidiary?
- Do all foreign subsidiaries use the same communications systems/ERP system?
- To what extent would you say that HQ supports the exchange of knowledge, best practices, resources, and ideas between the different regions?
- Is there any formal process behind inter-regional communication?
- Could you please describe in a few words what the culture is at TransFo Ltd.? Is there any dominant group (engineers or controlling people)?
- How strong is the culture from HQ represented in the different regions?
- Is the existing, centralized MCS able to accommodate local differences? How (and which) are specific country circumstances taken care of?
- To what extent do regional performance indicators relate to overall global firm performance?

## **Topic 3: Specific features of family businesses (around 20 minutes)**

*The information we would like to get here:*

- Leadership and organizational aspects of TransFo Ltd. that are different to other bigger corporations

*Questions:*

- Since when are you working at TransFo Ltd. and did you have experience with family owned firms before?
- Can you think about main differences between TransFo Ltd. and competitors that are not family-owned?
- Do you think it is a big difference between working for a family firm and a non-family firm? How?
- Is the fact that the firm is family owned reflected in the MCS?
- What skills do you need to possess in order to succeed in your job?
- What characteristics do you think is expected from you by general management/HQ?
- Would there be any differences if you worked for a non-family owned company?

- Is (an in how far) the employee loyalty different in a family business? Could you give concrete examples?
- What are the key objectives of TransFo Ltd.? What are the core values? To what extent are you and your staff guided by these values?
- Literature sees family owners as risk averse (want to secure and pass heritage) and therefore intensively controlling. Do you see this as well in your company? Can you compare that to other non-family firms you worked at before?
- According to your experience, is the power/role of family managers different from the power/role of non-family managers?
- Would the internationalization path and strategy be different if it would not be a family owned company?
- **Final question:** Where do you see the biggest opportunities and the biggest challenges for TransFo Ltd. (as an internationally expanding family firm) in the future?

### 8.3 Excerpt of interview transcript

At the example of:

Telephone interview; October, 2nd, 2014: **Manager Controlling Middle East India Africa**

	Timespan, Topic	Content
1	1:30 - 11:29  His role in the planning process and as manager controlling regions	<p>Q: What is your role in the planning process?</p> <p>TransFo Ltd. has a regional structure (5 regions), he is responsible for IMEA (e.g. South Africa, UAE, Iran, India), most subsidiaries are sales- and service units; he makes sure that all corporate requirements (for audit but also internal reporting) are successfully completed in the subsidiaries; he ensures the integration (interface) into corporate reporting; he supports regions when needed in topics such as pricing, business development, M&amp;A activities (e.g. as recently in Sweden)</p> <p>Q: How is the planning process done? Are all KPIs defined by HQ? (from 6:30 on)</p> <p>Revenue and sales figures first come top-down (look at last years and market expectations), bottom-up planning starts simultaneously in regions by sales teams with support of HQ controller; “it’s an interactive process in which it is the regional managers’ task to translate the business into figures (9:40); HQ checks plausibility, e.g. “does staff planning correlate with expected revenues” and HQ gives “critical comments”, there is a lot of discussion, “it is an intense communication process”;</p> <p>Q: Do you visit the subsidiaries in their countries for this discussion?</p> <p>The small ones not that frequently; South-Africa quite large, face-to-face needed (at least once a year), “you won’t get their commitment and understanding when</p>



		only sitting at your own desk [and not traveling to them]”
2	11:30 – 12:25  His main contacts in the regions	Q: Who is your main contact in the regions?  Sales managers, managing directors and colleagues in the Finance departments, also external auditors;
3	12:26 – 16:11  Communication processes HQ-subs	Q: To what extent are communication and information exchange processes globally standardized (e.g. weekly calls, quarterly meetings)? How individual are they?  Some standardization e.g. in terms of reporting: P&L monthly report or sales report format are given and generally the same for all regions  But there is a lot of “informal exchange”, especially with colleagues (sales) located in Germany; for foreign subsidiaries there are fixed four fixed video calls; a unwritten guideline for regular visits of subsidiaries exists, it is not a formal process but part of his role description to assess and organize visits whenever he thinks it is needed
4	16:12 – 21:06  Information exchange	Q: We have learnt that not every region has access to SAP. In how far is that a communication issue?  Generally all subsidiaries have SAP information access (e.g. overview of customers and orders), however only the large subs that are fully integrated and use SAP as a full ERP. Smaller or newer subsidiaries such as Dubai use local software; we use a mapping to upload their data to the group SAP reporting; Integration is a continuous rollout process, also new subsidiaries should be integrated in the long run; in the end, we want to have a 100% ERP coverage inside the organization
5	21:07 – 31:07  Amount of KPIs and assessing staff performance	Q: Would you say that the KPI system has too many, right amount of or not enough KPIs?  Depends on the KPI area we are talking about; for sales controlling for instance it is very hard to measure the performance of sales people with revenue numbers; example: if our client in a certain market gets less orders they will also order less of our products, which is this not necessarily the fault of our sales personnel? Furthermore, some markets interrelate in some ways, so it is not always generally bad if one region's sales figures decline since sales could just have moved to another region and could thus mean good performance for both regional salespeople. Also the use of revenue per sales person as KPI does not work: some countries have relatively high sales numbers anyway whereas smaller countries talk about much smaller volumes.  It is really not measurable in a standardized way, usual sales KPIs are just not suitable and comparable for us, “success and failure always have several fathers, so how can we correctly allocate success and failure to a specific sales person?”  “In some markets we have almost 100% market share; if the overall market and thus our revenue declines, can this then be the fault of our sales guys?”

		<p>Q: So how do you then assess if the people do a good job?</p> <p>It is about knowing the people well and understanding how they work and if they do a good job; we can for example track the number of customer visits, documentation of proposals and how intensively our sales team tried to get into new projects; this is a very individual assessment → good knowledge of regions and personal contact is necessary to do a good assessment (he even knows some customers or is involved in negotiations)</p> <p>“We as controllers are quite deeply involved in the real business, which is probably a bit untypical”, we are not the typical controller but we rather support the business with our numbers (59mins)</p>
6	<p>31:08 – 39:05</p> <p>Company culture</p>	<p>Q: How do you experience culture within TransFo Ltd.? What is it like: more a controlling or an engineering culture?</p> <p>The current regional structure was established in 2008: collaboration between business and financial supporting units (e.g. controlling) work much closer together; “it is a real collaboration”</p> <p>The local structure of 5 regions make sense because Americas work culturally different from IMEA (India, Middle East, Africa)</p> <p>There are hundreds of engineers in this firm and only a few business people, so the proportions are pretty clear; controllers have to work for their standing, the title doesn’t help; if you develop trust, they will value your expertise and use your contribution</p> <p>Q: Are there formalized and communicated values and vision that can be used for steering employees' behavior and can employees understand what they are expected to do and how to do it?</p> <p>“Well, the formal value statement of TransFo Ltd. exists somewhere, there is a flyer somewhere; saying that TransFo Ltd. is reliable followed by a row of values and attributes how TransFo Ltd. is; this exists and they are not just invented; TransFo Ltd. and the business really works a bit like this; of course there are somewhat heroic sounding values; we will not achieve them in every single case (e.g. adherence to delivery date), sometimes also things go wrong here, but generally we stick to our values”</p>
7	<p>39:06 – 47:05</p> <p>Difference of TransFo Ltd. as family business to other firms</p> <p>Risk behavior/Opportunity seeking</p>	<p>We work income-oriented, however we do not have a quarterly pressure. We closely check our quarterly figures, however do not feel pressure from any side. This also brings us opportunities; e.g. Africa: now not profitable, maybe only in 10 years; but we can afford to be present there already there to be established when a boom starts in Africa, PE cannot afford to do that</p> <p>Q: Do you think that it makes a difference if TransFo Ltd. would not be family owned?</p> <p>It does; PE firms for example have a very clear return expectation and a limited time horizon, for a successful exit there needs to be a quick growth path; also for listed companies quarterly reporting is of high importance; this is very different in TransFo Ltd.; we are profit-oriented but we can still do things that we don’t know if they will pay off in the short run</p>

	<p>Trust</p> <p>Family manager</p>	<p>Example M&amp;A: we are known as a loyal firm and have good reputation, for M&amp;A we need to build up trust and we experienced that possible M&amp;A companies have a lot of trust in TransFo Ltd. The family manager is CEO since a long time and that brings trust, that would be different for short term oriented PE firms; this is a strength of family firms in general; to have a stable circle of shareholders helps the firm; that the family members are also part of the active management does not even play a big role</p> <p>Q: Are resources provided easier in TransFo Ltd. than in other firms?</p> <p>I was in South Africa last week; the management made clear that their growth is so rapid that they need expansion, also of office facilities; I mailed the CEO to get access to a high six digit Euro extra budget to take part in a bidding process for real estate this week; I have direct contact to the CEO and get his quick replies, in this case a “go” for extra budget” without any large approval process; trust contributes to this.</p> <p>However the flexibility decreased due to the steady growth path of TransFo Ltd., but still if there is something important for me I still have the choice to address the CEO directly; this “fast track” still exists (47-49mins)</p> <p>Q: Does the general manager have a different leadership style? (49-51 mins)</p> <p>Not in daily business, but the family is well known in local community and so he will probably not want to tell people in the city that he fired 100 people; there is a deep bond between city, company and family that influences also his decisions as CEO, for him a good image of the firm is important, also sustainability, we think longer than to next quarterly reporting;</p> <p>Also how we deal with the discrepancy between top-down and bottom-up planning is different in this firm</p>
8	<p>47:06 – 56:19</p> <p>Fluctuation / qualification for this firm and job</p> <p>Company culture</p>	<p>We have very little fluctuation and so the CEO knows the most people in the HQ quite well; I have direct access to him without going through all hierarchical levels; also he approaches me directly.</p> <p>Q: What special qualifications do this firm / this job require?</p> <p>The general requirements probably quite similar to any other business; on a personal level, too career focused (selfish) people do not fit, colleagues have a very high loyalty for the firm, the collaborate and by doing so enjoy their job, are satisfied and stay (→ low fluctuation)</p> <p>“Quitting the job was often times considered as an insult to the management” “you don’t leave, quitting is not an option”, this high loyalty is beneficial for the company</p>