Master Thesis
Management Accounting and Control Systems of Post-acquisition: The Case Study of Scania.

Authors: Esam Elsheikh, Marjorie Coulombel
Supervisor: Fredrik Karlsson
Examiner: Fredrik Karlsson
Term: VT18
Subject: Management accounting
Level: Advanced Level
Course code: 4FE24E
Summary

Background and Problem:
Merger and acquisitions (M&A) have become popular strategic business tactics for many corporations to achieve economies of scale and scope. M&A mostly entails changes of MACS for parent group and its subsidiaries to facilitate integration. Yet, the integration process can be very challenging, especially if we have, in theory, two incompatible MACS that are required to co-exist under one umbrella. We have two companies, VW (acquiring) and Scania (acquired), with two conflicting MACS, budget vs rolling forecast and lean.

Purpose:
This study aims to explore the tension between the two MACS in post-acquisition phase, from Scania perspective.

Methods:
Due to the exploratory nature of this study, the qualitative research method has been chosen, using Scania as a case study and relying on the abductive case study.

Empirics:
Empirical data was collected based on two semi-structures interviews with business controllers in the cab factory, Oskarshamn. Additionally, a seminar presented by the CFO.

Conclusion:
There are many differences between VW and Scania that have made MACS integration a real challenge, among other things, corporate culture, style of management, and working methods. The major consequences are the coexistence of dual conflicting MACS and its containment mechanisms (mainly decoupling). Challenges include, maintaining the good financial performance, and preserve Scania’s identity. The ultimate risk is that budget logic will move from top to down through the organizational hierarchy which can ruin lean methodologies. Opportunities include better cash and investment management, seal better deals with suppliers, capture synergy benefits, increase market share, get access to intellectual property rights, and the possibility to acquire a critical technology or capability that the company lacks.
Abstract

In 2014, Volkswagen (VW) became the only owner of Scania, acquiring full-control of the company (Pohl, 2017). Scania is the only truck manufacturer that has been able through long period of time to show black figures constantly. VW and Scania have two separate and well-established MACS, namely budgetary system at VW, while lean accounting and rolling forecast at Scania. After the acquisition, the two MACS have presumably been integrated to some extent, in one way or another. The differences in MACS can create barriers for integration and tension may arise. The broad topic of the thesis is management accounting and control challenges and consequences in post-acquisition phase. In previous research, scholars have identified a number of factors that are critical to facilitate the integration of MACS, among other things, the similarities regarding, corporate culture, style of management, and working methods. Otherwise, the subsidiary may choose to adopt one or more containment mechanisms to ease the tension between the two MACS. Our result is in line with Tillema and Van der Steen (2015) who have identified three mechanisms to deal with the tension, namely, colonizing, compromising, decoupling.
Acknowledgments

We would like to take the opportunity to thank our supervisor Fredrik Karlsson for his much-appreciated instructions, guidance and valuable insights in the process of writing this master thesis. Thanks for Jan Alpenberg for lean inspiration. We also would like to show our appreciation to the finance team at Scania Oskarshamn, namely, Hans Andersson, Alexander Adelgren, and Dimitris Karagianis. Special gratitude for Mariam Holmgren our contact person at Scania.

Växjö, Sweden
June 20, 2018

__________________________  __________________________
Esam Elsheikh                  Marjorie Coulombel
Table of Contents

ACKNOWLEDGMENTS ........................................................................................................ III

CHAPTER ONE: INTRODUCTION .................................................................................. 1

1.1 BACKGROUND ........................................................................................................ 1
  1.1.1 MACS in this Thesis .......................................................................................... 1
  1.1.2 M&A ................................................................................................................. 2
  1.1.3 Scania Acquisition ............................................................................................ 3

1.2 PROBLEMS DISCUSSION ...................................................................................... 4

1.3 PURPOSE ................................................................................................................. 6

1.4 KEY QUESTIONS ..................................................................................................... 7

CHAPTER TWO: METHODOLOGY ............................................................................... 8

2.1 CHARACTERISTICS OF THE STUDY .................................................................... 8

2.2 RESEARCH PHILOSOPHY ....................................................................................... 8

2.3 REASONING BEHIND THE STUDY ..................................................................... 9

2.4 RESEARCH DESIGN: ............................................................................................. 10
  2.4.1 The Case Study Strategy ................................................................................ 10
  2.4.2 The choice of the company ............................................................................. 11

2.5 THE RESEARCH PROCESS .................................................................................... 11
  2.5.1 Data collection ................................................................................................ 11
  2.5.2 Primary Data .................................................................................................... 12
  2.5.3 Secondary Data ................................................................................................ 14

2.6 DATA ANALYSIS .................................................................................................. 14

2.7 TRUSTWORTHINESS ............................................................................................. 15
  2.7.1 Validity ............................................................................................................. 15
  3.7.2 Reliability ......................................................................................................... 16

CHAPTER THREE: THEORETICAL FRAMEWORKS ..................................................... 17

3.1 CORPORATE GOVERNANCE AND CONTROL OF SUBSIDIARIES .................... 17
  3.1.1 Governing Subsidiaries ................................................................................... 17
    3.1.1.1 The multinational approach ...................................................................... 17
    3.1.1.2 The global approach ................................................................................ 18
    3.1.1.3 The transnational approach ...................................................................... 18
  3.1.2 Corporate governance in Sweden and Germany ............................................. 19
  3.1.3 Inter- organizational Control .......................................................................... 20

3.2 MERGER AND ACQUISITION ............................................................................. 21
  3.2.1 Merger and Acquisition Theories ................................................................... 21
  3.2.2 Driving forces for success and failure of M&A ............................................. 23

3.3 LEAN AND THE TENSION WITH TRADITIONAL BUDGETING ........................ 25
  3.3.1 Lean Philosophy in production ...................................................................... 25
  3.3.2 Lean implications for MACS .......................................................................... 26
  3.3.3 Lean Accounting ............................................................................................ 28
  3.3.4 Budgetary system ............................................................................................ 31
  3.3.5 Rolling forecast ............................................................................................... 36
  3.3.6 Rolling forecast Vs budget .............................................................................. 36
  3.3.7 The Control Package of Malmi & Brown (2008) .......................................... 38
List of figures

Figure (1) shows the Control Package framework of Malmi & Brown (2008) .......................38
Figure (2) shows our research model which is self-designed ...............................................49
Figure (3) is Chronology of the deals from Nachemson-Ekwall (2017) and shows VW takeover process of Scania 2000–2014, where the left column illustrates votes % (shares %), the middle row lists dates and activities and the right row mentions relevant board changes. .................................................................53
Figure (4) shows Scania’s strategy towards its customers, source: scania.com ...................56
Figure (5) is adapted from the annual report (2017) and shows that Scania has, a more or less, a stable operating margin during the last five years. ..................................................57
Figure (6) is self-designed based on the figures reported in the annual reports of the three companies. Overall, Scania has a better operating margin than the other firms ........57
Figure (7) shows Vertical Decoupling .................................................................................85

List of Tables

Table (1) shows information about the people interviewed (Chronology of interviews) ..........14
Chapter one: Introduction

Martin Winterkorn, Volkswagen’s chairman expressed his happiness after completing the deal by which VW has become the owner of Scania “This is good news for the Volkswagen Group as a whole, as we can now take the next logical and consistent step in our strategy to strengthen the operational integration between Scania, MAN and Volkswagen Commercial Vehicles to create a leading commercial vehicles group” (The New York Times, 2014). However, it is much easier to do a deal than to implement one to achieve full integration (Galpin and Herndon, 2007). In this thesis, we explore the tension between MACS in the post-acquisition phase and its implications.

1.1 Background

We have two main themes in the thesis, namely, MACS and merger and acquisition (M&A). We aim in this section to give the reader a brief background about this to develop a good understanding before approaching problematization and purpose sections.

1.1.1 MACS in this Thesis

The term MAC in the thesis is a combined term that includes both MA and management control. MA refers to “the process of identifying, measuring, accumulating, analysing, preparing, interpreting, and communicating information that helps managers fulfil organizational objectives” (Horngren, Sundem, and Stratton, 1996, p. 4). The role of MA is to “provide management with the accounting information that it needs in addition to that required for external statements” (Dearden, 1988, p. xiii, preface). While MC refers to “the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives” (Anthony, 1965, p.17). or as defined by Anthony and Govindarajan (1995, p.8) as “the process by which managers influence other members of the organization to implement the organizations strategies”.

The main argument behind using this term MAC is that it is more comprehensive embedding both MA and MC since it is hard to separate the two parts (Macintosh, 1994; Chenhall, 2003). In that sense, MACS can be seen as a combination of two systems that are part of the total accounting system, working together to achieve a sort of control in the organizations.
The literature is not consistent on this as a number of terms referring to MACS can be used interchangeably such as MAS, MCS, MA, MC, etc. Thus, to avoid confusion we discuss literature as it is; so, when we refer to an author we use the term that he/she used in research. Otherwise, we use the broad term of MACS throughout the thesis.

1.1.2 M&A

With growing globalization and the increased integration of the world economies, many corporations have been forced to re-define their strategies, structures and processes in light of the changing business arena (Busco, Giovannoni, and Riccaboni cited in Hopper, Northcott and Scapens, 2007). Merger and acquisitions (M&A) ¹ have become popular strategic business tactics for many corporations to achieve economies of scale and scope (Som, 2009). A company can follow a strategy of acquisitions² with several purposes including, but not limited to, achieve growth and increase market share, capture synergy, a desire to diversify into new products and markets, consolidate, get access to intellectual property rights and the possibility to acquire a critical technology or capability that the company lacks (Cartwright and Cooper, 1993; Gaughan, 2010). Many corporations have used M&A to extend their core businesses and improve their competitive position in global markets.

Despite the great expectation of value creation for the acquiring company, there are high risks and challenges associated with acquisitions, explained by its high failure rate to achieve the intended goals which were the stated reasons for the business deal (Child, Faulkner and Pitkethly, 2001). Empirical studies have shown that the failure rate is 50%-70% (Cartwright and Cooper, 1993; Hunt, 1990; Alton, Christensen, Rising and Waldeck, 2011; Marks and Mirvis, 2001). Several reasons behind this high failure rate have been identified in academia such as bad integration management of the post-acquisition process ³ and cultural incompatibility between firms (Cartwright, Robertson and Tytherleigh, 2007; Cartwright and Cooper, 1993; Datta, 1991; Nahavandi and Malekzadeh, 1988; Olie, 1994; Kotter, 1996; Schweiger and Very, 2001). In that sense, the great complexity of integrating two companies can reduce the chances of adding shareholder value (Camargos, 2008). Researchers stress that

---

¹ The two terms are often used together (M&A), yet acquisitions have increasingly become more common than mergers (Camargos, 2008).
² Acquisitions can be friendly or hostile. In the case of friendly acquisition, the managers of the target firm welcome the acquisition and are willing to be acquired. Alternatively, in a hostile acquisition, the target firm’s management does not want to be acquired. Hostile acquisitions are sometimes labelled hostile takeovers (Roberts, Wallace, and Moles, 2010).
³ Post-acquisition management refers to the process in which the acquirer adopts to promote changes (i.e. actions taken by management) in the acquired companies to control and integrate it (Child et al., 2001)
acquisition poses a big challenge for MA and control systems (MACS), especially when the subsidiary is not existed in the country where the parent group is located and/or there are different cultures and/or management styles (Kamminga and Van der Meer-Kooistra, 2007).

Recently, there has been a focus on the horizontal acquisitions, in which acquisitions occur between competing firms in the same industry to create cost and revenue synergies through integration (DePamphilis, 2012; Gleibs, Mummendey, et al. 2008; Nikolaou et al., 2011; Robbins and Stylianou, 1999; Schraeder and Self, 2003; Jansen, 2001).

1.1.3 Scania Acquisition

According to Nachemson-Ekwall (2012), during the period of (1999–2014), large European corporate actors from Germany and Sweden engaged in a fierce cross-border hostile takeover fight. The battle for control over Scania involved the German giants VW, MAN, Porsche (with a stake in state-controlled VW) as well as the Swedish titans’ Volvo and Investor, along with institutional investors, corporate advisors like investment banks and law firms. This battle has ended up with the German giant VW gaining control over both MAN and Scania, while Volvo has merged with the vehicle division of French state-controlled Renault after failing to acquire Scania and sold its shares to VW. In particular, in May 2014, VW Group has acquired Scania, one of the most successful companies in truck industry.

Before its takeover bid, Volkswagen has a long history with Scania as an old ally and a key shareholder. In 2000, Wolfsburg-based VW started the long journey towards the full control over Scania by investing considerably in the company. VW CEO Dr Piëch at the time expressed his content with the new investment, referring to Scania as the foremost heavy vehicle manufacturer in the world and “the king of the roads” (Nachemson-Ekwall, 2015, p. 41). Furthermore, before the full acquisition, the board of directors at Scania included a number of directors with ties to the German automaker, including its chairman since 2007, Martin Winterkorn, who is also the chairman of VW (Scania.com). During the period of (1999–2014), until before the acquisition, Scania refused most of the attempts of VW to create a synergy effect, sticking with its cautious approach, stand-alone strategy as a niche player. Therefore, despite the old relationship, VW and Scania have never engaged in a full cooperation activities. This probably was a major trigger to VW to takeover Scania. It seems that VW was all the time planning to takeover Scania. For instance, after the acquisition of MAN in 2011, VW has tried to strengthen the relationship between Scania and MAN to create a sort of synergy. The takeover was a strategic move by VW that intended to facilitate full integration with Scania.
According to the Wall Street Journal May 13, 2014, the acquisition of Scania by VW was a response to increasing competition from new, less expensive Asian rivals. VW thought that full integration would eliminate restrictions on its ability to engage in joint projects, which in turn would allow VW to compete better with European rivals like Volvo and Daimler. Martin Winterkorn, Volkswagen’s chairman, said in a statement “This is good news for the Volkswagen Group as a whole, as we can now take the next logical and consistent step in our strategy to strengthen the operational integration between Scania, MAN and Volkswagen Commercial Vehicles to create a leading commercial vehicles group” (The New York Times, 13 May, 2014). The purpose was to integrate the three truck makers (VW, Scania, and MAN) on a single manufacturing platform to cut annual costs by €650 million ($890.7 million) and to make the three brands sharing technology and core components. Put simply, to become more competitive by utilizing the synergy effect of the three brands. The CEO of VW, Martin Winterkorn said in Hannover "The Volkswagen group has repeatedly demonstrated how you can integrate strong brands and still allow them to have freedom and autonomy". Also, he said "That's why I am convinced that everyone is going to benefit from an integrated commercial vehicle group" (WSJ, 2014). It was expected that the full integration would achieve its objectives, given the fact that VW was already controlling both supervisory boards and hence had sufficient operational control and influence over both MAN and Scania.

1.2 Problems Discussion

As touched upon before, acquisitions mostly entail change and integration of MACS for parent group and its subsidiaries. The change might be very challenging but necessary, especially, if the economic performance of the new subsidiary is not that good. So, homogeneity is often fitted to that of the stronger and commanding position (Chenhall, 2003; Schraeder and Self, 2003; Shanley and Gorrea, 1992). But how will the parent group deal with the situation if the subsidiary is often considered as a benchmark in the industry? We probably expect a more complex situation.

This describes the situation that has been emerged in 2014 when Volkswagen (VW) became the only owner of Scania, acquiring full-control of the company (Pohl, 2017). Scania is one of the most profitable manufacturer of heavy trucks and the company since day one has been at the forefront of the transport industry (Scania annual report, 2017). Over the years Scania was able to maintain profitability above its peer groups. Scania is the only truck manufacturer that has been able through long period of time to show black figures constantly. Scania uses lean
philosophy in production, management, accounting, and control. In 1997, Scania has abolished budgetary system centrally \(^4\) and replaced it by rolling forecasts (Anjou, 2008), also called continuous planning. Scania has the belief that budget is a bad control tool and that rolling forecast is a more adaptive approach that fits lean and enables them to obtain a better position in responding to market uncertainty (Neely, Bourne and Adams, 2003). While, VW is more traditional, relying mainly on budgetary control system \(^5\) as an annual plan for resource allocations, evaluate performance, and detect deviations.

In previous research, lean thinking and traditional control systems, such as budget, have been seen as incompatible (see Maskell et al., 2012). Traditional control systems have been regarded as harmful and “the number one enemy” of lean (Johnson, 2006, p.6). Also, there is a wide agreement that traditional control systems are not able to provide support for innovative production technologies, including JIT and TQM (Brimson, 1987; Brimson and Berliner, 1987; Johnson and Kaplan, 1987; and Kaplan, 1984; 1989). Rather, these techniques need a more flexible approach, with a limited number of KPIs, such as rolling forecast which, unlike the static traditional budgetary system, can support an organization to find opportunities amid persistent volatility and intense competition.

Therefore, the situation after acquisition has resulted in we two different MACS that presumably have been integrated to some extent, in one way or another, we do not know. The differences in MACS can create barriers for integration and tension may arise. Furthermore, financial control, using the traditional budgetary system, means that VW will probably rely on the traditional financial metrics when evaluating the performance of Scania. This may have major implications for Scania because it can force top management to change their mind-set by giving first priority to meet the financial targets to make VW happy, rather than focusing on strategic sustainable approach. If so, there is a risk that this traditional perspective will likely move from top to down through the organizational hierarchy (Tillema and Van der Steen, 2015). So, the discrepancy between the two rationales, with different concepts of control, is likely to give rise to a conflict that can result in a hindrance to the successful implementation of lean at Scania (ibid). Finding the right balance between these different concepts of control, to the extent that lean production itself will not be challenged, seems to be problematic.

Thus, generally speaking, a well-managed post-acquisition process is needed to get the best out of the two rationales. A poorly managed post-acquisition process may cause uncertainty

\(^4\) However, Single production units may still use budget if they think it suits the individual unit operations.

\(^5\) This is not to say that VW does not use rolling forecast but rather that the primary control tool is annual budget.
and anxiety for employees and hence potential damaging actions within the organizations (Angwin, 2007). Given the high failure rate of acquisition, there is a need for more research in this area. Despite, the large body of literature addressing acquisitions and the significance of a well-managed post-acquisition process, less is known about the different dimensions (social, cultural, technical, etc.) of MACS during the integration after acquisition, due to the lack of research in this area in a straightforward manner (i.e. Weber and Drori, 2011; Granlund, 2003; Jones, 1985a and 1986). It has been argued that MACS can play a significant role as a facilitator of integration in corporate takeovers because with the growing size of the firm, control problems increased as different corporate cultures collide (Granlund, 2003). So, there is a need for coherent, group-wide MACS to avoid such problems, establish trust between the companies involved, and facilitate integration (Mayo and Hadaway, 1994). Thus, understanding the implications for MACS after acquisition is important for theoretical and practical reasons: First, this knowledge can help researchers bridge the gap in literature; Second, this knowledge can also help practitioners develop insight how to manage MACS after acquisition.

We see the acquisition of Scania by VW as a very interesting area of research due to the following reasons:

- Taking into account the increased challenges implied in acquisitions across borders. One may expect complicated coordination of operations between VW and Scania, which means that high demands are placed on both strategy and MACS. This consistent with the idiom “It is much easier to do a deal than to implement one” (Galpin and Herndon, 2007).
- VW and Scania have two separate and well-established MACS, namely budgetary system at VW, while lean accounting and rolling forecast at Scania.
- We do not have a clear understanding of the implications of the combined use of different control systems in lean organizations (Tillema and Van der Steen, 2015). There is also a lack of knowledge about the role of traditional accounting-based control systems within lean organizations (ibid).

1.3 Purpose

The broad topic of the thesis is management accounting and control challenges in post-acquisition phase. We rely on Scania as a case study to develop insights on this topic, through describing and analysing the integration process of the two MACS, and the implications for management and employees at Scania. Most of the previous research on post-acquisition have
dealt with the topic from the parent company perspective. Our research is unique, taking a
different stance, through discussing the topic from the subsidiary perspective. Thus, the purpose
of the thesis is to explore how Scania is managing the post-acquisition phase to contain the
potential conflict between the two rationales (lean and rolling forecast on the one side, and
traditional budgetary system on the other side). There is a clear gap in literature regarding this
area of research and hence this thesis can increase the knowledge about this topic and contribute
to bridge the gap in literature.

1.4 Key Questions

Taking into account the different issues that have been highlighted in the previous sections, and
drawing on Scania as a case study, this paper has explanatory and processual nature and hence
aims to explore and address the following research questions:

1. How has Scania managed the post-acquisition phase to contain the potential conflict
   between lean and rolling forecast on the one side, and classical budgetary control
   system, on the other side? Consequences, challenges, and opportunities of post-
   acquisition?

2. Identify and analyse different strategies and containment mechanisms that have been
   used in this integration process of MACS?
Chapter two: Methodology

The starting point of this thesis was in September, 2017 when we had the opportunity to visit the cap factory of Scania in Oskarshamn, Sweden, with a group of master students. During the visit, we attended a seminar in which the CFO, Hans Andersson presented how Scania works with management accounting and control. The CFO touched the point of the new ownership of VW and its impact on management accounting and control in Scania. We have been inspired by this and have decided to explore this area more deeply. In this chapter, we will outline the research purpose, philosophy and approach, and the methodological choice and research strategy. The use of semi-structured interview questions, secondary documentary data, data analysis and the reliability and validity of the study are considered as well.

2.1 Characteristics of the Study

We chose the methods that are in line with our research key questions presented in chapter one. Because of the exploratory nature of this study, the qualitative research method has been chosen in this paper, which is consistent with Bergy (2009, p. 2) who argue that “…the fruitfulness and often the greater depth of understanding we can derive from qualitative procedures”. Exploratory research is a useful way to ask open questions and gain deep insights and develop a good understanding of a specific problem area. Exploratory research has a flexible nature and hence allows for change of direction in the project when it is needed (Saunders, Lewis, Thomhill, 2012). Based on our literature review and prior research done in this area of post-acquisition MACS, the use of exploratory research appears to be the best fit for the thesis.

2.2 Research Philosophy

In this study, we adopt a pragmatism philosophy to give us flexibility and align the research philosophy with the research questions (Saunders et al, 2012). Accordingly, when collecting and analyzing the data, we used these interpretations which make the most sense and are consistent with our research questions. Furthermore, we used interpretivism view to allow us to reflect on the significance of socially constructed and subjective points of view (ibid). we believe that this approach is suitable to the thesis because we study the relationship between companies (people), parent and subsidiary. Our case study contains detailed, complex, and unique information and hence interpretivism enables us to interpret the answers from the respondents, taking into account the context in which they are presented, allowing a more in-depth analysis. This is in line with Saunders et al. (2012), who argued that interpretivist approach is appropriate choice when studying organizational behavior in qualitative manner.
In line with interpretivist stance, we adopted a subjectivism approach as an ontological position. We believe that this is necessary because it enables us to construct a view about the nature of real-life phenomenon, being studied (Saunders et al, 2012). Subjectivism allowed us to develop an understanding of the MACS in the post-acquisition phase as something subjectively constructed through the meanings and conceptions developed socially which can differ depending on the contextual factors. Thus, deploying interpretivism and subjectivism allowed us to perceive and interpret the meanings behind a socially constructed phenomenon, the tension between MACS in the post-acquisition phase, particularly in VW and Scania acquisition.

2.3 Reasoning Behind the Study

In this thesis, we chose to use the abductive approach that allows us to move back and forth between the empirical findings and theory (Saunders et al., 2012). This approach is a hybrid as it has features of both deductive and inductive approach. The main goal of abductive approach is to facilitate theories and empirical situation, that examines theories, empirical findings and analysis constantly (Dubois & Gadde, 2002). Abductive approach draws on the strengths of the different methods applied and offers the potential for deeper understandings of the complex phenomenon. The abductive case study will give us the opportunity to return to the theory even after empirical materials will be collected. (Alvesson and Sköldberg, 1994). This is consistent with Saunders et al (2012) who argue that abductive studies can accommodate changes due to unanticipated findings and theoretical insights acquired during the project. Hence, we started our study by making a literature review before conducting the interviews. This is to develop a good understanding, gain enough insights regarding the topic, and spot gaps in the literature. As such, before conducting our interviews, we had in mind some theories and hypotheses that this project should cover, however we kept the freedom of retrospectively formulating new hypotheses to fit data. Thus, new areas have been emerged from the interviews which forced us to go back to the literature to investigate and explore such areas that were not addressed before. It was just after our empirical findings were done that we could adapt the theoretical frameworks discussed in the thesis to fit the findings. Therefore, we believe that abductive approach would better serve the purpose of our study as it gave us the needed flexibility to conduct our research.
2.4 Research Design:

2.4.1 The Case Study Strategy

Keeping in mind, the exploratory nature of this study and the significance of the context in which the phenomenon happens, we chose case study approach to develop an understanding of a current real-life experience. This is in accordance with Stake (1995) who argued that case study is the favored approach in exploratory studies, because it is difficult for a researcher to focus on a specific topic and know what is more relevant beforehand. Accordingly, a case study is an option to develop an understanding of the tension of MACS in post-acquisition phase.

According to Bryman and Bell (2015) the case study design involves detailed and intensive analysis of a single or few cases where the complexity of the nature of the case is sincerely studied. A case study entails the detailed and intensive analysis of a single case, allowing several aspects to be considered in the analysis (Bryman and Bell, 2015; Eisenhardt, 1989). It has been used in many well-known studies within the field of business and management research. Furthermore, we understand the limitations of conducting a research based on just one case study as it will be hard to defend the generalizability of the study. Nevertheless, having one case makes it possible to observe and analyze a phenomenon that few have considered before (Saunders et al., 2012). The purpose of the case study is not to generalize the findings to other cases or larger populations (Bryman and Bell, 2015). Rather, the goal is to expand and generalize theories, (analytic generalization), and not to enumerate frequencies, (statistical generalization), (Yin, 2003).

Case study research, through reports of past studies, allows the exploration and understanding of complex issues. It enables a researcher to closely examine the data within a specific context. In most cases, a case study method selects a small geographical area or a very limited number of individuals as the subjects of study. Therefore, in the thesis, we have chosen to conduct a case study which is appropriate in studies whose aim is to understand the complexity of a phenomenon within its context. We need to understand the tension between MACS and its implications in post-acquisition in Scania and VW. A case study approach is very popular and widely used (Eisenhardt and Graebner, 2007). Additionally, data collected from case study using semi-structured interviews can be studied within limited time framework (Robson, 2002).
2.4.2 The choice of the company

According to Stake (1995), the key success while selecting cases for research is the anticipation of the opportunity to learn. The researcher should select the cases where he/she expect learning will be most. Since, we chose to investigate MACS in post-acquisition phase, Scania is a very interesting case that fulfils the research purpose for the following reasons:

1. Scania and VW are big companies and the integration of large companies, as compared to integration of smaller companies, is believed to more likely entail ‘richer’ integration dynamics and to cover more issues and aspects.

2. We have two extremes that need to conciliate; traditional MA systems in VW (budgeting), as a parent company, and innovative lean accounting in Scania, as a subsidiary.

3. We chose to explore the tension from the subsidiary perspective and Scania meets this condition so it is interesting to explore how the company has dealt with the potential tension that may result from inconsistencies between such concepts to ensure that lean thinking continued.

4. For practical reasons such as geographical disparities, since it is hard to travel to Germany given such limited timeframe.

5. We argue that four years after the acquisition is enough time to learn from the experience. We expect that both companies have now developed a better understanding for challenges and opportunities experienced. Over the last four years also, we have abundant of articles analysing the VW-Scania acquisition case. Thus, we have abundant of data both primary and secondary.

2.5 The Research Process

2.5.1 Data collection

In this thesis both primary and secondary data techniques have been used to collected the data and gain knowledge about the topic. Relying on this mixture of primary and secondary data allowed us to answer the research questions and reach the research objectives in a structured and reliable way. Ghauri and Grønhaug (2005) state that when using a special technique for collecting data the collecting data can be either primary or secondary. Bryman and Bell (2015) goes on by saying that primary data is information that the researcher gathers
on his own, for instance by using interviews, questionnaires and tests. On the other hand, secondary data refers to the data such as literature, documents and articles that is collected by other researchers and institutions. The primary data has been collected through semi-structured interviews, while the secondary data has been critically evaluated and collected from books, scientific articles, company reports, and internet sources. We chose a qualitative method approach to collect the data in the thesis which resulted in non-numerical data (Saunders et al, 2012). A qualitative study does not use quantified data to reach the results and hence the skill, experience, and perception of the researcher play a significant role to determine the results and quality of the data analysis (Ghauri and Grønhaug, 2005). A qualitative study is often characterized by interviews and the use of categorizing data to gain an in-depth understanding of how MACS in post-acquisition interact. We want to develop an understanding of the context in which Scania operates and the reasons behind the answers of the participants (Saunders et al, 2012). This corresponds to the qualitative approach (ibid) and thus we believe that the qualitative approach is the best approach to address and fulfill the purpose of this study.

2.5.2 Primary Data

Due to the magnitude of the study, there is a need to collect as much significant data as possible from the selected interviewees in order to be able to understand what happened in Scania after the acquisition. It has been decided to use qualitative interviews in order to collect primary data. Qualitative interviewing is quite different in many aspects in comparison with interviewing in quantitative research, for instance, qualitative interviewing is generally much less structured (Bryman and Bell, 2015). Furthermore, qualitative interviewing is usually seen as being flexible; the interviewer adjusts and responds to the interviewee, there is a great interest in the respondents’ point of view, detailed and rich answers are desired. There is an agreement that face-to-face interviews are highly preferable over email and phone interviews (Gillham, 2008). According to the same author there are a number of criteria that should be met for a conversation to be classified as an interview. The core aspects are formulating and asking open questions to the interviewee to give him/her the possibility to answer the questions the way he/she feels most suitable. Open questions give the interviewee the opportunity to elaborate and give more details which results into more in depth insights and better understanding. The researcher in turn should be patient and give the interviewee the time for development behind the questions. Afterwards, follow up questions can be added and asked if the researcher realize that the relevant issues are not clarified. The relation between the interviewer and the interviewee should be responsive
or interactive to provide room for adjustments and further issues (ibid). The description above is in line with the so-called semi-structured interview approach, which we have adopted in the thesis. So, the reason for choosing the semi-structured interview technique is essentially due to our aim to encourage the interviewees to freely discuss their own opinion regarding the area under research. This method with open-ended questions allowed us to adjust our questions when it was needed. The semi-structured interview is neither a free conversation nor a highly structured questionnaire. Semi-structured interviews provide the opportunity to regulate the order of the questions and the respondents have the possibility to expand their ideas and speak in great detail about diverse subjects rather than relying only on concepts and questions defined in advance of the interview. In other words, semi-structured interviews are more flexible than standardized methods such as the structured interview or survey (ibid).

Thus, primary has been collected through semi-structured face to face interviews with business controllers and the CFO at Scania Oskarshamn. The interview is probably the most widely employed method in qualitative research (Bryman and Bell, 2015). We established a set of questions as an interview guide to enable the interviewee to have a great deal of leeway in how to reply to questions which might not follow on exactly in the way outlined. In that sense, the interview process was flexible where the emphasis was on how the interviewees frames and understands issues and what the interviewees view as important in explaining and understanding. The length of the interviews varies among the interviewees, yet we have more than two hours for each conducted interview. While the seminar was more than one hour as well.

To explain why we have chosen to conduct interviews with members of the finance team in Scania, it is important to know that there are several important factors that should be considered in post-acquisition integration because they can facilitate the integration or break it. Among these factors, the role of the finance team which has been emphasized in designing of a new organization/MACS (Colman et al., 2011). Most of research emphasize the significant role of top management in M&A and organizational change processes, for addressing this we attend a seminar presenting by the CFO at Scania. Moreover, controllers are assumed to be very influential in the designing and implementing of the new organizational MACS and hence should be interviewed. So, we believe that we have managed to conduct a proper number of interviews with interesting people which give us a very good understanding to the situation post-acquisition. The table blew shows gives more details about that.
Table (1) shows information about the people interviewed (Chronology of interviews)

<table>
<thead>
<tr>
<th>Name</th>
<th>Area</th>
<th>Position</th>
<th>start</th>
<th>Length</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexander Adelgren</td>
<td>Oskarshamn</td>
<td>Business Controller</td>
<td>2015</td>
<td>2 h and 10 m (interview)</td>
<td>018-05-18</td>
</tr>
<tr>
<td>Dimitris Karagianis</td>
<td>Oskarshamn</td>
<td>Business Controller.</td>
<td>2013</td>
<td>2 h and 34 m (interview)</td>
<td>018-05-18</td>
</tr>
<tr>
<td>Hans Andersson</td>
<td>Oskarshamn</td>
<td>CFO &amp; Chief Accountant</td>
<td>2017</td>
<td>1 h and 9 m (seminar)</td>
<td>017-09-22</td>
</tr>
</tbody>
</table>

2.5.3 Secondary Data

In the thesis, we also used data that was mainly collected to serve another purpose i.e. secondary data. Secondary data was helpful to gain additional information, knowledge, and interpretations. We relied mainly on documentary data that can consist of text and non-text materials such as news articles, videos, company website, correspondence (e-mails), and company reports. In that sense, the secondary data helped us to triangulate findings from the primary data (Saunders et al, 2012). To be able to collect the secondary data, we used, among other things, the Linne University library website, automotive news portals, Google Scholar, and other search engines.

2.6 Data analysis

There is no specific way must be used in analyzing qualitative data (Meyer, 2001) but rather we have guidelines that can be useful in doing so. This is consistent with Hoepfl (1997) who argued that creativity of the researcher plays a pivotal role when analyzing raw data into logical, relevant, and worthwhile categories. Given that qualitative research method is interactive and interrelated between the qualitative data collection and analysis, we will collect, analyze, and interpret the data as we proceed in our empirics (Saunders et al, 2012).

We started the interviews by giving a brief introduction to the interviewees about the interviews structure and purpose. The data was well-prepared before analyzing. As one interview and the seminar have been recorded based upon the permission of the people being interviewed. One of the business controllers refused the idea of recording due to the confidentiality of the topic. The first step in preparing the data was by transcribing the records into computer files right after the interviews, paying so much attention to language (Burnard, 2004). Afterwards, the transcriptions were sent to the interviewees to ensure accuracy and open the door for adjustments based on the feedback from the interviewees. In one occasion, we
contact one of the business controllers asking for a specific clarification and we got sufficient response about that. After ensuring misinterpretation of the data, we started the process of the data reduction. Data reduction comprises summarizing, clarification of the data collected, and intentionally focusing on specific parts (Meyer, 2001). Afterwards, the data was divided into a number of topics where paragraphs and sentences belong to specific context were grouped together.

In the thesis, we used four steps to analyze the data, namely, categorizing data, recognizing relationships, interpretation of the data, and analysis of the data. Categorizing is self-explained as it entails identifying a number of categories as some parts of the data was assigned to a specific category. The categories were established to serve the research objectives and purpose. The categories were also classified based on the literature consulted in this study, using the terms that have been discussed in literature (Saunders et al, 2012). Regarding to recognizing relationship, it is a process of identifying the key themes, patterns, and relationships between the categories. During this process, we tried to test the linkage between these categories through find alternative explanations (ibid). Afterwards, in the findings part of the thesis, we proceeded to interpret the data to prepare ourselves to the next chapter of the data analysis. Yet, minimal interpretations have been used in the findings as we chose to save this to the analysis chapter. Then in the data analysis chapter, we connected the empirical findings with the literature trying to highlight such areas that have been neglected in literature while have been emphasized in our empirics (ibid).

2.7 Trustworthiness

We strive in the thesis for a high degree of trustworthiness as we adopted a cautious approach on selecting which criteria would be used in our study. To evaluate the trustworthiness of the research, we need to assess the validity and reliability (Lincoln & Guba, 1985).

2.7.1 Validity

Validity can be divided into internal and external validity (Lincoln & Guba, 1985). Regarding internal validity, it denotes the quality of the data in terms of accuracy to represent reality (Yin, 2009). We made a number of procedures to ensure the quality of the data. As we discussed before in this chapter, the transcriptions of the interviewees were sent to the controllers to be revised in order to increase the validity and to decrease the possibilities of using the authors
own interpretation of the data (Ellram, 1996). At the same time, to give the controllers the opportunity to correct/adjust/add (ibid). Furthermore, we were keen to triangulate the data collected by the interviewees with other sources to a certain extent, using, for example, the company’s website and the Swedish and international media which is full of news about Scania in relation to VW. A further step has been taken to ensure data accuracy as we asked for some clarifications and supplementary of the data via e-mail after conducting the interviews. We got a good response in return that makes things even clearer for us.

Regarding the external validity, it has to do with the generalization of the study to other contexts (Yin, 2009). A research based on just one case study makes it difficult to claim that our study is representative. However, as we mentioned before, the purpose of the case study is not to generalize the findings to other cases or larger populations (Bryman and Bell, 2007). Rather, the goal is to expand and generalize theories, (analytic generalization), and not to enumerate frequencies, (statistical generalization), (Yin, 2003). Hence, our theoretical contributions may be applicable in other areas and industries (Bryman and Bell, 2007). So, we prefer to use the term transferability which is suggested by Lincoln and Guba (1985). We tried our best to enhance the chance of transferability in the thesis through providing as much details as possible about the contexts. Nevertheless, Scania is a very unique case that can make it hard for the knowledge presented in this study to be transferred to other cases.

3.7.2 Reliability

Reliability has to deal with the case if other researchers collect and analyze the data then they will get the same findings (Yin, 2009). We believe that if other researchers conduct a similar study, they are more likely to get the same findings. One issue that must be considered in this regard is that the Scania-VW relationship is dynamic and changes could take place anytime, for example by formulating a new group of truck/bus, as rumored, that will be listed separately. This in turn will entails major changes. Moreover, the relation is more likely to develop with time, so it is hard to say that a future study will reach the same conclusions.
3.1 Corporate governance and control of subsidiaries

The aim is to give the reader a good understanding for how a subsidiary is governed and controlled. We start the section by discussing a number of approaches that are used to govern subsidiaries. Then we proceed by explaining the differences between corporate governance in Sweden and Germany. Finally, we discuss inter-organizational control strategies.

3.1.1 Governing Subsidiaries

Corporate headquarters’ control over the subsidiaries has traditionally been seen as a central integrating function (Chang and Taylor, 1999), in which, the headquarter have a superior authority to judge subordinate activities. Hence, the headquarter–subsidiary relationship have traditionally been viewed as a vertical relation (Mouritsen, 1995). However, and as a response to business environmental turbulence and uncertainty, hierarchal vertical relations have been increasingly replaced by more complex integration mechanisms with different patterns of centralization and decentralization that give organizations greater flexibility i.e. lateral relations with more dispersion to power and authority (Meer-Kooistra and Scapens, 2002).

According to Collin (2006), structure and strategy of an organization form a significant governance mechanism. The structure can be adjusted to direct the behaviour of the organisational actors toward the implementation of the intended strategy and hence goal congruence. Three different approaches have been emerged from the literature on global organizations strategies and their influence on structures; multinational, global, and transnational (Bartlett and Ghoshal, 1993; Dent, 1996). One of these approaches may be dominant in an organization, yet most global organizations often combine elements of these three approaches (Busco, Giovannoni, and Riccaboni cited in Hopper et al., 2007). The three approaches have implications for significant ideas such as centralization versus decentralization, standardization versus differentiation, strategy integration versus local responsiveness, and vertical versus lateral relations.

3.1.1.1 The multinational approach

According to this approach an organization’s worldwide subsidiaries have different and nationally responsive strategies as well as variety of structures. The main characteristics imply: high subsidiary autonomy and decentralization; high levels of localization\(^6\) where local

\(^6\) Localization and globalization have usually been seen as opposites (see for example, Robertson, 1995).
practices are preserved and hence benefits of knowledge sharing may not secured; vertical relationships are to great extent administrative and financial. This approach is a host-country oriented (polycentric), emphasizing the significance of preserving the “unique” local culture of the host country. Hence, it is important to keep local practices in the subsidiaries as they are without change relying on financial control to bind the whole organization together (ibid).

3.1.1.2 The global approach

According to this approach global strategies incorporate worldwide and subsidiaries must implement functional strategies set at headquarters. Products and practices are, to great extent, standardized alongside an increased centralization of functions and decision-making authority. The approach is based on the premises that cross-national tastes and preferences are similar and can be satisfied by standardized. It has an ethnocentric attitude that reproduces the culture of the country that is host to the headquarters, believing that this culture is universally applicable. So, here the focus is on preserving and globalizing the parent company’s identity; ‘global’ practices prevail and parent group culture is normally imposed on subsidiaries. Moreover, the parent company’s business model, core beliefs and attitudes must be transplanted to subsidiaries. Yet, this can be challenging and many significant issues need to be properly considered and addressed, for instance, local resistance to global strategies, and responsiveness to local customers and adaptation to local regulations (ibid).

3.1.1.3 The transnational approach

In this approach, national responsiveness and worldwide learning are managed simultaneously to meet the need for greater flexibility and decentralization. To enable this, local units are integrated in a complex network of products, financial resources, technology, skills, knowledge, ideas and people. While resources and activities are neither centralized nor decentralized, rather are dispersed and specialized simultaneously, and are integrated into an interdependent network. Here, innovations and knowledge sharing is prevailed throughout the whole organization where information flows take place between the headquarters and local subsidiaries (vertical relations) as well as among different local subsidiaries (lateral relations). On one hand, the transnational approach, contrary to the global approach, stresses national
responsiveness and flexibility. One the other hand, in comparison to the multinational approach, it recognizes the need for intense coordination and knowledge sharing.

The transnational approach is world oriented with geocentric attitudes. This is based on the assumption that a synergy of ideas from different countries should prevail. Hence, the ultimate goal is the existence of a worldwide approach in both the parent group and subsidiaries, where organization culture is developed by integrating local and global practices. According to this approach decentralization can encourage “knowledge exchange and integration… to bind the whole organization together managing consensus around a shared strategic intent, resolving tensions between global and local practices, and reconciling standardization and differentiation of product distribution” (Busco et al, cited in Hopper et al., 2007, p. 70-71).

3.1.2 Corporate governance in Sweden and Germany

To set the basis for the following chapter we need to understand in brief how the Swedish and German corporate governance function. According to Collin, Smith, Umans, Broberg, and Tagesson (2013), the Swedish corporate governance system has a moderate position between the Anglo-American system and the European systems of Latin or German character. “It is characterized by dominance of large owners and by business groups that govern corporations with a high international presence on the product markets” (Collin et al. 2013, p.80). This dominance can be noted through owners’ active domination at shareholders’ meetings and on the board of directors (ibid). Thus, the Swedish corporate governance has relied on families and banks that can retain control of their firms by using various control mechanisms through deviating from the proportionality principle (one share = one vote), using for example, dual class shares⁷, pyramids holdings structures, cross-ownership, charter provisions and shareholder agreements (Högfeldt 2005; Henrikson and Jakobsson 2005). The stock market regulations have contributed to this owner dominance (Collin et al. 2013). For example, dual shares (A and B shares), with A shares grants multiple voting rights. This in turn, makes the bidder negotiate with target shareholders, at the same time reduces the attractiveness for the remaining minority shareholders to keep their shares (Burkart et al. 2006). Another interesting aspect for the Swedish corporate governance is the M&Atry bid rule (MBR)⁸ that forces a

⁷ Dual class shares imply differential voting rights with the same dividends rights (Thomsen and Conyon, 2012).
⁸ This rule has two main objectives (Nachemson-Ekwall, 2017): (1) It forces a bidding party to offer the control market premium to all shareholders; (2) it offers a possibility of escape for minority since the minority are more likely not to share the new owner’s vision and style of management. The latter is important in Sweden which scores high on minority shareholder protection.
shareholder who passes a certain threshold of ownership to bid for the rest of the shares. This rule was introduced in 1999 and the trigger level was set at 40% control of stocks (NBK 2009) or votes with a controlling shareholder above the 40% threshold excluded.

While, the German system of corporate governance is characterized by concentrated ownership structures and control where banks are among the pivotal shareholders. Germany is often regarded as a bank-based economy. The German system of corporate governance relies on large controlling blockholders, corporatist governance, state control (Nachemson-Ekwall, 2017). It has substantial distinctive features, in comparison to the Anglo-American governance system (Terberger 2003). For instance, a two-tier system with management and supervisory boards. In the supervisory board, there is a co-determination between shareholders and employees. German labor unions are very powerful as they can form half of the seats on supervisory boards. Senior managers often abstain from forced lay-offs for many years to win labor’s backing for reorganizations or takeovers. Another distinctive feature is the focus on maximizing stakeholder value rather than shareholder value. Recently, the German system of corporate governance has witnessed some changes towards a market-oriented system, yet there are still fundamental aspects that make the German system differ comparing to the Anglo-American governance system (Gehrig 2003).

3.1.3 Inter-organizational Control

Most of research on management accounting and control in international companies focus on the mechanisms and practices used by the parent group to manage its relation and exercise control over subsidiaries (e.g. Kamminga and Van der Meer-Kooistra, 2007). Large body of research also seem to assume that the MACS used by the parent group can simply be reproduced and applied within the subsidiary (Cruz, Scapens and Major, 2011). In this section, we will discuss one of these frameworks. Kraus and Lind cited in Hopper et al. (2007: p. 276) describe management controls as “the specific mechanisms used in the control process to influence the behaviour of people to work towards the goals of the inter-organizational relationship”. They argue that there are three types of inter-organizational control:

At the time, in most European countries, the trigger level for the MBR was set at 30% (Skog 1997). Yet, in 2003, Sweden lowered the MBR threshold from 40 to 30%. In 2006, the MBR was revised and resulted in the exemption of all shareholders in control of more than 30% of votes (Nachemson-Ekwall, 2017).

Corporatism is often characterized by state-structured and regulated interest groups (Kim, 2011).
First, outcome controls that measure, evaluate and reward the outcome or results of inter-organizational relationship to ensure that goals are being achieved and that the two parties have a well-functioning relationship. Here, the main focus on accounting based measures to support the two parties to achieve an efficient and effective cooperation. Most popular techniques are open-book accounting, integrated information systems, target costing (TC), inter-organizational cost management, value chain analysis and rank-based rewards. Also, non-financial measures are used such as quality, cost over time (Van der MeerKooistra and Vosselman, 2000) and client satisfaction. The authors claim that one of the challenges in outcome controls is the difficulty to identify the desired outcome, especially in the early stages of an inter-organizational relationship.

Second, Behaviour controls that specify how the parties should act and then evaluate whether the specifications have been followed. Examples are, policy documents and procedures that determine acceptable behaviours, and the structures set up for regulating employment and training that specify the roles of the different actors in the relationship.

Third, social controls that relates to the values, norms and culture that influence the behaviour of the people in the inter-organizational relationship. This type of control is hard to design, yet can be facilitated through the choice of partner, meetings and negotiations.

It is crucial that the two parties share values and visions that can be integrated into common goals and plans. A high level of trust is a key success (Dekker, 2003) because trust enables communication and smooth exchange of information. Trust-building also can decrease the dependence on the more expensive outcome and behaviour controls. There is a general consensus, both in academia and practice, that inter-organizational control can be achieved through a combination of outcome, behaviour and social controls (Kraus and Lind cited in Hopper et al., 2007).

3.2 Merger and Acquisition

In this section, we want to discuss the theories that are used to explain the success and failure of M&A, highlighting the driving forces behind this. We start by discussing the main theories that have been used to investigate M&As, particularly, organizational theory, principal-agent theory, institutional theory, and contingency theory. Then we processed discussing the driving forces for success and failure of M&A.

3.2.1 Merger and Acquisition Theories

About 70 % of M&As fail to meet their expected financial performance (Slowinski, 2002), and “two-thirds of M&As fail to achieve their objectives “(Hudson and Barnfield, 2001, p.37). Yet,
we do not have a specific theory that explains the underlying factors and the problems involved with M&A. Rather, many theories have been used in this regard. This is consistent with Parvinen (2003) who revealed in his extensive literature study that more than 28 different theories have been used to investigate M&As.

One of the most common theories in this area is the organizational theory which separates the sociological unit of an organization from the individual organism. The theory also gives insights about “hierarchical authority, shared rules, common conceptions and norms, clear boundaries and identity, common resources, and a division of labour and responsibilities” (Brunsson, Olsen, and March., 1998, p. 24). This in turn, is tightly connected to central ideas including homogeneity versus heterogeneity, integration versus independency, centralization versus decentralization, and tight control versus loose control.

Another theory commonly applied is principal-agent theory that focuses on the relationship between principal (acquirer) and agent (acquiree) and the problems that emerge due to their interests diverge and information asymmetry where the agent has information advantage over the principals (Grossi, Budding, and Tagesson, 2015). According to (O’Flynn, 2007), the problem arises when a principal creates an environment in which an agent's incentives don't align with its own. the onus is on the principal to use whatever actions are available, to create incentives for the agent to ensure that the agent acts as the principal wants. The big challenge for the principal is to choose an agent and construct incentive structures to align goals in an environment of uncertainty, information asymmetry, and high cost monitoring.

Another chosen theory for discussion is institutional theory that stresses that organizational practices may spread due to social pressures as well as economic efficiency (Thomsen and Conyon, 2012). Powell and Dimaggio (1991) have identified three mechanisms of institutional isomorphic change: (1) coercive (regulatory) that resulting from political influence and the problem of legitimacy; (2) mimetic stems from uncertainty i.e. mimicking successful examples; (3) normative associated with professionalization i.e. adopting best practices. This is also in line with Bergevärn, Mellemvik, and Olson (1998) who found that organizations and their accounting parts have to learn and adapt its routines to the ones of acquirer through three ways: (1) coercive by the power of obligations and regulations; (2) Freely imitating the routines of another organization; (3) in a normative way through, for instance, trade union channels teaching to organization members.

Last chosen theory for discussion is the contingency theory which plays a major role to explain the diversity of organizational design and MACS (Hoque, 2003). The theory focuses on contextual and structural factors influence on decision making and MACS design providing
significant insight into the major design contingencies such as environment, size, technology, competition, etc. (Covaleski, Dirsmith, and Samuel, 2003; Otely, 1985; Chenhall, 2003; Hoque, 2003). Previous studies suggest clear links between strategy and structure with MCS design (Chenhall 2003). Even national culture has been identified as a contingent factor (Harrison and McKinnon, 1999). In that sense, the theory highlights external and internal contingencies in relation to internal organizational variables (Jones, 1985a, 1985b) in order to decide whether such rules are applicable universally or not. Thus, no single control or MACS is optimal in all situations and that organizations’ structures are contingent i.e. dependent on contextual factors and the specific circumstances in which an organization finds itself (Chenhall, 2003). In that sense, MACS must be studied within their environmental and organizational context (Otley, 1980). Hence, the optimal course of action is contingent upon the internal and external situation. Because of the international context of this study, we chose to use contingency theory as a framework in our analysis.

3.2.2 Driving forces for success and failure of M&A

It is very important to understand and highlight the factors that can make or break the process of M&A since this will make it easier to explain the implications for MACS post acquisition. Many failure factors have emerged in the literature such as a lack of adequate planning, an overly aggressive timetable to closing the deal, a lack of looking at possible post-merger integration problems, and projecting synergies that turn out to be illusory (Sherman, 2010).

From a process perspective, we can categorize potential problems and pitfalls in M&A into: (1) problems happen pre acquisition such as poor pre-acquisition planning, complexity to evaluate the anticipated benefits and effects of acquisition due to difficulty to quantify acquisition benefits in advance (2) problems that happen in the preliminary stages such as forcing a deal that should not be done, mistakes, errors, and rushed or misleading planning; (3) problems that occur in the post-merger integration process such as problems associated with applying change management, and developing a new organizational design (Sherman, 2010; Colman et al., 2011).

In line with this, Jones and Miskell (2007) divide the M&A process into two phases. The authors argue that the lack of consideration of several factors in these two phases is the reason behind the high failure rate. They highlight some reasons behind the failure connected to the pre-M&A phase such as synergy trap, e.g. in some cases managerial motives or hubris can make managers pay too much to the targeted company. While in the post M&A phase, integration
problems are stressed as reasons for failure. Integration is very broad concept that does not require only strategic fit between the two parties, but rather it requires also organizational fit, similarity in cultures, systems and structures that will facilitate the procedure (Peng, 2006). While Waight (2004), emphasized the significant of human resource departments in enabling M&A. The author argues that while the financial, economic and commercial factors can play a significant role in the pre-planning of M&A process, similarly HR-department does. A detailed acquisition plan should be prepared explaining how the implementation of the M&A should be conducted, showing the procedures to adapt some crucial components of the organization including organizational structure, management structure, product lines, and business process. Camara and Renjen (2004) consider the speed of the integration process as a critical success factor.

In a different vein, some key success factors have emerged in research such as the expertise of the organization and managers in implementing M&A, strategic similarities (Lubatkin, 1983), the quality of screening and pre-planning phase (Chapman, 2004). Pre-planning phase, in particular was emphasized in academia because it will affect all areas of business and how the integration is handled (ibid). For instance, when the pre-planning phase has a clear view of the targeted company’s role in the strategy after acquisition, this in turn, will contribute to strategic fit and congruence between companies (Firstbrook, 2007). Strategic fit is very important in acquisition and can be one of the failure factors. Many organizations do not conduct a proper evaluation regarding the strategic fit among the potential acquiree, but rather they acquire the first company that seems matching their strategies. This in turn makes the intended synergies far from reach (ibid). Things could be even harder in acquisition that cut across national boundaries due to different cultures and nationalities and their implications for strategic incompatibilities between companies (Mayer and Altenborg, 2008). Another example that shows the significance of the pre-planning phase is the decision on organizational fit which can refer to as similarities in culture, structure and systems (Peng, 2006). Yet the same author claim that the evaluation of the organizational fit is rarely happen before acquisition, only in 20 % of the cases.

Furthermore, as we have touched upon, managers can be seen as a common problem in M&A as a result of its impact on managers’ power and authority (Pablo, 1994). So, we can imagine power differentials between the two parties if, for instance, the acquirer company is bigger than the acquired company. This is due to the fact that the larger company’s managers would have more impact, which in turn can cause a sense of frustration and disappointment for the managers from the acquired company. Even the acquirer company’s managers might feel themselves
pressed to have a firm grip and implement their style of management quickly to meet performance expectation. Beside the size difference between the two parties, the beliefs of superiority and inferiority could have its impact on managers. Acquisition can lead to a shift in the manager influence and status in the organization, from being in the core (influential) to being in the prep here (less influential). No wonder that superiority and inferiority towards the other company is one of the major factors for M&A failures (Hambrick and Cannella, 1993).

Finally, there are many significant themes that play a central role in enabling post-merger integration such as developing a shared organizational identity and identification within the new organization, and focusing on developing a new organization and competencies (Colman et al., 2011). Organizational new design can enable combining the merging parties’ processes, capabilities and resources (ibid).

3.3 Lean and the tension with traditional budgeting

It has widely acknowledged that traditional control systems are deemed inappropriate to use with lean thinking. In this section, we explore why this is the case, based on our literature review. The starting point is to explain the major concepts of lean and budgetary systems and their sub-themes of interest. Then we use the literature to highlight the potential tension between lean and budgetary system. In the meanwhile, we discuss rolling forecast as an alternative to budget. We also emphasize the notion that MACS are co-existed in a package that incorporates both formal and informal controls which do not operate in isolation. Finally, we finish this section with containment mechanisms to ease the tension between budget and lean.

3.3.1 Lean Philosophy in production

The concept of lean production has its roots in the Toyota Production System (TPS) when a need arose for the production of a large variety of finished products, in low volumes, and at competitive costs in the late 1940s (Holweg, 2007). Lean broke with the tradition of mass production which relies mainly on using standard components to facilitate the production of large batches and hence minimizing the number of changeovers (Tillema, Van der Steen, 2015). Lean was a big hit in Toyota, yet it was not before the publication of the seminal work of Womack, Jones and Roos (1990), “The Machine that Changed the World”, that lean production has attracted considerable attention from the US and Western Europe (ibid).

Lean is described as the best practice operations management that focus on the creation of a continuous one-piece flow through the value stream by the establishment of a process-oriented
organization that puts customer first (Mouristen and Hansen, 2006). Lean production is one of the most influential changes that has taken place in the production domain in recent years (Fullerton et al., 2011; Holweg, 2007). The cornerstones of lean production are continuous improvement and elimination of all forms of waste (muda) (Cua et al., 2001; see also Shahand Ward, 2003). Put simply lean is a systematic approach to eliminate muda through continuous improvement (Arora and Soral, 2017). It encompasses several earlier production innovations including just-in-time (JIT) and total quality management (TQM) to improve manufacturing and business processes, and to enhance competitiveness and performance (Tillerma and Van der Steen, 2015). Lean implies a shift from a traditional mass-producing firm organized in a vertical hierarchy with a supply side focus into a firm organized around identified value streams with demand side and customization focus (Miller, 1998). Womack et al. (1990) made a historical comparison between mass- and lean-production processes and found that firms adopting the lean –production approach have achieved significant improvements; lean producers have better quality and more productivity using fewer resources.

Increasing flexibility makes it possible to respond more quickly to market needs and customer desires. Lean production aims to achieve a continuous flow throughout the value stream as all activities are organized and focused on a product line basis, rather than functional departments as in traditional management (Kennedy and Brewer, 2005). Resources also are aligned around value stream to deliver product and services of superior quality and functionality, with affordable price. Miller (1998), argue that lean approach implies a shift from a push approach of production which builds for inventory to a pull approach which builds to orders. Moreover, Lean approach Organizes cross-functional teams around desired outcomes instead of around homogenous tasks. Hines et al. (2000, p. 112) claim that “The lean models of organizational and supply chain behaviour are underpinned by the concept of internal (within business) and external (within the supply chain) integration”.

The core aspects of lean production as described by Hines et al. (2000) include: decentralization, employees’ empowerment, the alignment and transparency of strategies and operations throughout the supply chain, and continuous improvement of the entire supply chain.

3.3.2 Lean implications for MACS

Lean production has major implications for MACS. Lean turns the focus from the traditional financial measures to the various operating non-financial performance measures (Kennedy and Widener, 2008; Fullerton and McWatters, 2002) such as measures of scrap, rework and setups.
Lean organizations use more organic control systems, where clan controls and non-financial performance measures play key role (Kennedy and Widener, 2008). MACS in lean organizations supplies management with strategic planning and external benchmarking information, as well as quality and problem-solving information (Ittner and Larcker, 1995).

Moreover, MACS in lean organization stress the continuous flow of information to employees who perform the task, which is dissimilar to MACS in mass-production organization where specific managers receive periodic dissemination of information (Kennedy and Widener, 2008). Furthermore, supported by a number of empirical studies, MACS in lean organizations are simpler (Kennedy and Widener, 2008; Fullerton et al, 2011). For instance, Abernethy et al. (2001) cited in Tillema, Van der Steen (2015, p. 70), found that “The use of flexible manufacturing technologies can reduce the effectiveness of and the need for sophisticated costing systems, as these technologies reduce the significance of batch or product sustaining costs”.

According to Tillema, Van der Steen (2015), the substantial difference between mass production and lean production stems from their ultimate goals. The goal of mass-production is to have an acceptable number of defects and a maximum acceptable level of inventories i.e. being ‘good enough’, whereas lean production strives for perfection through continuous improvement in terms of cost and quality to produce endless product variety with zero defects, less cost, and zero inventory. To enable this lean relies on a multidimensional approach that integrates a diverse set of management practices i.e. lean accounting. Hence, Lean production needs lean accounting which encompasses several innovative techniques such as target costing (TC), value stream costing (VSC), Kaizen costing and Just in time (JIT). Another differential feature in lean is the focus on the customer-driven value, the entire value chain revolves around delivering customer value. As argued by Arora and Soral (2017), companies adopting lean need to re-think on their internal processes and start thinking in terms of customer value, value stream, empowered people and to reach maximized flow.

Kennedy and Brewer (2005) have broken lean down into four parts; financial reporting, product costing, performance measure, elimination of non-value-added process and activities. For financial reporting, lean produces income statement by value stream. For product costing, lean methods avoid arbitrary allocation of overhead and product and service price is determined by customer’s approval through target costing. For performance measure, lean gives priority to qualitative and non-financial indicators, with less focus on financial ones. For the elimination of non-value-added process and activities, this could be done through outsourcing, vertical integration, improvement of integration and automation.
In sum, MACS in lean organizations differ significantly comparing to the traditional MACS. The unique features include: A strong emphasis on clan controls and low-level decision making; the use of decentralized information; the provision of information to lower levels; the distinctly non-financial nature of information; and a higher frequency of information dissemination (Tillema, Van der Steen, 2015, p. 70).

3.3.3 Lean Accounting

Using lean accounting methods and tools in lean organizations support three key aspects visual management, value stream management, and continuous improvement (Kennedy and Maskell 2007).

3.3.3.1 Continuous improvement (Kaizen)

According to (Hilton, Maher, Sellto, 2003), Kaizen refers to change for better which leads to cost reduction and better quality. The idea behind Kaizen is that, instead of large or radical improvement that could require huge capital investments, companies can achieve success through continual and gradual improvement that would accumulate overtime to achieve big results. The core aspects are, the continual and relentless reduction of non-value-added activities and costs, the elimination of waste, and continuous improvements in cycle time. Kaizen also entails that everyone at every level in the organization, has a goal and responsibility to achieve simple improvement in activities. Ultimately, the result is a continually more efficient and cost-effective production process (ibid).

3.3.3.2 Just in time (JIT)

JIT is primary used to increase efficiency through receiving goods only when they are needed in the production process, hence reducing inventory costs. Two core principles can be identified in JIT management; elimination of wastes and respect for people. JIT plays a key role for any company that are keen to reduce its production wastes, strength its position in the market and improve product quality (Kannan and Tan, 2005). JIT enables companies to operate effectively with a limited number of resources, reducing lead time on orders, reducing transportation, improving the quality and quickly solving the problems when appear (Bookbinder and Dilts, 2016). The core of JIT methodology is that a company should have the right amount of inventory that is as little as possible. In that sense, JIT is focused on efficiency through reducing warehousing costs and thus making the product more affordable. Lean manufacturing focuses on using efficiency from JIT to add value for the customer. JIT can be practiced on its own or
as one step in the lean manufacturing process. JIT facilitates real-time visualization of a progress of orders on the shop floor and hence give the controller more engagement in the manufacturing process. This is consistent with Monroy, Nasiri and Peláez (2012) who argue that the visual performance could be used in the control production process, applying measurement tools or a box score. According to DeBusk (2015), overproduction is the reason of lower profit as a result to increase in costs without a corresponding increase in sales, hence the management could opt to optimize process with control action by inventory reduction. In sum, JIT is a strategic technique that can link disparate business functions such as demand planning, sourcing, and logistics in the supply chain.

### 3.3.3 Target costing (TC)

TC is an important part of lean accounting (CIMA, 2005). Ax, Greve and Nilsson (2008) views TC as a customer-oriented approach which is necessary to identify customer needs in the planning phase through for example survey etc. This information is used, in combination with organization’s objectives and sales volumes, to determine the allowable cost and decide in what approach costs should be allocated. TC involves a systematic process of planning the product or service offerings; cost allocation in the first steps of the product design, determining their selling prices, setting up high and challenging TC and motivating employees to be vigilant at all times for reducing the cost (Adler, 1999). In that sense, TC balances service’s or product’s cost with its quality and functionality, which is a win-win situation for both the organization as well as customers (genka kikaku). Furthermore, TC play a key role in optimizing utilization of resources through finding the best possible way to reduce the cost of usage of resources coordinating with suppliers, creating an inter-organizational relation in the value chain.

In sum, TC can be used for both, profit planning and cost management.

### 3.3.3.4 From traditional cost accounting to Activity-based costing (ABC)

According to Hilton, Maher, and Sellto. (2003), in today’s volatile markets, many organizations facing global competition find that continuous cost reduction is crucial to their survival. If these companies will continue using standard costing, they will need to update their standards very frequently which can be time consuming and too costly. Traditional cost calculates overheads as proportion to an activity's direct costs which is not accurate because two activities that absorb the same direct costs can use very different amounts of overhead (Kaplan and Cooper, 1988). According to Adler (1999), traditional cost accounting failed to calculate cost accurately and
hence offers insufficient illumination for organizational decision making. It has three major problems; its narrow view of the value chain; its short-term focus; and its emphasis on output volume. ABC emerged as an attempt to fix these problems and indeed has supported many companies to identify important cost and profit enhancement opportunities through the repricing of unprofitable customer relationships, redesigning business processes and lower-cost product designs (Kaplan and Anderson, 2013). ABC aims to analyze the indirect costs (overheads) more correctly by assigning costs to product or services based on the resources (the cause/driver) that they consume. The key to ABC’s strength is based on its segregation of costs into activities (Kaplan and Cooper, 1988). Traditional costing is misleading since it only accumulates costs by function or department, while many business activities cut across functions. Norton and Kaplan have admitted that ABC has however its own limitations such as time-consuming, costly, inconsistent application of cost to the large numbers of cost drivers and storage burden at computer application in enterprise level. However, with all the advantages that ABC offers, it has become the most popular alternatives to the traditional costing system (Hutchinson and Liao, 2009).

3.3.3.5 Summary to explain how several techniques in lean accounting fit together.

The lean process implies eliminating waste through examining every activity involved in manufacturing a product to identify which activities add value and which do not. The manufacturing process is then redesigned to remove activities that don't add value wherever possible. Lean philosophy serves as a basis for the combination of different new accounting techniques (Monroy et al., 2012). This is to say that many MACS can be coexist, some are complementary and some overlap but not to counteract. Lean accounting mainly incorporates TC, kaizen and JIT. Other costing techniques such as ABC can be used in cooperation with lean costing methods because they have a common commitment toward continuous improvement and long-term performance (Adler, 1999). Through the interaction of these several techniques and methods, synergy effect can be occurred. This is in line with, (Adler, 1999) who argues that costing methods can reinforce one another in the organization and help to make it a world class organization. The key success is to help organization to plan inventory so they do not overload and perform unnecessary and costing activities when they don’t need them (a shared value between JIT and costing methods).

Cost can be separated based on their responsibility center: engineered expense center and discretionary expense center. While the former deals with manufacturing costs the latter deals
with administrative and support unit (overheads) costs. ABC should be used in calculating the cost of the overheads while engineering costs can be calculated by TC. The more activities are performed in the organization, the more the ABC is needed. ABC provides data and feedback that can be used for TC planning in the design phase. ABC can also be used for activity-based budgeting since it provides information on the forecasted volume and mix of products and services with anticipated activity and process efficiencies to construct a bottom-up budget for forthcoming periods (Kaplan and Cooper, 1998). If TC deviates from the currently achievable cost, the cost gap should be managed through Kaizen. Though incorporating TC with kaizen many advantages can be achieved including, a decrease in a setup time, better factory layouts and a rise of material flows and development of all techniques. This in turn can achieve the allowable cost and decrease the lead-time to bring the product to the market (Adler, 1999). In sum, the mixture of these approaches and techniques is inevitable in one contemporary organization that strive to be a world class.

3.3.4 Budgetary system

The use of budgets can be traced back to the 1920s, by the multi-divisional structure pioneers back then such as DuPont and General Motors (Frow, Marginson, Ogden, 2010). The budget was regarded as, “A plan in financial terms” (Nilsson, Petri, Westelius, Halvorsen, 2016, p. 116). It was used as an annual plan for managing and estimating future costs and cash flows and arguably became a key driver and evaluator of managerial performance (CIMA, 2007; Goode and Malik, 2011).

Barrett and Frazer (1977) identified various roles for the budgetary system:

1. Planning: As it contains details of what management needs to achieve and how. It also used for resource allocation that is essential to achieve goals.

2. Coordination: As it provided a consolidated plan of action that coordinates the activities throughout the organization.

3. Motivation: It can be used to motivate employees through involving employees in the formation and committing them to predetermined plan of activity.

4. Evaluation: It used for evaluation through variance analysis in which the actual results are compared with the budget to evaluate the performance.

The budget and financial metrics, generally speaking, were seen to provide the stability and certainty required for organizations (Frow et al., 2010). Yet, traditional Budgetary system has
mainly criticized because it is too expensive, time consuming, static and complicated, it slows the response to market developments until it’s too late, and most importantly stops companies achieving their real goal – continuous value creation.

There are no regulation stipulating how and which style of the budget should be used or applied. Nevertheless, management style, culture and attitude toward employees are key factors that determine budgeting approach for each organization in order to implement its strategies. Schmidgall et al. (1996) described the budgeting process as a back-and-forth movement between top and lower management. Three approaches can be employed: top-down approach (imposed budget) as superiors decide on budgets – providing detail-level plans which the sub-unit budgets are based on – and subordinates execute them; bottom up approach (participative budget) as lower level managers create their own budgets which are then consolidated to corporate level budget; negotiated budget is a hybrid or a mix of both styles (imposed and participative) as the guidelines and limits are provided by the top management and the unit acts accordingly and decides on the details.

Budgetary control is originally assumed as a diagnostic control tool, because it serves the traditional purpose of evaluating performance and establishing/assigning responsibility (Nilsson et al, 2016, p. 115). It has been criticized and described as a passive control tool that does not provide managers with sufficient information to support decision-making process (ibid). So, a need has arisen to an interactive management control tool that can support managers in their decision making (Chenhall, 2003) as well as to guide strategy, simulate learning, and promote innovation (Simons, 1995).

In sum, we have both budget’s advocates and opponents which indicates that budget comes along with both problems and benefits (Starovic and Jackson, 2004).

3.3.4.1 Budget is still an important control tool

Despite the critique against the traditional top-down budgeting, a number of quantitative survey research has shown that budget still plays a critical role in a majority of organizations, where most of them do not have any plan to abandon it (Ekholm and Wallin, 2000; Libby and Lindsay, 2007; Libby and Lindsay, 2010). Budgeting was and still one of the most important management control tool for many organizations (Nilsson et al, 2016, p. 116). “Budgeting in a Company is like navigation in a ship” (Axzo Press on Budgeting), If it created and used properly will provide useful information about the direction, resources and expectations of the organization (Oliver and Horngren, 2010, p.298). Seal, Garrison and Noreen (2009) argued in
their book Management accounting, that budgeting system has many benefits, among others, it provides a means of communicating management’s plans throughout the organization; it forces managers to think and plan for the future; it allocates resources efficiently; it discovers potential bottlenecks; it provides coordination and ensure alignment with organization’s objectives; it provides benchmarks for evaluating subsequent performance. In line with this, Oliver and Horngren (2010), regarded budget as an integral part of MACS that aims to force managers to plan and promote coordination and communication, as well as budget provides a benchmark for evaluating actual performance. Likewise, Lucey (1996) argued that through budgetary planning and expenditure control, organizations can improve efficiency and reduce costs.

Moreover, Seal et al. (2009) argued that budgeting systems can act in different roles in organizations, claiming that planning and control functions are the cornerstones of a good budgeting system. These two functions, have different roles but complete each other, so it is important to distinguish. Planning implies devolving objectives and preparing various budgets to achieve these objectives while control involves the course of action taken by management to increase the possibility that the objectives set down at the planning stage are accomplished, and to make sure that all parts of the organization operate in a manner aligned with organizational strategies. Management should decide on which role is more suitable for their organization to focus on. For instance, control and coordination are more important for large companies that more concerned with operational efficiency, while small and innovative companies should have planning at the heart.

Seal et al. (2009) argued that managers who have never tried budgeting and lack knowledge about the use and implementation, usually claim that budgeting is a waste of time and it will never work in their organizations because operations are too complex or because there are too many uncertainties. These managers usually are deeply concerned with planning role and they have clear ideas, however the lack of communication with their employees usually lead to the failure in achieving their goals. The authors argued that, these companies that abolished budgeting and accidently achieved success, would have been in a better position with a coordinated system of budgets.

In similar vein, Umapathy (1987, pg. xxii) was full of praise for the budget stating that “There is no other managerial process that translates qualitative mission statements and corporate strategies into action plans, links the short-term with the long-term, brings together managers from different hierarchical levels and from different functional areas, and at the same time provides continuity by the sheer regularity of the process”. In line with that, Otley (1999) argue that budget is widely adopted mainly because it is the only process that covers all areas of
organizational activity. Similarly, Whalen (2002) argues that a budget translates an organization’s plan into priorities.

Furthermore, Ekholm and Wallin (2000) had a study that aimed to explore if budgeting was still important for organizations. The findings show that the majority of respondents that answered to the research don’t think that annual budgeting should be thrown away; They believe that it is, still, an important tool to sustain internal effectiveness but it is obsolete to point changes in the environment (i.e. unresponsiveness of budgets to fast-moving environments). They suggest that different companies, or companies operating in dissimilar environment, do not advocate same thoughts of budgeting. They also emphasized the idea that organizations that are more financially stable are prone to keep budgeting as a measure technique, while companies that currently have bad financial position have been trying to replace budgeting with strategy based approaches.

3.3.4.2 Critique against budget

Former general Electric Chairman, Jack Welch (2005), described in his best-selling book, Winning, the budgeting process as “The most ineffective practice in management. It sucks the energy, time, fun and big dreams out of an organization”.

Hope and Fraser (2003) adopted in their book, beyond budgeting, a broader definition for budgeting, not so much as a plan in financial terms, but as the performance management process that leads to and executes that plan. They criticized budgeting process claiming that it takes too long and adds too little value. Furthermore, tying operating managers to fixed performance contracts (fixed targets reinforced by incentives) leads to decision paralysis and cosmetic accounting. According to the authors, severe criticism and dissatisfaction toward budgeting have grown, even within the financial management community, as nine of ten have expressed their dissatisfaction, describing the budgeting process too “unreliable” and “cumbersome”. As a result, the authors argue that budgeting should be abolished, pointing out the following reasons:

**First criticism; budgeting is cumbersome and too expensive.**

The overwhelming workload of budgeting, puts finance staff under constant pressure, spending long time to configure the numbers rather than assessing managers in decision-making, also, managers spend their time focusing on achieving the numbers on the budget and have little time
to spend to implement strategy. Thus, organization focuses on the score, rather than the game itself (Hope and Fraser, 2003).

Second criticism; budgeting is disconnected with strategy and out of kilter with the competitive environment

The authors cited Kaplan and Norton (2001) who studied a number of companies and found in the majority of them that budgeting was done separately from strategic planning process. Hope and Fraser (2003) in line with Ekholm and Wallin (2000) and Libby and Lindsay’s (2010), claim that functionality based budgeting is more applicable with MACS that are based on vertical hierarchic and command age. At the time, the focus was mainly on cost reduction, while the current competitive and dynamic business environment shifted this focus to include many other drivers, beside cost, such as quality, empowerment, customer satisfaction and innovation. Therefore, there is a need for process based techniques and methods to provide more flexibility and decentralization.

Third criticism; the extent of “Gaming the Numbers” has risen to unacceptable levels

Hansen, Otely and Van der Stede (2003) argued that budgeting encourages gaming and perverse behaviours. According to Hope and Fraser (2003), the idea behind budgets is that organizations set targets relying on financial numbers which stemming from negotiations between superiors and subordinate before the start of the year. The numbers of the budget are fixed for the fiscal year ahead and rewards are then based on a fixed outcome agreed to in advance. The misuse of these numbers led to undesirable and dysfunctional outcomes at every level of the organization. However, managers did not pay much attention to these problems as they see outcomes in terms of numbers rather than behaviours. This led both senior executives and operating managers into an annual performance trap where budget assumptions are far from reality. As a result, many firms resorted to such practices as “managing their earnings” (e.g., Coca-Cola and Gillette). This is consistent with the findings of Libby and Lindsay (2010) that budgeting process promotes gaming. Budgeting also can lead to outright fraud as in the cases of Enron and WorldCom. A study of more than 400 US companies conducted in 1987 revealed that budget games and manipulation were widespread (Hope and Fraser, 2003).
Probably as a response to this critique against the traditional budget, two different practices have been emerged (Hansen, Otley, and Van der Stede, 2003): (1) Supplementing the budgetary system with complementary techniques such as rolling forecasts. (2) Or abolishing the budgetary process completely and rely on other techniques such as rolling forecasts.

3.3.5 Rolling forecast

Rolling forecast is a leading planning technique that supports a company to find opportunities amid persistent volatility and intense competition (Garlapati & Durga 2011). Rolling forecast can be viewed as a process in which key business drivers forecast on a continual basis (ibid). It copes with dynamic business environment by providing a company with the luxury to foresee risks and opportunities and scope uncertainties, usually, within a specific timeframe. This is based on the assumption that the best way to scope uncertainties is to advance in time to go as far as possible.

3.3.6 Rolling forecast Vs budget

Forecast is viewed as a prediction of what may happen in the future and entails prescriptions for dealing with that. While budget can be viewed as a commitment to a forecast to make an agreed-on outcome happen (Churchill, 1984). Rolling forecast can be used to support budget. Forecasting enables an organization to bridge the gap between the detailed operational budget and overall strategic plan (Montgomery, 2002). The strategic plan contains multiple nonfinancial processes that form the drivers for the rolling forecasts. The forecast produces key statistical, operational elements and results. This in turn enables operating budget to provide plans and actual control functions for the lower levels in an organization (ibid).

One of the major critique against the traditional budget is that once it is prepared it is soon out of date (Myers, 2001). It has been argued that rolling forecast can support budget and fix this issue through providing regular and accurate predictions which can contribute to organizational learning. This in turn can give managers more confidence to rely on budget numbers established for planning of the short-term operations (Hansen et al., 2003; Haka and Krishnan, 2005).

Rolling forecast can also be used alone. It is a process in which key business drivers are forecast on a continual basis (Garlapati & Durga 2011). It provides managers with reliable data
on a regular basis. This in turn enables managers to adjust operations continuously, weigh availability of the resources and accordingly take the suitable decision at the right time. Rolling forecast is typically created on a periodic basis, short intervals monthly or quarterly (Clarke, 2007). Yet, rolling forecast is not just a periodic update against the annual budget but rather the focus is on the drivers that are relevant for analysis and decision-making. In that sense, rolling forecast is more efficient because it can be prepared within a few days in which the focus should be on a few KPIs instead of lots of details (Lorain, 2010). This can allow to quicker turnaround and more value-added analysis from finance. It is appropriate for most of the organizations to focus on just three to five KPIs to get an assessment of their long-term value creation (ibid). For instance, American Express has just three KPIs; average card member spending, card attrition, and average assets per financial clients (Chenault, 2004). Rolling forecast arises to deal with the weakness of the traditional budgetary system that is static and fail to cope with a rapidly changing business environment (Sivabalan et al., 2009; Lorain, 2010). KPIs are also updated regularly to adapt with the potential changes in business environment, which in turn make an organization more flexible and agile in dealing with new business scenarios (ibid). Also, rolling forecast is future oriented in a sense that it does not take into consideration obsolete figures, and hence results in more timely allocation of resources (Gurton, 1999). Moreover, rolling forecast encourages communication inside and outside the companies, continuous learning, and enhanced corporate culture (Sivabalan et al., 2009).

Ekholm and Wallin (2000) argue that more short-term configuration such as rolling forecasts would be more suitable, unlike static budgets, companies do not tie up their plans in a twelve-month strict and unchanged budget, but they still have the chance to deal with changes and cope with re-planning as rolling forecasts are updated monthly or quarterly throughout the year. Thus, rolling forecasts can keep firms ahead and reflect recent trends. In that sense, rolling forecasts can be viewed as a just-in-time process whose primary focus is to foresee the risks and opportunities presented by a dynamic business environment, revisit strategy in the light of new business scenarios and align resources/activities for competitive advantage at periodic frequencies.

Finally, it is important to emphasize that rolling forecasts may have some drawbacks. According to Gurton (1999), rolling forecasts change constantly and this can make managers feel somewhat unsure about them. Moreover, rolling forecast might not be able to fulfill evaluation and motivation functions that are often linked with budgetary system. Through communication and coordination, budgetary system can create action plans that are applicable at different levels in the organization. Thereby, budget is viewed as a motivation control tool
which can make managers committed to achieve the action-plan objectives that are also linked to the reward system (ibid). Thus, it is hard to design a reward system based on rolling forecasts and this may make it difficult for rolling forecasts to replace the budgetary system (Ekholm and Wallin, 2000). Furthermore, rolling forecasts required skillful accountants who have a good understanding of the business environment as well as competent employees who can predict future trends (Sivabalan et al., 2009). This can be a stumble block for those companies which lack these expertise and competence (Starovic and Jackson, 2004).

3.3.7 The Control Package of Malmi & Brown (2008)

![Figure (1) shows the Control Package framework of Malmi & Brown (2008)](image)

This framework is based on the assumption that different types of controls can be co-existed and used in parallel, in a complementary manner to constitute MACS packages (Malmi & Brown, 2008). In that sense, different controls can be implemented and used by different departments and individuals at different times and therefore work together as a control package. The framework widens the scope of a MACS which often consider as a metric system financial bottom line oriented that encompass cybernetic controls, planning, and reward and compensation. However this is a narrow vision. The broad vision entails that control tools are of various kinds; administrative controls, formal planning and monitoring and cultural controls (ibid). Administrative controls guide and clarify which behaviors are desirable throughout the organization. Cultural controls are shared by company’s employees and influence their thoughts and actions (Flamholtz et al, 1985).

In sum, the frame work emphasizes that MACS do not operate in isolation and hence it is important to recognize the links between various MAC in an organization.
The potential tension between lean and budgetary system

Supported by many empirical studies, Lean approach has proven to be very efficient and straightforward way towards process improvements in terms of productivity and value adding activities ratio (Krafcik, 1988; Shah and Ward, 2003). Many scholars have identified some of the success factors that support lean philosophy including management support (Worley and Doolen, 2006), employee education and training (Bamber and Dale, 2000; Kassicieh and Yourstone, 1998), and organizational culture (Prajogo and McDermott, 2005; Spear and Bowen, 1999). Other scholars argue that there is a substantial failure rate of lean implementation (Bhasin, 2012; Sohal and Egglestone, 1994). In an attempt to explain the failure rate, some scholars observe that traditional control systems do not fit in lean organizations (Maskell et al. 2012; Johnson, 2006) because they are mainly focused on providing financial information, in an aggregated form, and on a relatively infrequent basis (Ittner and Larcker, 1995; Kaplan, 1989). The core element of these systems is budgeting system that stresses financial controls and variance analysis (Tillerma and Van der Steen, 2015). Planning and capital investment decisions rely on financial assessment (ibid). Cost allocation is based on direct labour hours or processing time (ibid).

Lean production does not work well with traditional budgeting, instead lean production needs lean accounting which organizes costs by value stream and avoids the use of standard costs (Brosnahan, 2008; Cable, 2009; Johnson, 2006; Maskell and Kennedy, 2007; Maskellet al., 2012). Lean accounting also provides information related to changes in inventories and overheads separately. Thus, in lean organizations, control does not rely on a detailed tracking of internal transactions, but rather control built into operating processes, where the emphasize is on non-financial performance (Kennedy and Widener, 2008).

One of the biggest challenges when adopting a lean perspective is to change the costing system from a traditional to a lean supporting system (Arora and Soral, 2017). Let us take an example to show the tension between the two rationales. An organization that strives for cost reduction, adopting the traditional approach will be eager to maximize its capacity utilization this can lead to excess inventory which is against the core principle of lean and JIT.

Containment Mechanisms of the tension between budget and lean accounting

Tillema and Van der Steen (2015) conducted an empirical study of four manufacturing companies in the Netherland in which lean controls co-exist with the traditional controls. The
researchers found that, in all four case companies, there was no single management control system but rather the companies coped with the tensions of the two-control systems in highly localized ways. The case companies lacked clear strategies to integrate the controls into a single system, yet the employees, managers and accountants coped with this tension in a variety of different ways. The researchers have identified a number of mechanisms, we chose to discuss the mechanisms that are relevant to our study as following:

3.3.9.1 Colonizing

The tension can be contained using this mechanism through the attempts to convince the acquiring company that using the lean techniques make the acquired company better off in terms of prediction of financial results, organizing the production processes and inventory etc. So, the acquired should stick with sets of performance measures which could be used at the different levels and which are consistent with lean production. The acquired should ensure that the acquiring has a good understanding for lean initiatives to get proper support.

3.3.9.2 Decoupling

Separating the two different controls and use them for different purposes to ease the tension. This is, the tools consistent with lean control should be used to control the operating processes, while traditional accounting tools should be used for financial reporting. The researchers gave various examples noted based on the empirics:

1. Through a separation between the traditional measures of ‘efficiency’, which relies mainly on variance analysis, and actions taken at the operating level i.e. both systems operate in parallel with no direct impact of one on another. For instance, the production manager has his own management structure, which does not involve the financial controllers.

2. Another example through initially preparing monthly financial statements without taking standard costs into consideration, and then as a final step to satisfy the information requirements of the parent company, statements should be transformed into statements based on standard costs and variance analyses.

3. Final example, when dealing with the parent company, the subsidiary should focus on financial concepts that the parent company interested in to convince the parent company
that the performance is satisfactory, yet, in fact these financial concepts will not be applied at operating levels.

3.3.9.3 Compromising

This mechanism entails the use of a mix of lean and traditional controls. For example, to resolve the tension stemming from the recording of inventories in the ERP system, a subsidiary can make weekly counts of work-in-progress inventories to ensure that the financial systems remained up-to-date.

To sum these mechanisms up, colonizing implies receiving support from the parent company based on a mutual understanding of the appropriateness of lean controls. Decoupling gives the lower levels in the organization the opportunity to deal with lean initiatives in their own way, and they remain relatively separated from traditional controls. While compromising requires operating managers to work with both control rationales; lean controls and the traditional controls, whereas both are deemed significant to the higher levels of the organization.

3.4 Prior research on MACS in acquired subsidiaries

To conclude this chapter, we find it relevant to discuss previous research on M&A. We need to connect the dots and merge the different themes that have been discussed in the chapter through exploring what previous research find about this before approaching the empirics.

Controlling subsidiaries is a topic that has drawn the attention of both researchers and practitioners for a long time. It has been argued that the implementation of a certain Management control style in subsidiaries in post-acquisition phase is contingent to some factors such as the reason behind acquisition and the strategy of the parent group (Moilanen, 2016). The main problem is the selection of the suitable control systems and the extent of centralization (Baliga and Jaeger, 1984). Yet, it is widely recognized that there is a need to some degree of integration of MACS between the newly acquired subsidiary and the parent group to make sure that the subsidiary performance is on the desired track (Jones, 1985a).

It is widely recognized that Jones (1985b) is the pioneer in this field of studying MACS in a post-acquisition scenario. The researcher conducts an empirical study during the first two years of post-acquisition in 30 organizations and found that the parent group cannot simply impose its MACS upon the subsidiary because the change might be a long and complicated process due to, among other things, employees’ resistance. Yet, the author concluded that the
process ends up by the dominance of the parent group over the reluctance of the subsidiary’s employees. The author observed that the acquired companies were typically not trusted and hence must be policed by the acquiring firms. Nevertheless, the research does not give explanation why there was lack of trust.

This is in line with change, Markus and Pfeffer (1983) who observed that human resistance was a major cause of systems failure. So, parent group should pay considerable attention to prevailing organizational cultures in the subsidiary and the consequent re-distribution of power.

In a later empirical study, Jones (1986) investigated two companies which were acquired under a very similar condition by the same parent group. The author found that, Prior to acquisition, the accounting control systems were closely aligned with the prevailing organizational cultures. The systems were determined by the dominant person or coalitions and were adapted to their style of management. After the acquisition, a deliberate or default destruction of the acquired companies’ pre-acquisitions accounting control systems occurred. pre-acquisitions controls were mostly informal and less formal which gives managers more flexibility to react quickly to changing situations. After the acquisition, accounting control systems were so much affected by the group hierarchical reporting requirements as well as by more open and participative styles of management. As a result, informal controls were replaced by more formal controls.

In his latest study on MACS after acquisition, Jones (1992) conducted interviews with senior managers of 17 companies to investigate why and how owner-managers changed their minds of the role and significance of accounting control systems following MBOs. The researcher found that “owner-managers used accounting control systems in a selective manner to facilitate changes in organizational structures and in the attitudes of participants, as well as to improve efficiency and profitability” (Jones, 1992, p. 151). This study is in line with contingency theory as it revealed that many Management accounting techniques continued to be used in the investigated companies even after the MBO, yet they applied differently. This is an indication to a move towards improving the fitting between accounting control systems and their organizational context.

Another researcher contributed to this area of research is Roberts (1990) who provided evidence of individual domination in the post-merger developments. The author also highlighted in his analysis some issues arise in the post-merger era such as power games and establishment of (new) organizational rules, norms and values. Yet the author neglected analysing the evolution of the Management accounting system of the involved companies (Grandlund, 2003).
While Grandlund (2003) conducted an empirical study that examined management accounting system change post-acquisition, based on two companies that are similar in size, while having different cultures and MAS. The author found that the problems of post-acquisition management control seem to vary to a great extent depending on which context. This is also in line with contingent approach adopting by Jones (1985a, b, 1986). Furthermore, the results of Grandlund (2003) results are consistent with Jones (1986) that large acquirers are likely to impose change on MACS of the smaller acquiree. The author identified some significant factors that play a crucial role in deciding the outcome of the systems integration and the new system, developed post-acquisition such as goal ambiguity, cultural conflicts, unintended consequences and dominant individual. According to the author, it is important that the top management team (TMT) has clear goals for the integration process, not conflicting ones. This in turn will make the process well-understood and decision-making makes sense to the subsidiary. Also, it is significant to identify intended and unintended consequences of decision-taking. Both goal ambiguity and unintended consequences can lead to the longevity of the integration process and the complication of its start (ibid, 2003).

Hofstede (1978) is one of the pioneers studying organizational culture effects on MCS. He argues that the management control system should be based on self-control-oriented, quasi-autonomous groups in order to be capable of adapting to managerial needs. Through negotiation and ongoing correction of errors, employees' goals can eventually combine with and serve managerial purposes. Accordingly, management control system conception should be built on political variables, cultural values, managerial judgment, and negotiation. This in turn will give management control system the flexibility needed to unfold in accordance with the demands posed by a number of different situations and contexts. Thus, each company should conceive of its own management control system design in accordance with its own goals.

It has been argued that management control system can be used as standardizers as well as stabilizers of organizational action (Burns and Scapens, 2000). Management control system provides information that can be used in coordination and control organizational activities, regardless what their physical location (Emmanuel and Otely, 1990). MAS can also stabilize action through using for coordination in turbulent times (Macintosh and Scapens, 1991). In that sense, MAS provide a common language (Dent, 1991) that enable organizations to be well-functioned. This is often done through common technology which is used throughout the organization to enable coordination and control, as well as to make general operation of the organization visible and thereby measurable, comparable, and manageable (Hopwood, 1987). The lack of a common accounting system and language could make coordination and
management of organizational units impossible missions due to the absence of the decisive tool of coordination and stabilization. Thus, in acquisition, it is of great importance to have a common accounting system and language to avoid organizational instability (Grandlund, 2003). The is crucial especially with geographically dispersed subsidiaries due to the absence of common vehicle for communication and hence for decision-making and control (Lukka, 2001).

Therefore, in order to tackle geographic dispersion and heterogeneity issues, international companies often develop standardized MC practices that based on common and integrated systems, in order to allow them to have a better control over subsidiaries (Granlund and Lukka, 1998; Oliveira and Drury, 2006; Cruz, Scapens and Major, 2011). Yet, integration is problematic and closely dependent on contextual factors, that is why contingency theory is the most prominent field to explain this phenomenon. This is in line with Jones (1985a) and Shanley and Correa (1992) who argue that facilitating organizational integration makes companies engage into a wider range of more sophisticated and harder types of MACS. As a result, in most of the acquisition processes, significant changes in the design and use of MACS take place (Jones, 1985b).

In similar vein, Jones (1986), Grandlund (2003) emphasizes the important role of individual in accounting system design and integration process, since dominant preference of dominant individuals or coalitions may exist and influence the process. For example, it is important to understand the role of controllers in the process, with two different MA cultures.

Yazdifar, Zaman, Tsamenyi and Askrarny (2006), conducted an empirical study that draws on institutional theories and a power mobilization framework to examine the implication when a UK chemicals company imposed its systems and rules on a new subsidiary. The authors found that the implementation of MACS change is complicated and hence should take into consideration the importance of power, politics, and culture in facilitating or preventing change. The authors also found that the role of the management accountant in the subsidiary company

---

11 Hardy (1996) developed a framework of power encompassing four dimensions: (1) Power over resources as actors deploy (or restrict) key resources to modify the behavior of others; (2) Power over decision making processes; (3) Power over meaning by influencing perceptions, cognitions and/or preferences to make people accept the status quo; (4) Power of the system refers to the ‘unconscious acceptance’ of existing, prevalent organizational values, cultures and structure.
was influenced by its parent companies. The role has changed from tactical that has no effect on managers’ decision making, working with budgeting and consolidating management accounts for reporting to Group, to strategic one that impacts managers decision making and ensure aligning with group’s strategy. Furthermore, the authors found that institutional pressures are not confined only to public and not-for-profit organizations, rather private sector organization face institutional pressures as well. Yet this may due to the use of a company operating in chemical industry as a case study and thus this case may not be applicable to all sectors.

Only a few studies that have discussed the phenomenon of localization regarding global accounting systems, one of these study is the study of Barrett, Cooper and Jamal (2005), which discussed this phenomenon in audit firms. The researchers found that local audit teams used the accounting firm’s coordinating mechanisms to manage the teams’ activities in the audit of a multinational client. Yet they observed that the local auditors adapt these mechanisms to “work” for them and fit the local context and clients. As a result, the authors noted variability across the different offices, and strengthening of connections to the specificities of the local as well. The authors came to a conclusion that despite that locals reproduce and “mimic” global systems, they also appropriate and reshape them. This is resulted in a sort of fragmentation but also convergence. Fragmentation stimulated by local practices and local knowledge, which undermine the global system when it was re-embedded. This is consistent with Giddens (1990, 1991) who argued that global systems are either supported or undermined by the re-embedded (local) contexts of action.

In line with this Ahrens and Chapman’s (2007) conduct an empirical study to examine how the MC carried out in a UK restaurant chain operated in situ. The authors came to conclusions similar to Barrett et al (2005) that accounting practices, rules and managerial intents of the global accounting systems were incorporated, but also contextualize to fit the local contexts. In that sense, there is a sort of interaction between globalization of MACS and localization, as homogenization and heterogenization have become complementary trends in modern economy. The authors conclude that organizational members considered accounting as a shared resource to organize their day-to-day actions and to achieve both their own and other organizational objectives and goals. This in turn led to reconstituting/ reshaping accounting practices to fit the context.

Thus, both Ahrens and Chapman (2007), and Barrett et al. (2005) view organizational participants as active actors that influence global MAS.
This is consistent with Cruz et al. (2011) who conducted one more study that dealing with localization, examining whether global MCS, can be simply reproduced when they are enacted at the local level, or it is the other way around, MCS are reshaped to fit the local. The authors argue that both Ahrens and Chapman (2007), and Barrett et al. (2005) studies are in line with Miller (2001, p. 394) who argued that accounting practices “[…] are always intrinsically linked to a particular strategic or programmatic ambition” “i.e. to increase efficiency, to promote economic growth, to encourage responsibility and/or to improve decision making” (Cruz et al., 2011, p. 415). The authors in their study noted a process of globalization leads to “standardization of a global MC system and the subsequent homogenization of MC practices as it was reproduced locally” (Cruz et al. 2011, p 424). Yet, in line with Barrett et al. (2005), the authors found that the locals did not exactly reproduce/copy the global MC system, but they reshaped it to make it work for them. This is resulted in distinctive (heterogeneous) practices and the locals which were enacted alongside the global MC system. However, the variation (heterogeneity) was inspired/derived largely from the global MC system. In that sense, implementing global MC system is a process, within it, locals learn from what it brings with it and, where necessary, they reshape/adapt it to the specificities of their context. This in turn give the local a sort of uniqueness and differentiation from the global that enable them to not only pursue the objectives of the parent group, but also their objectives. This is consistent with the argument that diverse understandings, rules, interests and objectives can be existed at the different levels in the organization. So, the local managers may have diverse understandings and objectives that they seek to pursue, alongside supporting the actions and achieving the intentions of the parent group.

The authors argue that facilitating the enactment of global systems, to some extent relies on, heterogeneous local practices. Put simply, localization is necessary and complementary to globalization, enabling global MAS to take place but with retaining the identity of the local. Therefore, Cruz et al. (2011) saw things differently to Barrett et al. (2005). In particular, they argued that the variety that emerges locally is essential for the re-embedding of global systems because it complements them rather than necessarily undermines, or works against them.

Notwithstanding, practice diversification within global groups, due to localization, can lead to the presence of loosely coupled systems phenomenon (Orton and Weick, 1990). According to this phenomenon, some components within the system will act responsively to outside forces to provide flexibility, while others act independently without affecting by outside forces to provide stability. In his words “acting both on technical level which is closed to outside forces (coupling produces stability), and on institutional level, which is open to outside forces
(looseness produces flexibility)” (ibid, 1990, p. 205). Coupling refers to the linkage and determinacy of those elements, while loosely denotes that these components are subject to spontaneous changes and hence preserve some degree of independency (ibid, 1990). In that sense, the system will be characterized by some contradictions “simultaneously open and closed, indeterminate and rational, spontaneous and deliberate” (ibid, p. 205).

To conclude this section, Moilanen (2012), conducted an empirical study on the integration of MACS in three groups and their subsidiaries. The author came to a conclusion that a MACS as a loosely coupled system “not only ensures the adaptation and stability of the existing ways of thinking, but actually helps in creating new ways of thinking” (ibid, 2012 p. 137). This line of thought is consistent with Lukka (2007), who argues that it is crucial for any loosely coupled system in order to survive and function in the long term, that the firm evolve, adapt and develop new ways of thinking to face the functional requirements it comes across.

3.5 Summary

We discussed three main themes in this chapter:

First, corporate governance and control of subsidiaries. The headquarter–subsidiary relationship have traditionally been viewed as a vertical relation (Mouritsen, 1995), in which the headquarter have a superior authority. The parent company can adjust subsidiary’s structure to direct the behaviour toward the implementation of the intended strategy and hence achieve goal congruence. Three different approaches can be used to influence subsidiaries’ structures; multinational, global, and transnational (Bartlett and Ghoshal, 1993; Dent, 1996). However, we need to take corporate governance national differences into consideration while applying these strategies and mechanisms. We have identified three types of inter-organizational control that can be applied to parent-subsidiary relationship, namely outcome controls, Behaviour controls, and social controls. A combination of these controls is preferable to achieve inter-organizational control.

Second, M&A theories and driving forces for success and failure. More than 28 different theories have been used to investigate M&As. We chose to discuss the most prominent, particularly, organizational theory, principal-agent theory, institutional theory, and contingency theory. Due to the international context of our study, we chose to use contingency theory as a framework in our analysis. We have identified a number of driving forces for success and failure in post-acquisition phase including strategic fit, organizational fit, management style, similarity in cultures, systems and structures, and human resource. Companies need to develop a shared
organizational identity and identification within the new organization and developing a new organizational design (Sherman, 2010; Colman et al., 2011). The Organizational new design can enable combining the merging parties’ processes, capabilities and resources (Colman et al. 2011).

Third, the tension between lean and traditional budget. Lean is based on decentralization, employees’ empowerment, transparency, and informal controls. While, traditional budget encourages governmental mind-set that based on centralization, command and order to assign responsibilities, and formal controls. In production, an organization that strives for cost reduction, adopting the traditional budget approach, will be eager to maximize its capacity utilization. This in turn will lead to excess inventory which is against the core principle of lean and JIT. Hence, if traditional control systems moved through the hierarchy down in a lean organization, the core aspects in lean philosophy will be destroyed (Maskell et al. 2012; Johnson, 2006). To address the weakness of traditional budget, rolling forecast has been emerged to serve either as an alternative to budget or to support budget. Rolling forecast can cope with dynamic business environment by providing a company with the luxury to foresee risks and opportunities and scope uncertainties. However, we emphasized that the success rolling forecast and budget in an organization is dependent on the way they interact with informal controls within the organizations. MACS do not operate in isolation but rather in a package that includes formal and informal controls. Finally, we concluded this section by discussing a number of containment mechanism to ease the tension between budget and lean.

Finally, we conclude the chapter with literature review to connect the three themes.
3.6 Research model

Within the framework of this study and based on our theoretical discussions to different frameworks in this chapter, we have come up with a research model that can guide us in conducting the empirics and analysis. We have identified a number of dimensions that are interdependent. The figure below shows the vertical relationship between parent and subsidiary. The parent company relies mainly on a number of strategies and controls to ensure goal congruence and achieve full integration. However, the full integration is to a large extent contingent on a number of contextual factors that determine the extent of matching and fitting between the two companies. If there is compatibility between them then the integration of MACS will be easier and faster to take place. If not, the subsidiary can ease the tension between the two MACS through a number of mechanisms.

Figure (2) shows our research model which is self-designed.
Chapter Four: Empirics

4.1 Case context: Scania Corporate Governance, the Clash of the titans

Despite that our focus in the thesis is on the post-acquisition phase, we find it relevant to give a proper background to the situation before the acquisition. It is very important to understand that acquisition of Scania by the VW was not all of the sudden, rather it was a long process and fierce battle between very large corporations. To fully grasp the activities of the actors and processes involved, it is necessary to examine events during the period 1999–2014. In that regard, we will follow the description of Nachemson-Ekwall (2015) who studied the cross-border hostile bid fight between Scania in Sweden and the two German companies MAN and Volkswagen during this period.

Taking advancing globalization into account, starting from the 1970s and the following 25 years, consolidation wave took over the global commercial vehicle industry. By the turn of the millennium, the number of players decreased from 25 to six or seven. One remarkable example occurred in 1998, when the German giant Daimler-Benz merged with the US-based Chrysler to form DaimlerChrysler AG. At the time, Scania continued to be an independent and highly profitable niche player. To gain economies of scale in production, Scania had a different strategy, instead of seeking M&A, the company preferred to rely on its alliances to achieve economies of scale.

Beginning with 1996, Scania was relisted to the SSE. The major stakeholder was the Wallenberg Foundations and Investor (a listed investment company controlled by the same Foundations), with over 45% but less than 50% of capital and votes. The control of Scania can be seen as a typical Swedish pyramidal-control structure, where the Wallenberg family controlled Investor through the Wallenberg Foundation and equipped by A and B shares. In 1999, Investor decided to divest the rest of Scania and the negotiations were held with VW to seal a deal. In the end, the two parties failed to reach a deal. This in turn opens the door for Volvo, another large Swedish vehicle producer, to invest in Scania. Volvo was not welcomed by the management of Scania especially because the two companies are in direct competition. Yet, this did not prevent Volvo to make a hostile move. On January 15th, 1999, Volvo bought 13% of the shares at Scania. On August 6th, 1999, Volvo bought investor’s shares at Scania to have 30.6% of the voting power and 45.5% of the shares. Investor, in turn, received 10% of the shares at Volvo. However, in 2000, the EU blocked the merge which negatively affected the

---

12 The author worked previously as financial journalist for different media in Stockholm during the years 1998–2008, in which she frequently covered Scania news.
share price of Scania. Accordingly, Volvo chose to merge with the vehicle division of French state-controlled Renault, while Investor decided to sell 34% of the votes (18.7 % of the capital) in Scania to VW, holding just 16% of the votes (12.8 % of the capital).

Accordingly, at the time, VW did not have enough shares (34% below the 40% threshold) to trigger the MBR. At the same time, VW management was disappointed due to the constant rejection of Scania to all suggestions of joint-projects with VW. Leif Östling, the former CEO of Scania, insisted that Scania should be viewed as a niche company and that synergies between automotive and heavy vehicles were lacking. In line with that, in 2002 Scania started cooperative agreements with MAN on the production of some components. Yet, the result of this cooperation did not live up to expectations which caused frustration to the MAN management.

While, Volvo struggled to sell its shares at the time, leading the company to spin off the holding through the vehicle Ainax. Ainax is an investment company was created in summer 2004, not listed in the main SSE list, with asset made up of Scania A-shares, consisting of 24.8% of the votes (13.7% of shares). The Wallenbergs and Investor utilized this situation to buy 15% of shares and hence they surpassed the 30% threshold yet they claim to act independently. Thus, neither the Wallenbergs nor Investor had the right to trigger the MBR. In winter 2004, Scania was able to buy all the shares of Ainax. In the summer of 2006, the Wallenberg shares amounted to 16.5% with 29.9% of voting power. Back then, the Wallenberg and Investor were still claimed “officially” to act separately.

In 2006, MAN tried to convince VW to sell its shares (18.7%) in Scania yet the CEO, Leif Östling, did not like the idea. MAN, even proposed the idea of merging with Scania, yet the offer was denied mainly due to concerns about both German corporate governance and the price. Then MAN tried to make a hostile takeover, offering the largest cash-bid ever at the SSE, however VW and Investor refused to sell. In a counter attack, in 2006, VW bought about 20% of shares in MAN while MAN ended up with just 15.6% of the votes in Scania. At the time, Scania unions claimed the German labour laws would negatively affect Scania’s Swedish operations. In the Swedish media, they talked about some rumours of a counter bid from Scania (Dagens industry, 2006 cited in Nachemson-Ekwall, 2015). In the end of 2006, Investor managed to buy 0.3% of the shares and hence the Wallenberg Group’s share went beyond 30%.

---

13 This claim was met by anger from the minority and the Swedish business community taken into consideration that Claes Dahlbäck, chairman of Investor, chaired both NBK and the ideas of best practice among stock-market actors through the Securities Council
However, Wallenberg did not have the right to trigger MBR because VW still has a bigger share of votes (34%). The battle between VW and the Wallenberg Group ended up as VW bought all of the Wallenberg’s shares in Scania to increase its shares to 37.7% of capital and the voting power to 68.6%. MAN, in return, was able to buy VW’s Brazilian truck and bus operations in December 2008, to become the third largest commercial vehicle producer worldwide behind Volvo and Daimler-Chrysler.

In the following years VW continued to increase its influence in MAN and Scania. In the end of 2009, the CEO and the CFO at MAN were dismissed. While in Scania, VW was able to replace two independent directors to strengthen its control over the board. In the summer of 2011, VW won the battle against MAN with controlling of 56% of the voting rights and 54% of the capital of MAN, establishing a Group Trucks within VW.

2012 was remarkably witnessed various personal interlocks on three levels: First level, on the owner levels, VW controlled 75% of the shares in MAN and 71% of votes (46% of capital) in Scania. Given that MAN held 17% of votes (13% of capital) in Scania, so VW directly and indirectly was in control of 88% of votes (59% of capital). Second level, in the board levels, VW became very influential through the dominance of the both boards where four of the VW directors became also directors on both the MAN and Scania boards. The total number of directors under the control of VW increased to reach, five out of eight shareholder representatives on the supervisory board of MAN as well as six out of eight directors on the board of Scania. Third level, in the management level, Östling, the CEO of Scania became a member of the executive board of VW in 2012. VW selected also a manager in Scania to lead MAN’s subsidiary of trucks and buses. Also, a number of VW executives joined Scania and MAN executives joined VW. Therefore, the tri-party merger was finally sealed with a full management integration which left the minority in MAN and Scania powerless.

In 2013 VW gained a full strategic and financial control over MAN through the so-called ‘domination and profit and loss transfer agreement’. This entailed that VW would bear the consequences of any agreement with MAN, while other stakeholders granted fixed dividends. In Scania case, VW started to provoke the minority stakeholders. In a clear breach of the Swedish code of corporate governance, ahead of the Scania Annual General Meeting (AGM) in May 2013, VW decided to abandon the externally composed nomination committee. This in turn left the minority with 38% of shares without impact. At the time VW held 62.6% of Scania's capital, equal to nearly 90% of Scania's voting rights. After that, while representing the result of the year, for the first time ever in Scania history, the board decided to decrease the dividends. This in turn resulted in more tension between VW and the minority. On 21 February
2014, VW offered a generous bid for the minority paying SEK 200 per share, a premium of 50 % over stock price and valuing the whole Scania-company to SEK 160 billion. Östling welcomed the bid and simultaneously announce his resignation after 30 years in the industry to mark the end of an important chapter of the Scania’s history. Initially, VW estimated the cost saving after the acquisition to reach € 200 million, mainly from procurement. The bid was initially turned down by the board of directors, claiming that the share price was underestimated. The bid was also rejected by four of the largest Swedish institutional investors, representing 6.5 % of capital. Big concerns, regarding job cuts and transfer Scania's technology to Germany, were raised by the Swedish union, representing 9300 employees. To ease the tension, VW promised the union not to carry out mass layoffs or shut down R&D centres and pledged to retain the Scania brand.

Figure (3) is Chronology of the deals from Nachemson-Ekwall (2017) and shows VW takeover process of Scania 2000–2014, where the left column illustrates votes % (shares %), the middle row lists dates and activities and the right row mentions relevant board changes.
This led Swedbank Robur with 2.5% of the shares to accept VW’s bid, looking for more sustainable investment. As a result, by 13 May 2014, VW surpassed 90% of control over Scania to end the battle. The Swedish government welcomed VW as an owner for Scania as Annie Lööf, Sweden's Minister of Enterprise, quoted saying that she expected VW to "continue to develop the company and safeguard Swedish jobs and Swedish research and development." (cited in Nachemson-Ekwall, 2015). The price offered by VW was not the critical factor to seal the deal, rather concerns over the lack of minority-shareholder protection. Finally, on 5 June Scania was delisted from the SSE. Since then, Volkswagen Truck and Bus GmbH (‘VWTB’) is the holding company for Scania and MAN.

4.2 What do we know from the media about the Post-acquisition phase

Swedish and international media are full of news about Scania and VW acquisition. So, we decided to make a brief summary about what we already know about that. This part is based on Swedish and international media such as (New York Times, automotive world, Dagens Industri, SvD Näringsliv, etc.)

VW has a strategic objective of developing an integrated commercial vehicles group to create a global champion based on its subsidiaries Scania and MAN. After taking full control over Scania in 2014 and spending billions of euros, VW made little headway on integration to achieve the estimated annual synergies in terms of cost saving and technology sharing. Truck models differ significantly from region to region, and cyclical market swings in demand can be big, which make it hard to achieve economies of scale. VW appointed Andreas Renschler in 2015 as a trucks chief, coming from Daimler, the world's largest truckmaker, mainly to strengthen the ties between MAN and Scania and create the world market leader to overtake Daimler. According to europe.autonews.com (May 26, 2016), VW managed to cut costs with 200 million euros mainly in purchasing, even in 2016 the company recorded a similar savings (Automotive World, December 2017), yet this did not meet estimations. However, in May 2016, Renschler gave a positive signal that the integration between MAN and Scania made progress after years of tepid results. As VW raised its target for cost cuts to 1 billion euros ($1.12 billion). Renschler quoted saying "We have identified a very realistic long-term synergy potential… making progress at high speed". For instance, the two companies started to develop gearboxes together and combine manufacturing facilities in Russia as well as started working jointly on logistics, IT systems and smaller truck components. This corresponds to one of the motives of
the merger; achieving synergies in product development, mainly in having common platforms. VW has also merged Scania, MAN and its operation that manufactures heavy trucks in Latin America into the Truck and Bus GmbH holding company.

In September 2015, VW hit with emission scandal which left the company with the worst year (2016) in its history. The scandal triggered a management revamp at the parent company and gave the automaker's 12 brands more leeway to make their own choices. For the VWTB, the possibility of being spun off has risen remarkably. Given the challenges that VW has faced and constrained the integration, management must get to grips with the integration issues to achieve its strategic objectives. Renschler has quoted saying that VW has a culture issue with a profound hierarchical system that constrains freedom of expression to generate discussions. He argued that “the name of the game in Germany is hierarchy”. This in turn makes communication very difficult between employees at different levels and also makes it hard to ensure that everyone supports organization’s visions, goals and strategies.

In 2018, Scania and MAN get ready for listing as the VW has undergone one of the most dramatic changes in the group’s history. A major re-structure has taken place, even at the top-level management as the CEO, Matthias Müller, was fired and replaced by Herbert Diess (SVD, Näringsliv, 12 April 2018). The new structure encourages decentralization to enable communication. It is expected that VW will trade Truck division separately in the stoke market as a try to expand the business.

4.3 Case Study of Scania

4.3.1 Introduction

According to Jannesson, Nilsson and Kirkrgaard, (2014), Scania retained its strong identity and remained remarkably consistent in its competitive positioning at all times. Its unique identity has contributed excessively to its success as a leading company in terms of profitability and brand. The company has had stable growth over more than half a century. The financial crisis had a negative impact on the company, however the effect was relatively less in comparison with other companies working in the branch.

According to the annual report (2017), Scania’s portfolio contains heavy trucks, buses and engines for industrial and marine applications. Service-related products also account for a growing share of its revenues (23 727 Millard Swedish Crown in 2017). Scania is the world’s third largest make for heavy trucks and the world’s third largest make in the heavy bus segment.
According to the annual report (2017), Scania has developed its own production system, Scania Production System (SPS), based on its cooperation with Toyota. The basis for this system is three core values; customer first, respect for individual and quality. Modularization is at the heart of the process of creating a large number of possible combinations with as few components as possible. Scania’s modular product system enables them to have the best of both worlds the highest degree of customisation in its customer offer as well as economies of scale in R&D and the supply chain. Its modular product system is unique in a way that enables Scania to tailor each vehicle to specific transport purpose, providing customers with better overall operating economy and cost- effective transport solutions (Jannesson et al, 2014).

According to the company website, Scania is a customer-focused- based company as customers are the driving force for all activities the company does. They create customer value in two ways: increasing the operator’s revenue and reducing his costs (see figure). As a result, customers believe in the quality of the truck that can run for ever.

The main goal for Scania is to grow with sustained profitability and to create shareholder value. The Scania strategy is summarised in two words: profitable growth.

Scania operates with a great emphasize on sustainability initiatives. Scania’s aim is to “drive the shift towards a sustainable transport system, creating a world of mobility that is better for business, society and the environment” (annual report, 2017, p 3). In the annual report (2017), the CEO, Henrik Henriksson, describes the company performance as a historic. Scania enjoyed record net sales and volumes associated with high demand and positive development in most regions. In 2017, Scania sold 82 472 trucks, 8 305 buses and coaches, and 8 521 engines. The net sales were 119 713 Millard Swedish Kronor (SEK m.), operating income 12 434 SEK m., with number of employees counted for 49 263. Scania also has 24.5% return on capital employed (ROCE) (ibid).

The figures below illustrate the financial performance of Scania. Net sales and operating incomes have been increased during the last five years. In 2017, Scania has recovered very well in terms of operating margin which has been declined in 2016. Scania has been a member of the VW Group since 2014. No remarkable changes regarding the financial performance after
acquisition. This is in line with Dimitris Karagianis, business controller at Scania who states that

“Our financial performance has not been effected after the acquisition as we still have more or less the same financial results”
(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

Figure (5) is adapted from the annual report (2017) and shows that Scania has, a more or less, a stable operating margin during the last five years.

Figure (6) is self-designed based on the figures reported in the annual reports of the three companies. Overall, Scania has a better operating margin than the other firms.
4.3.2 Scania Strategy

According to Scania website, Scania’s business strategy based on three core values that influence its day-to-day work. customer first, respect for the individual and quality are closely linked and applied in unity. Scania always puts customer first which enables the company to have very loyal customers. Through diversification, customization, and personalization of its trucks, the company has been able to build strong relations with customers, providing all the services related to transportation such as insurance, financial services, transportation solutions, etc. It is one stop shop, where the whole package, not only the truck, is in place. Tailor maid trucks that fit with customer needs are provided through module based production. So, each vehicle produced by Scania can be customized and turn into a masterpiece.

Scania operates in line with lean methodology that has been described as

“Lean is a very good philosophy that has contributed to Scania’s success. Our Goal is that we instill lean thinking and make the entire organization breathes lean. It is not about what we do it is about how we think about that”.
(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

In line with this

“We are always working with elimination of waste. All the data bases. When we start the production in the morning, they have the board where they write things that we need to improve to eliminate waste”
(Hans Andersson, CFO, Cab Factory, Oskarshamn, Seminar, 017-09-22)

According to Jannesson et al. (2014), customer loyalty is the driving force behind Scania’s success. Scania works on demand as It takes 181 days to manufacture and deliver the truck, however customer think that it worth waiting for something that really good. Customer loyalty is due to quality and durability of a truck that can run forever. Key success factors behind this are; service network is everywhere, operating cost is relatively less than their competitors, good fuel economy, and truck customization.

This is in line with one of the business controllers’ view

“We are a customer-focused company. Internally, every department has a customer to serve. Externally, we must have reliable suppliers. If everyone in the supply chain finish the work in time, we will deliver in time for the external customer”
(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

Jannesson et al. (2014) argue that strategies in Scania change gradually rather than through revolutions. Strategy is remarkably stable; market target has been premium segment throughout its modern history. Decisions on volumes etc. cascaded from strategic updates after the annual
meeting where 350 of Scania’s top executives gather for a two-day meeting. Strategic updates include overarching strategies and key metrics, and used as the standing point for management control. Coherence is a key success.

According to the same authors, one distinctive feature in Scania is that capacity is planned for expected demand. Production is initiated only when there is a customer order. This can lead to more fluctuation in production. Flexible production is necessary to adapt with such uncertainty. JIT and first in first out is followed in inventory control. Warehouse system is unique where robots doing all the work.

Production philosophy, SPS, inspired by Toyota, in which lean and Kaizen are deployed. while lean system based on waste elimination, Kaizen denotes continuous improvement and that big results come from many small changes accumulated over time. In his words

“We have a group that work with Kaizen, every week they move from place to place in production trying to create activities and discussions that can be resulted in improvements in working methods. Managers have a number of KPIs that create a full picture about their business areas. if a problem is observed through this then they start with their Kaizen. It is a cooperation between plant floor managers and us as we can provide them with economic analysis about the problem and the potential causes. We have several forums where a problem can be discussed so there are several sources of information to guide Kaizen group”

(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

SPS is based on the smooth production flow with no buffers and no stops. The whole production chain adjusted to a normalized pace “Takt” in order to make it easier to spot deviations. SPS is a process-based system in which working methods are standardized. This is in line with our empirics

“Scania works using the same methods in their plants worldwide. lean philosophy makes things easier and creates standardization of the flow and processes. Our strategy is that any person who can work here can work elsewhere in Scania group. For example, If I will go to Holland I will work exactly by the same way. So, it is easier for employees to move anywhere and work by the same manner. We are a process-based company in which you can change the person but the process remains the same. Processes are standardized and hence are not affected if individuals are changed”

(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

Strategy visualization can be remarkably observed in Scania. It is a central aspect in its MACS to increase the strategic awareness and to generate ongoing dialogue among employees. We saw that ourselves in the entrance of Scania’s plant in Oskarshamn where one can see a very large diagram that illustrates Kaizen. It is important to remind employees about the organization’s strategy in order to guide the whole organization in the desired direction of the chosen strategy. In line with this,
“We have tables and pictures everywhere in many areas to visualize our strategy. This makes people in the plant floor close to management, at the same time it generates a strategic dialogue where everyone feel that he/she has a role to play that contribute to strategy implementation”.
(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

4.3.3 MACS in Scania

One controller describes MACS as decentralized and based on communication. In his words,

“We are a process-based company. Lean and Kaizen are instilled even in the lower levels in the organization. This is in line with lean “to control the organization bottom-up control” you cannot seat up in the pyramid and decide how the people in the lower levels should work, but rather it should come from the bottom. It is even a challenge for us as controllers, because lean encourages decentralization. Employees are not dependent on the “boss” to say to them do this and that. The challenge is to give employees the freedom to innovate and produce, at the same time to control this”.
(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

In line with this,

“We have a huge involvement from everyone in the organization. Everyone aware that he/she have an impact. Everyone try to have an involvement from bottom up. This is totally different from Volvo from where I was before”.
(Hans Andersson, CFO, Cab Factory, Oskarshamn, Seminar, 017-09-22)

According to the CFO, Scania uses lean accounting that incorporates TC, kaizen and JIT. This supports Scania to operate effectively with a limited number of resources, reducing lead time on orders, reducing transportation, improving the quality and quickly solving the problems when appear. Scania incorporate also ABC with lean costing methods mainly to calculate overheads (ibid).

Jannesson et al., (2014), in line with Anjou (2008) described MACS in Scania as tight and loose, using both monetary and non-monetary information. Monetary metrics (tight) control for cost, and non-monetary metrics (loose) control for quality. In production plants all over the world, Scania uses rolling forecasts instead of budgetary control system. Cab factory in Oskarshamn is no exception, as business controllers there use a limited number of KPIs, both financial and non-financial, to measure and control the performance. According to Alexander Adelgren, business controller at Scania cab Oskarshamn,

“Some of Scania's most important KPIs are: Cost per cab, Cab per employee, Overall Production Efficiency (OPE), and direct cash flow”
(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

In line with this the CFO highlights additional KPIs
“We focus on CAPEX. Also on production cost per cab. We try to follow up that on the production manager level. We also follow up what is the cost per month; what is the deviation from last periods, is it connected to volume, costs”

(Hans Andersson, CFO, Cab Factory, Oskarshamn, Seminar, 017-09-22)

Other KPIs that have been mentioned in the interviews and the seminar, but have not been described as the most important are

“Number of work injuries, number of errors, number of educational visits to other units”

(Business Controllers & CFO, Cab Factory, Oskarshamn)

All the mentioned indicators are actually self-explained except OPE. OPE is crucial for SPS because it enables Scania manages to optimally control all processes on and around the production line and hence allowing Scania to fully exploit the huge performance potentials of SPS. According to Ljungberg (2000), OPE is an important major internal planning tool. It checks the entire manufacturing process, including unconnected processes that may not be captured on the machine or line level to identify productivity killers across all production steps. OPE is calculated by multiplying the Equipment Availability and Performance and Quality KPIs with each other. The data for the OPE calculation can be collected by either the production employees through forms that are posted on the factory floor or software that analyze the data more quickly and efficiently. OPE can discover small weak spots in the production flow that probably will turn out to be serious efficiency killers in the overall process. And that is where the business controllers notify plants managers to take actions. OPE also help business controllers to run individual efficiency assessment.

In similar vein, Karagianis, business controller, emphasizes the focus on drivers and not cost in itself

“In our work, we use a mix of standard cost and ABC. Yet, we never talk about cost but we talk about the driver of the cost because it is easier for us to control using this driver. For example, our biggest cost is the labour force. Production manager decides on how much time it takes for specific assignment but we as business controllers can say it is too much. So, instead of focusing on the cost of employees, we discuss with plant managers about the number of employees and the time taken to do the task as the drivers for the cost. We focus on the drivers, discuss the results with operations managers, suggest new ways, and provide solutions to the problems”

(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

Karagianis views his role as a business controller similar to a facilitator who helps plants managers to improve the performance, he states
“It is very important to make it easier for employees and that we measure the right things…. control is about measuring the right things which operations managers can understand and can act on, there is no reason to measure things that managers cannot work on to improve”.
(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

Business Controllers are well aware, that it is crucial to talk the language of engineering and production in order to communicate well with employees and managers throughout the organization.

“It is very important that we speak the same language of production and engineering. We are engineering-driven company, so we talk so much techniques and engineering. For example, we do not talk about the cost but we talk about the number of employees. If I speak with an accountant, I will discuss with him income statement and go through every element in the statement but when we talk with operations manager we must remove everything and talk about what affect the cost not the cost itself. The cost can be affected by material, number of employees, energy costs, maintenance cost etc.”
(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

Financial data based on operational data and no separation between them but communication, so financial data is the accumulation of everything happen. This means that financial data is not just abstracted numbers and that operational data is relatively more important. This also is mirrored in the MACS

“Non-financial measures are more important than the financial ones. This is consistent with our culture”
(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

Meeting culture is prevailed at Scania However, the attitude has been change a pit after the acquisition.

“We have meetings on weekly and monthly basis with managers on the plant floor including production managers, factory manager and other managers. During these meetings, we discuss the KPIs and prepare forecasting together present it for managers to generate discussion. We aggregate this and report to Södertälje using Hyperion. Today, we are more direct. We focus more on what is really matter just now and we try to make prioritizing”
(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

Evaluation and bonus system focus on teams rather than individuals. Reward is not based on hitting financial targets, rather Scania use non-monetary targets that are consistent with key metrics and that can be followed on daily basis. For instance, number of trucks per employee, resolved deviations.
“Reward system at Scania is linked to results, it is result bonus. The system is based on the entire company performance and not individual performance”.
(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

4.4 The VW Group

All the data in this section is collected from volkswagenag.com, in addition to the annual report (2017).

4.4.1 The Group Structure

VW Group is one of the leading multi-brand groups in the automotive industry. The Group’s business activities consist of the Automotive and Financial Services divisions. All brands within the Automotive Division, with the exception of the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands, are independent legal entities. The Automotive Division consists of the Passenger Cars, Commercial Vehicles and Power Engineering business areas. The Commercial Vehicles Business Area mainly encompasses the development, production and sale of light commercial vehicles, trucks and buses from the Volkswagen Commercial Vehicles, Scania and MAN brands, the corresponding genuine parts business and related services. The collaboration between the MAN and Scania commercial vehicle brands is managed and coordinated under the umbrella of Volkswagen Truck & Bus GmbH.

4.4.2 The Group Strategy

VW has launched in 2016 the biggest change process in VW history that resulted in the future program TOGETHER – Strategy 2025. The program outlines the framework and lays the cornerstones for the new strategy of VW Group to achieve its vision of being one of the world’s leading providers of sustainable mobility. The Group strategy is composed of four building blocks; the transformation of the core automotive business, establishing a new mobility solutions business, intensifying our traditionally excellent innovative strength and placing it on an even broader footing, becoming one of the world’s leading providers of sustainable mobility calls for substantial capital expenditure. The goal is to make the Volkswagen Group more focused, efficient, innovative, customer-oriented and sustainable, and more systematically geared to generating profitable growth. As a part of the program, the code of collaboration has formulated to determine the core values of the Group; being “genuine”, “straightforward”, “open-minded”, “as equals” and “united”.
4.4.3 MACS in VW

To achieve its vision of being one of the world’s leading providers of sustainable mobility, VW Group relies on a number of target dimensions; excited customers, excellent employer, role model for the environment, safety and integrity, and competitive profitability. VW uses strategic KPIs to measure how well the Group are in strategy implementation. These strategic KPIs are largely dependent on the business model which differs among passenger car-producing brands as well as trucks and buses. It worth noting that the new Group strategy has yet to be specified in detail and hence the content of some strategic KPIs in is still being determined. Yet, the Group has already defined and reported on some of these strategic KPIs.

The focus in the group is to integrate Group and brand strategies with the operational planning process to enhance transparency regarding the financial assessment and the evaluation of directional decisions. VW conducts operational planning once a year to cover a period of five years. Operational planning is incorporated into the strategic planning as a key management element of the Group. The core of operational planning is Medium-term planning which is used to formulate and safeguard the requirements for realizing strategic projects designed to meet Group targets in both technical and economic terms – and particularly in relation to earnings, cash flow and liquidity effects. Medium-term planning is also used to coordinate all business areas with respect to the strategic action areas concerned: functions/ processes, products and markets. The individual planning components for every company within the Group re determined based on the timescale involved:

1- The long-term unit sales plan, which sets out market and segment growth and then derives the Volkswagen Group’s delivery volumes from them;
2- The product program as the strategic, long-term factor determining corporate policy;
3- Capacity and utilization planning for the individual sites.

The basis for the medium-term financial planning is the coordinated results of the upstream planning processes including the brands and business fields, comprises the income statement, cash flow and balance sheet planning, profitability and liquidity. First year in the medium-term planning period is fixed and a budget drawn up for the individual months. This in turn is planned in detail down to the level of the operating cost centers. The budget is reviewed on monthly basis throughout the year to determine the extent to which the targets have been achieved. Significant analysis techniques comprise target/ actual comparisons, prior-year comparisons, variance analyses and, if deemed necessary, action plans to ensure targets are met. For the current fiscal year, detailed revolving monthly forecasts are made for the coming three months
and the full year, taking into consideration the current risks and opportunities. Hence, the emphasize is on adapting ongoing operations. Simultaneously, the current forecast may serve as ongoing corrective to the medium-term and budget planning that follows on from it. According to VW website, MACS in the Group encompass both financial measures and nonfinancial KPIs. In particular, MACS in the VW Group rely on nine core KPIs, that are derived from the Group strategic goals. Two out of nine indicators were recently added in fiscal year 2017 in association with the future program TOGETHER – Strategy 2025:

(1) Research and development ratio (R&D ratio) in the Automotive Division (from 2017).
(2) Net liquidity in the Automotive Division (from 2017). the strategic target is formulated stating that net liquidity should amount to approximately 10% of the consolidated sales revenue
(3) Deliveries to customers (4) Sales revenue (5) Operating result (6) Operating return on sales (7) CAPEX (capital expenditure) /sales revenue in the Automotive Division (8) Net cash flow in the Automotive Division (9) Return on investment (ROI) in the Automotive Division

4.5 MACS of Post-acquisition phase at Scania

The data in this section is fully collected from interviews. Our strategy relies on giving the interviewees the full opportunity to describe the tension between the two-MACS as well as within Scania. When the business controller was asked about how Scania has managed the post-acquisition phase, he replied

“It is still a challenge for us, we still work on that. In the beginning of the acquisition, we did not observe any differences between Scania and VW. In the first 6 months, there was no difference at all. It took some time for us to realize the differences”

(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

Our pre-understanding for the situation at Scania is that the Scania and VW know each other very well based on the fact that the story of VW investment in Scania started from 2000, so the full acquisition was not all of the sudden but rather built up during 14 years in which there was a contact with VW. Accordingly, we thought that Scania is familiar with the methods by which VW does the business. It is not like Ford came, with no prior investment in Scania, and acquired Scania, yet the business controller has another perspective on that

“Actually, it is like that, before the full acquisition they were not allowed to take information from Scania “Know-how”. They could not simply come here and say to us, you should work like this or that. Now everything must go under the same system and all consolidation must happen using the same way. because VW is a listed Group in Germany and shareholders want to see how good the investments in other companies in the group are”

(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)
The business controller described the influence of VW on Scania as the following:

“Until now the affect is on the reporting process. We still have the same information systems but the control process is different. Before we did not have budget, we used to work with our rolling forecast every quarter. We look forward rather than looking behind. In rolling forecast, we have a limited number of drivers, not 100 lines like in the budgets. We analyse our key drivers and base our forecasts accordingly. And this is in line with the language that production managers can understand.”

(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

In similar vein:

“All of us have expectorations that some changes will take place. At least here in our finance department we have a complete understanding to why a company buy another company. And that some things will affect us. There has been a change in the process of management control, but I think that it has worked very good. Four times forecasting and then we have rolling follow up every year… we did not have any budget under 2015. Today, VW does not make demands on us that we must deliver specific financial results. So, in our level we feel that we still enjoy a responsible freedom. But it comes and this is VW way in doing job. it is notable although that demands from the higher level have been gradually increased, this is logical in my opinion, if we are part of a group then we should work the same way as the group. The logic is not wrong but it is difficult that we try to find a way to work with both logics. This is a conflict, it is difficult to put a finger on what exactly the problem, they are two different mind-sets. Scania still stuck with their old mind-set and the communications is still using the old logic. It is strange If we have done a forecast and then all of the sudden we start to follow up against “old” forecast based on budget. The production does not know about that but rather it is just us who tweak and try to manage this. Production set their forecasting regularly using rolling forecasting. But we are in the finance department aware of the fact that the forecasting that we set for the autumn will be used by Södertälje and VW as a budget and then we will follow up during the entire year (2019) against “one” forecasting.”

(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

He elaborated later on this:

“The budget has it effect on our forecasting analysis even when and how we do that. So, it becomes a pit not clear. In the fourth quarter, it is like a double task, we prepare the forecasting for the next quarter of the new year as well as we prepare the “forecasting” [budget] for the entire following year. Södertälje, in their turn, translate the providing rolling forecasts that based on drivers to budget that based on lines and details. It is budget we know that it is budget but we call it as a forecasting and we know that we will next year use this as a budget that we must compare with and follow up regularly during the entire year.”

(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

The business controller feels that it is a matter of time until VW business model would have impact on the plant floor level of Scania.
“Today, we still use the same ways and methods. There is almost no impact on production, but you can feel it, it comes. There are signals. For example, the gear box which Scania produce, VW wants to use it elsewhere within the group trucks. We used to make the whole production process ourselves, now they want to achieve synergy through using the same platform in all the trucks within the group. For doing so, they must go deep in details and have the so-called know-how from Scania. Volkswagen, Skoda, Seat are built on mechanically similar underpinnings, or ‘platforms’. Many SEATs, Skodas and Volkswagens have an analogue with other Volkswagen Group cars. They have too many similar parts, it is just the design what makes difference among them. And we expect the same strategy to be followed with the trucks within the group. This is to achieve synergy and cost effectiveness within the group”
(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

Regarding the reporting process differences after acquisition, the controller states

“VW are, somewhat, traditional using the budget system, while we use rolling forecast. VW works a lot with details and thus they want from us so many financial details when reporting. One level cannot have sufficient information if they do not go one level down in the hierarchy and ask about information. Just now, the budget logic is kept at the top level in the hierarchy, in the headquarter in Södertelje. We, as business controllers in Oskarshamn, still work as before. We report rolling forecasts monthly to Södertelje where the financial controllers there translate this to budget logic and then report to VW. Usually, questions can be raised from the headquarter in Södertelje but only when it is necessary because they do not want the reliance on financial control to spread down in the hierarchy”
(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

In line with this

“We know that Scania one level up use variance analysis and budgetary control system. They do not say it directly to us but we can understand this based on our way to compare with forecasting, which is a bit strange way. Hence, officially, we do not work with budget, but as an accountant, I know that we compare and make analysis using a budget approach. When questions come from Södertälje, of course I take these questions with the plant floor managers but I do not relate this to budget control. They work as usual with their analysis and forecasting that are based on lean. So, until now, budgetary control logic does not affect their ways in doing job, they work as they used always to do”.
(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

The business controller emphasize that they do their best to manage the two logics in parallel. On the one side, they want to keep it “secret” that the headquarter in Södertälje reports based on budget to VW. Additionally, they try to meet the requirements of the headquarter without affecting the plant floor. This is, to keep relying on non-financial measures. In his words
“I know that the budget logic is up there and I consider this in my work but I keep it to myself at this level, this is to say that I never talk with employees in the production about this logic or say VW say this and that but we should continue as we have always done”
(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

the CFO admitted it, budget is there in the headquarter in Södertälje.

“Now, it is in November, the budget. That was a problem for the whole management when we started to change. So now we are doing budget…. the forecast is for the fiscal year”.
(Hans Andersson, CFO, Cab Factory, Oskarshamn, Seminar, 017-09-22)

We know from our literature review that there are major distinctive features between budget and rolling forecast. Hence, we wanted to hear about that from controllers.

“Rolling forecast gives us the flexibility for updates which is a better mind-set than working in November-December to make the best plan for the next year. Why this [budget] is kept like this for one year! The market changes very quickly and we must have flexibility and we must be able to change and adapt so we need economic measure that support us in doing so. In production, we have flexibility with 200-300 employees, if we will not produce so much trucks we can adjust our capacity regarding employees, this can happen in one month or one quarter. Another issue is that budget is that you set an annual plan and leave it as it is. Budget is static and Scania works so much with flexibility so it is good that we have an economic measure that is flexible and fit our method of production. We need an adaptive measure that reflects our volatile business”.
(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

It seems that this conflict between budgetary system and rolling forecast is far from finished as management still thinks rolling forecast

“For us rolling forecast has been a natural way; we are thinking rolling forecast. We are still frustrated about the budget, we would like to have a longer forecast, commitment from different workshops. We have preferred the old way. We just need to adapt and understand that, hopefully it ends with something good”
(Hans Andersson, CFO, Cab Factory, Oskarshamn, Seminar, 017-09-22)

The role of financial controllers is very interesting and thus we tried to get an explanation to the reporting process. In particular, how financial controllers can translate mixed data that does not have so much financial items, in comparison to budget. The answer was

“Financial controllers work with consolidation before the acquisition to meet the regulations of external reporting. They used to make it and they become better and better with time. Now, it is one more step and more details are required from VW. So, at the headquarter in Södertälje, our financial controllers think budget and it is their job to find solutions for the translation to budget logic. Financial controllers do their best to keep the budget logic up at this level,
they do not want budget logic to affect us at the lower levels down to the production. But it is their job to make VW happy with our reporting. The core idea is that Scania do not want to be ever controlled using the financial measures and indicators. We want to preserve our culture and working methods and values that rely on non-financial measures”.

(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

Based on the media, we know that the realized synergy effect until now does not meet the prior expectations of VW. It seems that VW has a very careful approach towards Scania. This has been confirmed by the business controller, in his words

“I think the synergy strategy and cost effectiveness will increase over time. VW is careful with us. I think that culture takes long time. In my opinion, full integration will come, may be in 2020 I do not know but it takes time. I think also as long as we can deliver good results, VW will not come and say to us you must change your work methods to achieve what we want. This is the case right now but you never know what is going to happen in the future”

(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

In similar vein, another controller tries to explain VW approach toward Scania

“VW knew that Scania has always been a profitable company and hence they were keen to buy Scania. Keeping this in mind, VW has a budgetary control system but they are careful with Scania and they do not want to make such interference that can harm the unique culture of Scania that has been developed over the years. They do not want to put Scania under pressure as they know that Scania working methods are successful. VW says “they are a profitable company, let them continue like that”. There is no reason for them to intervene and make radical changes in Scania, but rather they try to create synergy to achieve more profits. Another thing is that VW knows that Scania need flexibility because our work has a big deal of creativity that requires freedom. It does not feel good that they may come one day and say stop! no more! Certainly, this day will come but today they take it easy and gradually”.

(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

He continued later to explore why VW has not been able to create full synergy with Scania

“I think that emission scandal is the reason for that because it came in the middle of the idea of formulating a new truck group that gathers MAN and Scania in one listed company. I think that this scandal has to some extent slow this down because the focus was to take care about the scandal first. I think synergy will comes, emission scandals probably have affected VW plans in that regard. Yet, it is not like VW has an “official” plan or strategy of synergy but it is obvious for me that VW will try to create synergy between MAN and Scania to achieve cost reduction. Today, we have already a cooperation with MAN as we make gearboxes for them, while we use some axes from them in our trucks. So, VW wants to blend Scania and MAN, exactly as VW does it with Audi, Skoda, and Seat. For instance, we will have a new press apparatus from them that Audi or
Skoda has just developed so our people will probably go there and check how this can function for us.”
(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

The controller points out to what probably can explain the tension between MACS in VW and Scania

“The thing is that Scania wants to maintain its culture and working methods. Until now, in the production level, there is no effect but in our level, we feel the pressure, it is a challenge for us. The challenge is even bigger for the financial controllers in Södertälje because they work with two management systems; one to get the information from us and another to report to VW. Scania just report what is necessary to be reported using the financial measures. For us, non-financial measures are more important than the financial one. Some differences have taken place after the acquisition but we still have the same culture. Scania does not want to be ever controlled based on financial measures”
(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

The controller highlighted number of differences between VW and Scania

“In comparison to VW, we have to some extent, some similarities concerning production process but we have different cultures. We are more flexible and adaptive. For example, if we set a target and then we could not exactly meet it, more or less. Then this can be acceptable for us as long as there is a good reason for that. It is about the reasonable explanation to this so we are very flexible. While VW is like, this is the budget and it must be kept and followed. VW slogan is target is a target is a target, full stop”
(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

In line with this

“The culture is totally different. After the acquisition, VW changed many things, they changed the top management, they re-think a little and they have adapted a lot of things that we are working with. We are working a lot with VW; for strategic plans…. we do our forecast three times per year. They don’t understand that because they are a top-down thing. We are doing that with the team leader, production leader, the workshop manager… Especially at the beginning they did not understand that…for us everyone is important”
(Hans Andersson, CFO, Cab Factory, Oskarshamn, Seminar, 017-09-22)

Another distinctive feature is the management style which is too hierarchical and traditional in VW. In his words,

“If I am a business controller in VW, there is no way that I can exceed my direct boss in the hierarchy and, for example, talk with the CFO in Södertälje. VW works with more details, we did not get used to that”
(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)
In similar vein
“IT is difficult to say how much it is like Scania vs VW or Germany vs Sweden. I do not know, it can be a mixture of aspects that can belong to corporate culture and national culture as well. Overall, they are harder”
(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

The business controller does not feel that VW emission scandal "diesel dupe" has directly affected Scania. However, he points out that, it is more likely that VW now has a lack of liquidity after high cash outflows and further charges that still under investigations. This has its implications on Scania, he says

“We have never thought about liquidity because we have always cash. Not any more after acquisition. Now after the scandal VW has a lack of liquidity and this has implications for Scania. Now, I think we must work very effective with the money at hand. Now we started to focus on ROCE to measure how effective we are. I do not use this financial KPI in my level in the organization but rather financial controllers do in Södertälje as they work with key financial indicators analysis and have an overall view of the Scania business worldwide. For instance, Volvo is very good on this indicator, they have never had so much money. Volvo focuses on this indicator because they do not have liquidity. The lack of liquidity force them to use and manage their money in an effective way. This situation is dissimilar to Scania where we used to have abundant money. The money has been always there, when it is needed to test new things and make new investment. After the acquisition, the situation has been changed. Gas emission scandal has made things even clearer, we must use and manage our money wisely to support our owner… VW”
(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

In similar vein,
“The important thing is that we report good results and continue with profits. VW is in need for liquidity and they are lucky to buy Scania because we can supply them with so much liquidity. However, we are not involved at all in this scandal. Yet, we are part of the group and our profits may be used by the group to pay the scandal’s fines. We did not get “official” orders that we should become more effective in using money but it is rather that there is a clear focus on ROEC. Certainly, when a company pays 600 Millard as fine, you know that the company needs liquidity”.
(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

In line with that
“Today, we work a lot with CAPEX, incapacity plan. CAPEX is something that many companies put it… more or less hard. Because we have always been used to have a lot of money. We have never been thinking about investments or things like that because we have this huge amount of money in the bank. But suddenly they had a problem with the owner, so they took that from us more or less. So now we have to think about how to use the money in a good way. It is a really focus on that. CAPEX is a liquidity follow up, more or less, that we are using. VW is using it, it is a liquidity forecasting… when we suppose to pay our
investments. The CAPEX is totally focus on all the investments we have and how do we ask for the money and how do we pay then”
(Hans Andersson, CFO, Cab Factory, Oskarshamn, Seminar, 017-09-22)

Based on our literature review, leadership is crucial and prerequisite for lean success because lean is employee-inclusive management systems. After the acquisition, we observed that a number of TMT in Scania has decided to leave the company and join its rival Volvo. For instance, Martin Lundstedt, the former CEO of Scania has been appointed as the new CEO of the Volvo Group in October, 2015. Andrea Fuder, the former Head of Purchasing in Scania has become the Purchasing Manager for Volvo Trucking. We tried to find an explanation for that by asking the controllers and we figured out that some managers do not want to be controlled by this style of management of VW and chose to leave the company. Today, senior managers do not have the full authority as before because now they are under the dominance of VW managers. Now senior managers cannot decide themselves but rather they have boss who is there in Germany. So, maybe they are not comfortable and feel the pressure under the new situation and that’s why they have moved to Volvo.

Scania uses JIT inventory system to align raw material orders from suppliers directly with production schedules. JIT is based on the notion that Scania must be able to accurately forecast demand. This in turn relies on Scania strategic relationships with suppliers who can deliver the raw material in time (Hans Andersson, CFO & Chief Accountant, cab factory, Oskarshamn, Seminar, 017-09-22). We wanted to explore how the situation with suppliers have changed after acquisition. For example, if Scania still dependent on the same suppliers or there is a favorable treatment for the German suppliers at the expense of the Swedish, in his words

“No big difference after the acquisition regarding our suppliers. We have suppliers from all over the world before the acquisition. I do not think that there is any significance change regarding the situation of our Swedish suppliers. I can say that now the competition has increased. For Scania, it is important to emphasize that we have now a stronger position in negotiations of contracts with our suppliers. We have an advantage in this regard, because today it is VW that makes negotiations. Today suppliers will not only lose Scania but also, they will lose VW. So, it is a huge double loss that can force them to go in bankruptcy and go out of the market. Hence, after acquisition, we utilize this to seal better deals with suppliers”
(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

In line with that

“I think it is good to have access to VW suppliers, this may have its negative impact on Swedish suppliers because now the competition is more intensive.
But we work according to the EU regulations of free market and competition. We do not have just only swedes suppliers but rather we have suppliers from all over the world. It affects us in a way that now we have better deals and prices. Now we have even better prices from our “old” suppliers. Being part of VW group, makes us even stronger. I think that Scania will soon benefit from VW and its big size. As an accountant, I see that as crystal clear”
(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

Recently, the media is full of news about the intention of VW to form a group truck comprises Scania, MAN, and VW trucks that will be listed separately in the stock market (e.g. Dagens industry), we asked about that, he replied

“We read about that in “Dagens industri”, like other people but nothing has internally happened yet. Yet, I am positive about that. I think that Scania, in comparison to other truck companies in the group, has a better working methods so it is more likely that Scania will be the influencer not the influenced then it will be a win-win situation for all companies in the Group. For example, MAN can learn from Scania and get Know-how, which will make them better. This in turn will have a positive effect on us also as part of the Group truck and hence we can become stronger together. Another thing is that if we will be listed as a group of truck separately in the stock market then we do not need to report to VW because there will not be a demand on us that says how we should report. And then which company in the truck group has the strength to control others within the group, most probably will be Scania. So, I see this as a positive move because we are the stronger party in this deal but you never know. I see many advantages in this actually, for example procurement, we can have better deals and less prices”
(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

In similar vein

“I do not think that being listed separately as a group truck will lead to a change in our ways in doing the business in Oskarshamn. A Few years ago, we invested heavily in the “body in white or body shop” factory, spending about three Milliard SEK. I think this has been created to remain and last for long time. I think also that VW will though have the majority of shares and hence no change is expected. Probably we will have more freedom because there will be other shareholders, besides VW. This idea can also bring more liquidity to VW and make a clear demarcation between cars and buses/trucks in the group. One may expect that our ways in doing business will be integrated with MAN, but you never know, it is not clear for us as VW does not have a crystal-clear strategy regarding this”.
(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)

When asked how he sees the acquisition in general and if there is a clear strategy of VW towards Scania, he replied

“I am positive about the acquisition. I think that each party can get benefits from this partnership, so we are stronger together. Regarding the strategy of VW, there is no clear plan what is going to happen in the future”
(Karagianis, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)
Scania has a unique brand and charge its customers premier prices. It has been argued that the acquisition can pose a risk on Scania as other truck brands in VW Group can have know-how from Scania. Then Scania can relatively lose its superiority. In his view

“We can observe this already in car models within the group (Porsche, Lamborghini are also with). Some IT parts are the same, however this does not take away from each brand its identity. Because the core parts (factors) can differ from one brand to another. For example, one core factor can be that those who buy Scania, they do this because it is made in Sweden”.
(Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018)
Chapter five: Analysis

Due to the complexity and the multi-dimensional nature of the subject, we will summarize our analysis in some themes that have emerged from the empirics and connected to the theoretical frameworks that we have discussed.

5.1 MACS in Scania and the link with its strategy

Based on our empirics and the annual reports, we developed a sufficient understanding of MACS and the link with strategy in Scania. The interaction of the different types of control systems in Scania can be seen as an example of “control package” Malmi and Brown, (2008). It is a mixture of operational control and systematic control that aim to maximize value creation for stakeholder (Value creation stream).

MACS in Scania is based on methods and values in a certain way that influence employees’ behavior to align their interests with organizational goals and strategies. To achieve that, Scania relies mainly on informal controls (soft controls) that encourage decentralization and self-regulation. Decentralization and self-regulation are largely about values that are always emphasized in internal communication and are formulated in well-known phrases. These values are at the heart of Scania’s MACS. Meeting culture is the backbone of Scania’s MACS that based on transparency, real time data, real time management and communication. Management control practices are not just a tool that would help management to indicate strategic direction, but also a tool for mobilizing knowledge and information flow throughout the organization. Management trusts methods and learning from deviations to produce results, and when this works financial numbers should only confirm what is already known from non-financial data.

Scania has also a unique corporate culture that contribute to its MACS and strategy implementation i.e. culture control. Scania believes that employees are its most important assets. Employees are respected, involved and thus willing to take responsibilities. Senior managers listen carefully and ensure that subordinates got sufficient answers and proper feedback for their questions. This reflective and unique culture is not predominant only in Sweden– where self-regulation, consensus likely prevailed (national culture)– rather, it is there, literally as we told, in every Scania’s plant worldwide i.e. corporate culture.

Other informal control that impede beliefs systems and values and norms can also be remarkably seen. This in turn can make it easier for senior managers and business controllers to ensure strategy alignment. Since It is very likely that informal controls will have a considerable influence on the formal organizational controls. Decentralization and employee
empowerment are respected and appreciated where everyone has a role to play. When promoting employees, it is not an “up-approach” that followed, rather it is a rotation in different function (cross functional approach). Job rotation enables logistics experts to work for a time in finance. Therefore, there is an integration between production and financial control. Employees are involved and hence there is a sense of loyalty and an expectation that everyone will contribute to the strategy implementation and the success of the company.

Scania commercial and industrial sides emphasis quality and services. Scania is a customer-focused company. The core of its strategy based on the belief that if Scania can always deliver optimal economy for its customers, then there would be no problems in charging them premium prices.

Scania is a process-based company in which processes are standardized and hence are not affected if individuals are changed. This is in line with lean which implies a shift from a traditional mass-producing firm organized in a vertical hierarchy with a supply side focus into a firm organized around identified value streams with demand side and customization focus. Lean increases flexibility which makes it possible for Scania to respond more quickly to market needs and customer desires. Lean methodology at Scania encompasses many accounting techniques- such as TC, JIT, Kaizen, and ABC. The main goal of this control package is to create a synergy effect through the interaction of these different MA tools, since costing methods can reinforce one another in the organization and help to make it a world class organization (Adler, 1999). This is to say that many MACS can be coexist, some are complementary and some overlap but not to counteract. The key success is to help Scania to plan its inventory so they do not overload and perform unnecessary and costing activities when they don’t need them.

There is a strong link between strategy and MACS at Scania. Scania strategy can be viewed as a mix of differentiation and cost leadership (Anjou, 2008). Scania focuses constantly on continuous improvement, improving efficiency, elimination of waste and these activities that do not add value. To implement its strategy, Scania has a control mix system that include monetary metrics (tight) that control for cost and non-monetary metrics (loose) that control for quality.

Cross functional knowledge facilitates the creation of the integration of planning at different levels, and this in turn, enables strategy implementation. MACS at Scania are integrated not perceived as separated as in many other companies. Meeting culture enables business controllers to discuss costs with production staff to exchange their knowledge and increase
learning. Business controllers contribute largely to the success of Scania. The integration between them and other departments, such as production control, HR and plans etc. is unique.

This means that MACS in Scania is integrated with other forms of control to facilitate continuous improvement without quantifiable targets. The focus on non-financial measures and targets have influenced MAC practices. The reliance on operational metrics widens the scope of the role of business controllers to include non-financial metrics. This in turn requires very competent controllers who have deep understanding and good expertise, beside accounting, to many other areas such as engineering, production, HR etc. In that sense, the scope of controller role is much more than finance as controllers in Scania are heavily involved in strategy. Scania is used in the literature as a proof that control through non-monetary metrics and strong culture can give better results than focusing on hitting the financial targets (Jannesson et al., 2014).

5.2 Governing Scania, VW Strategy in Post-acquisition

VW relies on outcome controls that measure and evaluate the performance of Scania to ensure that goals are being achieved. The main focus of VW is on accounting based measures to support the two parties to achieve an efficient and effective cooperation and establish a well-functioning relationship (Van der MeerKooistra and Vosselman, 2000; Kamminga and Van der Meer-Kooistra, 2007). VW–Scania relationship can be considered as a vertical relation (Mouritsen, 1995), in which VW has a superior authority. However, if we analyze the situation carefully we can figure out that the situation is more complicated. We think that VW–Scania relationship encompasses more complex integration mechanisms with different patterns of centralization (vertical) and decentralization (horizontal) that give Scania greater flexibility i.e. lateral relations with more dispersion to power and authority (Meer-Kooistra and Scapens, 2002). Based on our empirics, VW has no clear strategy towards Scania. This may be intentionally left like this, we do not actually know. But let us give it a try to explain VW governing strategy towards Scania which in turn will have its implication on the structure of Scania since both structure and strategy of an organization form a significant governance mechanism (Collin, 2006). The strategy of VW is in line with the framework of Busco, Giovannoni, and Riccaboni cited in Hopper et al. (2007), which we have discussed in the theory chapter. The authors, in line with a number of researchers, have identified three approaches, namely, multinational, global, and transnational (Bartlett and Ghoshal, 1993; Dent, 1996).

We can observe that Scania has different strategies and variety of structures, comparing to other companies in VW Group. Hence, VW cannot rely on global strategies incorporate worldwide that can be applied to Scania, in addition to other companies in the group. It is
difficult to standardize products and practices, at the same time, increase centralization of functions and decision-making authority. This is also consistent with the contingent approach that focuses on contextual and structural factors influence on organizational design. Scania has its unique identity, culture, methods, and etc. Scania has also different size, strategy, technology, competitive position, and etc. (Covaleski, Dirsmith, and Samuel, 2003; Otely, 1985; Chenhall, 2003; Hoque, 2003). This is may explain why VW has adopted a cautious approach with Scania as they take things step by step. They do not want to make radical changes that can affect the production negatively. We cannot imagine that VW intend to destroy the unique identity of Scania and replace it by VW’s, which can work against their financial mindset. VW cannot impose its culture on Scania because a corporate culture takes long time to develop. Some common practices can take place but not all the package; business model, core beliefs and attitudes. Simply this will be faced with fierce local resistance from the employees in Scania. MACS of the VW cannot, all of the sudden, simply be reproduced and applied in Scania.

Therefore, we argue that the strategy of VW to govern Scania is a mixture of the multinational and transnational approaches. This is in line with the notion that most global organizations often combine elements of the three approaches. Regarding to the multinational approach, Scania has some elements of this approach including high levels of localization as local practices are preserved and the company still enjoy a good deal of autonomy and decentralization. One given example, as we told by the business controllers, up to 500 000 SEK, plant manager in Oskarshamn can decide on new investments, after that limit the headquarter in Södertelje can decide on that, in cooperation with VW. Vertical relationship between Scania and VW is to a great extent administrative and financial. Regarding to the transnational approach, national responsiveness and worldwide learning in Scania are managed simultaneously to meet the need for greater flexibility and decentralization. Local units are integrated in a complex network of products, financial resources, technology, skills, knowledge, ideas and people. While resources and activities are neither centralized nor decentralized, rather are dispersed and specialized simultaneously, and are integrated into an interdependent network. Innovations and knowledge sharing can, to some extent, be seen throughout the entire Group where information flows take place between the headquarter in Germany and Södertälje (vertical relations) as well as between Södertälje and other companies within the Group (lateral relations), such as MAN. The core of this approach is to create a synergy of ideas among all the companies within the Group.
In sum, VW relies on a strategy that, on the one hand, enables national responsiveness and flexibility, on the other hand, it recognizes the need for intense coordination and knowledge sharing. The ultimate goal of VW is to achieve a sort of integration in which multiple logics can reconcile and organization culture can develop by integrating local and global practices.

5.3 Tensions and Consequences in post-acquisition

After the acquisition, VW has adapted the reporting process to fit their style of management that based on centralization and financial controls. While pre-acquisition controls in Scania were mostly informal relying on decentralization and employees’ empowerment. This correspond to Markus and Pfeffer (1983) results. It takes time for Scania to realize the differences with VW. In the first six months, the differences were unobservable. With time, people in Scania have started to understand the differences. Managers in Oskarshamn have started to adapt with this in their presentations using relatively different logics. Despite the fact that VW had a history, since 2000, with Scania before the acquisition, as an old ally and a key shareholder. VW was not able to impose its methods in doing the business on Scania. To facilitate this, VW made the strategic move to takeover Scania. VW believes that full integration would eliminate restrictions on its ability to engage in joint projects with Scania. Now after the takeover, things have been changed. The major remarkable change is the reporting process and its implications for MACS.

As an owner for Scania, VW has pushed Scania to use budget in the reporting process. The primary focus of VW is to get financial information, in an aggregated form through budgeting system that stresses financial controls and variance analysis. So, at the top level of the Group, in Germany, budgetary system is used in planning, performance evaluation, and coordination of financial activities to ensure achieving desired return on investment at Scania. Hence, to enable this, there is a need to some degree of integration of MACS between Scania and VW (Jones, 1985a). However, there are many differences between the two companies that can make the integration a very long and complicated process. Two major themes emerged in literature as causes of the integration failure, namely organizational culture and style of management (Jones, 1985b; 1986; Markus and Pfeffer, 1983). According to the CFO at Scania, organizational culture and style of management in both companies are totally different (Hans Andersson, CFO, Cab Factory, Oskarshamn, Seminar, 017-09-22). VW and Scania have two different cultures. VW is more formal and traditional, while Scania is more informal and flexible. The style of management also is different among the two companies; while VW is more centralized and hieratical relying on command and order, Scania used to be decentralized.
MACS in Scania, relies, to a great extent, on informal controls (soft controls such as culture and personal controls). While, VW focuses mainly on hard formal controls through using monetary metrics such as budget, operating ratios, and other financial tools to exercise financial control. Based on our empirics and literature review, the major differences between the two companies may stem from a mixture or a blend of aspects that can belong to corporate culture and national culture (Hofstede, 1978).

To understand the reporting process, we should differentiate four levels in the organization:

(1) Plant floor employees (subordinates and their superiors), for instance, production and logistics departments in Oskarshamn;

(2) Finance/economy department(s) employees locates in Oskarshamn including accountants, business controllers, and the CFO;

(3) The third level, the highest level within Scania group, is located at the headquarter in Södertälje where TMT and financial controllers exist;

(4) VW Group management in Wolfsburg, Germany.

The focus in our analysis is on the Cab factory in Oskarshamn where we have conducted our empirics. At this level, before the acquisition Scania used four forecasting annually; rolling forecasts one quarter in advance, where they compare with the old forecasting and previous year forecasting regularly towards the end of the current year. In doing so, Scania was relying on a number of KPIs. After the acquisition, the situation has become very complicated as the budget logic has been incorporated into the reporting process. Today Oskarshamn report in accordance with rolling forecast as well as budgetary system.

Let us take an example to illustrate how this happens. In 2017, in the fourth quarter towards the end of the year, controllers prepared the last “forecasting” for the entire year of 2018 because they need to know what’s happening next year to plan the investments, training the people, new coming products, etc. they used to finish that at the end of November. Business controllers call it “forecasting”, they do not want to say it is budget, yet they are well-aware that it is budget. Even the CFO has labeled it using his hands signaling the quotation marks “budget”. They reported this forecasting/budget to Södertälje where financial controllers translate it into details to fit the budget format. Then Södertälje reported this to the headquarter of VW in Germany. To do this they must have budget at this level to make variance analysis and report deviations from budget to VW. In doing so, they need more financial details from Oskarshamn where business controllers used to rely on a limited number of KPIs or drivers in preparing their rolling forecasts. However, the financial demands of the financial controllers in Södertälje have been increased over time. They simply need more financial details to respond to VW questions.
Financial controllers perform translation, intercompany elimination, and perform consolidation of financial data to be reported to VW. But this raises questions how financial controllers can translate a limited number of KPIs into so many details to be aligned with budget, we are somewhat suspicious about that. As we told, errors in translation can happen but it is difficult to use another alternative to make the reporting process works to satisfy the needs of VW. It is not clear how many KPIs are usually used in rolling forecasts, but we have been told that they are far less, in comparison to budget. VW loves financial details, it’s their way of controlling their subsidiaries. This in turn puts more pressure on the business controllers on Oskarshamn as well. They are in the middle of the hierarchy try to meet the demands of reporting while not harming Scania unique lean methods of production. A strange situation has been highlighted when business controllers work to reconcile the two logics. They find it strange to make a quarter forecast for the coming three months for example, in the meanwhile they follow this forecast up using the old forecast of the entire year– budget– along with the new forecast. The two logics need two different mind-sets; one to think retrospectively and the other future-oriented.

In sum, it is like a domino effect where vertical pressure is prevalent. They cannot satisfy the needs of the top level in the hierarchy without going one level down asking for financial details. Until now Södertälje are keen to keep the budget logic at this level of the organization within Scania. Yet, business controllers in Oskarshamn know it and consider it when doing their job of controlling. Business controllers are very careful in doing their jobs. If they need financial details from operations managers, they never relate that to budget or to VW demands on them. They try to preserve the methods of Oskarshamn. They do not want production to be affected as a result. Yet, until when they can resist, we do not know but the pressure is on!

5.4 Why budget logic can harm Scania?

Rolling forecast has a strategic role in Scania. Scania needs an adaptive and reliable forecasting tool to align their future production with the expected demand. We know that Scania works on demand to reduce the inventory which is consistent with JIT. Thus, they need to build up the forecast bottom-up not to use the top-down budgetary system. In doing so, Scania relies on the notion that everyone in the shop floor must be involved in the process of building up the forecasts. Also, that employees can only have a good understanding for the things that they can influence. In that sense, employees’ engagement increases the reliability of the forecasting and make it easier to follow it up, because it is like a commitment from the entire organization where everyone feels appreciated. Culture meeting facilitates that, so they used to have monthly
meetings in which controllers, workshop managers, sales managers, and cabs managers participate to follow up forecasts. Also, forecast is compared with the actual sales on monthly basis. Costs are followed up using rolling forecast to respond to uncertainties and reduce fluctuations. So, top-down budget approach does not fit Scania as it has caused confusion for the entire organization including management and controllers. Budget can also cause uncertainty and anxiety for employees and hence potential damaging actions within the organization (Angwin, 2007). This is also supported in the literature as it has been argued that traditional MACS do not fit in lean organizations (Ittner and Larcker, 1995; Kaplan, 1986, 1989; Tillerma and Van der Steen, 2015). Lean accounting organizes costs by value stream and minimizes the use of standard costs (Brosnahan, 2008; Cable, 2009; Johnson, 2006; Maskell and Kennedy, 2007; Maskellet al., 2012). Lean accounting provides information related to changes in inventories and overheads separately. Hence, in Scania, control does not rely on a detailed tracking of internal transactions, but rather control built into operating processes, where the emphasize is on non-financial performance (Kennedy and Widener, 2008). The focus on cost reduction can harm Scania and destroy the core principals of lean methodology. An organization that strives for cost reduction, adopting the traditional approach will be eager to maximize its capacity utilization this can lead to excess inventory which is against the core principle of lean and JIT.

Moreover, the financial control has its impact on the meeting culture as expressed by one of the controllers that Scania now focuses more on what is really important just now as they try to make prioritization (Adelgren, Business Controller, Cab Factory, Oskarshamn, interview, May 18th, 2018). Scania relies largely on communication transparency and real-time data. Good communication to provide information at different levels up and down in the organization, is a key success. Business controllers work as facilitators for information flow not only to the top level but also to support the flow of the information in the operation level and then they accumulate these data and provide again to the top level. Now, business controllers facing a very delicate situation because they need to use two different mind-sets; one to deal with the head quarter in Södertälje and another to deal with the shop floor in Oskarshamn. Transparency in this situation is under threaten, controllers must keep the secret of budget up in the hierarchy. This may cause anxiety and uncertainties among employees. This also can lead to a resistant towards the integration of the two MACS. This is consistent with Markus and Pfeffer (1983) who observed that human resistance was a major cause of integration failure.

In building up the rolling forecast, both financial and non-financial aspects are taken into consideration at Scania Oskarshamn. Rolling forecasts is future oriented and is mostly prepared
by the management team in production and procurement. There is a shift after acquisition regarding the deviation from forecasts/budget. Rolling forecasts used to be quarterly updated and followed up through cross functional meetings where deviations were explained. The deviations were seldom reported to finance team as most of them were dealt with at functional level. Only major deviations reported to the finance group. This is no longer the case after the takeover of VW. For VW budget must be kept and followed based on the VW slogan “target is a target is a target, full stop”. Scania abolished the budgetary system more than two decades ago. Budgets were considered as a poor tool for control that promote for wrong behaviors such as gaming the numbers etc. it is arbitrary, retrospective and creates a government mind-set. Instead, the focus in Scania is on deviation, they love deviation in order to learn from, which is consistent with lean. Controllers are very close to plant floor management and employees, where the focus is not on achieving targets rather it is on continuous improvement. Deviations from standard are considered carefully in order to learn about how to avoid errors and increase flexibility to achieve constant improvement. Thus, coaching, training, and know how through continuous learning, are prevailed in Scania. Simple metrics used to promote improvement; such as number of trucks per employee and number of educational visits to other units. For example, controllers in Scania try to understand how the cost structure of a truck is built up using bottom up approach, exploring the deviations and the reasons behind. Controllers and management team in Scania are keen to involve everyone to create a continuous dialogue in the organization. A lot of things that Scania does are connected to this forecast period such as the production planes, strategic planes, etc.

In that sense, rolling forecast fits in such working environment in Scania. If they go over or under the target, it is not a big deal as long as they can explain it. Now things change. People in Scania is far from happy about the new logic of budgetary system that does not fit production. They expressed their concerns especially because there is no clear strategy from VW in this respect. One possible explanation is that VW today still suffer to recover from the emission scandal. Another explanation is that VW do this on purpose. They do not want to show explicitly their strategies in order to avoid disturbance. They know that Scania with their current mind-set do a good job. So, there is a risk if their strategies will be explicit this can cause confusion to the employees in Scania, especially if their strategic planes encompass radical changes.

During the last four years, many changes have taken place. Today, the situation in Scania is very confusing, especially for business controllers as they work under two logics trying to find a balance between them. They follow up performance using different methods. They try always
to measure performance based on the KPIs, not just balance sheets. Their primary focus is on operational metrics and to control performance on the plant floor. Yet, this has started to change as financial metrics have started to gain ground to satisfy the requirements of the higher level.

Furthermore, rolling forecasts is mainly used to estimate volumes, not cost, to plan production, not to estimate sales (Hans Andersson, CFO & Chief Accountant, Oskarshamm, Seminar, 017-09-22). TC was used to estimate the cost. Now, Scania relies mainly on a mixture of standard and ABS costing methods, which may imply a sort of compromising.

Moreover, taking into consideration that a number of senior managers have left Scania moving to Volvo, this can be an indication that TMT in Scania are not satisfied with the top-down budgetary system. Even on the plant floor level, operations managers still prefer the old system which gives them more flexibility to react quickly to changing situations. Generally speaking, employees in Scania appreciate more open and participative styles of management. This may pose a risk in the future as more managers can decide to leave the company because the new style of management is incompatible with their lean working culture that they have developed over years.

In sum, the integration of the two MACS is still a big challenge for people in Scania. Budgetary system is incompatible with the culture and style of management at Scania (Cartwright, Robertson and Tytherleigh, 2007; Kamminga and Van der Meer-Kooistra, 2007). Today, the finance department operate with two conflicting systems in parallel, which is risky. Because if the controllers know the numbers of the whole year and what should be deliver (based on budget), this can affect their way of forecasting. There is a risk that they will not rely on rolling forecast estimations but rather they will try to stick with the budget targets. So, if the target in budget is no longer realistic due to for example fluctuations in the market then the budget target does not show a real picture. Therefore, the forecasting is biased. Furthermore, financial control can have major implications and consequences on management and controllers to change their mind-set by giving first priority to meet the financial targets and make VW happy, rather than adherence to a strategic sustainable approach. There is a big risk that the traditional financial-oriented perspective will move from top to down through the organizational hierarchy (Tillema and Van der Steen, 2015). This in turn can be destructive to the “Scania way” in doing the business. Decentralization and empowerment are needed because they represent the core aspects of lean production. So, the end product of this process may destroy lean methods, corporate culture, and style of management i.e. loss of identity.
5.5 Post-acquisition Containment Mechanisms

Our results are in line with Tillema and Van der Steen (2015) who conducted an empirical study of four manufacturing companies in the Netherland in which lean controls co-exist with the traditional controls. This framework is very interesting because its focus is on the subsidiary reaction to contain the tension, which is rarely discussed in the literature. The authors have identified three mechanisms to deal with the tension; colonizing, compromising, decoupling. Today, in Scania, there is no single MACS but rather the company coped with the tensions of the two-control systems in highly localized ways. VW has lacked clear strategies to integrate the controls into a single system, yet the managers and finance team coped with this tension in a variety of different ways. A number of senior management decided to leave Scania and moved to Volvo. The rest has adapted, to some extent, their working methods and presentation to meet the requirements of VW. While finance team in Scania, both in Södertälje and Oskarshamn have adopted certain mechanisms, that correspond to literature, to contain the tension between the top-down budget, on the one side, and lean accounting and rolling forecast, on the other side. The figure below illustrates this mechanism.

Figure (7) shows Vertical Decoupling

Despite that Scania combines elements of these three mechanisms, decoupling mechanism is the dominant. The dual system causes vertical decoupling between the hierarchical levels involved.
In the beginning of the takeover, it was hard for VW to understand Scania reliance on rolling forecast. As a result, VW has imposed the budget logic. Management and controllers have responded to this through incorporating budget with rolling forecast. Until now, VW is happy with the results because Scania has continued to achieve good profits. At the same time, Scania still rely on its “old” mind-set to predict production. They stick with sets of KPIs which are consistent with lean production. Until now, it seems that Scania is successful in convincing VW that using the lean techniques make Scania better off in terms of prediction of financial results, organizing the production processes and inventory etc. This is in consistent with colonizing mechanism which we have discussed in the theory chapter (Tillemann and Van der Steen, 2015)

Yet, to avoid a future of instability, Scania must ensure that the VW has a good understanding for lean initiatives to get proper support from them.

Decoupling is another mechanism that is deployed by Scania to ease the tension through trying to separate the two different controls and use them for different purposes. Scania uses number of practices that correspond to decoupling.

First, Scania use the tools which are consistent with lean control (rolling forecast) to control the operating processes in Oskarshamn, while traditional accounting tool (budget) is used by Södertälje for financial reporting to VW. In that sense, Scania tries to separate, on the one side, the traditional measures of ‘efficiency’, which relies mainly on variance analysis, on the other side, actions taken at the operating level. This is, Scania try to make both systems operate in parallel with no direct impact of one on another.

Second, Oskarshamn report rolling forecast that is based on KPIs without providing so much financial details, and then as a final step to satisfy the information requirements of the parent company, rolling forecast is transformed into detailed financial statements based on variance analyses by financial controllers in Södertälje. They report “budgets”– as described by the CFO– to make VW happy.

Third, when dealing with VW, financial controllers in Södertälje focus on financial concepts that VW interested in to convince them that the performance is satisfactory, however, in fact these financial concepts will not be applied at operating levels.

Fourth, business controllers in Oskarshamn are keen to preserve lean working methods as they never talk budget at the operational level. When they get hard financial questions from Södertälje they may ask for some explanations from plant managers but they do not relate them to budget. Here decoupling is explicitly evident as they say something but in fact they do something else. They never say it to plant managers that budget is up there and that is why they ask for information.
Furthermore, plants managers have started to compromise a pit by adjusting their presentations to make it easier for VW to understand. Finance department in Oskarshamn seems to compromise as well to satisfy the information requirements of VW. It has been said during the interviews with business controllers that Scania does not want to be controlled based on financial controls. However, we argue that controllers do not have so many options, they are more likely to use mix of lean and financial controls in Oskarshamn. There is another possibility that even plants managers are aware of the budget logic and hence they may consider it in their work. This is consistent with the CFO speech in which he emphasized that today financial statements have become very important for Scania. Hence, we argue that Scania deploy compromising mechanism as well.

In sum, Scania, have adopted a number of mechanisms to contain the tension between the two-MACS, namely, colonizing, decoupling, compromising. colonizing denotes receiving support from VW as the two companies have developed a mutual understanding of the appropriateness of lean controls. Decoupling gives the operational level in Scania the opportunity to deal with lean initiatives in their own way, at the same time they remain relatively separated from traditional controls. Finally, compromising requires Oskarshamn to work with both control rationales; lean controls and the traditional controls, whereas both are deemed significant to the higher levels of the organization.

5.6 Post-acquisition Opportunities

Based on our empirics, the finance team in Oskarshamn are optimistic regarding the future benefits that Scania can achieve as part of VW Group.

First, despite the different type of management, culture etc., we felt that Scania was in need for more centralization in decision-making process. This is in line with the CFO view as he argued that Scania had always abundant amounts of cash and they never thought about money, now the situation is different. Incorporating the budget logic has improved Scania, in terms of cash and investment management. Before the acquisition financial statements in such engineer-dominated culture at Scania, were taken for granted. Now, many things have changed, especially if we consider that emission scandal has caused a lack of cash which resulted in a group-strategy of cost reduction. Today, balance sheet, cash flow, income statement, and financial statements in general, are of big significance for Scania to satisfy/support the new ownership. Correspond to this, there is a great focus on financial indicators such as CAPEX
and ROCE that can reflect how effective is Scania in using cash. So, the good side in this crisis can be that during this process, the people in Scania have learnt from the expertise of VW.

Second, being part of VW Group has resulted in better deals with suppliers.

Third, synergy opportunities. Scania has started to utilize being part of such big organization to develop know-how in some areas of production. Certainly, Scania can learn something from VW expertise, as they can benefit from the large-scale organization, IT, RD, etc.

Fourth, through the collaboration with other companies in the Group, Scania can achieve economies of scale and scope (Som, 2009). They can increase market share, capture synergy benefits, get access to intellectual property rights and the possibility to acquire a critical technology or capability that the company lacks (Cartwright and Cooper, 1993; Gaughan, 2010). Thus, improve their competitive position in global markets.

5.7 A framework to reconcile budget and rolling forecast

There is a weak link between MACS in Scania and VW’s strategy. In VW Group, major changes have taken place as restructuring and new leadership has taken over after the scandals. Among other things, the Group has a new strategy which has yet to be specified in details and hence the content of some strategic KPIs is still not being determined. This also has its impact on Scania. The problem is that VW has no clear strategy or strategic plan that can guide Scania. According to VW annual report (2017), VW use both budget and monthly rolling forecast in their MACS. Unlike Scania, rolling forecasts in VW contains so much details, mostly financial-oriented. VW tries to reproduce its MACS in Scania by incorporating the budgetary system. They use the budget in control and coordination to increase operational efficiency in Scania. They use rolling forecast of the last quarter as a budget for the following year. So, rolling forecast and budget are not linked to a clear strategy. As long as VW is satisfied with Scania’s financial performance, there is no a big issue.

To reconcile the two logics, we propose a framework that can allow rolling forecast and budget to function in a supportive complementary manner. To achieve this, strategic fit between VW and Scania is a key success. Hence, there is a need for the use of both rolling forecast and budget in the high level of the organization, in Germany. Both logics must be considered carefully to avoid conflict and ensure collaboration. VW should have a strategic plan for Scania that contains multiple nonfinancial processes which form the drivers for the rolling forecasts. Driver based rolling forecast can provide options for multiple budgets and iterations. The
absence of linkage between Oskarshamn and VW is problematic. There is a need for a robust technology that can link production in Oskarshamn with VW such as SAP. SAP would supply statistical techniques and predictive models to understand real-time data and conduct what-if analysis and scenario planning. This in turn will create a continuous dialogue between the two parties. In this case, the co-existence of rolling forecast and budget can be possible as it has been argued that rolling forecast can be used to boost budget (Montgomery, 2002; Hansen et al., 2003; Haka and Krishnan, 2005). Rolling forecast can be deployed to support Scania in bridging the gap between the detailed operational budget and overall strategic plan as well as to provide speed and accuracy. Rolling forecast should contain key statistical, operational elements and results which would empower operating budget to provide plans and actual control functions for the lower levels in the organization. Rolling forecast can also support budget and provide regular and accurate predictions which can contribute to organizational learning. The accuracy of provided data is critical to enable predictive analysis and if-then analysis. Rolling forecast would capture market fluctuations, change in cost of related items, change in HR cost, etc., to keep the data real updated as possible. This in turn can give managers more confidence to rely on budget numbers established for planning of the short-term operations. In that sense, rolling forecast will not be just a periodic update against the annual budget but rather the focus is on the drivers that are relevant for analysis and decision-making. We want to emphasize that budget and rolling forecasts will not operate in isolation. The efficiency of the new MACS depends upon how budget and rolling forecast can interact with informal systems to create a synergy effect in the control package.
Chapter Six: Conclusion and Contributions

6.1 Summary and Conclusion

In this section, we intend to answer the research key questions and highlight the key takeaways from our research.

There are many differences between VW and Scania that have made MACS integration a real challenge, among other things, corporate culture, style of management, and working methods. A number of conflicting themes has emerged in the thesis such as rolling forecast vs budget, lean flow communication and decentralization vs centralization, financial controls (formal) vs non-financial controls (soft), and financial-oriented MACS (narrow view) vs control package (wide view). In the analysis chapter, we discussed and analyzed the roots of the conflict. Among other things, we want to emphasize that rolling forecast in Scania plays a pivotal strategic role as a lot of things that Scania does are really connected to this forecast period such as the production planes, strategic planes, etc. The core idea is that Scania works on demand to reduce the inventory which is consistent with JIT and lean methodology. Hence, Scania needs an adaptive and reliable forecasting tool to align their future production with the expected demand. They need to forecast production and plan capacity. Employees, starting from the assembly line level and up in the hierarchy, need to develop a good understanding for how this work. Thus, top-down budget does not fit because Scania build up forecasting mainly bottom-up.

Scania has tried to reconcile the two rationales. Business controllers in Oskrashamn swing between rolling forecasts and budgetary control. In the fourth quarter, they prepare forecasting for the following year “budget” based on quarters which make it easier to consolidate with the rolling forecast logic when following up. They often check the whole year forecasting but they still have the chance to go down and check every quarter. Until now management and controllers are keen to keep the budget logic on the top of the hierarchy to maintain Scania business model that is based on decentralization, empowerment, transparency, and real-time data. Business controllers in Oskarshamn stress that they do not compare actual figures with budget, yet they are asked to support controllers in Södertälje in translating rolling forecast that are based on KPIs into budget format that contains more details. We are a bit skeptical about this. Business controllers and financial controllers, in particular, cooperate to make VW happy with the reporting process. They rely on a number of containment mechanisms to preserve the core values and working methods of Scania, and to avoid the negative impact of traditional budget. Today, in Scania, there is no single MACS but rather the company coped with the tensions of the two-control systems in highly localized ways. Budget logic, in particular, has
been contextualized to fit Scania context (Ahrens and Chapman, 2007; Barrett et al, 2005). Various mechanisms are deployed, namely, colonizing, decoupling, compromising. Colonizing denotes receiving support from VW as the two companies have developed a mutual understanding of the appropriateness of lean controls. Decoupling gives the operational level in Scania the opportunity to deal with lean initiatives in their own way, at the same time they remain relatively separated from traditional controls. Finally, compromising entails that Oskarshamn work with both control rationales; lean controls and the traditional controls, whereas both are deemed significant to the higher levels of the organization. Despite that Scania combines elements of these three mechanisms, decoupling mechanism is the dominant. The dual system causes vertical decoupling between the hierarchical levels involved. Adopting theses mechanisms enables Scania not only pursue the objectives of VW, but also their objectives. It is understandable that the management team in Scania may have diverse understandings and objectives that they seek to pursue, alongside supporting the actions and achieving the intentions of VW.

One major problem that we have highlighted in the thesis is the lack of strategic direction of VW. We suggest also a solution for this problem. The vertical relationship between Scania and VW is to a great extent administrative and financial. VW is much concerned about cost efficiency and synergy at first place and less about personal contacts. Vertical decoupling is prevailed which is problematic because today Scania operates under dual MACS without a clear link with strategy.

This situation is not new as it described by Anthony and Govindarajan (2007). In the past, many companies used both financial and non-financial measures, yet they used non-financial measures primarily at lower levels in the organization for task control while using financial measures at the higher levels for management control. This is not sufficient, rather a mix of both financial and non-financial measures is needed at all levels in the organization. It is of great significance for senior executives in VW to track not only financial performance, which entails the results of past decisions but also non-financial measures, which are leading indicators of future performance. Likewise, employees and managers in the plant floor must understand the financial impact of their operating decisions.

Put simply, VW does not have a strategic plan for Scania. They need to develop one. In doing so, they must think both budget and rolling forecast. Strategic plans should be based on constant communication between production and senior management. They should contain multiple nonfinancial processes which form the drivers for the rolling forecasts. Rolling forecast should be deployed to support Scania in bridging the gap between the detailed operational budget and
overall strategic plan. In that sense, the co-existence of rolling forecast and budget may be possible as they can be used in parallel and in a complementary manner. This is in line with a large body of literature that refers to rolling forecast as a support management control tool to the budgetary system (Montgomery, 2002; Hansen et al., 2003; Haka and Krishnan, 2005). As a result, rolling forecast will not be just a periodic update against the annual budget but rather rolling forecast will be a strategic management tool in which the focus will be on the drivers that are relevant for analysis and decision-making. However, it is fair to say that the integration of the two-MACS is more challenging in practice. Since the integration does not only require strategic fit between the two companies, but rather it requires also organizational fit, similarity in cultures, systems and structures that will facilitate the procedure (Peng, 2006). Accordingly, Scania and VW may need more time to develop common understanding and adopt such suggestion.

Imposing the budgetary system on Scania has its implications for employees as well. Some senior managers left, while the rest do not seem satisfied with this style of management. Generally speaking, the current situation cause uncertainty and anxiety for employees. Mainly due to the fact that Scania business model is based on values and methods for getting success, rather than quantified targets. Scania’s core strategy used to rely on achieving continuous improvements without quantifiable target to be reached by specific dates.

So, to sum up the consequences of post-acquisition phase. Dual MACS that are in conflict, containment mechanisms (mainly decoupling), and confusion and tension among controllers and management.

Scania faces a number of challenges in this phase. First and foremost, the company must deliver good financial results year after year to avoid VW intervention. This is challenging due to many reasons, among others, market fluctuations, unstable leadership at VW due to emission scandal, and intensive competition. Also, it is very challenging to develop a common understanding with VW due to the culture and the style of management differences (Kamminga and Van der Meer-Kooistra, 2007; Cartwright, Robertson and Tytherleigh, 2007). This in turn will make the full integration of MACS hard to achieve.

Scania also can benefit from being part of the VW Group. We have identified a number of advantages and opportunities: Better cash and investment management, seal better deals with suppliers, capture synergy benefits, achieve economies of scale and scope, cost reduction, increase market share, get access to intellectual property rights and the possibility to acquire a critical technology or capability that the company lacks. Moreover, the intention of VW to list the truck and bus division containing Scania and MAN would probably open for Scania more
opportunities and lead to more decentralization in decision-making. It is likely that Scania will lead the division because it is the stronger party in this coalition.

To seize these opportunities Scania should build trust with VW to reach common agreements from a financial point of view. It is about finding the right balance to benefit from the large scale of VW without losing its unique identity and culture i.e. win-win situation. VW has actually been successful in maintaining various brands within the Group. For example, they have Audi and Skoda where there is a big difference in the price and the quality but VW has been successful in managing this. So, what works with other brands, should work for Scania.

Management accounting can play a significant role as a facilitator of integration between the two different logics of Scania and VW (Granlund, 2003). This requires coherent well-managed post-acquisition management that takes into consideration the differences between companies in the Group. MACS is regarded as a loosely coupled system that not only ensures the adaptation and stability of the existing ways of thinking, but also can help organizations in developing new ways of thinking (Moilanen, 2012; Lukka, 2007). So, this may result in a new design of a group-wide MACS that establishes trust between the companies involved, and facilitate integration among them (Mayo and Hadaway, 1994).

Until now, it seems that management and finance team in Scania are successful to contain the tension between lean and rolling forecast on the one side, and classical budgetary control system, on the other side. The core question is that, until when can they handle this? We do not know, only time will tell, but we know that the pressure is on!

6.2 Critical reflection

We focus on our study on MACS in the post-acquisition phase using Scania as a case study. The case study is hard to allow for generalizations. Moreover, we conducted interviews with business controllers in cab factor in Oskarshamn. It would have been interesting to hear the perspective of the financial controllers in the headquarter in Södertälje. However, this was not possible due to practical reasons such as the limited time framework, geographical dispersion, and lack of funds. Furthermore, we have had doubts that financial controllers will be eager to talk about this because it is very delicate situation for them. We had this feeling based on our interviews in Oskarshamn. However, we do not see this as a limitation to our study as we are convinced that we had access to a large body of data that enables us to get insights and develop a deep understanding to MACS in Scania after the acquisition. Also, we did not rely just on business controllers’ views in Oskarshamn, but rather we have another holistic view of the
CFO. This is because, the CFO, during the seminar we attended, was presenting the management accounting practices of the entire organization which are not limited to Oskarshamn. Therefore, we believe that our approach in collecting the data was effective and efficient and also the most convenient. Furthermore, to increase the quality of the research, the chosen articles for this thesis could have been selected more thoroughly according to the ABS ranking, yet we could not precisely do this due to the lack of literature about the integration of MACS in the post-acquisition phase. We have tried though to use the most recent articles that have a more contemporary perspective on the topics under research, besides the seminal works done in this research area.

6.3 Theoretical and Practical Contributions

There is a large body of literature addressing M&A and the significance of a well-managed post-acquisition process, however less is known about the integration of MACS in the post-acquisition phase, due to the lack of research in this area in a straightforward manner (i.e. Weber and Drori, 2011). Moreover, we do not have a clear understanding of the implications of the combined use of different control systems in lean organizations (Tillema and Van der Steen, 2015). There is also a lack of knowledge about the role of traditional accounting-based control systems within lean organizations (ibid). Hence, our contribution is twofold, theoretical and practical. Our theoretical contribution is that by discussing and analysing the integration of MACS in the post-acquisition phase, we help researchers bridge the gap in literature. Our practical contribution is that we have increased the knowledge for practitioners to develop insight how to manage MACS after acquisition. Additionally, based on our empirics and literature review, we proposed a framework that can allow budget and rolling forecast work together to support each other. This framework needs to be tested in future research study. Finally, the thesis has highlighted the strategies and mechanisms that can be used by management and controllers to facilitate the integration process. In particular, we highlighted the controller role in managing this conflict. Thus, in many occasions throughout the paper we discussed specific issues from a controller point of view, how he/she can act to tackle particular problems.

6.4 Further Research

We have many suggestions for further research. One suggestion is to conduct a more holistic study that involves both VW and Scania views. We have studied the takeover focusing mainly
on Scania perspective. It would be interesting to hear from Wolfsburg-based VW as well. Also, more longitudinal research is highly recommended to evaluate MACS change processes and hence give us a better understanding for MACS integration processes in post-acquisition, especially if the intended listing coalition with MAN takes place. Homogeneity is often fitted to that of the stronger and commanding position (Chenhall, 2003; Schraeder and Self, 2003; Shanley and Gorrea, 1992).

Another suggestion for further research is to design a group-wide MACS that can establish trust between the companies involved, and facilitate integration among them. This is an area that has not yet been scrutinized enough.

Finally, the role and skill of accounting people and managers, in general, in the post-acquisition integration process of MACS is under-researched. We have tried to manage this in our thesis but not in an explicit manner because we have adopted a more holistic approach that takes into consideration different dimensions in the integration process. The focus of most researchers in this area was on the functionality of the systems involved and not the more behavioral aspects of system users. We have just few studies in that regard concluded that work is done differently in different organizations and hence the role of controllers/accountants differ as will, especially if the socio-cultural distance is far (i.e. Jones, 1985a, 1985b; Granlund, 2003; Granlund and Lukka, 1998; Ahrens, 1997). This will be even more interesting, given the cultural and style of management differences between Scania and VW.
Chapter Seven: References

7.1 Articles and Books


Clarke, P. October 2007 The Rolling Forecast as a Catalyst for Change. Accountancy, Ireland, 39(5).


<https://www.vinnova.se/contentassets/031315527b3544d89e773f7fab5a960/va_17_04t.pdf>


from CIMA and ICAEW”, Chartered Institute of Management Accountants & Faculty of Finance and Management, ICAEW.


7.2 Web references:

[http://urlm.co/www.axzopress.com]


The VW Annual Report (2017)


[https://dealbook.nytimes.com/2014/05/13/volkswagen-wins-enough-shares-to-take-full-control-of-scania/]

[https://global.handelsblatt.com/companies/vw-prepares-listing-truck-subsidary-894319]


[https://marketbusinessnews.com/volkswagen-scania-acquisition-move/12984/]

[https://www.wsj.com/articles/alecta-accepts-volkswagens-scania-offer-1399966691]


[https://www.stuff.co.nz/motoring/news/100604059/3-ways-volkswagen-has-changed-and-3-ways-it-hasnt-since-emissions-scandal]