

Christina Zecher

**Management Control and Organizational Change in Private Equity Buyouts –
An Institutional Theory Perspective**

Christina Zecher

**Management Control and Organizational Change in Private Equity Buyouts –
An Institutional Theory Perspective**

Dissertation, Wissenschaftliche Hochschule für Unternehmensführung (WHU) – Otto
Beisheim School of Management; Vallendar 2012.

Management Control and Organizational Change in Private Equity Buyouts – An Institutional
Theory Perspective

Alle Rechte vorbehalten.

© 2012 Christina Zecher

Das Werk einschließlich aller seiner Teile ist urheberrechtlich geschützt. Jede Verwertung
außerhalb der Grenzen des Urheberrechts ist ohne vorherige schriftliche Zustimmung des
Autors unzulässig und strafbar. Das gilt insbesondere für Vervielfältigungen, Übersetzungen,
Mikroverfilmungen und die Einspeicherung und Verarbeitung in elektronischen Systemen.

Vorwort

Die vorliegende Arbeit entstand im Rahmen eines Dissertationsprojektes, das im Dezember 2011 an der WHU – Otto Beisheim School of Management angenommen wurde. An dieser Stelle möchte ich meinen Dank denjenigen aussprechen, die mich während meiner Promotion begleitet und unterstützt haben.

William Richard Scott, Professor für Soziologie an der Stanford University, schrieb 2004 in einem Working Paper, „My favorite definition of science is that of a community of ‘organized skepticism’“. Diese Definition hätte sicherlich auch von meinem Doktorvater, Herr Prof. Dr. Utz Schäffer, stammen können, dessen kritische Anmerkungen meine Argumente schärften und wesentlich zum erfolgreichen Abschluss meiner Dissertation beitrugen. Auch hat er es in herausragendem Maße verstanden, meine Begeisterung für die Forschung zu wecken. Dank gebührt im ferner für seine exzellenten Ideen zur Ausgestaltung des Promotionsstudiums, die nicht nur meiner Disseration zugute kamen.

Ein ganz herzlicher Dank gilt meinem Zweitbetreuer Herrn Prof. Dr. Dr. h.c. Jürgen Weber, dessen Engagement weit über die Erstellung des Zweitgutachtens hinaus ging. Vielmehr konnte ich von seiner langjährigen und profunden Erfahrung auf dem Gebiet der empirischen Controllingforschung profitieren. Seine konstruktive Kritik und seine Denkanstöße haben ebenfalls zum Gelingen dieser Arbeit beigetragen.

Des Weiteren danke ich Sven Modell, Professor für Accounting and der University of Manchester, der mich im Rahmen eines Forschungsaufenthalts an der Manchester Business School betreut und mir wertvolle Anregungen für meine Arbeit gegeben hat. Dazu stand mir in dieser Zeit Dr. ChunLei Yang, Dozentin an derselben Institution, nicht nur mit Rat und Tat zur Seite, sondern ist auch zu einer guten Freundin geworden.

Zahlreiche ehemalige Kollegen, mit denen ich immer noch freundschaftlich verbunden bin, haben meine Zeit am Institut für Management und Controlling (IMC) nicht nur fachlich sondern auch persönlich bereichert. Hervorzuheben sind in diesem Zusammenhang Dr. Anton Preis, Dr. Christian Schürmann, Dr. Erik Strauß und Susanne Zubler.

Danken möchte ich überdies dem Support-Team des IMC, Evelyn Busch, Beata Kobylarz-Winn, Fotini Noutsia und Sabine Petrakakis sowie Elisabeth Pirsch, Program Manager des Promotionsprogramms. Der reibungslose Ablauf meiner Promotion wäre ohne ihre herausragende Unterstützung bei kleinen und größeren organisatorischen und administrativen Hürden nicht möglich gewesen.

Darüber hinaus bin ich der Stiftung der Deutschen Wirtschaft, die meine Dissertation mit einem Promotionsstipendium unterstützt hat, zu Dank verpflichtet.

Meinen größten Dank möchte ich meiner Familie, insbesondere meinen Eltern, und meinen Freunden aussprechen, die mich während meiner Dissertation bedingungslos unterstützt haben. Ohne ihren Zuspruch und ihre Fähigkeit, mir die wirklich wichtigen Dinge im Leben bewusst zu machen, hätte ich diese Arbeit nicht abgeschlossen. Von meinen Freunden möchte ich Christina Müller, die diese Arbeit lektoriert hat, und Dr. Johannes Paha, der mich technisch unterstützt hat, hervorheben.

Diese Arbeit widme ich meinen Eltern, Ingrid und Alfred Zecher.

Christina Zecher

Content Overview

I	Introduction	1
II	A Review of Frameworks for Management Control Systems Research, 1990-2009	12
III	Institutional Entrepreneurship Revisited: The Case of Private Equity Firms in German-Speaking Countries.....	36
IV	Multiple Logics, Radical Transitions, and Management Control: A Case Study of Institutional Change and Resistance	67
V	Conclusion.....	117
	Appendix A: Overview of Interviews	127
	Appendix B: Sample Interview Questions	128
	References	129

Table of Contents

List of Tables.....	X
List of Figures.....	XI
List of Abbreviations.....	XII
I Introduction.....	1
I.1 Research Motivation and Objectives.....	1
I.2 Theoretical Concepts.....	3
I.2.1 Management Control and Organizational Change.....	3
I.2.2 Private Equity Buyouts.....	4
I.2.3 An Institutional Theory Perspective.....	4
I.3 Research Methodology.....	7
I.4 Structure of Dissertation.....	9
II A Review of Frameworks for Management Control Systems Research, 1990-2009	12
II.1 Introduction.....	13
II.2 The Beginnings of Modern MCS Research.....	15
II.3 Review Approach and Sample.....	16
II.4 Frameworks for MCS Research.....	20
II.4.1 The Levers of Control Framework by Simons.....	20
II.4.2 The Performance Management Framework by Otley.....	21
II.4.3 The Performance Management Systems Framework by Ferreira and Otley.....	22
II.4.4 The Performance Management System by Broadbent and Laughlin.....	24
II.4.5 The MCS Package by Malmi and Brown.....	25
II.5 Discussion of Conceptual MCS Research.....	26
II.5.1 Definitions of MCS.....	26
II.5.2 Functional Elements of Frameworks for MCS Research.....	28
II.5.3 Contextual Elements of MCS Frameworks.....	29
II.5.4 Theories Underlying Frameworks for MCS Research.....	30
II.5.5 Dissemination and Critique of Frameworks for MCS Research.....	31
II.6 Conclusion.....	33
III Institutional Entrepreneurship Revisited: The Case of Private Equity Firms in German-Speaking Countries.....	36
III.1 Introduction.....	37
III.2 Theory and Background.....	39
III.2.1 Institutional Entrepreneurship.....	39

III.2.2 Private Equity Firms	42
III.3 Methods.....	44
III.3.1 Research Context	44
III.3.2 Research Design.....	45
III.4 The Case of Private Equity Firms	49
III.4.1 Exploring the Process of Institutionalizing Management Control Practices.....	49
III.4.2 Understanding the Dynamics of Different Modes of Power	57
III.5 Conclusion.....	62
IV Multiple Logics, Radical Transitions, and Management Control: A Case Study of Institutional Change and Resistance	67
IV.1 Introduction	68
IV.2 Theory and Background	71
IV.2.1 Institutional Logics	71
IV.2.2 Corporate Governance Logics in Germany	73
IV.3 Methods.....	77
IV.3.1 Case Selection and Data Sources	77
IV.3.2 Research Site and Context	80
IV.3.3 Data Analysis	82
IV.4 A Narrative of Institutional Change and Resistance	83
IV.4.1 The Family-Firm Era	83
IV.4.2 The Owner-Manager Era	88
IV.4.3 The Private Equity Era.....	96
IV.5 Concluding Discussion.....	108
V Conclusion.....	117
V.1 Summary	117
V.2 Theoretical Contributions.....	121
V.3 Practical Implications.....	122
V.4 Limitations	123
V.5 Further Research	126
Appendix A: Overview of Interviews	127
Appendix B: Sample Interview Questions	128
References	129

List of Tables

Table II-1: Overview of review database	19
Table II-2: Authors' characteristics	20
Table II-3: Definitions of MCS	27
Table III-1: Characteristics of private equity firms trying to engage in institutional entrepreneurship	47
Table III-2: Overview of participating PE firms specialized in SMEs	48
Table III-3: Overview of interviews	49
Table IV-1: Institutional logics of families and corporations as societal sectors (adapted from Thornton, et al., 2005)	72
Table IV-2: Ideal types of institutional logics in the German system of corporate governance	76
Table IV-3: Overview of tape-recorded interviews	79
Table IV-4: Phases in the process of institutional change and resistance	108

List of Figures

Figure I-1: Overview of research approach 8

Figure I-2: Structure of dissertation..... 9

Figure II-1: Relationships among strategic planning, management control, and operational control (slightly adapted from Anthony & Govindarajan, 2007, p. 6) 16

Figure II-2: Levers of control framework (taken from Simons, 1995, p. 7)..... 21

Figure II-3: The PMSs framework (taken from Ferreira & Otley, 2009, p. 268)..... 23

Figure II-4: PMS: A conceptual model taking into account models of rationality and context (taken from Broadbent & Laughlin, 2009, p. 8)..... 25

Figure II-5: The MCS package (taken from Malmi & Brown, 2008, p. 291)..... 26

Figure III-1: Model of the process of institutional entrepreneurship (taken from Battilana, et al., 2009, p. 87)..... 40

Figure III-2: The interplay of institutional control, agency and resistance (taken from Lawrence, 2008, p. 173) 42

Figure III-3: Extended model of the process of institutional entrepreneurship 64

List of Abbreviations

AOS	Accounting, Organizations and Society
BVK	Bundesverband Deutscher Kapitalbeteiligungsgesellschaften (German Private Equity and Venture Capital Association)
CAR	Contemporary Accounting Research
cf.	confer, Latin: “compare”
COO	chief operating officer
ed.	edition
Eds.	editors
e.g.	exempli gratia, Latin: “for example”
e.V.	eingetragener Verein, German: “registered association”
et al.	et alii, Latin: “and others”
EVCA	European Private Equity & Venture Capital Association
i.e.	id est, Latin: “that is”
ICV	Internationaler Controller Verein (International Controller Association)
IMC	Institute of Management Accounting and Control
ISO	International Organization for Standardization
IT	information technology
JAE	Journal of Accounting and Economics
JAR	Journal of Accounting Research
KPI	key performance indicator
LBO	leveraged buyout
Ltd.	private limited company
MAR	Management Accounting Research
MBO	management buyout

MCA	Management Control Association
MCS	management control systems
NIE	new institutional economics
NIS	new institutional sociology
no.	number
OIE	old institutional economics
p. or pp.	page(s)
PE	private equity
PhD	Philosophiae Doctor, Latin: “doctor of philosophy”
PMS	performance management system
PSE	Parti Socialiste Européen (Party of European Socialists)
RAST	Review of Accounting Studies
SME	small and medium-sized enterprises
SPD	Sozialdemokratische Partei Deutschlands (Social Democratic Party of Germany)
SSRN	Social Science Research Index
TAR	The Accounting Review
U.K.	United Kingdom
U.S. or U.S.A.	United States of America
VHB	Verband der Hochschullehrer für Betriebswirtschaft (German Academic Association for Business Research)
WHU	Wissenschaftliche Hochschule für Unternehmensführung (graduate school of management)

I Introduction

The idea is not a substitute for work.
(Max Weber, 1864-1920)

I.1 Research Motivation and Objectives

Since the mid-1990s, the German system of corporate governance has been in a process of transformation from an ideal-typical stakeholder model towards the Anglo-American shareholder model (Höpner, 2001; Lane, 2005).¹ Although these institutional changes have far-reaching implications for corporate decision-making and management control, the discussion has been mainly focused on the national economic level (Hall & Soskice, 2001). In contrast, research on how such changes unfold in organizations is rather sparse. Moreover, the few existing studies on corporate adoptions of a shareholder orientation are often quantitative in nature (e.g. Fiss & Zajac, 2004), treating the organization as a “black box” and neglecting the processual dimension of change.

The innovation of this dissertation is to study the transformation of corporate governance in Germany in terms of management control and organizational change in individual organizations. Essentially, this dissertation addresses the issue of what happens when a stakeholder orientation and a shareholder orientation clash. In order to explore this subject, the focus is on private equity buyouts as paradigm cases of situations in which these opposing orientations clash on an organizational level. In particular, private equity firms put an emphasis on financial, shareholder value oriented management control practices which contrast with the traditional, production-oriented attitude prevailing in most German firms. Thus, private equity buyouts provide an ideal setting for the study of management control and organizational change.

Institutional theory has been chosen as the theoretical perspective of this dissertation, as it is especially constituted for studying organizations operating in environments imbued with multiple and diverse ideas such as the contemporary German system of corporate governance. In contrast to economic theories dominating North American management accounting research, institutional theory allows to more explicitly explore the plurality of interests reflected in management control and organizational change process (Covaleski, Evans III, Luft, & Shields, 2003). Attention is drawn to the broader social environment of organizations which shapes their social reality in addition to the technical sphere. Furthermore, institutional theory

¹ This transformation is an ongoing process, whose outcome is still being discussed. The debate revolves around the question of whether the German system will converge, whether differences in national systems will persist, or whether an intermediate form emerges with varying degrees of adoption within Germany (Fiss & Zajac, 2004).

assumes that organizations strive for legitimacy, thus adopting certain structures and practices primarily to demonstrate conformity with institutional rules and social norms. Efficiency considerations, on the contrary, are not the central domain of interest (DiMaggio & Powell, 1983; Scott, 1987).

In particular, this dissertation on of management control and organizational change in private equity buyouts encompasses four research objectives:

Research objective 1 is to *summarize and synthesize conceptual management control systems research*. The first objective of my dissertation is to contrast and compare different conceptualizations of management control systems (MCS), as the literature on management control evolved around the domain of MCS (Merchant & Otley, 2007). The fragmented status of the field of MCS research has been often perceived as an impediment to a precise academic debate (Berry, Coad, Harris, Otley, & Stringer, 2009). Yet, my aim is to show that the field's pluralism can also be considered as a strength (Nag, Hambrick, & Chen, 2007).

Research objective 2 is to *investigate the process of institutional entrepreneurship in the case of private equity firms*. Private equity firms' success rests on achieving institutional change, i.e. on institutionalizing management control practices mediating shareholder-value principles which typically contrast with the incumbent rationales that guide organizational decision making. Actors who initiate and implement such divergent change are referred to as institutional entrepreneurs. The second research objective is thus to conceptualize private equity firms as institutional entrepreneurs and to apply the model of the process of institutional entrepreneurship (Battilana, Leca, & Boxenbaum, 2009) to the case of private equity firms. A new theoretical perspective will both enhance our understanding of private equity firms and contribute to the concept of institutional entrepreneurship.

Research objective 3 is to *illustrate how actors in individual organizations make sense of and respond to multiple, often conflicting institutional logics mediated by management control practices*. Institutional logics are sets of principles that provide meaning to social reality (Friedland & Alford, 1991) and are both legitimated by and manifested in organizational practices (Greenwood, Díaz, Li, & Lorente, 2010). Institutional environments are frequently shaped by multiple, often conflicting institutional logics which are embedded in everyday organizational practices and routines, such as in management control practices. However, extant research has been focusing on the emergence and consequences of competing logics in institutional fields rather than in individual organizations (Thornton & Ocasio, 2008). The third objective addresses this gap by drawing attention to a micro-level of analysis.

Research objective 4 is to *explore the conditions for the hybridization of institutional logics in the context of radical organizational change*. Prior studies examined the hybridization of institutional logics, i.e. the combination of characteristics of two or more logics (Haveman &

Rao, 2006), in periods of evolutionary change. In contrast, little is known about the logic hybridization in radical organizational transitions. The fifth research objective addresses this gap. Private equity buyouts are frequently associated with radical changes and thus provide a salient example for the study of logic hybridization.

The remaining part of the Introduction is devoted to explaining key terms of this dissertation as well as to outlining the main features of institutional theory. After the research methodology has been described, the structure of the dissertation is explicated.

I.2 Theoretical Concepts

I.2.1 Management Control and Organizational Change

Management control is understood here as the organizational activities maintained or altered by managers to ensure that their organizations perform well (Merchant & Otley, 2007; Simons, 1995). Included in this conceptualization are goal-oriented activities as well as innovation-oriented activities which encourage learning and adaptation (Simons, 1995). Management accounting practices form an integral part of management control practices, which further encompass issues such as formulating and disseminating the vision and mission of the organization, designing organization structure, as well as generating, communicating and implementing strategies and plans. When management control practices are institutionalized, they are unconsciously reproduced by organizational actors. Such institutionalized practices are referred to as “patterned social interactions that are implicitly reproduced in behavioral routines (tacit knowledge) and cognitively sustained by implicit beliefs and norms (taken-for-granted beliefs and norms)” (Boxenbaum, 2006, p. 3).

It is recognized that this understanding of management control is very broad, as it covers a variety of different management control practices. Yet, such a broad understanding is indispensable for studying processes of change in a comprehensive manner. The exploratory nature of this research project requires considering various aspects of the phenomenon of management control and organizational change in private equity buyouts.

The literature on organizational change is vast, since it represents a central theme within organization theory, management, and accounting. However, I focus on a particular type of change which is referred to as radical organizational change. In the context of ownership changes, radical organizational change is likely to occur due to disruptions of the institutionalized values and patterns of behavior which constitute the incumbent organizational culture and context (Busco, 2006). More generally, Fligstein (1991, p. 313) notes that “change [...] can only occur when either a new set of actors gains power or it is in the interest of those in power to alter the organization’s goals”.

Radical organizational change involves two stages of change. The first stage is characterized by an entire disentanglement of the incumbent organizational structures and systems. In the second stage, transformation occurs which means that “prevailing ideas and values have lost legitimacy and become discredited” (Greenwood & Hinings, 1988, p. 306) and an alternative structural arrangement emerges. The opposite of radical organizational change is convergent change. It is associated with incremental changes of an existing structural arrangement (Greenwood & Hinings, 1996).

I.2.2 Private Equity Buyouts

This dissertation explores management control and organizational changes in private equity buyouts. In particular, the focus is on private equity buyouts in small and medium-sized enterprises (SME) in German-speaking countries.

Following the European Private Equity and Venture Capital Association (European Private Equity and Venture Capital Association (EVCA), 2011), a buyout denotes „a transaction financed by a mix of debt and equity, in which a business, a business unit or a company is acquired with the help of a financial investor from the current shareholders (the vendor)”. This dissertation addresses private equity firms as a specific type of financial investor that brings in its know-how and offers support to top management on strategic matters. Private equity firms provide capital for different buyout types, such as leveraged buyouts (LBOs), management buyouts (MBOs), and management buy-ins (MBIs) (Wright, Amess, Weir, & Girma, 2009). However, in this dissertation, I consider all types of buyouts in which a private equity firm acquires a controlling interest of a company.

I.2.3 An Institutional Theory Perspective

Institutional theory is the generic term for a range of approaches spanning various scholarly disciplines (Jepperson, 1991). After Meyer and Rowan (1977) formulated the first neo-institutional arguments in the field of organizational sociology, a rapid theoretical and empirical development followed (Scott, 2008). Partly due to this progress, institutional approaches or different “institutionalisms” are not fully reconcilable (Zucker, 1988). Accordingly, DiMaggio and Powell (1991, p. 1, emphases in the original) write that “institutionalism purportedly represents a distinctive approach to the study of social, economic, and political phenomena; yet it is often easier to gain agreement about what it is *not* than what it *is*”. Against this background, it seems crucial to narrow down the topic. Due to its focus on the organizational environment, new institutional sociology (NIS, sometimes also referred to as neo-institutional

sociology) has been chosen as the theoretical basis of this dissertation. This strand of institutional theory is illustrated in the following remarks.²

Central to NIS is the rejection of rational-actor models as proposed by economic theory. Instead, NIS draws attention to cognitive and cultural explanations and to the effects of institutional environments on individual organizations (DiMaggio & Powell, 1991). From this perspective, organizations strive for legitimacy to enhance their survival prospects. Organizational structures and practices, such as management accounting and management control practices, are adopted because they are “rationalized”, i.e. congruent with wider societal values (Scott, 2001). Meyer and Rowan (1977, p. 340) formulated this idea as follows:

[...] Organizations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work and institutionalized in society. Organizations that do so increase their legitimacy and their survival prospects, independent of the immediate efficacy of the acquired practices and procedures.

However, this does not imply that symbolic, legitimacy-inducing practices and procedures are inconsistent with efficiency criteria. Rather than strictly separating between technical and institutional environments, efficiency-oriented market forces are conceived to be embedded in institutional mechanisms. Thus, both market and institutional mechanisms are intertwined (Modell & Wiesel, 2008).

Before further aspects of NIS are outlined, a number of key terms have to be defined. In this dissertation, *institutions* are understood according to Scott (2001, p. 48) who states that “institutions are composed of cultured-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social behavior”. *Institutionalization* can be both an outcome and a process (DiMaggio, 1988). As an outcome, institutionalization denotes organizational structures and practices sustained over a long period of time without further reason or amplification (Zucker, 1987). The persistence of institutionalized activities is rooted in their taken-for-granted character “as defining ‘the way things are’ and/or ‘the way things are to be done’” (Scott, 1987, p. 496). As a process, institutionalization refers to the development and learning of practices expected in different social locations (Dillard, Rigsby, & Goodman, 2004). *Deinstitutionalization* is defined “as the process by which the legitimacy of an established or institutionalized organizational practice erodes or discontinues” (Oliver, 1992, p. 564). Such a process may be triggered by problems threaten-

² NIS is among three dominant versions of institutional theory in the field of management accounting and control. In addition to NIS, old institutional economics (OIE) and new institutional economics (NIE) have exerted most influence on management accounting research (Moll, Burns, & Major, 2006). OIE was introduced through the institutional framework for conceptualization of management accounting change by Burns and Scapens (2000). In contrast to NIS and OIE, NIE is based on neo-classical economic theory. Transaction-cost economics (Coase, 1937; Williamson, 1981, 1985) is regarded as most prominent strand of NIE in the field of management accounting.

ing the legitimacy or survival of an organization which call the validity of organizational practices and procedures into question.

Institutional dynamics involved in the change of organizational practices and procedures are linked over three levels of analysis, as illustrated by the Dillard et al. (2004) model. The top level represents the all-embracing societal level of political, economic and social systems. At this level, legitimate norms and practices are articulated and disseminated to the members of a society. In terms of the dominant political and economic context, most organizations in contemporary Western societies are faced by capitalism which rests on the basis of private ownership and the individual exchange of labor and capital (Friedland & Alford, 1991). The empirical context of Germany, in particular, has been traditionally constituted by the specific position of German banks, the system of co-determination, and the productionist, company-centered orientation of German senior management (Fiss & Zajac, 2004). The values of the societal level are translated into field-specific expectations within the organizational field, the second level of analysis. Organizational fields are defined as “those organizations, that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products” (DiMaggio & Powell, 1983, p. 148). Practices authorized at the organizational field level provide the legitimating and regulative basis for actions at the organizational level. For instance, such practices are defined by legislators, regulators, and professional associations, such as the *Internationaler Controller Verein* (ICV, international controller association). The organizational level represents the third level of analysis. Practices adopted by organizations recursively influence the societal level. Dillard et al. (2004, p. 514, emphasis in the original) note that “recursivity is the key to understand change in the institutionalization process since taken-for-granted norms, values, beliefs and assumptions may be continually revised at all three levels of the model”. In this dissertation, the focus is on the organizational level of analysis.

A final aspect of the theoretical underpinning of this dissertation refers to the underlying form of rationality. Until recently, much empirical research has conceptualized institutional change as a two-stage diffusion process, distinguishing between early and later adopters. While early adopters are driven by technical considerations, later adopters imitate practices mindlessly due to pressures to conform (Tolbert & Zucker, 1983). This “institutional dopiness” (Lounsbury, 2008, p. 350) has been increasingly criticized by scholars (Lawrence & Suddaby, 2006; Modell, 2010; Scott, 2008). As an alternative, two different approaches to rationality have emerged (Lounsbury, 2008). A more instrumental, strategic approach to rationality has been advanced by Oliver (1991) who draws attention to the ways in which organizations strategically respond to institutional pressures. In contrast, a more collective, institutional approach to rationality reflects the seminal ideas by Meyer and Rowan (1977) who emphasize that rationalized myths guide individual behavior and that multiple forms of rationality may

exist. From this point of view, isomorphic tendencies as well as organizational variety can be explained. This dissertation follows an institutional approach to rationality.

In the field of management accounting, NIS has been predominantly applied to public sector studies exploring the diffusion of private-sector technologies in the public sectors. Mainly qualitative studies have been conducted in order to understand the context of specific accounting practices. These studies document how accounting rules and routines have been institutionalized in organizational life. In general, the interest is on how accounting is shaped by its institutional environment and how accounting, in turn, helps to shape its environment (Moll, Burns, et al., 2006). Somewhat neglected topics in NIS-informed management accounting research are how externally imposed practices are adopted (Cruz, Major, & Scapens, 2009) and how institutional change is initiated (Dillard, et al., 2004). The latter research gap is addressed by this dissertation.

I.3 Research Methodology

This dissertation consists of a literature review presented in Chapter II and two original research papers presented in Chapters III and IV. The literature review combines a narrative and a systematic review methodology, thus providing descriptive and critical accounts of the relevant literature in a comprehensible, replicable way. As this approach is outlined in detail in Chapter II, the following remarks focus on the empirical chapters of this dissertation.

An explanation of the methodological approach of an empirical research project begins with its ontological assumptions (Ryan, Scapens, Theobald, & Beattie, 2002). Six different sets of ontological assumptions have been classified in literature, constituting a continuum of paradigms ranging from a strict objectivist view to a strict subjectivist view. Each ontological assumption of reality reflects particular schools of thought in the social sciences (Morgan & Smircich, 1980). In this dissertation, reality is assumed to be socially constructed which is clearly a more subjectivist view or “naturalistic” perspective (Tomkins & Groves, 1983). The social world is perceived as a continuous process, recreated by the actors with each encounter of everyday life. Reality is then the accomplishment of individual sense-making. It is acknowledged that multiple realities may exist. Consequently, researchers are interested in how individuals make sense of these everyday encounters by focusing on language, labels, actions, and routines (Ryan, et al., 2002; Tomkins & Groves, 1983). In the field of management accounting and control, examples for such artifacts are performance measurement and budgeting.

The six ontological assumptions lead to mainstream accounting research, interpretive research, and critical accounting research as three distinct categories of accounting research (Hopper & Powell, 1985; see also Burrell & Morgan, 1979). This dissertation stands in the interpretive research tradition whose intention is to enhance our understanding of our social

world. The purpose of interpretive research is to develop theories which seek to explain human action and the production and reproduction of social order in a holistic manner. Interpretive research starts from the notion that “social reality is emergent, subjectively created, and objectified through human interaction” (Chua, 1986, p. 615). Methodological individualism, which regards the social world to be an aggregation of individual behavior, and scientific reductionism, which draws conclusions from small entities to larger ones, are both rejected by interpretive research (Ryan, et al., 2002).

A particular issue in interpretive research refers to the generalization of findings. Functionalist or positivistic research, which is still the dominant paradigm in management accounting research, strives for deriving statistical generalizations, i.e. statements about the probability of particular occurrences in a population based on one or more observations of the real world (Lukka & Kasanen, 1995). On the contrary, interpretive studies are inherently bound to their context. Their objective is to gain theoretically informed understandings that are able to explain the observed phenomena. These theories providing credible explanations can be used in other case studies and subsequently be refined, extended, and modified. Theoretical generalizations are supposed to be the end products of such processes of replication and extension (Ryan, et al., 2002). Thus, rather than relying on anecdotal evidence, theory plays a pivotal role in this dissertation, as it is both the input and output of my research project.

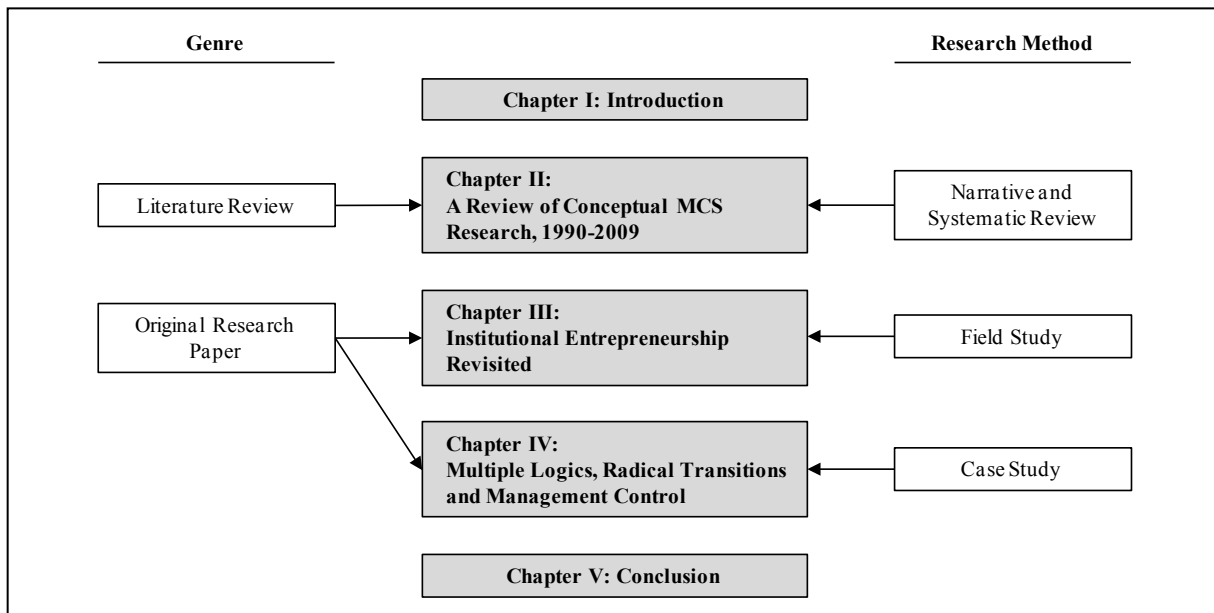


Figure I-1: Overview of research approach

In terms of methods, my research project involved a case and a field study. Following Moll et al. (2006), I use the term ‘case study’ for the analysis of a single organization. Case studies provide opportunities for researchers to understand which techniques, procedures, and systems are used in practice as well as the way in which they are used (Ryan, et al., 2002). Thus, Yin (2003, p. 1) notes that “case studies are the preferred strategy when ‘how’ or ‘why’ ques-

tions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context”. In contrast, the term ‘field study’ denotes the analysis of two or more organizations. Compared to case studies, field studies typically involve a less extensive data collection (Lillis & Mundy, 2005). My role as a researcher in both the case and the field study has been that of a visitor. As most researchers in the qualitative research tradition, I visited the case sites and interviewed organizational actors. Accordingly, I was not directly involved in the issues being researched (Ryan, et al., 2002). Figure I-1 gives an overview of the research approach.

I.4 Structure of Dissertation

As indicated in the previous section, this dissertation consists of three independent papers. Each paper is supposed to be submitted to an international scholarly journal in the field of management accounting and control. As the main part of this dissertation, these three papers will be subsequently presented in Chapter II, III, and IV. The structure of this dissertation as well as the relation of the three separate papers to the research objectives is illustrated in Figure I-2. Despite the independent character of each paper, it should be noted that a proposal of the overall research project has been presented at the 25th Doctoral Colloquium in Accounting of the European Accounting Association on May 12, 2009 in Tampere, Finland.

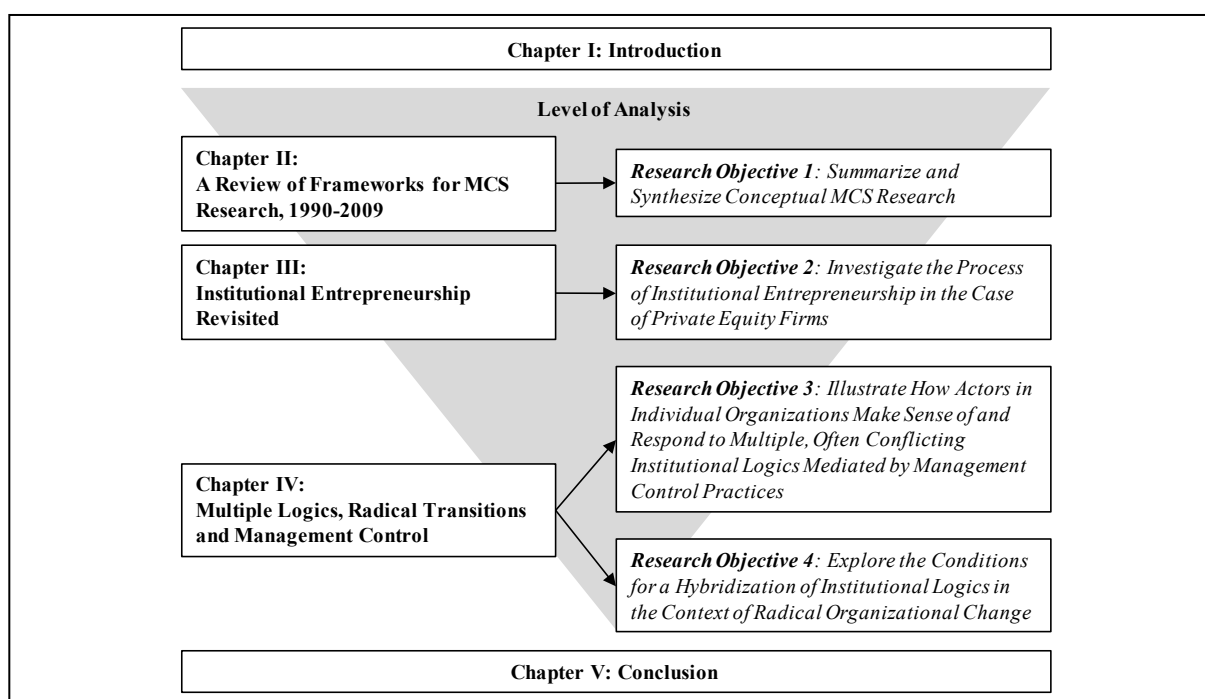


Figure I-2: Structure of dissertation

Chapter II contains the literature review “A Review of Frameworks for Management Control Systems Research, 1990-2009”. In the past two decades, several new frameworks have been developed with the endeavor to provide a useful tool for MCS research. These frameworks

seem to have responded to as well as contributed to an increasing criticism of the fragmented status of the field (Berry, et al., 2009). My review seeks to contrast and to compare different frameworks for MCS research (*research objective 1*) that have been published between 1990 and 2009 as an evaluation the current state of conceptual MCS research. In particular, it aims at assessing which frameworks have been published in this 20-year period, the respective underlying definition of MCS, the extent to which these frameworks differ and the elements which they have in common, their theoretical underpinnings, as well as their dissemination and the critique they have evoked in the academic community. As a result of this analysis, I will look at the prospects of conceptual MCS research. The critics of the field's diversity indicate that conceptual MCS research faces a dilemma. In order to integrate different viewpoints, MCS frameworks have to become broader and more holistic, while this also poses the risk of losing the field's distinctiveness. However, I intend to demonstrate that the field's pluralism can also be interpreted as a strength (Nag, et al., 2007), since it attracts a variety of different scholars.

Chapter III presents the research paper "Institutional Entrepreneurship Revisited: The Case of Private Equity Firms in German-Speaking Countries". This study seeks to promote the concept of institutional entrepreneurship in management accounting research. While recent studies have focused on the impact management accounting change and on institutional aspects of performance measurement and management, the process of initiating institutional change and the actors involved in this process have been largely neglected. Thus, the purpose of the study is to illustrate and to elaborate on the concept of institutional entrepreneurship by using the example of private equity firms in German-speaking countries (*research objective 2*). More specifically, I will apply the model of the process of institutional entrepreneurship (Battilana, et al., 2009). Light will also be shed on the issue of power in the process of institutionalizing management control practices by analyzing episodic and systemic forms of power (Lawrence, 2008) in private equity buyouts.

Chapter IV comprises the research paper "Multiple Logics, Radical Transitions, and Management Control: A Case Study of Institutional Change and Resistance". This paper addresses the issue of institutionally embedded agency by utilizing the concept of institutional logics in a private equity buyout. In particular, my aim is to show how actors in an individual organization make sense of and respond to multiple, conflicting institutional logics (*research objective 3*), when an incumbent stakeholder logic and lingering elements of a family logic are challenged by management control practices mediating a shareholder logic. Private equity firms pursue a philosophy of shareholder-value maximization which deviates often substantially from the incumbent beliefs and rules that guide organizational actions and are mediated by management control practices. A case study will be presented that has been conducted in a German *Mittelstand* firm almost two years after a private equity firm became its majority shareholder. Private equity firms are considered to be the epitome of a short-term oriented,

purely financially driven actor whose approach contrasts sharply with the traditional German model of corporate governance. By extending the concept of institutional logics to notions of radical organizational changes, I will illustrate which conditions seem to impede a process of logic hybridization (*research objective 5*).

Chapter V concludes this dissertation. It summarizes the results of each individual paper of this dissertation and outlines its contributions to research as well as its contributions to practice. Limitations related to theory, methodology, and to data are discussed. Finally, suggestions for further research are made.

II A Review of Frameworks for Management Control Systems Research, 1990-2009

What are management control systems, really? This question stood at the outset of my research journey. As explained in Chapter I.2.1, I follow a broad understanding of management control in my dissertation and focus in my empirical studies on management control practices rather than systems. Yet, at the beginning of the research process, a clear delineation of the object of study was needed. The notion of MCS is ubiquitous in management accounting research and describes a more tangible field of study than the term management control practices. However, a look at the literature revealed various definitions and conceptualizations of MCS exist. Many researchers in the field of MCS also complained about the fragmented status of the field.

As a consequence, a review of frameworks for MCS research published in the period from 1990 to 2009 has been conducted. An emphasis has been placed on the comparison of different frameworks for MCS research. Moreover, this review points out that many subfields of management overlap with other bodies of literature and that MCS is one among many eclectic areas of study. In contrast to prior reviews on this topic, I highlight that the ambiguous nature of the field may also be considered as a strength, leaving room for a number of theoretical and methodological approaches.

A previous version of this literature review has been presented at a workshop with Prof. Stephen Zeff at WHU – Otto Beisheim School of Management, Vallendar, on October 12, 2009.

II.1 Introduction

In recent years, the field of management accounting and control has experienced a new dynamic in terms of proposing various new frameworks for management control systems (MCS) research. More than four decades after Anthony (1965) provided the starting point for modern MCS research, the search for a framework does not nearly seem to be completed. On the one hand, new frameworks are requested regularly to capture the control requirements of the current environment. As these control requirements differ considerably from those made in the past, extant frameworks are regarded as inappropriate. This refers particularly to their ability to address the control needs of numerous different users (Nixon & Burns, 2005). On the other hand, recently developed frameworks try anew to consolidate existing research to stimulate a more precise scholarly debate. Such a debate has been impeded by the lack of a consistent conceptualization of MCS (Fisher, 1998; Fleming, 1972; Machin, 1983; Merchant & Otley, 2007; Merchant & Van der Stede, 2003; Otley, Broadbent, & Berry, 1995).

However, various efforts to improve frameworks for MCS research and to overcome existing inconsistencies have not (yet) been successful. Rather, the field of MCS research is still characterized by its fragmented status, manifested in divergent, but coexisting frameworks for MCS research (Berry, et al., 2009). But which frameworks have been published in the past two decades and to what extent do they differ? Which elements do they have in common? What are their theoretical underpinnings? And, above all, what do they tell us about the current state of conceptual MCS research? This review intends to answer these questions and to evaluate to what extent the goal of a coherent research agenda has been achieved. Such a reflection and analysis of past conceptual research may provide a basis for further advances in the field of management accounting and control.

The purpose of this chapter is thus to review and to compare frameworks for MCS research that have been published in international scholarly journals and books in the period from 1999 to 2009. Since the aim is to provide a detailed and comprehensible review, a traditional narrative review methodology has been combined with principles of a systematic review (Tranfield, Denyer, & Smart, 2003). Articles and books have been selected on the basis of a search in the EBSCOhost® Business Source Complete database as well as by using backward and forward citation-tracking. As a result, the frameworks for MCS research developed by Simons (1995), Otley (1999), Ferreira and Otley (2009), Broadbent and Laughlin (2009), and Malmi and Brown (2008) have been included in the analysis. A comparison of commonalities and differences of these frameworks reveals which elements and characteristics belong to core and to more holistic MCS concepts. Consequently, conclusions are drawn as to the current state of conceptual MCS research and suggestions for future research are offered.

This review makes two contributions to the conceptual literature on management control. First, it provides a review and an analysis of frameworks for MCS research, a topic that

gained relevance over the past years (Nixon & Burns, 2005). Prior reviews in this field either cover first and foremost empirical MCS research (e.g. Bedeian & Giglioni, 1974; Merchant & Simons, 1986) or present different MCS concepts consecutively (Merchant & Otley, 2007). However, this review highlights commonalities of and differences between selected frameworks. It also draws attention to the theories underlying each framework. Thus, it indicates for which purposes a particular framework is intended to be used. Since this paper also shows whether and how the frameworks have been applied in empirical research, it gives an indication of how the frameworks have been received by the academic community. In addition, by comparing frameworks for MCS research in detail, this review based on scientific articles and monographs supplements a recent textbook review of MCS concepts (Strauß, 2011).

As a second contribution, this review offers a new perspective on the field of MCS research. Conceptual MCS research seems to face a dilemma between becoming more integrative on the one hand, and representing a distinct field of study on the other hand. In fact, the field of MCS research already overlaps considerably with other fields of study (Merchant & Otley, 2007). If the field becomes too eclectic and loses its specific identity, it could be merged into related disciplines. This essentially happened to the field of international business research, which disappeared completely as a distinct area of study (Nag, et al., 2007). However, my review demonstrates that scholars in MCS research share a consensus of the field's core. All frameworks for MCS research include planning, target setting, key performance measures, performance evaluation, reward and compensation systems as well as cybernetic controls. This shared identity is combined with a conceptual, methodological and theoretical diversity. Thus, as Nag et al. (2007) emphasized in their analysis of the field of strategic management, I conclude that this duality can also be regarded as a strength of the field of MCS research.

In addition to these contributions to research, this review also addresses the needs of other groups of readers. For students of management accounting and control, this paper assesses which framework for MCS research is suitable for which purposes. Thus, students may use this analysis as decision guidance for their own studies of MCS. Practitioners, in turn, may use the frameworks discussed in this paper to critically reflect MCS of their organizations or to make better sense of empirical MCS research.

The remainder of this chapter is organized as follows: Section II.2 outlines early developments in MCS research. In particular, Anthony's (1965) seminal framework as the starting point of modern MCS research is presented. Section II.3 describes the review approach as a combination of a traditional narrative approach combined with principles of a systematic review as well as the review sample. Section II.4 briefly presents different frameworks for MCS research, which are subsequently discussed and compared in detail in Section II.5. Section II.6 concludes this review.

II.2 The Beginnings of Modern MCS Research

The groundwork for modern MCS research was provided in 1965 by Robert N. Anthony, then Professor of Accounting at Harvard Business School, a leading institution in the development of management control thinking (Zeff, 2008). Based on discussions with colleagues, practitioners, and students, Anthony (1965) developed a framework for analysis of planning and control systems. In doing so, Anthony (1965) was the first to discuss management control as a distinct area of study (Merchant & Otley, 2007). Rather than concentrating on techniques for collecting accounting information efficiently, Anthony (1965) focused on conceptual issues and highlighted the use of accounting information for management control (Zeff, 2008). Today, Anthony's (1965) work is still regarded as essential for understanding more recent developments in frameworks for MCS research (Machin, 1983; Otley, et al., 1995). Therefore, Anthony's (1965) framework as well as the development trajectory after this seminal publication will be outlined.

Anthony's (1965) framework for the study of planning and control systems represents a classification of topics and subtopics, rather than a model based on a particular theory. It rests on the distinction between the processes of strategic planning, management control, and operational control. These three processes are linked to the organizational hierarchy. While the top-management level is responsible for strategic planning, the operational level is in charge of operating control. Management control lies in between these processes and is defined as "the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives" (1965, p. 17). Furthermore, management control includes both planning and controlling activities, whereas strategic planning is primarily concerned with planning and operational control with controlling activities. On the one hand, management control is conducted within the constraints defined by strategic planning, as capacities, organizational structure and objectives are given. Long-term goals have to be broken down into shorter-term goals and budgets have to be prepared according to the respective policies and guidelines. On the other hand, management control defines the boundaries for operational control. Management control is focused on coordinating the whole set of everyday activities. Operational control, in contrast, refers to executing specific tasks. Figure I-1 has been adapted from a later edition based on Anthony (1965) and summarizes the relationships among the three processes associated with planning and control systems. In addition to the aforementioned activities, management control includes both a feedback and a feed-forward function that enable making any necessary adjustments to achieve predefined goals.

However, in the course of time, several researchers criticized Anthony's (1965) approach. For instance, some felt Anthony (1965) put an overemphasis on financial and accounting-based controls (Emmanuel, Otley, & Merchant, 1990; Merchant & Otley, 2007; Otley, et al., 1995). Another issue referred to the division between strategic planning, management control, and

operational control. Anthony (1965) himself admitted that this distinction is artificial and has been made for illustrative purposes, as these processes actually overlap. However, his perspective was later also criticized for being outdated, since strategic issues are nowadays also discussed with actors at hierarchical levels below top management (Langfield-Smith, 1997; Otley, 1994). Finally, some authors expressed their discontent with Anthony's (1965) consideration of strategic matters. Anthony (1965) assumed strategy formulation to be deliberate, but neglected the possibility of strategies to emerge from the interaction from an organization with its environment. Consequently, his view on MCS was static rather than dynamic (Otley, 1994; Speklé, 2001).

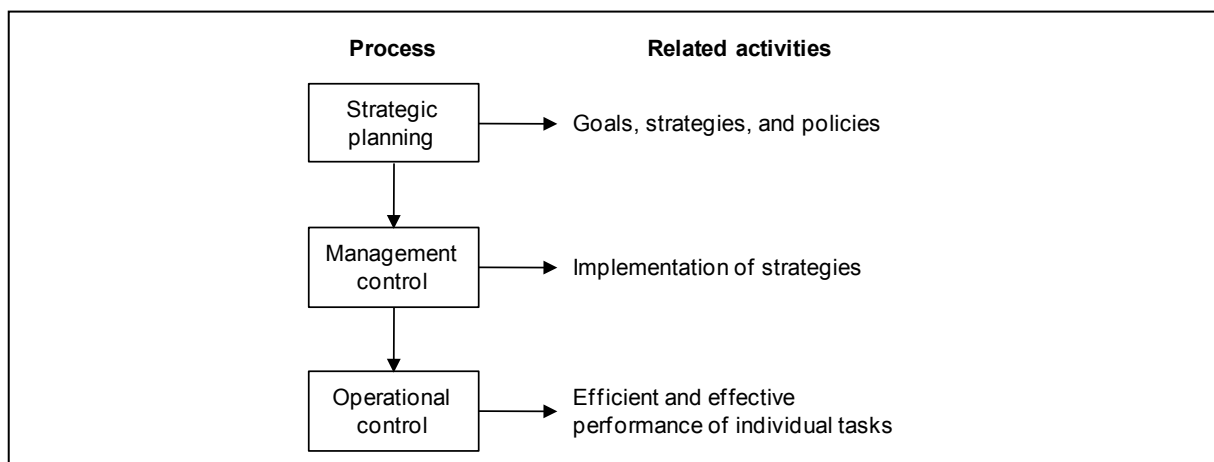


Figure II-1: Relationships among strategic planning, management control, and operational control (slightly adapted from Anthony & Govindarajan, 2007, p. 6)

As a result of the increasing critique on Anthony's (1965) framework, more and more researchers in the field of MCS began to develop their own frameworks and concepts to account for changing environments and changing control needs (Merchant & Otley, 2007). For instance, the focus of MCS research has slightly shifted from an emphasis on information and decision making (e.g. Amigoni, 1978; Lowe, 1971; Machin, 1983) to an emphasis on control and human behavior (e.g. Flamholtz, 1983; Modell, 1995; Ouchi, 1977). Another reason for the growing diversity in MCS research lies in their theoretical underpinnings. As mentioned above, Anthony's framework was not grounded in a particular theory, leaving this issue open to future research. Reviews of empirical MCS research show that it has drawn on numerous fields and theories (Merchant & Otley, 2007; Merchant & Simons, 1986; Otley, et al., 1995). Capturing this diversity, while also identifying the shared understanding of the field's core meaning, is one of the purposes of this review.

II.3 Review Approach and Sample

Literature reviews in management research are traditionally narrative. However, narrative reviews have been criticized for providing descriptive rather than critical accounts of the advancements made in a field, as the implicit biases of the researcher are frequently reflected in

the selection of studies (Fink, 2005; Hart, 1998). In order to enhance rigor and transparency in the process of management reviews, Tranfield et al. (2003) outlined how principles of a systematic review methodology, as it has been developed in medical science, can be applied to management research. My review aims to map and critically assess the contributions in conceptual MCS research by conducting a narrative review while incorporating some principles of a systematic review. In doing so, the strengths of both approaches are combined.

A narrative review draws conclusions from a summary of different studies in a holistic way. Its contributions are qualitative rather than quantitative in nature. A major strength of narrative reviews consists in the possibility to comprehend diverse theories, models, and understandings in a given area of research. Moreover, the reviewer's own experiences and knowledge may be considered in the interpretation of results (K. Jones, 2004). Consequently, narrative reviews are most suitable for comprehensive topics encompassing a wide range of issues. However, these reviews typically neither make the criteria for the inclusion of studies explicit, nor do they disclose which decisions have been made in the review process (Collins & Fauser, 2005). In contrast, systematic reviews follow a strict review protocol, are predominantly quantitative, and are most suitable for focused topics. Their major strength is the reproducible manner of their compilation, minimizing researcher bias (Tranfield, et al., 2003).

Among the recommendations made to transfer the systematic review methodology to management research are the conducting of scoping studies and the composition of a broad review protocol that may be refined later in the process. Another suggestion is to produce a two-stage review report, with the first one being more descriptive, for instance, by describing the authors (Tranfield, et al., 2003). The present review follows these advices largely. First, scoping studies in online databases have been conducted to assess the amount of the literature. While the empirical literature on MCS appears to be vast, the amount of conceptual papers seems to be far less extensive. Prior reviews on conceptual and empirical MCS research are also used to obtain an overview of the theoretical and methodological discourses in the field.

As a result of the scoping studies, I decided to use a 20-year period from 1990 to 2009 in order to gain a broad perspective on the field of MCS and how its core has evolved after Anthony (1965) formulated his ideas. Rather than covering temporary fads and fashions in conceptual MCS research, my aim was to identify the more fundamental factors that define the concept of MCS. Included in the analysis were books as well as those academic accounting journals that have achieved the highest rankings according to the review by Bonner et al. (2006) and the VHB JOURQUAL 2 by the German Academic Association for Business Research (Schrader & Hennig-Thurau, 2009): *Accounting, Organizations and Society (AOS)*, *Journal of Accounting and Economics (JAE)*, *Review of Accounting Studies (RAST)*, *The Accounting Review (TAR)*, *Contemporary Accounting Research (CAR)*, *Journal of Accounting Research (JAR)* and *Management Accounting Research (MAR)*. The emphasis was placed on accounting journals, as they represent the primary outlet for MCS research. Consequently, organiza-

tional activities had to be described by a common language which, in turn, was provided by accounting (Otley, 1999). Practitioner and academic journals perceived to be less influential have not been considered. This opens up opportunities for further research, as outlined below. As far as textbooks are concerned, Strauß (2011) provides a detailed review of MCS textbooks.

The review protocol started with the question of which conceptualizations of MCS have been published between 1990 and 2009. Using the EBSCOhost® Business Source Complete database, all abstracts of the selected journals in this period were searched for the term “management control systems”. In order to identify which papers were included in the review database, the following criteria had to be satisfied: (1) The paper has a definite and explicit focus on MCS; (2) the paper focuses on the individual, corporate organization; and (3) the paper makes an original contribution to conceptual MCS research, i.e. a framework or an extension to a framework is developed.

This procedure yielded initially four results, i.e. the articles by Simons (1990), Otley (1999), Ferreira and Otley (2009), and Malmi and Brown (2008). As a next step, all references included in these articles were traced back in order to identify prior articles and books containing frameworks for MCS research. Accordingly, Simons (1995) was included in the review database and replaced his 1990 paper, since it represents the end product of his conceptualization of MCS frameworks and gives the most detailed account of his ideas.³

Forward-tracking was then used to make out articles referring to the original articles of the adjusted database. As a result, Broadbent and Laughlin (2009) became part of the review sample. Finally, five frameworks were included in the review database. Table II-1 provides an overview of review database.

A couple of issues seem remarkable when looking at Table II-1. First, Simons turned out to be the only monograph dedicated to a framework for MCS research. Apparently, the discussion of conceptual MCS research primarily takes place in journals. Second, conceptual MCS research has regained momentum in the last couple of years, as three out of five contributions were made between 2008 and 2009. Another peculiarity consists in the publication outlets, since *MAR* has become the primary publication outlet for conceptual MCS research, whereas Simons' publications indicate that *AOS* has once been at the forefront of the field. A reason could be that Ferreira and Otley (2009) incorporate Otley's (1999) framework into another one, while Broadbent and Laughlin (2009) extend the framework by Ferreira and Otley (2005, 2009). Malmi and Brown (2008), on the other hand, presented a prelude to a special issue of *MAR* on MCS as a package.

³ Simons gradually developed an MCS framework over a number of years. This process is demonstrated by his empirical studies, two of which have been published in *AOS* (1987, 1990) and two of which have been published in *SMJ* (1991, 1994).

<i>Author(s)</i>	<i>Year</i>	<i>Journal/source</i>	<i>Method</i>	<i>Derivation of framework</i>
Simons	1995	Monograph	Empirical case	Based on four field studies conducted by Simons (1987, AOS; 1990, AOS; 1991, SMJ; 1994, SMJ)
Otley	1999	MAR	Normative	Based on Otley's experiences as an empirical researcher
Ferreira and Otley	2009	MAR	Normative, empirical case	Combines Otley (1999) and Simons (1995) in the analysis of four case studies; a working paper version of the framework has been published on SSRN in 2005
Broadbent and Laughlin	2009	MAR	Normative	Extends Ferreira and Otley (2005; 2009)
Malmi and Brown	2008	MAR	Normative	Based on a review of four decades of MCS research

Table II-1: Overview of review database

Following Tranfield et al. (2003), the characteristics of authors contributing to frameworks for MCS research are described. Table II-2 displays the current positions of the researchers, their department, their institution as well as their PhD institution. All researchers have a background in accounting and the majority currently holds a position in an accounting department. An exception is Jane Broadbent who is Deputy Vice Chancellor since 2006. Another exception is Robert L. Simons whose interests equally include accounting, management control, and strategy implementation. Three of seven academics work in the U.K., two in Australia, one in the U.S.A., and one in Finland. The U.K. is also the dominant country in which MCS researchers gained their PhD. That MCS research is encouraged in the U.K. is further demonstrated by the existence of the Management Control Association (MCA), a network of researchers chaired by David Otley.

In the next section, a brief overview of each framework for MCS research is provided. The frameworks are presented chronologically, beginning with the levers of control framework (Simons, 1995) and ending with the MCS package (Malmi & Brown, 2008). Thereafter, these frameworks are compared and contrasted in detail. Different aspects of conceptual MCS research are discussed in detail by reviewing how MCS are defined, by analyzing functional and contextual elements of the frameworks for MCS research, by comparing their underlying theoretical perspectives, and by evaluating how the frameworks have been received by the academic community.

<i>Researcher</i>	<i>Current position</i>	<i>Department</i>	<i>Institution</i>	<i>PhD institution</i>
Aldónio Ferreira	Senior lecturer of management accounting	Department of Accounting and Finance	Monash University, Australia	Lancaster University, U.K.
David A. Brown	Associate Professor	School of Accounting	University of Technology Sydney, Australia	University of Technology Sydney, Australia
David T. Otley	Professor of Accounting and Management	Department of Accounting and Finance	Lancaster University, U.K.	Manchester Business School, U.K.
Jane Broadbent	Professor, Deputy Vice Chancellor	Vice Chancellor's Office	Roehampton University, London, U.K.	University of Sheffield, U.K.
Richard Laughlin	Professor of Accounting	Department of Management	King's College, London, U.K.	University of Sheffield, U.K.
Teemu Malmi	Professor of Accounting	Department of Accounting	Aalto University School of Economics, Finland	Helsinki School of Economics, Finland
Robert L. Simons	Professor of Business Administration	Harvard Business School	Harvard University, U.S.A.	McGill University, Canada

Table II-2: Authors' characteristics

II.4 Frameworks for MCS Research

II.4.1 The Levers of Control Framework by Simons

Central to Simons' (1995) framework is the idea to balance different tensions between opportunity and limited attention, between empowerment and accountability, between top-down control and bottom-up innovation as well as between experimentation and efficiency. As opposed to stressing a command-and-control rhetoric, Simons places an emphasis on notions of innovation and control. This is evident in his bottom-up perspective allowing strategies to emerge out of patterns of action. Against this background, the purpose of MCS is seen in strategy implementation. More specifically, beliefs systems, boundary systems, interactive and diagnostic control systems as the four *levers of control* are suggested to provide and process information. Thereby, each lever addresses one critical indicator for a successful implementation of business strategy. These indicators encompass core values, risks to be avoided, critical performance variables, and strategic uncertainties. Figure II-2 depicts the relationships between strategy, critical performance indicators, and the levers of control.

Beliefs and boundary systems both guide the search for opportunities. A beliefs systems refers to "the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose, and direction for the organization" (Simons, 1995, p. 34). Mission statements and credos are examples for beliefs systems. While beliefs systems are too vague to provide standards against which performance can be measured, they are crucial for facilitating commitment and offering stability to organizational participants. In contrast, boundary systems impose constraints on the domain of activity for

organizational members. Typically, they are formulated in negative terms and establish limits to opportunity-seeking behavior based on identified business risks. Examples for boundary systems include codes of business conduct (Simons, 1995).

Diagnostic control systems, defined as “the formal information systems that managers use to monitor organizational outcomes and correct deviations from preset standards of performance” (Simons, 1995, p. 59), are cybernetic in nature and focus on results. Among the typical diagnostic control systems are budgets, business plans, and management-by-objectives systems. Interactive control systems, the counterparts of diagnostic control systems, “stimulate search and learning, allowing new strategies to emerge as participants throughout the organization respond to perceived opportunities and threats” (Simons, 1995, p. 91). Focused on strategic uncertainties, interactive control systems encourage dialogue by providing agendas for debate and motivating information gathering outside of regular channels. Of crucial importance to understanding Simons’ framework is that senior managers are able to choose which control system should be used interactively and which one should be used diagnostically to manage strategy implementation effectively.

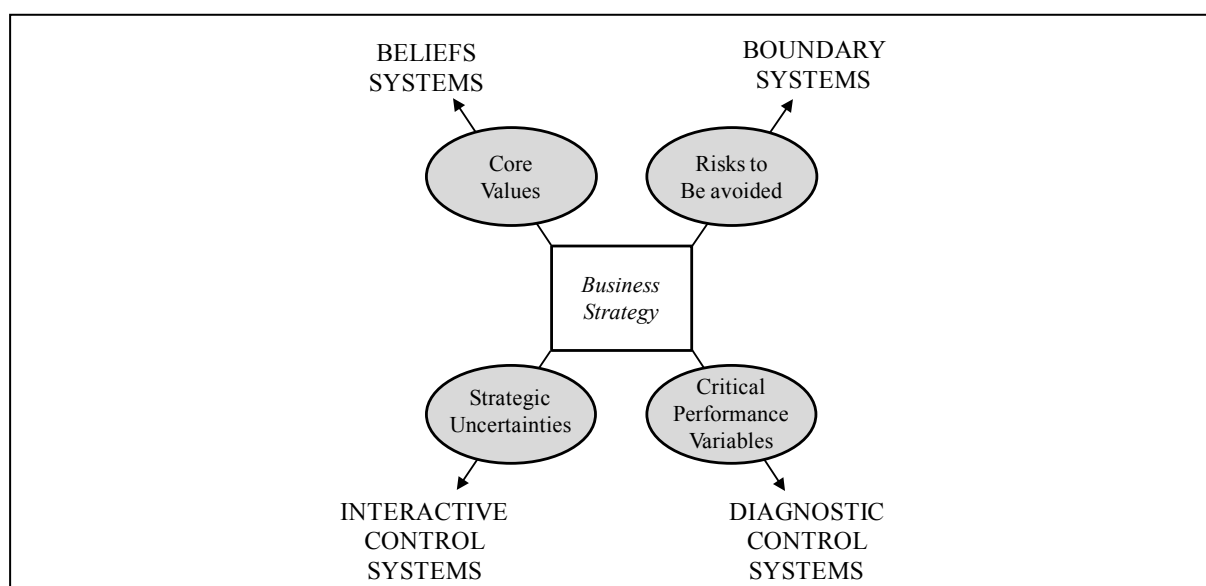


Figure II-2: Levers of control framework (taken from Simons, 1995, p. 7)

II.4.2 The Performance Management Framework by Otley

Otley’s (1999) motivation to develop a new framework for MCS research lies in the emphasis of management accounting on financial performance and on the use of economic theories, such as agency theory. According to Otley, these approaches give a too narrow view of internal processes and offer little guidance for designing MCS. Consequently, he intends to “look beyond the measurement of performance to the management of performance” (Otley, 1999, p. 364) by considering the whole MCS of an organization. Performance is thereby understood as the achievement of organizational objectives as defined by key stakeholders.

In order to widen the scope of prior MCS research, Otley (1999) readdressed Anthony's (1965) assumptions. In particular, the artificial differentiation of task control, management control and strategic planning as well as the neglect of non-financial performance measurement are questioned. As a result, a *performance management framework* structured around five issues is proposed. The framework is presented in the form of five questions that are supposed to cover all relevant facets of management control:

1. What are the key objectives that are central to the organization's future success, and how does it go about evaluating its achievement for each of these objectives?
2. What strategies and plans has the organization adopted and what are the processes and activities that it has decided will be required for it to successfully implement these? How does it assess and measure the performance of these activities?
3. What level of performance does the organization need to achieve in each of the areas defined in the above two questions, and how does it go about setting appropriate performance targets for them?
4. What rewards will managers (and other employees) gain by achieving these performance targets (or, conversely, what penalties will they suffer by failing to achieve them)?
5. What are the information flows (feedback and feed-forward loops) that are necessary to enable the organization to learn from its experience, and to adapt its current behavior in the light of that experience? (Otley, 1999, pp. 365-366)

According to Otley (1999), these questions relate to previous experiences in conducting field research. Moreover, Otley emphasizes that organizations operate in contexts that are continually changing. In order to account for these changing environments, organizations repeatedly have to find new answers to all five questions.

II.4.3 The Performance Management Systems Framework by Ferreira and Otley

The *performance management systems (PMSs) framework* has been proposed by Ferreira and Otley (2009) as a research tool to describe the design and processes of MCS. It is designed as an holistic approach towards MCS research since it integrates Simons' (1995) and Otley's (1999) framework. In particular, it addresses the respective strengths and weaknesses of each framework.

Ferreira and Otley (2009) conducted two case studies and consecutively applied both frameworks. As a result, the PMSs model was generated. While Otley's (1999) framework proves to be useful in structuring and presenting the data collected, Simons' (1995) levers of control stress the design and, more importantly, the use of MCS. Also, Otley focuses on the transmission of control across the organizational hierarchy, whereas Simons (1995) explicitly concen-

trates on top management. Common to both conceptualizations is strategy as a crucial element.

With Otley (1999) as a starting point, Simons' (1995) four key concepts are integrated to a question mode. In total, twelve questions form the PMC framework. These questions relate to (1) vision and mission, (2) key success factors, (3) strategies and plans, (4) organization structure, (5) key performance measures, (6) target setting, (7) performance evaluation, (8) rewards system, (9) feedback and feed-forward information flows, (10) type of use of the PMC system, (11) change in the PMC system, and (12) strength and coherence of links.⁴ Figure II-3 contains a schematic overview of the twelve questions. As indicated, cultural and other contextual factors lie beyond the PMC framework. Ferreira and Otley (2009) argue that these aspects do not belong to the characteristics of an MCS and, thus, do not have to be included in their description. Rather, contextual variables offer an explanation for the effectiveness of MCS in certain settings.

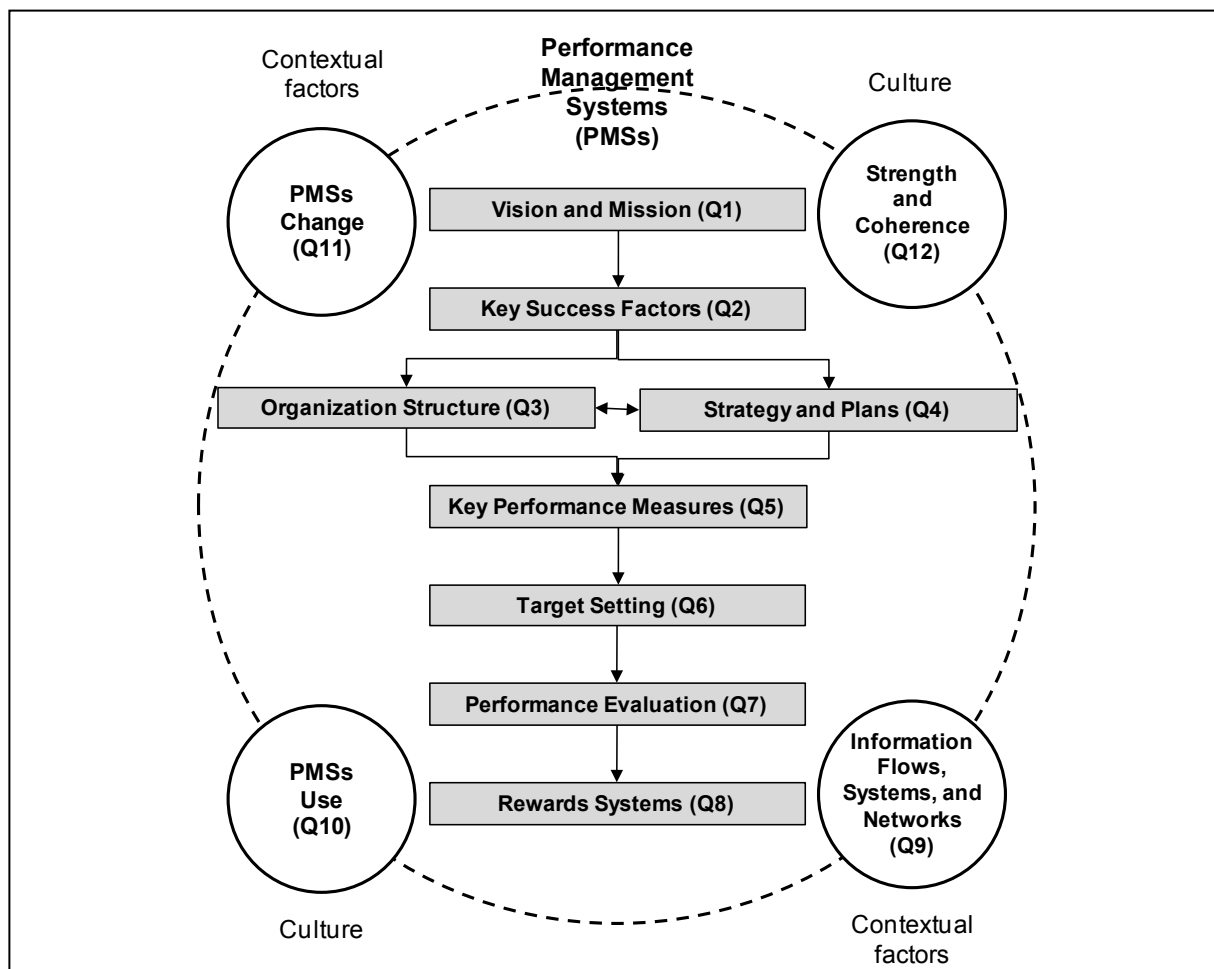


Figure II-3: The PMSs framework (taken from Ferreira & Otley, 2009, p. 268)

⁴ For a detailed discussion of each of the twelve questions see also Ferreira and Otley (2005, pp. 36-42).

II.4.4 The Performance Management System by Broadbent and Laughlin

Together with the work by Ferreira and Otley (2009), an extension of the PMC framework by Broadbent and Laughlin (2009) has been published. Their conceptual model of a *performance management system* (PMS) elaborates on the last four questions of the PMC framework with an emphasis on questions 9 and 10. In particular, different models of rationality as well as contextual issues are considered. According to Broadbent and Laughlin (2009), Ferreira and Otley (2009) fall short of discussing these issues that are concerned with the underlying nature of any MCS and thus shape the answers to the first eight questions.

Drawing on Max Weber and Jürgen Habermas, Broadbent and Laughlin (2009) distinguish between instrumental and communicative rationality that can be regarded as two ends of a continuum. Communicative rationality is characterized by desired, agreed ends. These objectives can be achieved by a multiplicity of means and the achievement of objectives is measured by discursively agreed performance indicators. As a result, organizational participants are likely to approve and to feel a sense of ownership of the PMS. To further pursue the agreed ends, the governance structure of the organization should be built on reflexivity, i.e. in the belief that decision-making rules are negotiated by actors and institutions. In contrast, instrumental rationality emphasizes performance indicators based on accounting and calculation. These figures do not necessarily reflect the concerns of stakeholders to the PMS. Thus, they may impose a set of values on them and negative consequences, such as the rejection of the MCS, are provoked.

According to Broadbent and Laughlin (2009), these two rationality models lead to two different types of PMS which are referred to as ‘transactional’ and ‘relational’ PMS. These terms are supposed to describe the design of PMS in any organizational context. Transactional PMS provide clear and specific means and measurement techniques to achieve ends within a defined period of time. They are frequently set up as projects. In contrast, relational PMS rely on a discourse between stakeholders to identify means and ends. A focus on long-term survival and sustainability is characteristic of those PMS. Furthermore, Broadbent and Laughlin (2009) stress that transactional characteristics may be observed in relational PMS whereas the other way around is less probable.

The second extension of the conceptual model by Ferreira and Otley (2009) refers to contextual issues that are supposed to guide the nature of PMS in two ways. First, context relates to the focus of management control and covers the internal as well as the external environment of the organization. In that way, context influences the eight functional questions, while it has only an indirect impact on the modes of rationality through the designers of the PMS. Second, context implies an “intervening filter” (Broadbent & Laughlin, 2009, p. 290) between the PMS and the organization and organizational sub-units. This filter consists of financial trans-

fers and related accountability requirements and emphasizes the role and uses of money for PMS. Both extensions are depicted in Figure II-4.

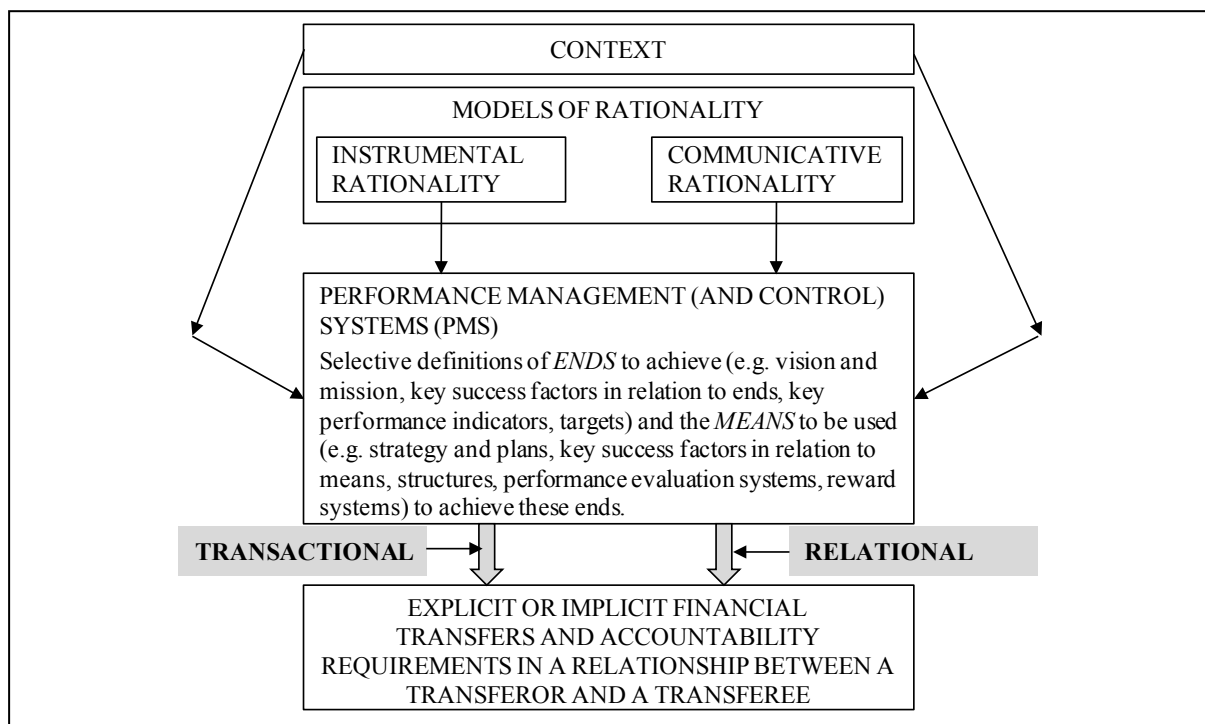


Figure II-4: PMS: A conceptual model taking into account models of rationality and context (taken from Broadbent & Laughlin, 2009, p. 8)

II.4.5 The MCS Package by Malmi and Brown

A conceptual typology of an *MCS package* is proposed by Malmi and Brown (2008) as the most recent framework in the accounting and control literature. With the aim to facilitate and encourage research on MCS, a typology based on a synthesis of about forty years of literature is developed. Consistent with Otley (1999), Malmi and Brown (2008) prefer the term ‘package’ to ‘systems’, as the concept of a package indicates that individual systems are designed and implemented by different actors at different points in time. Central to the package approach is the idea that MCS direct employee behavior. Figure II-5 provides an overview over the elements of the MCS package. Whereas administrative controls at the bottom represent the basis of the control system, cultural controls are at the top as they are the broadest set of controls. The controls in the middle of the figure are depicted in a temporal order.

Planning, as an *ex ante* form of control, has a goal-setting, monitoring and coordination function. Thereby, it directs the behavior of organizational members towards aspired organizational outcomes. More specifically, planning comprises action planning, which typically has a short-term focus of no more than twelve months, and long range planning, which is characterized by a medium- to long-term orientation. Cybernetic controls include budgets, financial measures, non-financial measures, and hybrids. Cybernetic systems combine both financial and non-financial elements. Depending on the use, a cybernetic system can either be classified

as an information and decision-support system with an ex ante or a control system with an ex post focus. This differentiation corresponds to Simons' (1995) dichotomy of interactive and diagnostic control systems. Reward and compensation systems are directed at motivating individual or groups of employees. In addition, reward and compensation systems are designed to align individual interests with those of the organization.

Administrative controls refer to designing and maintaining the structure of an organization. This group of elements within the MCS package consists of controls related to organization design and structure, governance structure, and procedures and policies. Whereas this category contains rather formal and bureaucratic approaches, cultural controls work through a shared set of values, beliefs and social norms. In particular, value-based, symbol-based, and clan controls are part of cultural control systems. Whereas value-based controls are explicitly formulated, e.g. in a mission statement, clan controls are embedded in individual groups and thus less visible.

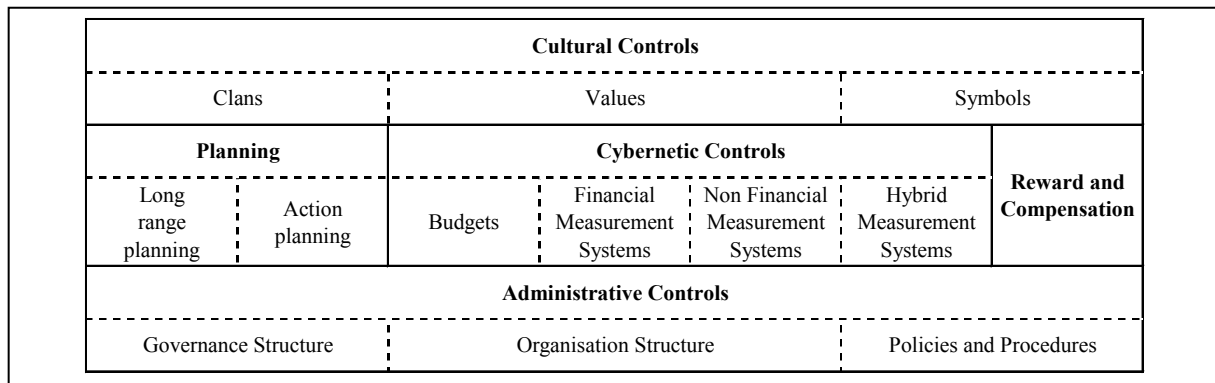


Figure II-5: The MCS package (taken from Malmi & Brown, 2008, p. 291)

II.5 Discussion of Conceptual MCS Research

II.5.1 Definitions of MCS

Management control is an ambiguous term, since it has been defined in many, sometimes even contradictory ways (Fisher, 1998). Many researchers have pointed to the difficulties of establishing a cumulative body of knowledge without a clear, consistent definition (Machin, 1983; Merchant & Van der Stede, 2003; Otley, et al., 1995). However, the purpose of this review is not to derive a consensus definition of management control. As the review database consists of five papers and books, the number of definitions is limited and cannot be regarded as representative of the field. Rather, a discussion of definitions by conceptual MCS researchers is considered as a starting point for exploring MCS conceptualizations in greater depth. Thus, the explicit, published definitions of MCS by scholars engaged in conceptual MCS research are contrasted and compared. Such definitions may indicate scholars' beliefs, their notions of what constitutes management control, and possibly even future direction (Nag, et al., 2007).

Table II-3 displays the definitions of MCS by those authors included in this review. Each framework for MCS research is thus built on a different definition of MCS. Moreover, some scholars even avoid the term MCS and use the term performance management systems (Broadbent & Laughlin, 2009; Ferreira & Otley, 2009). In contrast to MCS as something used by managers, performance management systems seem to be employed by organizations. Furthermore, each definition highlights a different issue. Simons (1995) places an emphasis on strategy (“patterns in organizational activities”), Otley (1999) on information and Malmi and Brown (2008) on behavior. Whereas Simons (1995) stresses that control mechanisms are formalized, Ferreira and Otley (2009) also include informal mechanisms.

Another notable point made by Otley (1999) concerns the notion of ‘systems’. From his point of view, this term is misleading, as it presumes a coherent set of control devices fulfilling exactly the purposes for which they have been designed. However, Otley (1999) doubts that this degree of rationality can be achieved at any point in time by an overall control system. Therefore, he suggests using the term ‘packages’ instead of ‘systems’. These considerations are reflected in the MCS package, the framework developed by Malmi and Brown (2008).

However, the definitions also have some things in common. According to the definitions by conceptual MCS researchers, MCS consist of (1) mechanisms (processes, systems, routines), (2) used by managers to (3) achieve the objectives of (4) an organization. These four characteristics seem to provide a common ground for the development of frameworks for MCS research.

<i>Author(s)</i>	<i>Year</i>	<i>Definition of MCS</i>
Simons	1995	MCS are the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities. (p. 5)
Otley	1999	MCS provide information that is intended to be useful to managers in performing their jobs and to assist organizations in developing and maintaining viable patterns of behavior. (p. 364)
Ferreira and Otley	2009	We view PMSs as the evolving formal and informal mechanisms, processes, systems, and networks used by organizations for conveying the key objectives and goals elicited by management, for assisting the strategic process and ongoing management through analysis, planning, measurement, control, rewarding, and broadly managing performance, and for supporting and facilitating organizational learning and change. (p. 264)
Broadbent and Laughlin	2009	PMS are concerned with defining, controlling and managing both the achievement of outcomes or ends as well as the means used to achieve these results at a societal and organizational, rather than individual, level. (p. 283)
Malmi and Brown	2008	Those systems, rules, practices, values and other activities management put in place in order to direct employee behavior should be called management controls. If these are complete systems, as opposed to a simple rule [...], then they should be called MCSs. (p. 290)

Table II-3: Definitions of MCS

II.5.2 Functional Elements of Frameworks for MCS Research

Five different frameworks for MCS research published between 1990 und 2009 have been presented in Section II.4. At first sight, these frameworks seem to be similar, not least because some build on each other. However, there are also notable differences that should be kept in mind when selecting a particular framework for empirical research, for further conceptual developments, or for evaluating an MCS in an organization. This section illuminates commonalities and differences related to functional elements of frameworks for MCS research.⁵

Among conceptual MCS researchers, there appears to be a high consensus as to which elements are indispensable for an MCS framework. All frameworks for MCS research include planning, target setting, key performance measures, performance evaluation, reward and compensation systems as well as cybernetic controls. In this context, planning refers to a longer-term perspective, whereas target setting is associated with a short-term perspective which is typically not longer than a year. Cybernetic controls means that deviations from pre-set standards are measured and that, if necessary, corrective actions are taken. Overall, these functional elements constitute the core of any MCS.

A more mixed picture is found for all other functional elements, particularly to those related to top-management issues such as strategy, vision and mission, organization structure, key success factors, policies and procedures, and governance structure.

Simons' (1995) levers of control framework is focused on the use of different control systems rather than on control systems as such. Nevertheless, diagnostic control systems essentially entail the cybernetic control process described above. In addition, vision and mission statements (beliefs systems), guidelines (boundary systems), and intelligence systems (interactive control systems) denote examples for functional elements. In fact, any control system that fits into one of the four levers of control represents a functional element.

The performance management system by Otley (1999) is structured according to a cybernetic process and takes only functional elements into account. In contrast to the levers of control framework (Simons, 1995), strategy is regarded as a functional element. As the PMSs builds on Simons' (1995) and Otley's (1999) work, it shares substantial overlaps with both frameworks. However, a difference consists in key success factors as a functional element. Otley (1999) indicates that key success factors are rather a contextual element. Likewise, Simons (1995) views such critical performance variables apart from the levers of control.

Similar to the performance management framework (Otley, 1999), the MCS package consists entirely of functional elements or, as Malmi and Brown (2008) explain, of controls which can

⁵ As the PMS by Broadbent and Laughlin (2009) elaborates entirely on contextual elements, it is not included in this part of the analysis.

be designed and changed by managers. Distinct functional elements of the MCS package are governance structure and so-called hybrid measurement systems. The latter term has even been introduced by Malmi and Brown (2008) into the literature of management accounting and control. Another major difference between the MCS package and all other frameworks is the inclusion of cultural controls as a functional element. As in the levers of control framework (Simons, 1995), policies and procedures belong the MCS package. Furthermore, some elements are explicitly excluded, such as strategy. While long-range planning has a more strategic focus than action planning, the organization's strategy itself is not part of the framework. Pure decision-support systems are also excluded due to their lack of a behavioral orientation.

In summary, there is a strong consensus about the functional elements which constitute the core of each framework for MCS research. Planning, target setting, key performance measures, performance evaluation, reward and compensation systems as well as cybernetic controls constitute this core. Other functional elements have been conceptualized in different ways. Moreover, the levers of control framework by Simons (1995) takes a distinct approach towards the study of MCS, as it is less concerned with particular systems than with the way in which these systems are used.

II.5.3 Contextual Elements of MCS Frameworks

Frameworks for MCS research do not only consider different functional elements, but also a range of different contextual elements. For instance, the levers of control framework by Simons (1995) includes business strategy as a contextual element, whereas other researchers view strategy as a functional element of MCS (Ferreira & Otley, 2009; Otley, 1999) or beyond MCS (Malmi & Brown, 2008). Characteristic to Simons' (1995) framework are also core values, risks to be avoided, strategic uncertainties and critical performance variables as four strategy constructs, each of which is addressed by a lever of control. Furthermore, Simons places an emphasis on the use of MCS by distinguishing between interactive and diagnostic control systems.

The use of MCS is also addressed by Ferreira and Otley (2009). The PMS additionally contains information flows, systems, and networks, the change of PMSs, as well as strength and coherence of links between the components of PMSs as more contextual elements. Culture and the contextual factors of the organization, i.e. the internal and external environment, are explicitly excluded from the framework. This contrasts with Malmi and Brown (2008) who view cultural controls as an integral part of the MCS package. In fact, cultural and administrative control which many other researchers consider as contextual elements, represent functional elements of the MCS package. According to Malmi and Brown (2008), all controls that managers can change, rather than those imposed on them, are management controls.

Otley (1999), in turn, does not include any particular contextual factor. However, he emphasizes that MCS have to be designed to fit to the organizational context. On the contrary, Broadbent and Laughlin (2009) focus exclusively on the contextual elements of the PMS developed by Ferreira and Otley (2009). The extension of the PMS considers the internal and external environment as well as a filter accounting for the role and uses of capital. Another extension addresses the underlying nature of MCS by elaborating on the context, on information flows, systems, and networks as well as on the use of PMSs. This second extension refers to different models of rationality.

In summary, a consistent set of contextual elements across all frameworks for MCS research could not be identified. Frameworks for MCS research display a wide array of contextual elements, ranging from none to cultural elements and to the underlying nature of an MCS.

II.5.4 Theories Underlying Frameworks for MCS Research

The field of MCS research is characterized by various theoretical and methodological approaches (Merchant & Otley, 2007; Merchant & Simons, 1986; Otley, et al., 1995). As in the field of strategic management, this allows researchers to study a range of theoretical as well as practical issues (Nag, et al., 2007). However, instead of discussing the theoretical foundations of empirical MCS research, this review is concerned with the theories underlying the frameworks for MCS. A closer examination of the theoretical underpinnings allows gaining a deeper understanding of the authors' ontological assumptions.

Simons (1995) rejects what he calls a "command-and-control rhetoric" (p. 3) that, from his point of view, underlies traditional approaches to management control. Such a rhetoric implies top-down strategy implementation, a focus on efficiency and plans, and taking corrective actions if deviations are found. In contrast, Simons advances an "action-theory of control" that allows strategies to emerge by, for instance, employee initiatives or by monitoring strategic uncertainties. This innovation-and-control approach is thus characterized by a bottom-up perspective on the process of strategy formulation which further means that MCS can re-influence strategy.

Otley's (1999) framework has been inspired by contingency theory, which is among the most popular approaches for MCS research. Its central tenet is that the design of MCS must fit the respective organizational circumstances and particularly an organization's strategy. Accordingly, defining a universally applicable set of management controls is impossible and Otley (1999) emphasizes that control practices have to suit well to the context in which they are used.

Even though Ferreira and Otley (2009) build on the two previous frameworks, they deny to use contingency theory and make no reference to an action-theory of control. Rather, the PMC is intended to provide a descriptive tool to collect data for further analysis. In contrast,

the extension of the PMC framework by Broadbent and Laughlin (2009) draws on sociological theory. In particular, the authors refer to the models of rationality by Max Weber and Jürgen Habermas. As a sole exception, Broadbent and Laughlin (2009) dedicate most of their article to their theoretical ideas.

Finally, multiple theories shape the MCS package, as “many of the individual controls have significant research streams associated with them” (Malmi & Brown, 2008, p. 291). However, it remains unclear in which way(s) different theories had been integrated in each of the frameworks. Moreover, these conceptual ambiguities may impede their application in empirical research.

In spite of these differences in their theoretical foundations, all frameworks share a commonality which is their relation to the field of cybernetics. All frameworks include a procedural element, meaning that MCS imply a process of planning, measuring, and feedback information flows. Such cybernetic principles are also prevalent in the earliest discussions of management control (Bedeian & Giglioni, 1974) as well as in Anthony’s (1965) framework. The cybernetic philosophy rests on the assumptions of a standard, against which the accomplishment of objectives can be compared, the feasibility of measuring actual accomplishment, and use of variance information to intervene in the process as to take corrective actions (Hofstede, 1978). In addition to this feedback function, controls in cybernetic models are also recognized to have a feed forward function, such as extrapolating figures before measures are taken (Merchant & Otley, 2007; Parker, 1986).

II.5.5 Dissemination and Critique of Frameworks for MCS Research

As a final category to contrast and compare conceptual MCS research, this section reviews how the different frameworks have been received by the academic community. However, due to the fact that the PMS by Broadbent and Laughlin (2009) and the MCS package by Malmi and Brown (2009) have only recently been published,⁶ a critical analysis and examination as well as empirical applications are largely absent. Nevertheless, discussing the dissemination and critique of the frameworks indicates the features that other researchers consider to be important.

The levers of control framework by Simons (1995) has attracted the most attention in the academic community, since it has been applied in numerous studies in management accounting research (e.g. Bruining, Bonnet, & Wright, 2004; Tuomela, 2005; Widener, 2007). In addition, the monograph was reviewed very favorably, as “it represents a clear framework for a common-sense understanding and use of controls in organizations” and “a different way of thinking about management control systems that is thoroughly grounded in behavioral prin-

⁶ While the PMSs framework by Ferreira and Otley has also only been published in 2009, an earlier version has been available on SSRN since 2005 (Ferreira & Otley, 2005).

principles” (Shelleman, 1995, p. 84). Another strength refers to the distinction between diagnostic and interactive control systems. This typology of uses has been regarded as particularly valuable (Bisbe, Batista-Foguet, & Chenhall, 2007; Henri, 2006). Finally, scholars in the field of MCS appreciated its emphasis on strategy and the way in which strategy impinges on MCS (Ferreira & Otley, 2009). Other reasons for its popularity could be that it represents the outcome on sound empirical research published in highly-ranked accounting and management journals and that, due to its focus on strategy it seems also relevant to researchers outside the area of management accounting. Among its weaknesses are the omission of informal controls and its one-sided emphasis on the top-management level. Furthermore, some of the concepts, such as interactive controls, are considered to be ambiguously defined. The possibility that a control device may belong to more than one lever of control is also regarded as confusing (Collier, 2005; Ferreira & Otley, 2009).

Otley’s (1999) framework has been employed by several authors for different purposes. For instance, Tuomela (2005) employed this MCS framework to organize case-based research findings on the introduction and use of a new performance measurement system. Another example is the review by Stringer (2007) who evaluated 120 field studies published in *Accounting, Organizations and Society* and in *Management Accounting Research* and used Otley’s (1999) framework to classify the studies. Otley (1999) himself perceives his framework to be useful in assessing and enhancing control techniques as well as in developing research questions and identifying topics for further studies. The strengths and weaknesses of this framework are reviewed by Ferreira and Otley (2009). The breadth, the complementarity with other frameworks, the straightforward application and usefulness of structuring and dealing with data are considered as strengths of Otley’s (1999) framework. In contrast, drawbacks of the framework include the apparent omission of the organization’s vision and mission, the focus on diagnostic control systems whose purpose is to monitor organizational outcomes and correct deviations, the neglect of information use, a static view on MCS, and the lack of explicit linkages between different elements of the MCS.

To my knowledge, the PMSs framework has not yet been adopted by any published empirical research paper.⁷ Collier (2005) considers its use in his study about entrepreneurial control. The author appreciates that the framework stresses the relevance of both the use and the design of MCS. However, Collier argues that the PMSs framework is less applicable to lower hierarchical levels. Besides, he criticizes that it emphasizes diagnostic and interactive systems and, thus, neglects beliefs and boundary systems. Another objection relates to the disregard of

⁷ An exception seems to be the work of Tuomela (2005) who uses Simon’s *levers of control* framework to analyze his case while drawing on Otley’s (1999) classification to present his findings. No reference is made to the PMC framework since Tuomela (2005) uses the two concepts separately, such that Simons (1995) is applied to the analysis of an organization’s MCS while Otley (1999) is used to structure the empirical findings.

environmental and cultural aspects (Collier, 2005). Malmi and Granlund (2009), who discuss the role of theory in management accounting, have also criticized that the interconnections between the twelve questions remain largely unclear. The critique of the PMSs framework is recognized in a recent publication by Berry et al. (2009). The authors argue that the weaknesses of the PMSs framework can be overcome by conducting in-depth and longitudinal field studies. In contrast, Ferreira and Otley (2009) themselves hold the opinion that their framework considers all levers of control and is applicable to all hierarchical levels.

Broadbent and Laughlin (2009) note on several occasions throughout their paper that their intention is to provide a 'middle range' conceptualization. The empirical application is thus indispensable for evaluating its usefulness. However, as far as I know, the performance management system has not yet been applied in an empirical study. Similarly, the MCS package by Malmi and Brown (2008) has only recently been published, so that an empirical utilization of the approach has not yet been undertaken. Malmi and Brown (2008) themselves perceive their approach to be useful in developing a better theory of the impact of management accounting innovations and how to design MCS packages.

II.6 Conclusion

This paper was motivated by the heterogeneity and the new dynamic in the field of conceptual MCS research, manifested in a variety of new frameworks that have been developed over the past years. Although these new frameworks try to consolidate existing research, the field is still fragmented (Berry, et al., 2009). To shed some light on the current state of MCS research, frameworks published in international scientific journals and books from 1990 to 2009 have been discussed in this review. In doing so, a traditional narrative methodology has been combined with principles of a systematic review (Tranfield, et al., 2003). To this end, the frameworks for MCS research developed by Simons (1995), Otley (1999), Ferreira and Otley (2009), Broadbent and Laughlin (2009), and Malmi and Brown (2008) have been included in the review.

Before these frameworks have been presented and compared in detail, attention was drawn to the beginnings of conceptual MCS research. Anthony (1965) provided the starting point of this stream by differentiating between strategic planning, management control, and operational control. However, increasing criticism led many researchers to developing their own frameworks.

The analysis of definitions provided by conceptual MCS researchers revealed that MCS are essentially regarded as (1) mechanisms (processes, systems, routines), (2) used by managers to (3) achieve the objectives of (4) an organization. Subsequently, functional and contextual elements of frameworks for MCS research were contrasted and compared. A high consensus had been identified as to which elements are indispensable for an MCS framework. All

frameworks for MCS research include planning, target setting, key performance measures, performance evaluation, reward and compensation systems as well as cybernetic controls as functional elements. Yet, apart from these core elements, other functional elements as well as contextual elements differ considerably. For instance, strategy may be included as a functional element (Ferreira & Otley, 2009), as a contextual element (Simons, 1995), or strategy may not be included at all (Otley, 1999).

Further differences can be found in the diverse theoretical foundations, ranging from contingency theory (Otley, 1999) over sociological theories (Broadbent & Laughlin, 2009) to multiple theories (Malmi & Brown, 2008). Whereas Simons (1995) bases the levers of control framework on his action-oriented theory of control, Ferreira and Otley (2009) regard the PMSs framework as a-theoretical. The frameworks have also been developed for different purposes. The levers of control framework (Simons, 1995) focuses on the use of MCS, whereas the performance management framework (Otley, 1999) and the MCS package (Malmi & Brown, 2008) both address the design of MCS. The PMSs (Ferreira & Otley, 2009) is considered to be applicable to the study of the use and change of MCS and the extended PMS (Broadbent & Laughlin, 2009) is concerned with the underlying nature of an MCS and with different modes of rationality. Finally, some frameworks have attracted more attention in the literature (Otley, 1999; Simons, 1995) than others (Broadbent & Laughlin, 2009; Malmi & Brown, 2008).

Overall, frameworks for MCS tend to become more holistic in nature (Ferreira & Otley, 2009; Malmi & Brown, 2008). Such “broader conceptualizations of control can encompass almost everything managers do to acquire, deploy, and manage resources in pursuit of the organization’s objectives” (Merchant & Otley, 2007, p. 785) and are indicative of the dilemma faced by the field of MCS research. On the one hand, frameworks for MCS research become broader to provide a basis for integrating different results and viewpoints of different researchers. The broader the frameworks for MCS research, the more they present a synthesis of prior research. On the other hand, MCS research already shares considerable overlaps with other fields of study which involves the risk of losing the field’s distinctiveness. As Nag et al. (2007, p. 945) noted in the case of strategic management, “sharing terrain with more established, high-stature fields can be a source of intellectual enrichment and legitimacy for strategic management, or it could lead to its co-optation and, ultimately, its disappearance”. Thus, MCS research may completely merge into related areas of study.

However, as scholars in the field of strategic management, conceptual MCS researchers agree on the meaning of the field and on core functional elements of an MCS. Following Nag et al. (2007), I suggest that what has been regarded as a dilemma, may, in fact, be considered as a strength of MCS research. The field benefits from the duality of a fundamental consensus about its core and a diversity of research orientations. Researchers with different interests from different disciplines are attracted by the field’s pluralism which allows studying issues

of management control from different theoretical and methodological approaches while at the same time sharing an understanding of the field's core. Thus, rather than deploring the fragmented status of MCS research, scholars may appreciate that the success of the field rests on its inherent pluralistic character combined with a common identity.

III Institutional Entrepreneurship Revisited: The Case of Private Equity Firms in German-Speaking Countries

The previous chapter has concluded that, in essence, MCS are a process consisting of planning, performance measurement, and the use of feedback information to take corrective actions, in case that actual performance deviates from pre-set standards. As such, the concept of MCS is useful to study the design, use and operation of organizational mechanisms. However, the notion of systems or packages disregards the behavioral routines and the beliefs and norms associated with management control. In other words, what organizational members actually do and what their actions imply is not captured by the concept of MCS. Therefore, this chapter draws attention to management control *practices* and to the actors initiating and implementing the change of such practices.

Actors who introduce new or modify existing management control practices and who, thus, bring about institutional change engage in institutional entrepreneurship. Recently, a model for the study of the process of institutional entrepreneurship has been proposed by Battilana et al. (2009). The purpose of my study is to apply this model to the case of private equity firms in German-speaking countries. Private equity firms provide a salient example for the study of institutional entrepreneurship, as their success often rests on the introduction of new or the modification of incumbent management control practices.

A field study has been conducted to explore the process of institutional entrepreneurship in the case of private equity firms. Even though none of the frameworks for MCS research is used in this chapter, the prior review helped to capture the breadth of management control practices during data collection.

III.1 Introduction

As a stream of institutional theory, new institutional sociology (NIS) has informed a number of recent studies in the field of management accounting (e.g. Cruz, et al., 2009; Dambrin, Lambert, & Sponem, 2007; Tsamenyi, Cullen, & González, 2006). Focusing on the topics of management accounting change (Scapens, 2006) and institutional aspects of performance measurement and management (Modell, 2009b), research predominantly describes the impact of institutions on the beliefs and behaviors of actors. This topic is covered by the term institutional control. In contrast, institutional agency refers to the work of actors to create, transform, maintain, and disrupt institutions, and is manifested in the concept of institutional entrepreneurship (Lawrence, 2008). However, management accounting research has to date paid little attention to the actors involved in introducing and modifying management control practices, thus neglecting *how* institutional change is initiated (Dillard, et al., 2004).

The purpose of this study is to demonstrate that management accounting research can both benefit from and contribute to the concept of institutional entrepreneurship. In particular, two distinct issues are addressed. First, this study illustrates the concept of institutional entrepreneurship by taking the example of private equity firms. Institutional entrepreneurship refers to “the activities of actors who have an interest in particular institutional arrangements and who leverage resources to create new institutions or to transform existing ones” (Maguire, Hardy, & Lawrence, 2004, p. 657). Private equity firms represent salient examples for such actors, as their success frequently rests on abandoning existing and institutionalizing new management control practices. Conceptualizing private equity firms as institutional entrepreneurs enhances our understanding of how these actors proceed in the implementation and modification of management control practices.

The second issue is to further develop the model of the process of institutional entrepreneurship (Battilana, et al., 2009) by applying it to the case of private equity firms. Based on a literature review, the model captures different phases from the emergence of institutional entrepreneurship to the implementation of divergent change. According to Battilana et al. (2009), the model allows investigating divergent change both within the boundaries of an organization as well as within the broader institutional context. However, the authors predominantly draw on macro-level changes. Thus, applying the model to organizational-level changes, such as in the case of private equity firms, generates new theoretical insights.

Another limitation of the model of the process of institutional entrepreneurship is the issue of power. On the one hand, power is central to explaining how institutional entrepreneurs are able to initiate institutional change by promoting practices deviating from incumbent norms and rules. On the other hand, power plays a pivotal role in implementing divergent change, as it is necessary to mobilize resources for change. Yet, the relationship between institutional en-

trepreneurship, power, and practices, is underresearched (Greenwood, Oliver, Sahlin, & Suddaby, 2008). Indeed, Battilana et al. (2009) do not account for the issue of power. Consequently, different forms of power are examined in the process of institutionalizing new or modified management control practices in private equity buyouts. To this end, two different forms of power are distinguished. Whereas episodic power describes discrete, strategic acts of influence, systemic power is embedded in routines and habitual organizational practices. In this regard, episodic power underpins institutional agency, while systemic power is associated with institutional control (Lawrence, 2008).

In order to explore the process of institutional entrepreneurship and to illuminate the dynamics of different modes of power, a field study of private equity firms has been conducted. The field study involves 14 semi-structured interviews with managers of private equity firms in German-speaking countries. The German context is thereby of particular interest, since private equity firms have been severely criticized for their approach (German Council of Economic Experts, 2005). Their institutionalization project often contrasts sharply with incumbent practices and the prevailing stakeholder orientation in most small and medium-sized German companies. Thus, changes initiated by private equity firms frequently break with the existing institutional logic.

This study aims to make four contributions to the literature. First, it extends Battilana et al.'s (2009) model by including organizational characteristics as an enabling condition for institutional entrepreneurship. Organizational characteristics seem to be vital for institutional change within the boundaries of an organization. Second, empirical evidence indicates that the way in which field and organizational-level characteristics serve as enabling conditions of institutional entrepreneurship depends on the level on which institutional changes are initiated. Thus, a more differentiated view on institutional entrepreneurs and on the process of institutional entrepreneurship is needed than the approach proposed by Battilana et al. (2009). As a third contribution, the issue of power is taken into account, as it is necessary to mobilize and to sustain change. Consequently, it provides further insights into the implementation of divergent change and is indispensable for future studies on institutional entrepreneurship. Finally, this study shows how management accounting research benefits from and contributes to the concept of institutional entrepreneurship. This concept offers a new theoretical perspective which enhances our understanding of how new organizational constituencies following ownership changes shape management control practices (Granlund, 2003; C. S. Jones, 1985, 1992; Roberts, 1990; Yazdifar, Zaman, Tsamenyi, & Askarany, 2008). Such micro-level studies, in turn, help validating approaches to institutional analysis like the model of the process of institutional entrepreneurship.

The remainder of this paper is organized as follows: Section III.2 describes the theory and background of this study. The concept of institutional entrepreneurship is presented in greater

depth as well as the characteristics of private equity firms. Section III.3 gives a detailed account of the research design and of the institutional context of private equity firms in German-speaking countries. The process of institutional entrepreneurship as well as different forms of power in the case of private equity firms are explored in Section III.4. Section III.5 concludes this study.

III.2 Theory and Background

III.2.1 Institutional Entrepreneurship

The concept of institutional entrepreneurship has been introduced by DiMaggio (1988, p. 14, emphasis in the original) who noted that “new institutions arise when organized actors with sufficient resources (*institutional entrepreneurs*) see in them an opportunity to realize interests that they value highly”. In doing so, DiMaggio (1988) re-integrated notions of agency into institutional analysis and opened up an avenue for explaining fundamental change within institutional theory. Prior research, in contrast, had depicted organizations as acquiescence to institutional pressures. Moreover, a related development facilitated the spread of the concept of institutional entrepreneurship. In the early 1990s, scholars began to understand institutional contexts as not only complex and fragmented, but also as frequently subject to competing institutional demands (Greenwood, et al., 2008). Accordingly, institutional entrepreneurs occupying different social locations are able to perceive these institutional contradictions and to recognize opportunities for change (Thornton & Ocasio, 2008).

Regarding the question as to who qualifies as an institutional entrepreneur, Battilana et al. (2009) define two conditions which individual or groups of actors have to fulfill. First, they need to initiate divergent changes, i.e. to break with the institutional logic in a particular institutional context. Non-divergent changes, in contrast, are aligned with existing institutions in a field. Second, institutional entrepreneurs have to participate actively in the implementation of institutional changes, i.e. to mobilize resources. In deciding whether or not an actor represents an institutional entrepreneur, the actor’s intentionality does not play a role. Neither is the success of the change project a criterion for institutional entrepreneurship. In fact, relative failures in institutional entrepreneurship are likely to happen quite frequently, although the literature rarely reports on them.

Institutional change is particularly challenging when it comes to institutionalized practices. Institutionalized practices are defined as “patterned social interactions that are implicitly reproduced in behavioral routines (tacit knowledge) and cognitively sustained by implicit beliefs and norms (taken-for-granted beliefs and norms)” (Boxenbaum, 2006, p. 3). Institutionalized measurement practices, in particular, are never objective and symbolize common meanings of those actors who have defined and accepted them (Déjean, Gond, & Leca, 2004). Furthermore, institutionalized practices are associated with a set of rewards and sanctions and

“owe their survival to relatively self-activating social processes” (Jepperson, 1991, p. 145). Consequently, institutionalized practices are often subject to inertia and change is likely to encounter considerable resistance (Berger & Luckmann, 1967; Greenwood & Hinings, 1988). Imposing institutional change is only possible in rare instances when actors possess sufficient resources (Battilana & Leca, 2005; Dorado, 2005). An example for such a rare case are corporations who do this “routinely [...] when structural changes are imposed on companies that have been acquired” (Scott, 1987, p. 501). However, the extent to which this applies to other types of institutional entrepreneurs has not yet been addressed.

Corresponding to the concept of institutionalization, which refers to both a process and an outcome (Zucker, 1977), the concept of institutional entrepreneurship can also be conceived as a process (Maguire, et al., 2004). Following Battilana et al. (2009), the model of the process of institutional entrepreneurship starts with enabling conditions for institutional entrepreneurship (see Figure III-1). These conditions include field characteristics, such as jolts and crises as well as the degree of heterogeneity and institutionalization, and actors’ social position, such as formal and socially constructed positions. Divergent change implementation then involves creating a vision and mobilizing allies behind that vision. Framing is essential to achieve the former, whereas the latter refers to the use of discourse and to the mobilization of resources. Framing can further be distinguished into diagnostic framing, prognostic framing, and motivational framing. Finally, the levels of institutionalization and fragmentation, that represent field characteristics, have the potential to influence the process of institutionalization. Thus, field characteristics do not only represent enabling conditions for institutional entrepreneurship, but also influence the process of implementing divergent change (Battilana, et al., 2009).

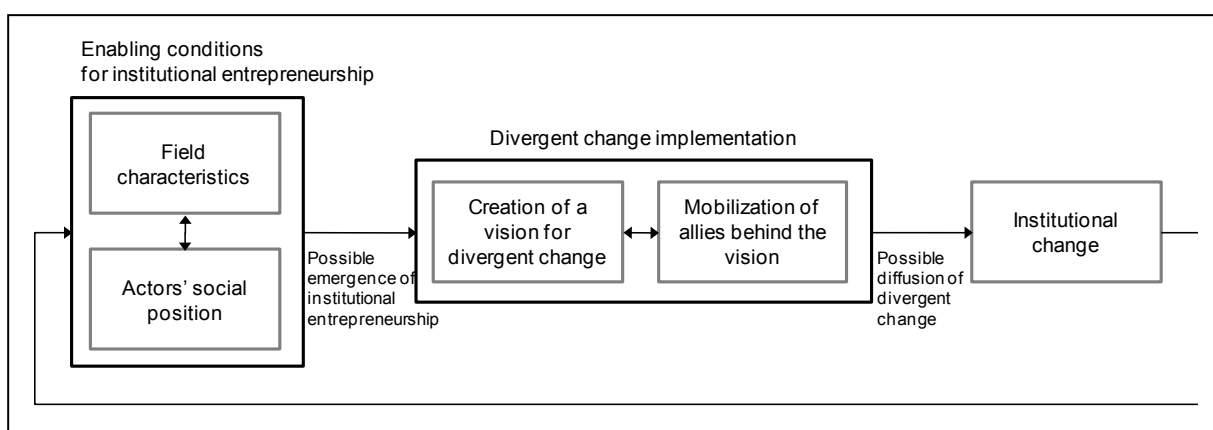


Figure III-1: Model of the process of institutional entrepreneurship (taken from Battilana, et al., 2009, p. 87)

A final aspect of institutional entrepreneurship refers to the issue of power in the process of institutional change. Power is thereby regarded as a dynamic, relational phenomenon, rather than a commodity or something actors can ‘possess’ (Clegg, 1989). The exercise of power is

connected to subject positions occupied by actors, for instance in the board of directors (Hardy & Maguire, 2008). Moreover, as “power is expressed in and through disciplinary practices and in and through struggles against or in resistance to such practices” (Clegg, 1989, p. 109), the study of practices is also central to understanding power. Based on this conception of power, two different modes of power can be distinguished. Episodic power implies discrete, strategic acts of mobilization initiated by institutional entrepreneurs trying to make actors conform to their interests. In contrast, systemic power refers to routines and habitual organizational practices, such as management control practices. Thus, systemic power is less visible than episodic forms of power (Lawrence, 2008; Lawrence, Winn, & Jennings, 2001).

The way in which episodic and systemic forms of power unfold in the relationship between institutions and agency is described by Lawrence (2008, p. 172) as follows:

As much as institutions are connected to [systemic forms of] power through their impact on the beliefs and behaviors of actors, they are also connected to [episodic forms of] power through the strategies of actors that are intended to transform institutional arrangements through political means.

Thus, these forms of power allow explaining how institutional entrepreneurs are able to initiate institutional change by promoting practices deviating from incumbent norms and rules, as well as revealing how institutionalized practices affect actors in an organization (Hardy & Maguire, 2008; Lawrence, 2008). Figure III-2 visualizes this relationship and also illustrates different roles of power. As the first role of power, institutional control refers to the effect of institutions on the beliefs and behaviors of actors and is connected to systemic power. In this role, power operates rather unobtrusively through rules and norms. Research in management accounting has focused on this role under the topics of management accounting change (Scapens, 2006) and institutional aspects of performance measurement and management (Modell, 2009b). The second role of power concerns institutional agency and encompasses the work of individual and collective actors who engage in institutional entrepreneurship. It is associated with episodic power. Finally, institutional resistance as the role of power signifies the boundaries set by actors on institutional control and institutional agency. So far, management accounting research has paid little attention to both institutional agency and institutional resistance. The focus of this study is on institutional agency and different forms of power. Light is shed on the approach adopted by private equity firms to institutionalize management control practices by taking a dynamic view on institutional entrepreneurship (Battilana, et al., 2009). In addition, the issue of power in the process of institutionalizing management control practices in private equity buyouts is examined. This issue has been largely neglected in institutional literature (Lawrence, 2008) as well as in management accounting research (e.g. Burns & Baldvinsdottir, 2005; Dillard, et al., 2004).

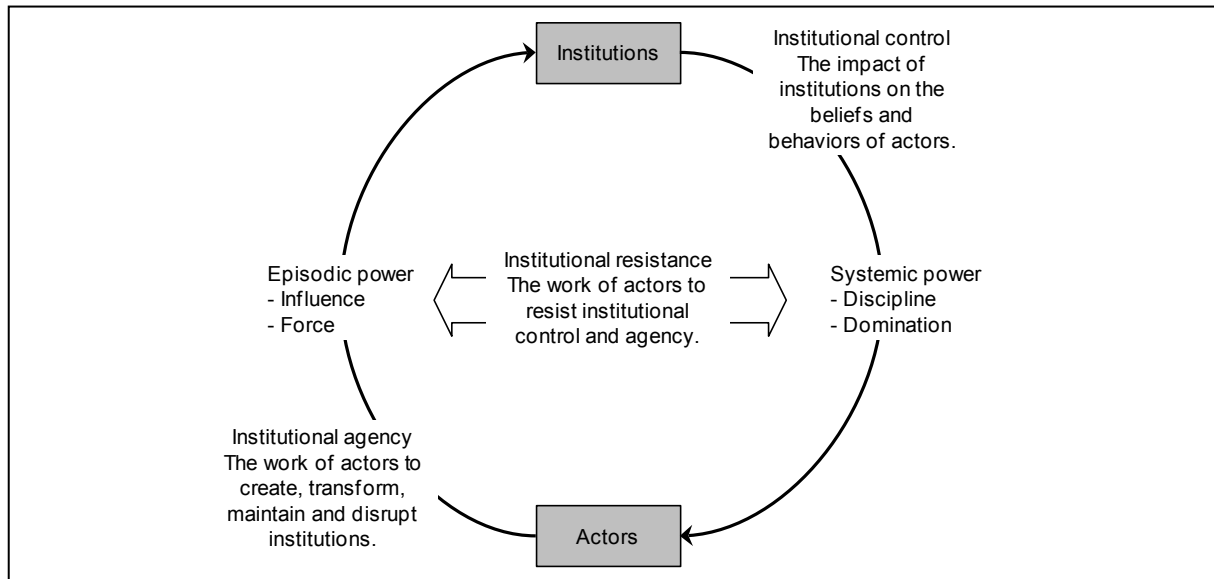


Figure III-2: The interplay of institutional control, agency and resistance (taken from Lawrence, 2008, p. 173)

III.2.2 Private Equity Firms

Private equity firms have once been enthusiastically described as the “new generation of active investors [arisen] to recapture the lost value” (Jensen, 1989, p. 66). At the time of this statement, increases in leveraged buyouts (LBOs) and restructurings, followed by considerable performance improvements, had been observed in the U.S.A. and the U.K. Several large-scale studies found evidence for the predominant positive economic effects of these activities in the 1980s (e.g. Kaplan, 1989; Lichtenberg & Siegel, 1990; Smith, 1990). These were attributed to utilizing most recent insights into finance theory. Private equity firms were less interested in accounting-based performance metrics and more in maximizing shareholder value by applying discounted cash-flow principles (Jensen, 1989).⁸ While deal activity slowed down in the 1990s (Wright, Robbie, Chiplin, & Albrighton, 2000), LBOs resurged both in Anglo-American countries and internationally since the year 2000 (Cumming, Siegel, & Wright, 2007). However, these buyouts focused more on exploiting entrepreneurial opportunities (Wright, Hoskisson, Busenitz, & Dial, 2000) and were accompanied by an increased questioning of their benefits (Wright, et al., 2009).

A distinctive characteristic of private equity firms refers to the governance structure they enforce in their portfolio companies. In order to maximize shareholder value, private equity firms are actively involved in monitoring and “managing the managers” (Cuny & Talmor, 2007, p. 630). Practices include remuneration dependent on the generation of free cash flow, and equity ownership by managers of the portfolio companies. As active investors, private

⁸ In 1986, the seminal work “Creating Shareholder Value” by Alfred Rappaport had been published.

equity firms further provide debt or equity capital, hold positions as non-executive directors, counsel and monitor management, and actively participate in strategic issues (Jensen, 1989). In performing the latter, private equity firms may provide resources and capabilities complementary to those of the management team (Wright, et al., 2009). All activities are shaped by a shareholder value philosophy, meaning that reducing the waste of free cash flow is of utmost importance for private equity firms (Jensen, 1989).

Private equity firms further entail a specific model of general management. Under the legal form of a partnership, funds for buyouts are provided. These funds stem from institutional investors and are used to buy equity as well as to provide debt financing. Banks are also involved in the latter. By holding large equity stakes, company managers usually represent another element of the new ownership structure (Jensen, 1989). From the beginning, the fund typically has a definite exit strategy. Within three to five years after the buyout, on average, the return has to be maximized. While the exit value will be the main source of returns, fees and dividends will also play a role during the investment period (Wright, et al., 2009).

In the field of management accounting and control, private equity firms have attracted comparatively little interest.⁹ An early exception is provided by Jones (1992), who studied 17 MBOs in which owner-managers were contractually bounded to “financial backers”. These backers constrained the modification of accounting systems, as owner-managers were obliged to compile certain regular performance reports, business plans and budgets. Although Otley (1999) highlighted the practical relevance of situations such as buyouts in which elements of strategy, management control, and operations may become part of a single manager’s responsibility, research is still sparse. Among the few more recent studies is the comparison of two different MBOs by Bruining et al. (2004). Using Simons’ (1995) levers of control framework, effects on management control systems and strategy are examined. Evidence suggests that performance enhancements emanate from financial investors’ focus on cash flow in management reports, emphasizing operational improvements and achieving targets. Through regular interactions with management, a learning process was initiated that sensitized management to financial impacts of their decisions. Another example is Silvola (2008a, 2008b), who takes a life-cycle perspective on management accounting and control systems in organizations funded by equity capital investors. An explorative case study shows that overseeing and monitoring management works through both modified management accounting and control systems as well as external investors as non-executive board members. While advice on strategic issues was appreciated, external investors also required more detailed information in the revival

⁹ In contrast, much attention has been drawn to the introduction of management accounting and control systems in venture-capital backed start-ups (e.g. Davila, 2005; Davila & Foster, 2005, 2007; Davila, Foster, & Li, 2009; Sandino, 2007). These studies suggest that the presence of venture capital is positively associated with the rate of adopting MCS. However, little is known about *how* venture capitalists may push the rate of adoption.

stage than the management felt it would actually need (Silvola, 2008a). Results from a survey questionnaire further indicate that growth and revival firms funded by equity capital investors put a stronger emphasis on shareholder value (Silvola, 2008b).

However, none of the aforementioned studies provides a detailed account of how private equity firms proceed in institutionalizing new or modified management control practices, although they all indicate that these practices change substantially. Furthermore, none of the studies explores the issue of power in the relationship between private equity firms and their portfolio companies, even though prior research suggests that power is pivotal to understanding changes in management control practices following a private equity buyout. Both research gaps are addressed by my study.

III.3 Methods

III.3.1 Research Context

A study on institutional entrepreneurship needs to account for the wider social context in which institutional change is promoted because organizations are embedded in organizational fields which are in turn shaped by the economic and political level (Dillard, et al., 2004). In this regard, German-speaking countries provide salient attributes, making the study of private equity firms particularly interesting. Throughout Europe, private equity firms have come under criticism in recent years. For instance, European parliamentarians accused private equity firms of myopia, i.e. focusing short-term value gains through asset stripping at the expense of long-term interest, such as employment and investment capabilities (PSE Group of the European Parliament, 2007).

However, the critique has been particularly strong in Germany after a politician accused private equity firms of being corporate raiders in 2005 (SPD, 2005). By referring to private equity firms as locusts, a picture of a swarm of insects plaguing German firms, selling them out at the expense of jobs, and hopping onto the next firm once they are done, was evoked. This metaphor was based on the case of a German fittings manufacturer. Formerly a family business, this fittings manufacturer had been owned by private equity firms since 1998. In 2005, a restructuring program was announced involving job losses, a relocation of production into low-wage countries, and a high debt ratio. As an immediate consequence, interest and net income dropped, unleashing a storm of indignation.

Indeed, the approach adopted by private equity firms contrasts sharply with the traditional model of corporate governance in Germany that aims at balancing the interests of different stakeholders (e.g. Vitols, 2001). Although the use of the locusts metaphor has soon been criticized (German Council of Economic Experts, 2005), it became popular in the media and led to a widespread skepticism towards private equity firms. In contrast, a bill passed in 2008 re-

quiring investors of quoted companies to disclose their objectives and the source of funds attracted little attention. Even the fact that the fittings manufacturer, which provided the impetus for this controversy, was a few years later regarded as paradigm example of a successful private equity buyout has gone largely unnoticed. Accordingly, private equity buyouts are prone to cause substantial disturbance in organizations. This seems to be particularly true for German *Mittelstand* corporations. As the example of the fittings manufacturer indicated, incumbent practices in these corporations can be expected to deviate considerably from shareholder value-oriented practices promoted by private equity firms. A stakeholder orientation is still prevailing in Germany, aiming at balancing the interests of multiple stakeholders (Fiss & Zajac, 2004).

Against this background, several projects of the Institute of Management Accounting and Control (IMC) of WHU – Otto Beisheim School of Management dealt with issues related to the influence of private equity and venture-capital firms on management control systems and practices in their portfolio companies. These projects were carried out from 2007 to 2009 in Germany and were designed as cross-sectional field studies. Interviews with private equity managers and representatives of portfolio companies represented the main data sources. Contacts to private equity firms originated from WHU faculty members and the WHU alumni association *in praxi e.V.* Due to the dense network of professionals and due to extensive fieldwork (see for instance Weber, Bender, Eitelwein, & Nevries, 2009), a profound understanding of the German private equity industry could be developed.

This study is part of the series of field studies on private equity firms at the IMC. By reviewing prior studies, the interest to research private equity firms from the perspective of institutional theory arose. It was felt that a deeper understanding of how management control practices change in a private equity context was needed. The resulting study draws on data that the author herself has collected as well as on data from similar field studies in 2008¹⁰. The following section explains the research design in detail.

III.3.2 Research Design

A field study has been considered most appropriate to answer the proposed research questions concerning the impact of private equity firms on management control. Compared to other methods, a field study involves a less structured data collection than surveys, and a less intensive data collection than in-depth case studies. Among the advantages of field studies is the possi-

¹⁰ Two field studies have been carried out in 2008. The first research project involved interviews with 17 private equity managers and five managers of corresponding portfolio companies (Fuchs & Twellmeyer, 2008). The second study resulted in eleven interviews with private equity managers and three managers of corresponding portfolio companies (Gamba & Gebert, 2008). All cases referred to buyouts.

bility to engage in open-ended interactions with individuals in the field to obtain broad, contextual explanations (Yin, 2003).

From February to July 2009, I conducted seven interviews, enlarging the data base to 35 interviews with managers of 26 different private equity firms. In order to obtain a comprehensive picture of the private equity industry, my field study further involved observations. These observations included a private equity conference that took place at WHU in spring 2009 as well as a guest lecture held by the managing director of a private equity firm. I discussed my impressions with an assistant professor giving a lecture on private equity and regularly visited the websites of the German (*Bundesverband Deutscher Kapitalbeteiligungsgesellschaften*, BVK) as well as the European Private Equity and Venture Capital Association (EVCA). In addition, publicly available documents such as industry standards and information on participating private equity firms were collected. However, in order to conceptualize private equity firms as institutional entrepreneurs, two issues had to be addressed.

The first issue refers to the type of private equity firms that are included in the sample. For both theoretical and practical reasons, I decided to focus on private equity firms specializing in buyouts of small and medium-sized enterprises (SMEs). On the one hand, the term buyouts implies that private equity firms have controlling interests in corporations and are able to exert influence on the businesses. On the other hand, buyouts of SMEs are characteristic deals for the buyout market in German-speaking countries, according to the BVK. Furthermore, only those private equity firms have been selected that engage in operational improvements, as opposed to those firms that restrict their activities to the provision of equity capital. Thus, changes related to management control are supposed to happen after the transaction. Applying these criteria reduced the interview data base from 35 to 15 and the number of private equity firms from 26 to eleven.

The second issue concerns which private equity firms classify as institutional entrepreneurs. In this regard, the literature on institutional entrepreneurship provides a number of criteria. According to DiMaggio's (1988) definition, institutional entrepreneurs are characterized by sufficient resources and by taking opportunities to realize interests that they value highly. In addition, Battilana et al. (2009) defined the initiation of divergent change and active participation in the implementation of institutional changes as two conditions for institutional entrepreneurship. Table III-1 illustrated how these four criteria have been interpreted in the context of this study. Their meaning in the case of private equity firms reflects insights gained from theory as well as from interviews. As a result of applying these criteria, another interview has been excluded from the analysis. In total, eight interviews of prior studies and six interviews of my study became part of the final sample.

Table III-2 gives an overview of the ten private equity firms that participated in this study. Seven are headquartered in Germany, and one each in the U.K., the Netherlands, and Austria.

Eight focus exclusively on Germany or German-speaking countries and two on Europe. Four of ten private equity firms concentrate on particular sectors, such as mechanical engineering or services. The team size ranges from two to nine team members. The interviews are listed in Table III-3.¹¹ Overall, 14 interviews with 11 private equity managers were conducted. Two managers belonged to the same private equity firm (PE 04) and three managers were interviewed twice (PE 01, PE 03, and PE 07). Another peculiarity is interview no. 11, as it has been conducted with two managers, one of which had already been interviewed in 2008. As the interviewees' positions indicate, all participants were on a senior management level and involved in strategic matters of the private equity firm. Interviews took place between May 2008 and July 2009. Interview no. 12 was performed on the phone. Interviews no. 2, 5, 7, 11, 13, and 14 were conducted by the author of this study. Interview no. 9 was performed by Fuchs and Twellmeyer (2008) and interviews no. 1, 3, 4, 6, 8,10, and 12 were part of the study by Gamba and Gebert (2008).

<i>Criteria for institutional entrepreneurship</i>	<i>Meaning in the case of private equity firms</i>
Sufficient resources (DiMaggio, 1988)	Financial resources, i.e. capital provided by investors and/or by managers of private equity firms themselves Human capital, i.e. the competence and skills of managers and employees of private equity firms Intangible resources, i.e. the network in which a private equity firm is embedded
Pursuit of self-interest (DiMaggio, 1988)	Maximizing shareholder value in the investment period “Inspiring” organizational actors with the private equity mindset
Initiation of divergent change (Battilana et al., 2009)	Introduction and/or modification of management control practices, such as monthly reporting schemes, budgeting, and incentive practices
Active participation in the implementation of institutional change (Battilana et al., 2009)	Active board membership Close collaboration with management of portfolio companies Use of network to tackle specific problems

Table III-1: Characteristics of private equity firms trying to engage in institutional entrepreneurship

On average, interviews lasted one hour. The first five to ten minutes were not tape-recorded but used to explain the purpose of the study and the confidentiality agreement. The majority of interviews has been conducted in the case firms' meeting rooms. Interview questions addressed the private equity firm's approach right after the target firm has been acquired, the demands interviewees make on management control practices in their portfolio companies and how they enforce these demands, and the interaction between the private equity firm and its portfolio companies. Towards the end of each interview, interviewees were encouraged to

¹¹ See also Appendix A.

recount other experiences or issues that they considered relevant for this study, but that had not been brought up before.¹²

<i>PE firm no.</i>	<i>Headquarter</i>	<i>Geographic focus</i>	<i>Sector focus</i>	<i>Investment phase</i>	<i>Size of German team</i>	<i>Distinguishing features</i>
PE 01	Germany	German-speaking countries	Mechanical engineering	Restructuring, turnaround	2	Equity stems from the sale of partners' family firm
PE 02	Germany	Germany	Mechanical engineering	Turnaround	4	Focus on distressed investments, interdisciplinary team
PE 03	U.K.	Europe	Various, e.g. mechanical engineering, healthcare	Restructuring, turnaround	6	PE firm is owned by its professionals, involvement of operating partners
PE 04	Germany	German-speaking countries	None	Restructuring, turnaround, company succession	9	Focus on special situations, entrepreneurial background
PE 05	Germany	German-speaking countries	None	Restructuring, company succession	4	Close collaboration with selected consulting firms
PE 06	Netherlands	Europe	Services	Growth, company succession	7	Focus on growth and internationalization strategies
PE 07	Germany	German-speaking countries	None	Restructuring, turnaround, company succession	3	Collaboration with U.S.-based family office
PE 08	Germany	German-speaking countries	None	Restructuring, turnaround, company succession	4	Limited use of debt financing
PE 09	Germany	Europe	None	Restructuring, turnaround	2	Collaboration with restructuring teams
PE 10	Austria	German-speaking countries	None	Turnaround	2	Associated with consulting firm providing interim managers

Table III-2: Overview of participating PE firms specialized in SMEs

As it has been mentioned above, data from other sources was collected as well. Private equity firms' Web sites have been monitored regularly and information from the business press as well as documents provided by private equity firms have been considered in the analysis. These comprehensive data sources allowed me to build stronger interpretations (Yin, 2003).

¹² See also Appendix B.

The data has then been structured by using Atlas.ti, a software for qualitative data analysis (Moll, Major, et al., 2006).

<i>Interview no.</i>	<i>Date</i>	<i>PE firm no.</i>	<i>Interviewee's position</i>	<i>Location</i>	<i>Duration</i>
1	21.05.2008			On-site	01:04:55
2	20.04.2009	PE 01	Managing Director	On-site	00:50:03
3	26.05.2008	PE 02	Managing Director	On-site	00:51:03
4	30.05.2008			On-site	00:46:54
5	08.06.2009	PE 03	Managing Director	On-site	00:49:44
6	02.06.2008		Investment Director	On-site	01:22:03
7	10.07.2009	PE 04	Managing Director	On-site	00:52:45
8	02.06.2008	PE 05	Partner	On-site	00:25:26
9	05.06.2008	PE 06	Senior Investment Manager	On-site	00:49:32
10	10.06.2008		Managing Director	On-site	00:43:52
11	31.03.2009	PE 07	Managing Directors	On-site	00:55:42
12	17.06.2008	PE 08	CEO	Phone	00:27:19
13	24.02.2009	PE 10	Managing Director	On-site	00:42:47
14	30.03.2009	PE 11	Managing Director	On-site	00:54:20

Table III-3: Overview of interviews

III.4 The Case of Private Equity Firms

III.4.1 Exploring the Process of Institutionalizing Management Control Practices

Private equity firms can either impose management control practices on the portfolio company (Scott, 1987) or introduce management control practices according to the process of institutional entrepreneurship (Battilana, et al., 2009). The field study reveals that private equity firms are aware of these different opportunities and employ both ways to push through their interests. While some management control practices are developed together with management, others are imposed on the portfolio firms because private equity firms consider them indispensable. Monthly financial statements, liquidity planning, and budgeting belong to the latter. In the following, the process of institutional entrepreneurship in the case of private equity firms is first explored, before attention is drawn to the imposition of management control practices.

Enabling conditions for institutional entrepreneurship

The decision made by private equity firms to acquire a particular company is shaped by enabling conditions for institutional entrepreneurship. A range of such enabling conditions have been identified and categorized as either field characteristics or actors' social positions (Battilana, et al., 2009). However, as the following remarks demonstrate, a third category has

to be introduced in order to account for institutional entrepreneurship within the boundaries of an organization.

First of all, field characteristics include jolts and crisis as well as acute field-level problems. Changes related to technology, competition and regulations may, for instance, call taken-for-granted principles into question and provide opportunities for institutional entrepreneurship. Yet, the field study indicates that in the case of private equity firms, such field-level conditions have exactly the opposite effect. Private equity firms look for acquisition targets which operate in stable markets with the prospect of stable cash flows. Problems affecting organizational fields discourage private equity firms, as an interviewee described by using the example of furniture manufacturers:

Take furniture manufacturers, for example. There are only a few left, as many weren't competitive in international comparison. Consequently, buying the last furniture manufacturer would be pointless. It's not our intention to turn off the lights of furniture makers in Western Europe. The management missed out on facing the competition in the past. As this management mistake has happened a long time ago, acquiring the company isn't an attractive option for us anymore. (Interview no. 7)

Another field characteristic is the degree of heterogeneity which refers to "the variance in the characteristics of different institutional arrangements" (Battilana, et al., 2009, p. 75). A high degree of heterogeneity is supposed to enable institutional entrepreneurship, as it is likely to cause contradictory institutional arrangements which, in turn, may be questioned by reflective actors. Yet, it seems that the degree of heterogeneity is of minor importance for private equity firms' decision to engage in institutional entrepreneurship, since a relationship with the case of private equity firms could not be identified.

The degree of institutionalization, however, seems to cause the opposite effect as in the case of jolts and crisis. While lower degrees of institutionalization are associated with higher degrees of uncertainty which may encourage strategic action, private equity firms are more interested in institutionalized than emerging fields. After all, the latter falls into the domain of venture-capital firms.

Instead of field-level conditions, private equity firms put a greater emphasis on conditions and problems related to individual organizations. Problems tackled by private equity firms are often interrelated, containing issues of succession, unqualified personnel, investment backlogs, looming insolvency or liquidation, lack of transparency, unprofitable investments, and family disputes. In general, private equity managers declared to be interested in situations reducible to management mistakes and characterized by a limited degree of complexity:

We aren't interested in companies which require us to change 30 levers at once in order to be successful. Rather, we are interested in situations that require us to change

five to seven levers. Then we work systematically and rigorously on these levers. I believe, due to our experiences and judgment, we have the capabilities in our organization to change these five to seven levers. (Interview no. 7)

Within the boundaries of the organization, the degree of heterogeneity gains relevance as well. Once the private equity firm is represented on the board of directors, institutional contradictions typically arise due to the different perspective of private equity board members on the business. While private equity firms' approach is shaped by a shareholder value orientation, portfolio companies typically do not follow the principle of maximizing shareholder value. In fact, private equity firms in this sample target companies with perceived deficits in management control systems and practices. Thus, the discrepancy between existing management control practices in portfolio companies and the demands that private equity firms make on such management control practices is supposedly vast. Such a high degree of heterogeneity is illustrated by the following quotations:

Many companies don't have formalized management control systems. They don't know which products generate earnings, and which products generate losses. They haven't heard about profitability figures for business units, products, segments, and so forth. Often, we made the experience that you have to start building a management control system from scratch. (Interview no. 11)

Difficulties consist mainly in demonstrating to the employees why particular information and figures are needed, since they don't know these at all. (Interview no. 1)

As the latter quotation indicates, the degree of institutionalization is also frequently high. On the one hand, this finding is contrary to expectations derived from theoretical considerations. On the other hand, it contributes to our understanding why institutional change is particularly difficult in a private equity context. Private equity firms are confronted with entrenched structures, processes and practices in portfolio companies:

Processes belong to our favorite topics. Typically, there's an organization manual, an ISO-certificate, and audits have been carried out. You think, wow, that's excellent! But actually, no one cares about guidelines. They are hidden in a file cabinet. Accordingly, some processes just don't work, such as in the areas of quality management and purchasing. [...]. Implementing change is difficult because giving instructions and flipping a switch is not enough. You have to change people's minds, you have to change their behavior and this is the most difficult and time-consuming task to perform. (Interview no. 11)

Ingrained habits are most difficult, as people don't see the necessity of change. And this pervades the organizational hierarchy. Department heads act according to the mot-

to “we have always done this in that way and it has always worked, why should I encourage my employees to change something?” (Interview no. 2)

The second category of enabling conditions for institutional entrepreneurship refers to the actors' social position which shapes their perspective on the field or an organization and provides them with necessary resources for institutional change. An aspect of actors' social position is their subject position. In the case of private equity firms, the subject position is first and foremost that of an active investor. For the interviewees, who were mostly managing directors of private equity firms, this means that they monitor or, in exceptional cases, take over the management of their portfolio companies, and are members of the board of directors. Sometimes, they become project managers for specific projects in their portfolio companies. As active investors, private equity firms typically have access to industry experts or so-called operating partners who may take over a board position. Moreover, employees of private equity firms may work in the accounting department of the portfolio company. This implies a specific interpretation and assignment of tasks of the supervisory or advisory board:

Board means for us to design the structures of the company so that the board gets as many rights as possible under German company law. Consequently, the board can almost be equated with the general meeting of shareholders, as its responsibilities include the appointment of managing directors, executive contracts, budgets, strategy development. Thus, the board is indeed the highest decision-making body of the company. (Interview no. 5)

Another crucial enabling condition for institutional entrepreneurship is the status of the private equity firm. In this regard, the track record as well as the private equity firm's network is of particular importance. The track record, as a chronological list of the private equity firm's transactions is a measure for its success and is used by investors in making their decisions to invest in a particular private equity fund. Furthermore, private equity firms in this sample were embedded in a network of different actors, including banks, investors, consultants, auditors, restructuring teams, and insolvency administrators. This network helps private equity firms identifying and valuating acquisition targets.

In terms of individual characteristics, all interviewees held a degree in business administration. Many also had work experience as consultants or had different managerial positions in industrial firms. Interviewees who were managing directors of a private equity firm further frequently represented the founders of the firm. Another typical feature consists in the fact that many private equity firms have been founded at the end of the 1990s or in the early 2000s. Thus, it took about ten years until the phenomenon of private equity spilled over from Anglo-Saxon countries to German-speaking countries.

Divergent change implementation

Institutional entrepreneurs undertake specific activities to initiate and support the implementation of divergent change. First, institutional entrepreneurs have to develop a vision for divergent change. In a second step, institutional entrepreneurs have to mobilize allies to achieve and sustain the vision. Associated with the mobilization of allies is the institutionalization of change, which may either be based on or break with incumbent institutions. As it has been indicated above, the latter is particularly challenging. The reason for this is that mobilizing allies requires institutional entrepreneurs to loosen the institutional embeddedness of those being mobilized (Battilana, et al., 2009). Referring to the case of private equity firms, this means that actors in portfolio companies have to act in compliance with the shareholder value principles defined by private equity firms and to adopt their management control practices.

Creating a vision for divergent change involves different forms of framing in order to make the vision appealing to the actors responsible for the implementation. The first of three forms of framing refers to diagnostic framing and entails analyzing reasons for the failure of the existing organizational arrangements, outlining problems of incumbent management control practices and identifying managers who made wrong decisions and mistakes. In case of private equity firms, diagnostic framing begins with the due diligence, i.e. before the transaction takes place. A due diligence regularly exposes problems in various areas. A number of consultants, auditors and lawyers are involved in this process and identify weaknesses which provide a basis for improvements after the transaction as well as for a strategic realignment:

We will soon formulate a new strategy for the next couple of years together with the management. Often, we begin with that in the due diligence phase. (Interview no. 5)

As the due diligence precedes a private equity firm's commitment to invest, this quote shows that enabling conditions for institutional entrepreneurship and divergent change implementation as two stages of the process of institutional entrepreneurship may also be interwoven. Thus, in the case of private equity firms, the distinction between these two stages is not as clear-cut as theory suggests.

A part of the due diligence is the assessment of management control systems and practices, in terms of generating reliable and plausible data. However, activities such as exposing deficiencies and problems also cause resistance and blame management, according to the experiences of several interviewees:

We require changes related to the strategy formulation and implementation, and to the management of the company. These changes deviate from incumbent practices, [...] and each change assigns blame to management. (Interview no. 11)

Prognostic framing, the second category, means for private equity firms to present new management control practices as superior to incumbent practices and to those practices supported by opponents. In contrast to diagnostic framing, private equity firms seem to engage far less in prognostic framing. This could relate to the fact that private equity firms introduce management control practices which they consider as “basic” rather than as sophisticated. Among such basic practices are, for example, working capital management and the provision of key performance indicators, whereas balanced scorecards and models based on economic profits were regarded as more elaborated. Due to their business background, private equity firms appear to assume that basic practices are in any case superior to the initial state. In addition, from private equity firms’ viewpoint, the failure of existing organizational practices or of the absence of practices is obvious. Yet, the advantages of management control practices propagated by private equity firms are often not that evident to organizational actors, as the following example illustrates:

Three years ago, we bought a company and initiated a project to collect customer data. Only recently, this project has been implemented. It took a very long time due to a lack of sensitivity in this company. People asked, “For which purposes should I need that? That’s not necessary, what should I do with the information?” They can’t imagine what to do with such information: You can invite customers for events; you can choose a couple of mystery shoppers from your customer base who will give you feedback to your products. (Interview no. 11)

However, this is not to say that private equity firms refrain completely from prognostic framing. Another interviewee explained that he “preaches” constantly about the advantages of management control practices, such as the possibility to identify variances and inefficiencies and to take corrective actions. Nonetheless, these advantages seem self-evident to private equity firms and prognostic framing is not as emphasized as diagnostic framing.

Motivational framing as the third category involves convincing reasons to support the new vision created by private equity firms. Consequently, private equity firms would have to see things from organizational actors’ perspective and relate the vision to the interests of others. As prognostic framing, motivational framing is exercised to a lesser extent than diagnostic framing. Private equity firms usually highlight in works meetings and in their discussions with management that management control practices contribute to the survival of the company and to its competitiveness, but other than that, motivation is closely connected to incentive practices and, therefore, with resource mobilization.

In the context of framing, social skills further play a decisive role, as institutional entrepreneurs need to be sensitive to and to account for different discursive and cultural environments (Battilana, et al., 2009). The field study indicates that private equity firms approach organizational actors particularly in the beginning of their engagement in order to stimulate under-

standing of their goals. They also try to take existing practices of the portfolio company into account in order to implement changes in a moderate rather than a radical manner:

Keep in mind that you have entrenched structures. You have employees who may have thought in other categories and who have a totally different view of the firm. (Interview no. 6)

If we as outsiders understand and anticipate the culture and people's background, we will be able to win people over. For instance, we would like to involve employees in decision-making processes. If we realize that this practice hasn't been used in the company, we have to be very careful. Why? If I asked Mr. Smith in a meeting about his opinion or how he would decide, he would be taken by surprise. Possibly, he would even think that my intention is to lure him into a trap in order to fire him. Since involving employees in decisions wasn't part of corporate culture, we have to act more subtly, for example, by discussing topics in one-on-one meetings. (Interview no. 13)

As many other institutional entrepreneurs, private equity firms need support to implement divergent changes. Thus, they have to mobilize allies and to form coalitions and cooperations. Mobilization activities include the use of discourse. Accordingly, private equity firms must convince organizational actors of their vision which requires particular communication skills. These skills refer first and foremost to a constant questioning of key figures and the progress of improvement projects:

Inquiries are my job. You have to be obstinate and not be satisfied with the first answer. Instead you have to inquire. Don't have inhibitions to say, I don't understand, please explain it one more time. Then they will explain it to you again. Be only content when you understand the issue fully. (Interview no. 9)

In doing so, private equity firms are able to give discussions a certain direction:

We need an integrated planning of the profit-and-loss-statement according to the cost-of-sales method and a liquidity planning. Next, we require a monthly variance analysis in order to monitor the company. We proceed as follows: In a board meeting, quarterly and monthly figures are compared to target figures. If there is a negative gap, management has to explain the reasons. Plus, management has to outline what will be done to close this gap. Then we agree to measures. In the following month, these measures are on the agenda and we discuss where we stand. (Interview no. 7)

Moreover, private equity firms use a distinct "institutional vocabulary" (Suddaby & Greenwood, 2005, p. 43) shaped by their background in business management. Words, expressions, and meanings stem from the field of finance and economics. This allows private

equity firms to express their concerns on a certain level of abstraction which facilitates the communication of their vision.

The second sub-category of mobilizing allies behind the vision is resource mobilization. This category encompasses financial resources as well as resources related to the social position of institutional entrepreneurs. Examples for the latter are formal authority, i.e. decision-making rights, and social capital, such as the institutional entrepreneur's network. In terms of financial resources, the management of the portfolio company is turned into an ally by means of milestones and incentive systems. Financial resources are tied to milestones, i.e. additional capital is dependent on the achievement of targets set by the private equity firms. Incentive systems are also designed for the managers of the portfolio company. Typically, a performance-oriented variable compensation forms a considerable part of the remuneration. As many interviewees explained, they aim for an alignment of interests by introducing variable compensation. Employees and managers below the second management level usually do not take part in such incentive programs. However, they may profit from other programs that lead to efficiency enhancements while letting the proponent participate on these enhancements:

We set up a program that honored each suggested improvement with 500 Euro. [...] That was priceless. [...] Of course, we also would have to pay 500 Euro for suggestions that won't pay off. But that was rarely the case. Instead, we got excellent suggestions. I believe we had savings in cost of three millions. (Interview no. 6)

Resources related to the social position of the private equity firm as an institutional entrepreneur involve the dense network in which they are embedded and that also represented an enabling condition for institutional entrepreneurship. However, in this regard, private equity firms' main resource is their managers' position as outside board members. Due to this position, private equity firms are involved in decision-making processes.

Imposing management control practices

As in the case of corporate acquisitions (Scott, 1987), private equity firms also impose certain management control practices on portfolio companies. These practices involve monthly financial statements, budgeting, and liquidity planning and are regarded imperative by private equity firms. However, in terms of monthly financial statements, another reason for the imposition is that private equity firms themselves have to compile reports for their investors and thus need this kind of information.

Associated with the imposition of management control practices is a certain rigor that also becomes obvious in other instances. Private equity managers will not conceal being rigorous if anything does not meet their expectations. They described themselves as being forceful and as taking drastic measures as a last resort. The latter means that parts of or the whole management team of the portfolio company can be replaced:

If a manager isn't able to perform his tasks, we immediately take action. For instance, if we realize that a CFO doesn't meet our demands, she will be replaced right away. In the past, we sometimes waited too long and regretted that afterwards bitterly. (Interview no. 4)

The reason for this rigor lies in the responsibility that private equity firms have for their investors. However, the personal background and the experiences made by private equity managers can also play a role, as one interviewee described:

I worked with an insolvency administrator for a long time. Due to this experience, I know that many firms fail because they are not radical enough, too hesitant, too cautious, too considerate, and endanger the whole company in the end. We try to explain this to the managers of our portfolio companies by giving examples. We also bring them together with this insolvency administrator, to give them first-hand information on the risks of hesitating too long. [...]. However, we also need to be quick and to set priorities. One can discuss briefly, but we are not in parliament, we don't have parliamentary groups, we don't need to form coalitions. In the end, we need to implement a plan and if this doesn't work out, last resort; the whole management team gets replaced, no doubt. (Interview no. 11)

In summary, private equity firms as institutional entrepreneurs can bring about institutional change gradually by mobilizing allies or by imposition. Management control practices imposed on the portfolio company consist of monthly financial statements, budgeting, and liquidity planning. These are considered indispensable by private equity firms. For this reason, private equity managers insist on their implementation. Other management control practices which are promoted by private equity firm follow roughly the process of institutional entrepreneurship. As a key insight, field-level conditions do not seem to be relevant as an enabling condition for institutional entrepreneurship in the case of private equity firms. Instead, evidence suggests that organizational-level conditions are of greater importance. Another finding is that diagnostic framing appears to be employed far more often than prognostic and motivational framing. Finally, my field study suggests that incentive practices play a key role in terms of mobilizing allies.

III.4.2 Understanding the Dynamics of Different Modes of Power

Different forms of power are associated with the institutionalization of practices on the one hand, and with the impact of institutionalized practices on the other hand. Following Lawrence et al. (2001) and Lawrence (2008), episodic and systemic modes of power are distinguished. Whereas institutional entrepreneurs rely on episodic power to create, transform, maintain, and disrupt institutionalized practices, systemic power is related to the impact of such practices on the beliefs and behaviors of actors. This section focuses on the ways in

which private equity firms as institutional entrepreneurs exercise episodic acts of power to institutionalize management control practices. Issues related to systemic power embedded in management control practices are also touched on at the end.

Episodic power is most evident in the direct interaction of private equity firms with executives of portfolio companies. This interaction is particularly intensive in the first three months after the transaction has taken place. Typically, private equity firms are several days a week on-site and stay in continuous telephone contact with management when they are off-site. As many change projects are initiated at this stage, private equity firms seek to ensure that management is – from their point of view – on the right track and sets the same priorities:

In the first 100 days, we focus on standing on managers' feet in day-to-day business. We ask whether they initiated their projects, where do they stand, what are their problems, what do they do, what are their next steps – basically, issues related to management accounting and control. (Interview no. 11)

This is a good example of how private equity firms use their on-site presence to question managers extensively about the progress of change projects. In doing so, private equity firms are able to press for improvements in their portfolio companies. Management control practices used and promoted by private equity firms include 100-days plans and roadmaps:

When we invest in a company, we have a very specific roadmap of the actions that we would like to take. We are rather rigorous in focusing management on these core issues, as we are convinced that they will increase the value of the firm. (Interview no. 7)

In addition, the diagnostic use of these management control practices reveals that private equity firms put an emphasis on feedback information flows.

A similar example for the exercise of episodic power refers to the determination, measurement and review of the development of key performance indicators. In this regard, regular meetings provide opportunities for private equity firms to ask questions, influence decision-making and to discuss current issues. In the first couple of months, such meetings are scheduled at least once a week. In some cases, private equity firms even requested daily sales figures. Financial statements on a monthly basis are also considered essential for private equity firms' monitoring purposes. Such management control practices provide both a basis and a justification for their interventions.

As it has already been indicated, a further instance of episodic power is the dismissal of executives, if they or their actions do not correspond with the private equity firm's expectations. Many interviewees explained that they try to keep former executives or owners due to their know-how. However, a private equity firm's patience may be soon exhausted. In addition, is-

sues related to finance and management accounting and control are often non-negotiable. One interviewee explained the private equity firm's rationale:

At the beginning, there is an opportunity and if this opportunity isn't seized, there are stages of development. In the first stage, we ask the manager to take his well-earned holidays or we reflect which tasks he could fulfill, which role would fit to him. Often, former owners know their customers and their products best. A dismissal could be dangerous for us. We try to focus on the financials, on monitoring processes, and to let the former owner take care of customers. If it doesn't work out, there is the next stage. Then he will be dismissed and we take over the management alone. (Interview no. 14)

So far, examples have shown how private equity firms exercise episodic power in the interaction with executives to institutionalize management control practices at the top management level. However, such episodic acts of power are not restricted to executives but may also address other organizational actors. One private equity manager explicated how these interventions indirectly affect employees and managers at lower hierarchical levels:

We make observations in portfolio companies. We walk through the company and ask questions, but we don't intervene in the company's operations. We can only talk to the management and say, listen, these are our observations, and this is what we have noticed. We think you should take action, we suggest the following. Needless to say, we give point to our words. (Interview no. 7)

In addition, private equity firms exercise episodic power vis-à-vis employees and managers on the operative level primarily in the first couple of months. At the beginning of their involvement, private equity firms talk to many employees in different areas and at different hierarchical levels in order to get a holistic picture of the company. Depending on the industry, different departments are of interest to the private equity firm. For instance, in a mail-order company, the focus was on the sales department:

You have to talk to employees. Just ask them, what do you do? Go to sales representatives and ask them, with how many customers have you been in contact in the last six months? Let's go through this list: With whom have you been in contact, what were the results, how much revenue have you generated? (Interview no. 6)

In another case, the private equity firm made appointments with the quality manager, as improving quality management was a major issue. Through such face-to-face interactions, private equity managers were able to make their priorities clear. Later, private equity firms withdraw from such interventions in operative business in order to preserve executives' authority. Nevertheless, interviewees felt that they have to perform a constant balancing act between influencing operations on the one hand and preserving top management's authority over day-to-day business on the other hand.

Another way in which a private equity firm is able to exercise episodic power directly to organizational actors is when private equity managers become executives in their portfolio companies. However, these cases are rather rare. An example is private equity firm no. 1, which is specialized in acquiring insolvent companies and frequently takes over the management of its portfolio companies on an interim basis:

Besides identifying and analyzing acquisition targets and raising funds, I commonly take over the management of the company at first until someone else has been found to operate the business. The manager may be recruited internally or externally. This takes about six to twelve months, sometimes even longer. When someone has been found, I refrain from operative business and change to a board position or I take over another management position. (Interview no. 2)

In such situations, the private equity manager tries to lead by example and to take over the role of explaining the reasons for the introduction of certain management control practices, such as a monthly reporting scheme. Still, the majority of private equity firms refrains from taking over the management. It is commonly regarded as a last resort when the management is not able to fulfill the private equity firms' requirements. For instance, the managing directors of private equity firm no. 7 reported such a case in which they decided to dismiss the whole top management team of a portfolio company and to operate the business together with a couple of functional managers. The situation allowed them to dictate management control systems and practices directly to those responsible.

Furthermore, episodic forms of power are sometimes not directly bound to private equity firms, but reflect their interests nonetheless. For instance, this is the case when well-defined tasks are delegated to consulting firms:

Consultants are increasingly asked to eliminate operating deficiencies. That's normal for us, but not for a typical *Mittelstand* company. Those companies have a limited management capacity, in terms of know-how, of the number of managers. The company is immersed in operating problems and does not have the possibility to tackle and solve them without external consultants. (Interview no. 10)

Such operating deficiencies can relate to issues of strategy, production, IT, or logistics. In terms of management control practices, consultants are rather rarely hired, as private equity managers typically have a degree in business and feel competent in that area. Moreover, many private equity managers have work experience as consultants. Yet, while some refuse to hire consultants, exceptions exist:

We hired consultants to develop and implement a sales stimulation program for the sales department. Other issues related to costs belong to our area of competence. In this regard, I would say that we know exactly what we do. (Interview no. 6)

In contrast to episodic acts of power, systemic power affects the belief and behavior of actors through management control practices (Lawrence, 2008; Lawrence, et al., 2001). While episodic acts of power exercised by private equity firms frequently revealed a certain impatience, interviewees allowed organizational actors more time to change their behavior and to get used to new management control practices. This seems particularly true for actors below top management who are anyhow not in direct contact with private equity firms:

You need to draw conclusions from the figures that you get reported. However, it takes time until people get their heads around it. Not only top management, but also the second and third management level take time to learn how to use figures, to understand their purpose, to figure out what these figures tell them and what to do with them. This is not a matter of course. (Interview no. 11)

In addition to key performance indicators, a salient example for systemic power is provided by budgeting, as budgets are often introduced on behalf of private equity firms in order to cascade targets throughout the hierarchy. Interviewees explained that budgeting is a new management control practice for many of their target companies. Yet, private equity firms consider it indispensable, as budgeting affects all management levels in their portfolio companies:

In the first year, budgeting is a learning process for firms. Not only top managers, but also managers at least down to the third management level have to occupy themselves with these systems and ideas. You'll get many question marks in the first year, but it is imperative to sensitize people to issues of cost, information, control. You have to begin at the bottom. (Interview no. 11)

Systemic power is further embedded in management control practices which relate to the executive level. For instance, rules of procedures are regularly requested by private equity firm no. 3, as it focuses on the upper end of *Mittelstand* companies in terms of their size. Although portfolio companies are given a voice in the rules of procedures, they nonetheless are subject to systemic power:

At the beginning of our involvement, we develop rules of procedure together with the management. These rules of procedure are very detailed, not because we are interested in a detailed enforcement, but because we like to have definite instructions as to who decides which issue. (Interview no. 4)

A similar example for systemic power relates to the catalogue of transactions subject to the authorization of the board of directors. In contrast to rules of procedures, this catalogue is prepared by the board of directors, in which private equity firms hold a majority. As active investors who are highly involved in the company's business, private equity board members

set up an “exceptionally extensive” catalogue of transactions. However, private equity board members still have to preserve executive’s authority:

The management is autonomous. If everything required the approval of the board, management could be dismissed. However, certain issues are always part of the catalogue of transactions subject to the authorization of the board. These include the acquisition and the disposal of a business, and other decisions that affect the firm substantially. [...]. To put it pragmatically, the firm needs to operate on its own and the board of directors is involved in major decisions. (Interview no. 8)

Finally, management control practices unfolding systemic power can also support episodic power and vice versa. An interviewee described this interrelationship:

We always try to implement a top-down management control system. It is not as complex as a balanced scorecard or an economic value added. Rather, a DuPont model is implemented to make managers focus on key figures. We try to support managers by sticking close to these key figures and values in our meetings in order to avoid getting lost in daily problems. (Interview no. 11)

In summary, private equity firms exercise episodic power to institutionalize different management control practices in their portfolio companies. As interviewees indicated, episodic acts of power are considered of particular importance in the interaction with executives in the first couple of months after the transaction has taken place. Furthermore, systemic power is embedded in routinized and habitual management control practices which affect all organizational levels. Thus, private equity firms are able to display their influence to all organizational actors.

III.5 Conclusion

This study was motivated by a lack of research on institutional entrepreneurship (DiMaggio, 1988; Maguire, et al., 2004) and on the issue of power (Lawrence, 2008; Lawrence, et al., 2001) in the management accounting literature. Prior research focused on topics of institutional control, whereas this study was concerned with institutional agency. Taking the case of private equity firms in German-speaking countries, the concept of institutional entrepreneurship has been applied to private equity firms that try to engage in institutionalizing new or modified management control practices in portfolio companies. In addition, the issue of power in the relationship between private equity firms and portfolio companies has been addressed. A field study involving 14 open-ended interviews with managers of private equity firms, observations, and publicly available documents has been conducted to enhance our understanding of these actors and to advance the concept of institutional entrepreneurship.

The field study demonstrates how private equity firms as new organizational constituencies shape management control practices. In the literature on management accounting change, this topic has gained increasing relevance (e.g. Bruining, et al., 2004; Cruz, et al., 2009; Yazdifar, et al., 2008) whereas early studies focus more on the systems and practices as such than on the role of new owners and shareholders (C. S. Jones, 1985, 1992). Their position as active investors distinguishes private equity firms from other types of owners. In this context, private equity firms constantly need to make a balancing act between influencing operations on the one hand and preserving top management's authority over day-to-day business on the other hand. Private equity firms try to cope with that challenge by constraining their collaboration to top management and communicating their aims to employees through management control practices, particularly through target agreements and variable salary components.

The first part of the discussion was concerned with how private equity firms try to institutionalize management control practices in their portfolio companies. A review of the literature on institutional entrepreneurship revealed that practices can either be imposed on an organization (Scott, 1987) or gradually introduced as described by the model of the process of institutional entrepreneurship (Battilana, et al., 2009). While the imposition of practices is considered as a rare case, my study shows that some management control practices have to be implemented on behalf of private equity firms. These practices include monthly financial statements, liquidity planning and budgeting. Other practices, such as providing key performance indicators, are also promoted by private equity firms. However, management is given a voice in the design of management control practices.

In this regard, the model of the process of institutional entrepreneurship by Battilana et al. (2009) becomes relevant. The model proved to be helpful in structuring field data as well as in illuminating different aspects of each stage of the process of institutional entrepreneurship. Nevertheless, conceptualizing private equity firms as institutional entrepreneurs also revealed two shortcomings of this model. One issue refers to the inadequate consideration of organizational characteristics as enabling conditions for institutional entrepreneurship. Although Battilana et al. (2009) understand institutional entrepreneurs as actors who initiate and implement divergent changes within the boundaries of an organization or within an organizational field, their model primarily accounts for changes related to organizational fields. Consequently, organizational characteristics are suggested as an extension of the framework (Figure III-3). According to field characteristics, organizational characteristics encompass jolts and crises, acute organizational-level problems, the degree of heterogeneity, and the degree of institutionalization within the boundaries of an organization. By including organizational characteristics as an additional variable into the model, it becomes suitable for the study of change on an organizational level as well as on a field level.

Another issue consists in the way in which certain characteristics serve as enabling conditions for institutional entrepreneurship. It is shown that, in contrast to the assumptions made by Battilana et al. (2009), jolts and crisis as well as acute field-level problems and field-level characteristics hinder rather than encourage private equity firms to engage in institutional entrepreneurship. Thus, the way in which characteristics influence the probability to engage in institutional entrepreneurship may be dependent on the level on which changes are initiated. This indicates that a much more differentiated view on institutional entrepreneurs and on the process of institutional entrepreneurship is needed than the one proposed by Battilana et al. (2009).

Regarding private equity firms, this study further shows that prognostic and motivational framing are of minor importance for private equity firms that are trying to engage in institutional entrepreneurship. Rather, private equity firms make extensive use of diagnostic framing to increase the appeal of their vision for the portfolio company. Moreover, as diagnostic framing begins with the due diligence and, thus, before a commitment to invest is made, enabling conditions for institutional entrepreneurship and divergent change implementation are intertwined rather than subsequent phases of the change process in the case of private equity firms.

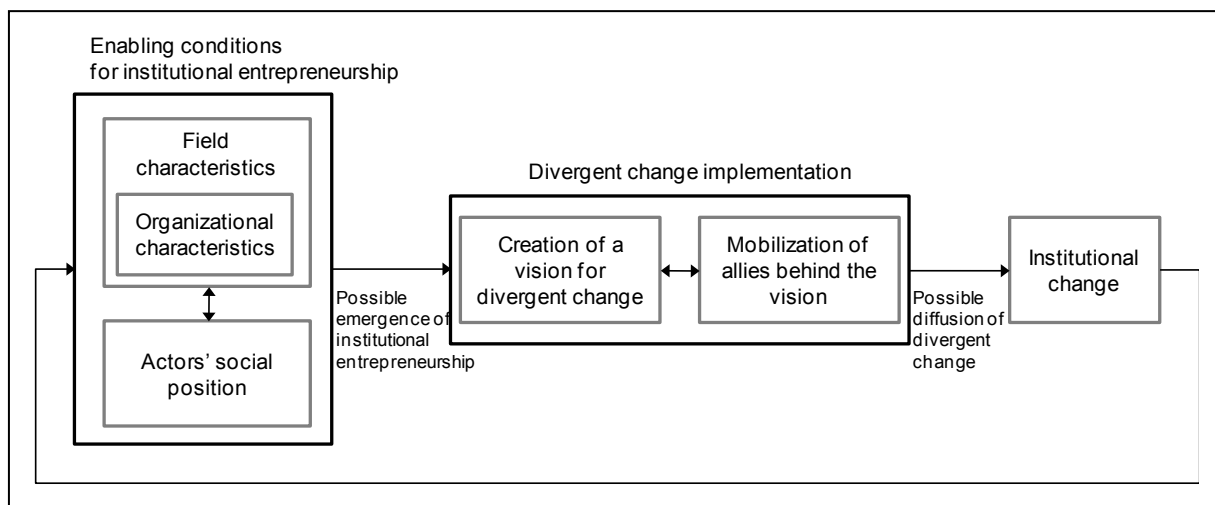


Figure III-3: Extended model of the process of institutional entrepreneurship

The second part of the analysis focused on how the process of institutionalizing management control practices is shaped by different forms of power. The field study reveals that episodic as well as systemic power is connected to the institutionalization of management control practices in the case of private equity firms. Episodic acts of power are most evident in the interaction of private equity managers with managers of portfolio companies at the beginning of the investment period. In contrast, systemic power is embedded in routinized and habitual management control practices impinging on all organizational members.

This study contributes to our knowledge in different ways. First, NIS offers a new theoretical perspective on an empirical phenomenon that has predominantly been analyzed from the

viewpoint of finance and economics. Prior research on private equity firms is characterized by an emphasis on cause-and-effect relationships (cf. Cumming, et al., 2007), while neglecting how institutional changes in management control practices are implemented. In contrast, conceptualizing private equity firms as institutional entrepreneurs contributes to our knowledge of how new owners shape management control practices by making use of diagnostic framing, by questioning key figures and the progress of improvement projects, and by implementing performance-oriented variable compensation schemes. A second contribution lies in applying the framework by Battilana et al. (2009). In doing so, it has been shown that in the case of private equity firms, different field characteristics are decisive to enable institutional entrepreneurship on an organizational level of analysis than on a field level of analysis. Furthermore, organizational characteristics become relevant which were not included in the original model. Based on these insights, an extension of the framework has been suggested. By adding organizational characteristics as another enabling condition for institutional entrepreneurship, the model reflects the requirements for studying changes on an organizational level of analysis. As a third contribution, notions of power are integrated in this study on institutional entrepreneurship. It has been shown that different forms of power are pivotal for understanding the dynamics of institutional change.

Further research is needed to deepen the insights of this study on institutional entrepreneurship. In particular, more micro-level analyses are essential to assess the way in which different characteristics serve as enabling conditions for institutional entrepreneurship. Management accounting research seems to represent an ideal field for such studies, as it is inherently concerned with institutionalized practices and routines. As a next step, processes of institutional entrepreneurship within the boundaries of an organization as well as within the broader institutional context can be compared. In this way, different patterns of institutional entrepreneurship may be identified. Another promising avenue for further research is the issue of power and how it is intertwined in institutionalization processes. With respect to creating a vision of divergent change, the relation among different forms of framing may be worth investigating. Moreover, the role of social skills in sustaining institutionalized practices is under-researched. These skills are not only necessary for achieving institutional change, but also for producing stability in organizations (Fligstein, 1997).

As a final point, this study also has practical implications. Private equity buyouts represent an organizational break and, in light of the ‘locust’ discussion in Germany, cause substantial disturbance among employees. A cultural change seems inevitable, as private equity firms follow a shareholder-value philosophy which regularly contrasts with incumbent principles in portfolio companies. This contradiction becomes manifest in management control practices required by private equity firms. While private equity firms heavily rely on diagnostic framing to promote such practices, prognostic and motivational framing seems to be less pronounced. It was suggested that the reason for this is that private equity firms take the superiority of their man-

agement control practices for granted. Yet, many interviewees complained about the refusal of organizational actors to acknowledge benefits of management control practices. Diagnostic framing appears to strengthen the resistance of actors to adopt new practices. Consequently, practitioners should engage further in prognostic and motivational framing and emphasize the benefits of new rather than the flaws of prior management control practices.

IV Multiple Logics, Radical Transitions, and Management Control: A Case Study of Institutional Change and Resistance

So far, I have demonstrated how management accounting research can both benefit from and contribute to the concept of institutional entrepreneurship by exploring how private equity firms change management control in their portfolio companies. An emphasis was thus placed on the actors who initiate and implement divergent change. This chapter takes the issue of institutional change one step further, in terms of the theoretical underpinning of change as well as of the methodological approach to the study of change processes. In particular, I use the concept of institutional logics to explain how institutionally embedded actors can achieve institutional change. Under this approach, institutional entrepreneurship is regarded as one of three mechanisms by which change can be brought about.

The precondition for institutional change is given by competing institutional logics of corporate governance in Germany. The German system of corporate governance is currently characterized by a stakeholder and a shareholder logic as two alternative sets of principles that define the meaning and content of institutions. Consequently, these logics can be imbued in management control practices. This means that the concept of institutional logics allows linking changes in management control practices with changes in the broader institutional context of an organization more explicitly than the concept of institutional entrepreneurship. In addition, the institutional logics approach encompasses with structural overlap and event sequencing two more mechanisms of change.

With regard to the methodological approach, I conducted a case study in a German *Mittelstand* firm which had been acquired by a private equity firm. Interviewing private equity managers as well as the firm's managing directors and department heads allowed me to gain a more complex and deeper insight into the process of institutional change than my field study on institutional entrepreneurship.

Under the working title "Institutional Change and Resistance: A Case Study on How Competing Institutional Logics Unfold in Management Control Practices", a previous version of this chapter has been presented in the PhD track of the 10th Manufacturing Accounting Research Conference in Ghent, on June 21, 2010.

IV.1 Introduction

For more than two decades, the institutional approach to studying management accounting and control practices in organizational transitions has generated an impressive amount of interest and research (Burns & Scapens, 2000; Colignon & Covaleski, 1988; Ezzamel & Bourn, 1990; Granlund, 2003; Modell, 2001; Modell, Jacobs, & Wiesel, 2007). In this period, considerable advances in institutional theory¹³ have been made. From an early emphasis on isomorphic processes and convergent change, stimulated by Meyer and Rowans' (1977) founding conception and later reinforced by DiMaggio and Powell's (1983) seminal work on mechanisms of isomorphic change, the focus shifted towards the role of interest, agency and power in processes of institutionalization and institutional change (Modell, 2009b; Scott, 2008). However, the relationship between agency and structure posed a central paradox to institutional theory, prominently phrased by the question of "how actors can achieve institutional change if their actions, intentions and rationalities are conditioned by these institutions?" (Holm, 1995, p. 398). To address this issue of institutionally embedded agency, recent research draws on the notion of institutional logics, defined as sets of higher-order principles that shape actions and provide meaning (Friedland & Alford, 1991, p. 248). Institutions are thus embedded in institutional logics which, by guiding social action, legitimate and are manifested in practices (Greenwood, et al., 2010; Lounsbury, 2007; Purdy & Gray, 2009). Thus, to understand how and why practices change in an organization, the relationship between an organization and its institutional environment has to be revealed.

In this chapter, I investigate how radical changes as responses to organizational crises trigger a clash in institutional logics, when an incumbent stakeholder logic and lingering elements of a family logic are challenged by management control practices mediating a shareholder logic. For that purpose, a case study has been conducted in a German *Mittelstand* firm almost two years after a private equity firm became its majority shareholder. This type of institutional investor is considered to be the epitome of a short-term oriented, purely financially driven actor (German Council of Economic Experts, 2005) whose approach contrasts sharply with the traditional German model of taking multiple constituencies into account (Fiss & Zajac, 2004; Höpner, 2001; Lane, 2005). By deriving the stakeholder and shareholder logic from extant literature on corporate governance, the paper aims to show how the enactment and reproduction of management control practices can reflect incomplete shifts in higher-order belief systems (Lounsbury, 2007). As these practices are embedded in contending institutional logics, they ultimately become a contested terrain of what constitutes legitimate ideas and values. Besides, the case firm had been family-owned for more than 40 years and although this era ended four years before the private equity firm took a stake in the case firm, paternalistic values derived

¹³ In this study, the term institutional theory relates to the strand of new institutional sociology (NIS).

from a family logic still endured. Finally, this paper intends to contribute to the literature by exploring conditions for the hybridization of institutional logics against the background of radical organizational changes.

Prior research in this area focused on the emergence and consequences of competing logics in organizational fields (Thornton & Ocasio, 2008). For instance, research investigated how competing institutional logics co-exist (Reay & Hinings, 2009; Townley, 1997), how institutional logics may shift over time (Lounsbury, 2002; Reay & Hinings, 2005; Thornton & Ocasio, 1999) or result in hybrid logics (Glynn & Lounsbury, 2005; Haveman & Rao, 2006; R. E. Meyer & Hammerschmid, 2006; Schneiberg, 2007). In contrast, questions of how actors in an individual organization make sense of and respond to multiple, often competing institutional logics, particularly those that underlie nonmarket institutions, remain under-researched (Greenwood, et al., 2010). In addition, the accounting literature has only lately picked up on notions of competing institutional logics, following calls for understanding practice variation effectuated by multiple rationalities (Lounsbury, 2008; Modell & Wiesel, 2008).¹⁴ The majority of research examines competing performance measurement logics in the public sector and assumes that a dominant, incumbent logic is challenged by another, emerging logic (Modell, 2009a; Modell, et al., 2007; Modell & Wiesel, 2008; Ter Bogt & Scapens, 2009). To my knowledge, only Cruz, Major and Scapens (2009) conducted a study of conflicting logics in the private-sector. However, the concept is rather narrowly adopted without explicitly describing relevant logics and how they are linked to a broader institutional context. As private-sector organizations are not exempt from institutional pressures (Hopper & Major, 2007) and may face different institutional pressures depending on their industry and sector (Scott & Meyer, 1991), it is necessary to apply the concept to the study of more private-sector organizations.

A distinct feature of the case study is that several organizational changes occur quite radically as responses to external pressures, such as ownership changes and restructurings. Radical organizational change is understood here as a situation in which an organization breaks away from its existing template (Greenwood & Hinings, 1996) so that “prevailing ideas and values have lost legitimacy and become discredited” (Greenwood & Hinings, 1988, p. 306). Prior studies on changes in institutional logics drew more or less explicitly on notions of evolutionary change (e.g. Thornton, Jones, & Kury, 2005). Consequently, expanding the concept to more radical periods of transition may help identifying which conditions facilitate or impede a process of logic hybridization. As another distinguishing element, this paper concentrates on

¹⁴ An earlier example for the adoption of the institutional logics approach in accounting is the study by Dambrin, Lambert, and Sponem (2007). However, the authors assumed a shift in institutional logics and analyzed how a new, dominant logic evokes isomorphic responses to institutional pressures. Thus, this study does not contribute to our knowledge on how organizations cope with conflicting logics.

management control practices associated with a family logic and with corporate governance regimes. Institutional theory is thereby able to provide substantial contributions to the latter as it is inherently concerned with issues of control and coordination (Fiss, 2008). In particular, the narrative analysis in combination with a temporal bracketing strategy (Langley, 1999) shows that a family and a stakeholder logic prevailed in the first period when the case firm had been family owned, whereas the family logic was repressed in favor of the stakeholder logic in the second period under the owner-manager. In the third period, the private equity era, the stakeholder and lingering elements of a family logic clash with the shareholder logic. Finally, research in organizations has pointed towards the expression of institutional logics in concrete practices and organizational configurations, thereby indicating feasible, successful and legitimate roles, relationships, and strategies (Biggart & Guillén, 1999). In this regard, notions of shareholder value and restructurings have been largely overlooked by the literature on management accounting and control, although these themes have been central to the literature on corporate change processes since the early 1990s (Ezzamel, Willmott, & Worthington, 2008).

This study contributes to our understanding of the context conditioning the hybridization of institutional logics in periods of transition. As the sequence of events illustrates, radical organizational changes resulting in a clash in logics place high demands on institutional entrepreneurs for achieving institutional change, in particular when structural overlaps between new and incumbent roles, structures and practices are inherently limited, when organizational inertia is high and when environmental shocks, such as the economic crisis, tie attention to operational problems. Indeed, environmental disturbances seem to have the potential defer the hybridization process and to require continuous efforts of institutional entrepreneurs to explain and advance their change project. A second contribution of this study lies in its focus on how management control practices mediate multiple institutional logics in an organization. In addition to corporate governance logics, I find that management control is distinctly informed by a family logic. Furthermore, not only the existence, but also the deliberate absence of management control practices can mediate a particular logic. As a third contribution, I show how the concept of institutional logics can be applied to a micro-level of analysis.

The remainder of the paper is structured as follows. Section IV.2 elaborates on the theoretical background of the study by explaining the concept of institutional logics and outlining two ideal types of corporate governance logics in Germany. My research approach as well as a description of the research site is presented in Section IV.3. A narrative of institutional change and resistance is presented in Section IV.4. The paper concludes with a discussion in Section IV.5.

IV.2 Theory and Background

IV.2.1 Institutional Logics

The concept of institutional logics has been introduced by Alford and Friedland (1985) and advanced by Friedland and Alford (1991) as an opportunity to ‘bring society back in’ to institutional analysis. Capital markets, bureaucratic states, democracy, the nuclear family and Christian religion were identified as the core institutions of contemporary, capitalist, Western societies, whereby a distinct institutional logic underlies each societal sector (Friedland & Alford, 1991). As “master principles of society” (Thornton, 2004, p. 70), institutional logics shape actions independently of individual and organizational intentions. From an ontological perspective, they are thus conceptualized on an analytical level distinct from political power struggles over meanings (Leca & Naccache, 2006). Furthermore, institutional logics are both constituting and constraining in nature. They provide legitimacy and meaning as well as a scheme to structure reality (Friedland & Alford, 1991). In individual organizations, institutional logics are mediated by management control practices (Modell, 2010) and, hence, provide a framework that integrates both macro and micro perspectives. In that way, the concept of institutional logic addresses the critique that neo-institutional analyses disregard the processes by which ideas diffuse and become rationalized (Hasselbladh & Kallinikos, 2000).

Elaborating on Friedland and Alford (1991), Thornton and Ocasio (1999, p. 804) defined institutional logics as “the socially constructed, historical pattern of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality”. The concept of institutional logics thus concerns “broader cultural beliefs and rules that structure cognition and guide decision making in a field” (Lounsbury, 2007, p. 289). Following Thornton and Ocasio (2008), the concept of institutional logics is interpreted as both a meta-theory and a method of analysis. As a meta-theory, the concept rests on the five assumptions of (1) embedded agency, meaning that prevailing logics facilitate and constrain interest and agency; (2) society as an inter-institutional system in which each sector has its own distinct logic, so that each institutional context is usually shaped by multiple, often contradictory logics; (3) material and cultural foundations of institutions; (4) institutions at multiple levels, such as organizations, industries and organizational fields; and (5) historical contingency, thus touching on the notion of path dependency. In this study, particular attention is given to multiple institutional logics, thereby denying that all actions of a particular organization are guided by a single, overriding logic (Dunn & Jones, 2010; Greenwood, et al., 2010; Lounsbury, 2007). In addition to a detailed analysis of how institutional logics of corporate governance shape management control practices, I also account for how the family logic as a nonmarket logic informs management control practices, since the case firm has previously been family-owned. As a societal logic, the family logic assumes actions to be guided by unconditional loyalty and for

the benefit of the community (Friedland & Alford, 1991; Thornton, et al., 2005). In order to illustrate the distinctive features of the family logic, its characteristics are contrasted with those of the corporate logic in Table IV-1.

<i>Characteristic</i>	<i>Family logic</i>	<i>Corporate logic</i>
Natural effect of symbolic analogy	Family as firm	Hierarchy as corporation
Sources of identity	Family reputation, father-son relations	Bureaucratic roles, quantity of production
Sources of legitimacy	Unconditional loyalty	Market position of firm
Sources of authority	Patriarchal domination	Board of directors, management
Basis of strategy	Increase family honor, security and solidarity	Increase size and diversification of firm
Learning mechanisms	Sponsorship	Competition, training and routines
Informal control mechanisms	Family politics	Organization culture
Formal control mechanisms	Rules of inheritance and succession	Board and management authority
Organization form	Family partnership	M-form organization

Table IV-1: Institutional logics of families and corporations as societal sectors (adapted from Thornton, et al., 2005)

As a method of analysis, institutional logics have been used in event history analyses and in interpretive analyses that apply discourse theory, content analysis, triangulation, and ideal types (Thornton & Ocasio, 2008). In this study, institutional logics are described as ideal types representing unique combinations of multiple characteristics that are supposed to condition relevant outcomes. I would like to point out that ideal types are regarded as theoretical models or benchmarks to which actual meaning, action and behavior can be compared and contrasted. Actual belief systems are thus more or less similar to an ideal type, but are not assumed to be identical. Furthermore, ideal types can be either derived from theory or from empirical observations (Doty & Glick, 1994). Here, extant theory is used to specify multiple dimensions of higher-order institutional logics informing management control practices. Uncovering mechanisms at different levels contributes to the robustness and generalization of the theory (Stinchcombe, 1991).

Furthermore, the institutional logics approach entails different mechanisms by which change can be achieved. In that way, institutional logics are a way to overcome the paradox of embedded agency (Leca & Naccache, 2006). Thornton and Ocasio (2008) outline institutional entrepreneurs, structural overlap, and event sequencing as three mechanisms of change. In addition, competing institutional logics are presented as antecedents or consequences of change. As a first mechanism of change, institutional entrepreneurs and their ability to exploit contradictions in institutional logics are brought into focus. By mobilizing resources asserting their interests, institutional entrepreneurs are able to change or create institutions (DiMaggio, 1988;

Fligstein, 1997). Second, structural overlap results from conflating previously separated roles, structures, and functions. Mergers and acquisitions and the creation of cross-functional teams are examples for structural overlaps (Thornton & Ocasio, 2008). Finally, event sequencing refers to shifts in schemes, resources, and power due to sequential and distinctive events (Sewell, 1996). A congeries of events may lead to path-dependent processes that either buttress or dilute the incumbent logic (Thornton & Ocasio, 2008). In sum, institutional entrepreneurs and structural overlap allow to reassemble schemes and belief systems. In the sequencing of events, these blended or shifted institutional logics are consecutively advanced by other individuals (Thornton, et al., 2005).

In contrast to these mechanisms, competing or conflicting institutional logics are not an explanation for change, but a precondition for or an outcome of the three mechanisms (Thornton & Ocasio, 2008). Such a conceptualization of institutional environments as fragmented and contested is crucial, as prior research has tended to take an oversimplified view on shifts in institutional logics by distinguishing between stable periods of time (Lounsbury, 2008). Rather, shifts in institutional logics may be incomplete and multiple rationalities may co-exist (Lounsbury, 2007) or hybridize, thus combining the characteristics of two or more logics (Haveman & Rao, 2006). All three mechanisms of change as well as the concept of competing institutional logics are used to analyze the case. In doing so, competing institutional logics shaping the German system of corporate governance are – in combination with the family logic – regarded as the determinants of micro-level change processes, as demonstrated by the following section.

IV.2.2 Corporate Governance Logics in Germany

Corporate governance is understood to be the cooperation between stakeholder groups involved in operating and monitoring a company (e.g. Höpner, 2001; Vitols, 2001). By its nature, corporate governance is concerned with issues of power and control. As Lane (2005, p. 78) points out, “forms of corporate governance [...] structure most other relationships within firms and even in society as a whole, as they are inherently connected with a redistribution of power and material welfare”. An institutional perspective on corporate governance thus suggests to view institutions as structures reflecting the values and interests of powerful groups (Stinchcombe, 1968) and institutionalization as a political process infused with power and interests of groups of actors (DiMaggio, 1988). The resulting corporate governance models indicate then how power¹⁵ is distributed and which group’s interests obtained priority. Following Fiss (2008, p. 391), these corporate governance models can be defined as “articulated sys-

¹⁵ In this context, Fiss (2008) stresses that power relationships implicate the obedience to power as well as the resistance to power. This is one distinguishing element between an institutional approach to corporate governance and the traditional approach that focuses on principal-agent problems between management and shareholders.

tems of meaning that embody the moral order as they explain and justify the proper allocation of power and resources”. By viewing institutional logics as underlying corporate governance models, this perspective allows linking both concepts (Fiss, 2008). Governance models are thus socially constructed patterns embedded in broader cultural beliefs and rules serving as decision-making rationales (Lounsbury, 2007).

The rationales guiding decision-making in a field are further manifested in the everyday enactment and reproduction of management control practices, thus mediating higher-order institutional logics. A focus on the meaning embodied in practices is pivotal, as normative propositions of corporate governance models may change during the process of diffusion and implementation (Fiss, 2008). Organizational action is thus viewed as the outcome of struggles between different actors with different interests, resources, and ways of using control techniques rather than as the expression of an abstract rationality (Clegg, 1989). This approach is consistent with Fligstein (1990), whose conceptions of control are similar to corporate governance models. He illustrates that organizational strategies do not *per se* entail a “world view”, but the rationales constructed by actors to pursue a particular strategy.

Against this background, a stakeholder and a shareholder model of corporate governance informed by competing institutional logics can be identified in Germany today (Fiss & Zajac, 2004). Thus, in addition to the family logic, these two logics define the analytical framework of this study. In the following, these models and their underlying logics will be described by focusing on two levels of analysis, i.e. on governance arrangements between the corporation and its stakeholders as well as on governance arrangements within the corporation (Davis & Useem, 2002).¹⁶ The latter includes management control practices associated with institutional logics of corporate governance. As the case firm is a medium-sized, privately held, limited liability company, the focus is further on those aspects of corporate governance models applying to the case characteristics.

The German system of corporate governance has traditionally been considered as the paradigm case of a stakeholder model, for several reasons (e.g. Jackson, Höpner, & Kurdelbusch, 2005). First, ownership is highly concentrated among families, the state, foreign investors, and other companies and banks. Banks further represent the primary source of company finance which is reflected in creditor-oriented accounting standards as opposed to shareholder-oriented accounting rules. Second, the system of co-determination grants elected worker representatives rights of information, consultation and participation. Balancing the interests of

¹⁶ The third level of analysis concerns corporate governance within and across societies. This literature on “varieties of capitalism” distinguishes between different types of political economies. Whereas coordinated market economies, such as Germany, rely on non-market, collaborative relationships, liberal market economies, such as the U.S., structure economic activities around hierarchies and arm’s-length transactions (for details see Hall & Soskice, 2001).

different stakeholders is thus indispensable for top management teams. Finally, a productionist, company-centered management orientation prevails considering the purpose of the firm as manufacturing products rather than generating money. This grants the high status of engineers and constrains the influence of accountants (Jürgens, Naumann, & Rupp, 2000).

Consequently, the underlying template of this system can be termed a *stakeholder logic*, emphasizing the prevailing view of the corporation as a social institution serving multiple actors and interests (Fiss & Zajac, 2004). This rationale involves a managerial culture that is highly consensus-oriented (Jackson, et al., 2005) and managerial capabilities that emphasize competences in technology and engineering rather than in accounting and finance (Broadberry & Wagner, 1996). A long-term orientation aimed at stability and growth is also a fundamental features of this logic (Lane, 2005). A variety of management control practices, ranging from a centralized monitoring of compliance with accounting standards to elaborated cost accounting and performance measurement systems, are compatible with the stakeholder logic, as long as they are not entirely shareholder value-oriented.

Traditionally, the German system contrasts with the shareholder model of corporate governance in Anglo-American countries that relies on the market for corporate control as a governance mechanism. Thus, accounting standards are shareholder-oriented (Höpner, 2001). Maximizing shareholder value is the prevalent paradigm with share value as the key source for legitimacy. Rather than a multiplicity of constituents, shareholders benefit from intensive communication with top management (Vitols, 2001).

Thus, this model is shaped by an underlying *shareholder logic* of corporate governance. Under this regime, the firm is viewed as an economic entity whose purpose is to maximize shareholder value (Fiss & Zajac, 2004). It is congruent with the finance conception of control that regards the firm as a collection of assets yielding different rates of return (Fligstein, 1990). A shareholder value approach further promotes autonomous business units making managers accountable for value propositions of their subunit. Management control practices focus mainly on short-term financial goals, transparency, and the continuous monitoring of organizational activities. Key management control practices are those related to value-based management, such as performance indicators based on cash flows or profitability goals, and incentive systems that link remuneration to the individual performance of managers and employees (Höpner, 2001; see also Ittner & Larcker, 2001; Malmi & Ikäheimo, 2003). Accordingly, managerial capabilities put an emphasis on financial and economic competence

(Jackson, et al., 2005). Table IV-2 provides an overview of distinguishing features of institutional corporate governance logics in Germany.¹⁷

<i>Characteristic</i>	<i>Stakeholder logic</i>	<i>Shareholder logic</i>
Sources of identity	Firm as a social institution	Firm as an economic entity
Sources of legitimacy	Nexus of stakeholders	Share value
Governance mechanisms	Bank control Ownership concentration Employee co-determination	Market for corporate control
Management culture	Highly consensus-oriented	Strong dominance of the President
Managerial capabilities	Technical competence, engineering	Financial and economic competence
Organizational structures	Unitary, centralized	Autonomous, decentralized
Organizational objectives	Profit maximization, growth, employee utility, stability	Maximization of shareholder value
Main focus of management control practices	Long-term profit, growth	Short-term financial goals, transparency, monitoring
Key management control practices associated with institutional logic	Traditional control practices, e.g. budgeting and cost accounting	Value-based management practices, e.g. profitability goals, incentive systems for managers and employees

Table IV-2: Ideal types of institutional logics in the German system of corporate governance

It follows that, in context of this study, shareholder value is viewed as a philosophy of value creation (Copeland, Koller, & Murrin, 2000) that shapes managerial beliefs about corporate goals, the means to achieve these goals, and the indicators to measure the degree of goal achievement regardless of a stock market quotation (Höpner & Jackson, 2002; Lane, 2005). The concept of shareholder value is thus reinforced by the use of key performance indicators for sophisticated target setting and systematic performance evaluation. Target setting includes cascading targets throughout the hierarchy, while performance reviews should be based on performance scorecards (Copeland, et al., 2000). As part of corporate governance, such institutionalized management control practices can act as “an adroit substitute for the overt use of power” while “cloaked in the appearance of objectivity and neutrality” (Covaleski, Dirsmith, & Michelman, 1993, p. 76).

This shareholder model of corporate governance spilled over from Anglo-American economies in the early 1990s, parallel to the beginning erosion of the German stakeholder system. A change process evolved, leading to the adoption of elements of a shareholder model. Sources of this change process include the liberalization of European capital markets according to the Anglo-American template, leading institutional investors to enter the market. Their

¹⁷ The description of the stakeholder and shareholder logic draws on characteristics that Thornton et al. (2005), Thornton and Ocasio (2008) and Modell (2010) used to describe ideal types of different institutional logics.

shareholder value-maxim quickly gained legitimacy and became widely accepted. Another source of change lies in the emergence of a new management culture that also promoted the concept of shareholder value and its assumptions, philosophy, and implications. The influences of consultancy firms as well as the changing educational background of managers, who increasingly attend Anglo-American business schools, have been the drivers of this development (Lane, 2005).

However, these developments did not remain uncontested in Germany. A well-known example is the hostile takeover of Mannesmann by Vodafone (Höpner & Jackson, 2001). Another salient example picked by this case study is the emergence of private equity firms that have attracted considerable interest in German-speaking countries for a couple of years. In general, institutional investors contribute to the professionalization of organizational structures and management control by exerting pressures indirectly through monitoring activities (Steiger, 2000; Vitols, 2001). More specifically, private equity firms create shareholder value through restructurings, improving operations as well as governance and managerial incentive systems (Bottazzi, Da Rin, & Hellmann, 2008; Bruining, et al., 2004; Cuny & Talmor, 2007; Wright, Hoskisson, et al., 2000). The German debate on this approach dates back to April 2005, when a German social-democratic politician accused private equity firms of being corporate raiders. He used the term locusts as a metaphor, thus evoking the picture of a swarm of insects plaguing German firms, selling them out at the expense of jobs, and hopping onto the next firm once they are done. In that way, private equity firms became the epitome of a short-term oriented investment approach that focuses solely on returns. Although the use of this metaphor has soon been criticized (e.g. German Council of Economic Experts, 2005), it became quite popular in the media. Until today, the public debate remains controversial and is characterized by a widespread skepticism towards private equity firms.

In conclusion, the incumbent stakeholder logic competes with a diffusing shareholder logic of corporate governance in Germany. In the case firm, the stakeholder logic and lingering elements of the family logic clash with the shareholder logic, when a private equity firm, i.e. the archetypical example for a shareholder-value driven organization, becomes majority shareholder of a *Mittelstand* firm that had formerly been a family firm. As typical for a family firm, the case firm had been largely shielded from macro-level developments in the German system of corporate governance (Lane, 2005).

IV.3 Methods

IV.3.1 Case Selection and Data Sources

Contacts to the management board of the case firm emanated from its participation in another research project at the Institute of Management Accounting and Control (IMC). This project involved a number of smaller case studies concerned with the role of private equity firms in

management control systems change and restructurings. For that purpose, interviews had been conducted with managing directors of private equity firms as well as with top management teams of the acquired firms. Due to the extensive fieldwork (see Weber, et al., 2009), a profound understanding of the way in which private equity firms enforce their concept of corporate governance by initiating changes in management control has been developed. In particular, many interviewees of private equity firms asserted that their ultimate aim is to change the ways of thinking and to transfer their “mindset” to the acquired firms. This notion served as a starting point for this in-depth case study. One of the cases was selected in which the “mindsets” – or institutional logics – of both actors seemed diametrically opposed and in which the entry of a private equity firm provoked a clash of institutional logics of corporate governance.

The first set of interviews with the managing directors of the private equity firm and the top management team of the case firm were also part of the multiple case study outlined above. When the advisory board, comprising both managing directors of the case firm and two managing directors of the private equity firm, agreed to take part in this in-depth case study, a kick-off meeting was scheduled. During this meeting, the purpose of the study was explained to both managing directors and remaining questions were clarified. It also provided the opportunity to talk informally to the managing directors about the cooperation between them and the managing directors of the private equity firm, who were also advisory board members.

In total, 17 interviews with 18 interviewees¹⁸ were conducted, including all department heads. The interview with the managing directors of the private equity firm took place in March 2009. All other interviews were conducted between September and December 2009. The average interview lasted one hour, but the first five to ten minutes were not tape-recorded. The beginning of each interview was used to explain the purpose of the study and the confidentiality agreement. I set up a general agreement with the case firm’s managing directors and a summary of this agreement had been send to interviewees in advance. However, in order to establish trust between me and the interviewees, I highlighted that their names would be kept anonymous, gave them the possibility to ask questions about the use and storage of data, and provided contact details in case questions emerged after the interview. The majority of the interviews were conducted in the case firm’s meeting rooms. Time between interviews was used to make field notes and to talk informally to the employees. Table IV-3 provides an overview of tape-recorded interviews.¹⁹

In terms of interview questions²⁰, interviewees were first asked to describe their current responsibilities and their occupational career. Several specific questions about the case firm’s recent history and organizational as well as strategic changes followed. An emphasis was put

¹⁸ The two managing directors of the private equity firm were interviewed together.

¹⁹ See also Appendix A.

²⁰ See also Appendix B.

on changes in management control and how interviewees perceived these changes. In this regard, interviewees of the case firm were also asked to describe their interaction with the private equity firm. Towards the end of each interview, interviewees were encouraged to tell other experiences, events or issues that they considered relevant for our study, but had not been brought up by me. Field notes were taken after each interviewing session to keep track of key interview themes. Further questions were noted in order to clarify them in subsequent interviews. Thus, the interview guideline initially developed served as a skeletal structure that was adapted to each individual interview.

<i>Date</i>	<i>Interviewee(s)</i>	<i>Location</i>	<i>Duration</i>
31.03.2009	Two Managing Directors of the private equity firm	Private equity firm	00:55:42
02.09.2009	Managing Director	Phone	00:39:04
22.09.2009	Managing Director Operations	Phone	00:43:18
22.09.2009	Head of Finance	Phone	00:41:50
24.11.2009	Head of Sales (Central and Eastern Europe)	Case site	00:50:54
24.11.2009	Head of Quality Management	Case site	00:50:46
24.11.2009	Head of Key Account Management	Case site	00:46:07
26.11.2009	Head of Production Planning	Case site	00:59:43
26.11.2009	Head of Production	Case site	01:02:55
26.11.2009	Deputy Head of Production	Case site	01:07:39
01.12.2009	Head of Accounting	Case site	01:08:24
01.12.2009	Head of Purchasing	Case site	00:58:51
01.12.2009	Management Accountant	Case site	00:46:41
03.12.2009	Head of Product Development	Case site	01:00:57
03.12.2009	Head of Product Management	Case site	00:38:54
10.12.2009	Head of Export Sales	Case site	00:43:32
10.12.2009	Key Account Manager Technical and Medical Textiles	Case site	00:55:51

Table IV-3: Overview of tape-recorded interviews

Documents about the case firm were also collected whenever possible. These included an organization chart, a company brochure, press releases and reports in business and trade journals as well as information on the case firm's website. Of particular interest was information on the history of the firm, its organizational structure, range of activities, processes, and development of performance indicators. I was allowed to view the 100-days plan that was set up by consultants and the advisory board during the due diligence.

As a return favor for participating in the study, an individual benchmarking report about management accounting and control practices was compiled. For that purpose, a couple of em-

employees of the accounting department were asked to take part in the WHU Controller Panel²¹ which required them to complete an online questionnaire. In addition to the interviews, the questionnaire gave an overview of current management control practices at the case firm.

Overall, I collected a variety of data from different sources and had the chance to interview all middle and top managers as well as the managing directors of the private equity firm who are also members of the advisory board. Thus, the data allowed me to observe corporate governance on a micro-level. The following section provides background information on the case firm.

IV.3.2 Research Site and Context

The research site is Fabric²² Ltd. (hereafter: Fabric), a medium-sized German corporation that was a family firm for more than 40 years after it had been established in 1958. Fabric produces elastic fabrics and lace for the apparel industry as well as technical textiles for different applications. At the time of my study, Fabric had 120 employees and an annual turnover of about 20 to 25 million Euros. 70 to 80 percent of this turnover was made with one customer, whereas other apparel producers and consumers of technical textiles account for the remaining 20 to 30 percent. Technical textiles are a segment that is in the process of being established and currently makes a comparatively marginal contribution to sales. In Germany, Fabric's production facility and headquarter are located in an economically underdeveloped region lacking industrial firms and infrastructure. In addition to the German site, Fabric has a sales office in China. Nowadays, Fabric focuses on the production of elastic fabrics, whereas the production of laces has been outsourced to partner companies.

The production of elastic fabrics is a highly complex business as elastic textiles are a sensitive product. For instance, transportation, temperature, and humidity frequently change its properties such as its color, strain, or weight. The prototype that the customer orders is rarely identical to the finished product. Consequently, the production process is characterized by imponderableness. Vocational training for workers in the production department reflects the specific requirements for producing elastic textiles. While a couple of higher education institutions offer degree programs for handling textile machinery, an internship at the global market leader of textile machines is common practice in advanced vocational training. The development and production processes require first and foremost a long-term experience in handling the machines. In addition, Fabric is in frequent contact with producers of textile machines and with yarn suppliers. This is exemplified in regular trade fair visits and in invitations for presenta-

²¹ The WHU Controller Panel was set up by the Institute of Management Accounting and Control (IMC) in co-operation with the International Controller Association (ICV) to monitor the development of controlling in the German-speaking countries. Over 800 Panel members can take part in up to three studies per year.

²² For reasons of confidentiality, the names of the organization as well as the names of the interviewees are kept anonymous.

tions of new textile machines. Furthermore, as Fabric is dependent on the fashion industry, it is indispensable to collaborate with trend agencies and to have long development cycles. It is also a seasonal business with a slack period in summer.

The textile industry in Germany is still characterized by overcapacities, although it has been shrinking over the past 20 years. Nowadays, commodity textiles are almost exclusively produced in Asia, particularly in China, as cost structures of European producers are not competitive in this area. The sub-sector of high-quality elastic textiles, in contrast, is controlled by Fabric and a few other European firms who focus on innovative products and benefit from long-standing business relationships with their customers. Nevertheless, market conditions are difficult. Growth can only be achieved by enticing customers away from competitors. The economic crisis exacerbated the situation further and at the time of my study, two of Fabric's four European competitors were insolvent. This poses the threat of yarn suppliers going bankrupt as well, which may complicate the production process. Since yarns differ from supplier to supplier, it is almost impossible to produce the same fabric with yarns from different suppliers. Thus, it remains questionable whether this industry will continue to exist in Europe.

Since 2008, Equity, a private equity firm with a focus on distressed situations, has a major stake in Fabric. Equity is itself funded by a U.S.-American investor, but invests exclusively in SMEs in German-speaking countries. It is not focused on a particular industry. As it is typical for private equity firms, Equity's activities go beyond the provision of capital. On the one hand, Equity's investment approach rests on the assumption that a high involvement in operational issues generates shareholder value. In this context, involvement means that Equity's Managing Directors become advisory board members of their companies and monitor top management closely. In fact, collaboration is restricted to the management board in order to perform a balancing act between preserving top management's authority and Equity's desire to influence change processes. Another aspect is that Equity's Managing Directors have a background in business and consulting and frequently lack industry-specific knowledge. Therefore, Equity's Managing Directors restrict their collaboration to the management board and avoid getting directly involved in the implementation of improvement measures. Consequently, mutual trust and a close co-operation with top management are perceived as important during the investment period. However, by inquiring lower-level managers about their progress, they are able to exert pressure and to communicate their goals to the middle management as well. On other hand, Equity's investment approach places an emphasis on the introduction and professionalization of management accounting and control practices. Their experience taught them that many of their target companies do not have any management control system in place. Equity's focus is first and foremost on the introduction of liquidity planning, a timely monthly reporting scheme as well as an incentive system with performance-linked compensation.

The case analysis will elaborate on Fabric's institutional environment and how the challenges faced by the firm – a highly uncertain environment, a partly uncontrollable production process, and the necessity to innovate – also presented challenges for the implementation of management control practices shaped by a different institutional logic. In this context, the role of the private equity firm who represents an industry that has been heavily criticized in Germany will be explored as well.

IV.3.3 Data Analysis

The data analysis leading to the subsequent case narrative relies on thematic coding as an integral step for structuring process analysis and sensemaking. In a second step, a temporal bracketing strategy has been combined with a narrative strategy. On the one hand, this gives a detailed, structured account of organizational change processes at Fabric and on the other hand, it enables the systematic comparison of distinct periods of these change processes. The analysis begins in the early 1990s, when the problems of Fabric emerged and the situation gradually began to erode.

A temporal bracketing strategy allows decomposing the data into different phases that represent comparative units of analysis. By comparing similarities and differences across these units, theoretical propositions can be explored and replicated. However, in this context, the notion of phases does not imply a certain sequence of a change process. Rather, it is characterized by similar activities and definite process boundaries (Langley, 1999). Consequently, a temporal bracketing strategy “enables the explicit examination of how actions of one period lead to changes in the context that will affect action in subsequent periods” (Langley, 1999, p. 703). By adapting this strategy, three distinct phases emerged around which the case narrative has been structured. Moreover, these three phases, i.e. the family-firm era, the owner-manager era, and the private equity era, also represent the first set of codes applied to the qualitative data.

For each phase, a narrative analysis has been conducted. As a detailed story composed from raw data, the narrative is here used to gain an in-depth understanding of organizational processes and to obtain thick descriptions (Langley, 1999). Similar to the temporal bracketing strategy, this strategy relies on mechanisms as a form of sensemaking and seems thus particularly suitable for examining how institutional entrepreneurs, structural overlaps and event sequencing trigger changes in institutional logics. In terms of thematic coding, a different list of codes emerged for each phase of the change process, accounting for different meaningful themes that informed the respective phase.

IV.4 A Narrative of Institutional Change and Resistance

IV.4.1 The Family-Firm Era

Intensified product market competition which triggered among other factors shifts in the German model of corporate governance did not spare the textile industry. Since the mid 1990s, the textile industry in Germany has been shrinking due to a relocation of production towards low-cost countries. At first, this referred primarily to commodity textiles that were increasingly produced in Eastern Europe, Turkey, and particularly in Asia. The sub-sector of high-quality elastic textiles and laces, in contrast, was mainly shielded from this development because European firms were able to keep a technological advantage (cf. Section 4.3.2). At the time when this industry-level change process started, Fabric produced a variety of commodity as well as high-quality textiles and laces at its two close-by production sites in Germany and at its Austrian plant.

Parallel to this emerging threat, a change in Fabric's management board took place. In 1994, the founder's son took over the management alone. Together with his sister, he had been in charge of the firm since 1976, when the founder of the firm died at a rather young age. However, frequent quarrels between the two siblings resulted in the sister's withdrawal from her executive position. As she did not have a lot to say in entrepreneurial matters beforehand, this was rather a legal formality and did not cause any operational differences.

A reason for these frictions between brother and sister lies in the character of the Managing Director. He was described by interviewees as a patriarchal leader with an autocratic management style. The latter had been particularly evident in centralized decision-making processes. He typically made decisions on the basis of his judgment and communicated them top down. Critical managerial functions remained in his sole responsibility, such as key account and financial management. Other employees were not supposed to meddle with his affairs. Yet, on the other hand, the Managing Director (hereafter: the Patriarch) was a well-respected person in the local community as he showed a great sense of social responsibility. Living with his family in the same town, he knew most of his employees and their concerns personally. For instance, one of our informants noted that "he was there for his employees when it came to the crunch". This created a familial atmosphere at Fabric. Many employees, in turn, were loyal and spent their whole working-life at the firm, although career opportunities were rather sparse and often left to chance. The Patriarch was also committed to the region and kept close ties to the local community by being a member of clubs and associations. In particular, being the president of the local football club, he used his position to sponsor the football team.

The patriarchal leadership style was further reflected in the absence of formalized management control practices at Fabric. For instance, a formal organization structure was lacking.

While employees occupied different positions, the title of these positions did not refer to a well-defined area of responsibility:

As a sales manager, you had been responsible for everything: that the yarn is there, that the machine is running, that the dyer doesn't make a mistake, that it gets delivered in time, that the customer pays. More or less a general dogsbody. (Head of Sales)

Another example is that the position of a management accountant did not exist. Reporting, budgeting, and performance measurement had never been issues at Fabric. In addition, sales and profit figures were not communicated to lower hierarchical levels. Apart from the Patriarch and financial accountants, only the works council had access to performance information. Employees could only draw conclusions from rather rough indications of Fabric's performance, as one interviewee explained:

The family has never disclosed any figures, not even for middle managers. We were told that profits were good or that profits were bad. Or we sensed it because we got a Christmas allowance, or we got less Christmas allowance, or we didn't get any Christmas allowance at all. (Head of Sales)

However, the resulting lack of transparency did not remain unquestioned by employees. This referred particularly to costs and processes in the product development department. For instance, custom-made fabrics were offered to each customer, although about three-fourth of sales were achieved with one customer. Another example is that fabrics were sometimes too expensive to find a buyer because product development cost had not been taken into consideration beforehand. Occasionally, it was felt that these costs should be recorded:

Products have been developed without considering cost... [Costs] have never been recorded [...]. And then, from time to time, it was said, well, actually, we should know how much costs occurred in the product development department'. (Head of Production Development)

Yet, these thoughts never resulted in any attempts to introduce cost accounting as a management control practice. Similarly, the process for documenting newly developed products was described as unstructured, but had apparently been tolerated:

"Only one employee was responsible for product development [...]. There was only this person... who could somewhere make a handwritten note. This note had been fed into the computer and this formed the article description. Whether it worked that way is another issue." (Head of Production Development)

These accounts given by Fabric's employees in conjunction with the description of the Patriarch indicate that management control was informed by two distinct institutional logics. On the one hand, a family logic unfolded in the managing style of the Patriarch and in his delibe-

rate abstinence of formalized management control practices. According to Thornton et al. (2005), this nonmarket, societal logic is characterized by patriarchal domination as source of authority and unconditional loyalty as source of legitimacy. Further elements of this logic are parent-child relationships and governance mechanisms based on rules of inheritance of succession. The increase of family honor, security and solidarity are goals underlying any strategy under a family logic. Thus I can find a number of characteristics belonging to a family logic that are transmitted by the way in which management control is exercised during the family-firm era. On the other hand, management control was shaped by a stakeholder logic of corporate governance. Rather than a profit-making entity, the firm was regarded as a social institution providing jobs for the benefit of its employees, their families and the region. Consequently, organizational objectives focused on growth and employee utility. Organizational structure was centralized with the Patriarch as centre of power. Whereas knowledge in the area of finance and accounting was of minor importance, technical competence was valued highly in this era. Accordingly, in addition to a family logic, a stakeholder logic of corporate governance informed management control.

As long as business was going well, the absence of formalized control practices did not pose a threat to Fabric. The firm has been embedded in a dense network of customers and suppliers and has long-standing business relationships with both groups. Fabric showed archetypical characteristics of a firm in a coordinated market economy (Hall & Soskice, 2001) such as Germany. Due to this network, macro-level changes in the textile industry remained largely unnoticed at Fabric as they did not yet have an impact on its performance. As a consequence, the relocation of production was largely ignored by the Patriarch.

This dealing with the problem was challenged by a new Head of Marketing who had been hired after he graduated from a private business school in Germany in summer 1996. This business school was based on the model of Anglo-American business schools. Similar to most of employees, he was born and grew up in the same town. However, due his educational background, he was also a representative of the new managerial elite (Höpner, 2001; Jackson, et al., 2005; Lane, 2005). In this regard, Head of Marketing was an entry-level position as he was supposed to be the successor of the Patriarch at some indefinite future date, whose children were not interested in running the company. In contrast to the Patriarch, the Head of Marketing perceived the increasing competition, particularly from China, as a major problem and urged the Patriarch to invest in China as well. The Patriarch disagreed with him and nothing happened. Finally, after frequent quarrels between the Patriarch and the Head of Marketing, the latter left Fabric in fall 1999 to become a consultant.

Meanwhile, in the late 1990s, Fabric was drifting into a price competition, although the firm was not able to compete with firms in low-cost countries. The Patriarch pursued a short-sighted strategy to cope with these challenges. Investments in research and development and

in machinery were delayed. Due to the Patriarch's long-standing and intensive relationships with his customers and suppliers, Fabric could still rely upon its reputation. In particular, the relationship between the Patriarch and Fabric's largest customer was characterized as "familial". Thus, long-time customer relationships protected Fabric from the increasing environmental threat. The latter was also largely unnoticed by employees:

In the past, we were undisputed. We knew exactly that we'll sell what we produce and that we'll sell it well. And each year profits were high as well. There weren't any problems. However, this has changed more and more and finally – but what we didn't know at that time – profits weren't as high as before. (Head of Sales)

At the beginning of the new century, problems at Fabric accumulated and became manifest in an increasingly tight liquidity position. At first, the Patriarch seemed still to be able to deal with these issues. Suppliers extended the terms of payment and customers settled their account quickly. Both stakeholders had an interest in the survival of Fabric given the few European competitors in the market for high-quality elastic fabrics. However, when the Patriarch fell severely ill, customers' trust began to fade away. The more the Patriarch was marked by his illness, the more it was doubted that he was able to run a business. Another problem consisted in the extensive sponsoring of the local football club that tied up many resources. For instance, some footballers were employed by the firm, although they did not have to show up for work. Organizing football matches was expensive, because the club was playing at the third level of the German league structure. As a consequence, reserves were dissolved to finance day-to-day business. The Patriarch refrained from terminating the sponsorship as well as from firing employees because this might have meant losing his face. Furthermore, the Patriarch's illness made him even less sensitive towards criticism. Neither the suggestions by employees nor those by consultants that had been sent by Fabric's bank creditors had been considered. Employee motivation was low, a well-defined strategy did not exist, and there was already an investment backlog of machinery. The siblings as well as banks were at odds with one another. In sum, Fabric was faced with a variety of interrelated problems.

Finally, in 2003, one of the major creditors sent a permanent consultant to Fabric. In February 2004, the pool of banks agreed to replace the Patriarch by this consultant and to set in a second interim manager. Both interim managers had experience in restructurings and while one of them was responsible for finance and accounting, the other was in charge of sales and production. This change in management caught most employees by surprise as still only a few had an idea about the severity of Fabric's liquidity position. However, when the two interim managers initiated a first wave of layoffs that affected 40 employees, some employees decided "to do something":

We saw that the bank wanted to wind up Fabric, i.e. to withdraw as much money as possible and then to close the firm. And we must not, we could not allow this; we

needed to do something [...]. We realized that only profits mattered, but the people here didn't matter. Right away some were fired [...]. The family had lived here and had a certain obligation for the people. When someone comes from [the city where the major bank creditor is located] he doesn't care whether Fabric exists or not. (Head of Production Planning)

After assumedly realizing the banks' true intentions, a group of four long-standing employees met to discuss how Fabric could be rescued. Soon, it was decided to ask the former Head of Marketing whether he would like to come back and to take over the management. Alternative candidates were not available anyway:

No one that was familiar with the textile industry and whom we knew. Because he [the former Head of Marketing] comes from this town. Therefore, from our point of view, he was the ideal person for this position. (Head of Production Planning)

The rationales given for asking the former Head of Marketing to return to Fabric indicates that the motivation of this group to take action was twofold. On an individual level, they had little chances to find another job in case the firm would have been liquidated because of their age, their unreadiness to relocate, and their specific training. On a higher level, and perhaps more pivotal, they seemed to share the vision to ensure the company's survival for the region. These actors showed a sense of responsibility for and loyalty to Fabric as integral part of the region. In fact, the region played a pervasive role in my interviews with long-standing employees and can be regarded as the key stakeholder. Interviewees affiliated to the region showed a remarkable solidarity and almost treated it like a protective area demanding special attention. The former Head of Marketing was thus the ideal candidate because, due to his origin, he was supposed to share the same values and ideas. Indeed, it turned out that he was interested in a management buy-in. He was also aware of the fact that the region had a poor infrastructure, making it unalluring for new businesses to settle. The former Head of Marketing found a business partner and together with the group of employees, they set up a business plan in the following months. In September 2004, he and his business partner became shareholders and represented the new management board of Fabric.

Regarding management control in these last years of the family-firm era, some of my informants regretted in retrospect not to have known business figures so that they would have been able to intervene earlier:

I was angry with myself not to know the exact figures, because then one might have been able to do something. (Head of Sales)

However, the desire for cost accounting and performance information – that was independent from the sequence of events also evident in the product development department – cannot be interpreted as a questioning of a stakeholder logic of corporate governance. In contrast, more

transparency is quite congruent with employees' interests, i.e. to monitor economic power (Höpner, 2001). Neither does it represent a questioning of the family logic, as the bringing back of the former Head of Marketing demonstrates. To some extent, he was regarded as the "heir" of the business, leaving the patriarchal denomination uncontested. Towards the end of the family-firm era, no evidence suggests a renouncing of the stakeholder or the family logic and an embracing of another institutional logic.

In conclusion, the sequence of events led to considerable changes in the firm's ownership structure and competitiveness. It also led to a growing awareness that certain management controls are necessary to monitor the firm's activities and to identify corrective actions. Notably, this phase shows that also the deliberate absence of formal management control practices can mediate a distinct logic. The family and the stakeholder logic clearly shaped actions and provided meanings to the actors. Moreover, these logics remained stable and homogeneous throughout the family-firm era, because the issues at Fabric were mainly attributed to the Patriarch's personality and his poor health as well as to the excessive sponsoring of the local football club. In contrast, the underlying corporate governance model remained unquestioned. The fact that two of three mechanisms of change, i.e. institutional entrepreneurship and structural overlaps, were absent in this era supported this conclusion. Whereas the Head of Marketing was not powerful enough to act as an institutional entrepreneur, the Patriarch lacked access to other institutional logics and the incumbent institutions were furthermore in line with his self-interests. Structural overlaps, in turn, could not emerge due to the homogeneity of the institutional environment. Thus, although the stakeholder logic had been increasingly contested on a macro level, these developments remained unnoticed at Fabric. However, the new Managing Director, who as Head of Marketing had not been powerful enough to inter-fuse the incumbent logic with his template, was now in a position to draw on alternative institutional logics.

IV.4.2 The Owner-Manager Era

As soon as the new Managing Director and his business partner, the Deputy Managing Director, took over the management of Fabric in September 2004, the corporate reorganization began. Whereas the Managing Director was responsible for marketing and sales-related activities, his deputy was in charge of finance and operations. However, interviewees reported that the Managing Director was the driving force behind the trajectory of change. The reorganization consisted of a variety of measures, including what the Managing Director described as a "classical" reorganization. This involved the consolidation of production sites. As a first step, the plant in Austria was closed and machinery was transferred to the two production sites in Germany. Non-operating assets were sold and another wave of lay-offs followed. In addition, a financial restructuring was undertaken. Fabric paid off a couple of banks and continued to cooperate with only one local bank. A federal debt guarantee had been granted. Furthermore,

a reallocation of shares was necessary in 2005, after the death of the Patriarch. Then, the new Managing Director and his deputy became shareholders in equal parts.

In terms of strategic alignment, the Managing Director perceived that innovation and quality form the basis of competition in market segment of elastic textiles and laces. Consequently, his strategy was on the one hand based on differentiation and on a focus on the firm's core competencies. By reinforcing Fabric as a brand standing for high quality fabrics and innovation, he assumed the firm to be less sensitive to price competition. On the other hand, he envisioned Fabric as a vertically integrated global player in the industry of elastic fabrics. In that way, he aimed to safeguard as many jobs as possible in his home town. Several events in the years 2005 and 2006 reflect this strategy.

In Germany, investments in modern machinery were made in the period from 2005 to 2006, in order to enhance Fabric's competitiveness. These machines reduced per unit cost and could be more flexibly deployed. For instance, it was now easier to switch from one pattern to another. New employees for the design team were hired and another trend agency was contracted. The range of articles was divided into four segments according to their degree of fashion and their technical requirements. Vertical integration was expedited by a joint venture with a fabrics finishing firm in October 2005. Both managing directors of Fabric were part of the management board of this joint venture. International expansion was achieved through the foundation of a sales office and a subsidiary in China in late 2005. While the sales office was supposed to supply the Asian market with elastic fabrics, the production site should provide the European market with basic qualities. However, the latter was mainly a response to pressures from Fabric's major customer and many employees were critical of this step, as they perceived it to be too late to enter the Asian market. The production in China began in early 2006 on a limited scale with four machines on-site. Furthermore, these developments were also used for a couple of public relations activities. In 2005, Fabric launched a new website and in 2006, several industry-specific journals reported about Fabric's modernization of machinery and published interviews with the Managing Director. These activities, combined with face-to-face meetings between the Managing Director and the management of his customers, led to a gradual restoration of customer's confidence and to a rebuilding of good relationships.

The new strategy formulated and implemented by the Managing Director involved an underlying production pattern that has been described by Streeck (1992) as diversified quality production. This highly-successful production pattern has been an integral element of the German model of corporate governance. As an advanced form of craft production it relies on skilled labor, on diversified, high-quality products as well as on non-price competition in a specific market-niche. Basically, diversified quality production means "high volume production of customized quality-competitive goods" (Streeck, 1992, p. 26). The concept further emphasizes strategic alliances and joint ventures as well as dense and trust-based relationships

between firms at different stages of value chain. This reveals a dependence on non-social institutions. Rather than relying on competitive market arrangements or on hierarchies, collaborative arrangements were used to foster the firm's competitiveness (Hall & Soskice, 2001; Streeck, 1992):

The Managing Director was looking for co-operations with textile manufacturers. I don't think it would have been a good idea to start competing with those firms (they produce other textiles than Fabric). It's better to form strategic partnerships, to appear jointly on the market, and to save resources. That's beneficial for everyone. (Head of Production Development)

The sequence of events suggests that the Managing Director did not intend to challenge the incumbent stakeholder logic of corporate governance. Organizational objectives, including growth, employee and regional utility, did not substantially change, although the measures he took to achieve these objectives were fundamentally different. Employees also felt that the Managing Director's motivation was not exclusively driven by profitability concerns:

Maybe it played a role, just as a small hidden agenda, that he was able to protect the people in this town. (Head of Production)

However, conceptualizing the Managing Director as a change agent implementing non-divergent changes within the organization's institutional environment (Battilana, et al., 2009) would underestimate the extent to which he perceived institutional contradictions. Due to the different social positions that he occupied in the inter-institutional system, his mindset was on the one hand shaped by his origin from the region and his former occupation as head of marketing. On the other hand, it was shaped by his educational background in business and his career as a consultant. In fact, the changes initiated by the Managing Director departed considerably from the incumbent family logic. In particular, he tried to break with the patriarchal domination, a key element of the family logic. In order to "turn the patriarch into an elder brother", he followed a participative management approach, emphasizing team-made decisions. His approach was more consensus-oriented and was thus congruent with the stakeholder logic. Examples were the weekly meetings of all department heads that he initiated to foster their interaction. In part, the involvement of employees was also necessary as he was dependent on employees' many years of experiences. Employees seemed to appreciate this new management style:

The approach was fine and we were making progress. There were considerable changes, communication channels became shorter, we had a management, and particularly a Managing Director, who was daily on site and who took care of current problems. Everything was decided right away in the team. The cooperation was different, no doubt about it, it was modern. (Head of Purchasing)

In addition, the Managing Director tried to encourage employees individually to give up established routines and to try other ways without waiting for a directive. He attempted to foster more autonomous and decentralized decision structures that were incompatible with the incumbent family logic, but reflected practices and values of the Managing Director's prior occupation. However, whereas the quote above suggests a smooth change process, the strong desire for a patriarchal leader indeed prevailed in this period of transition. A renunciation of patriarchal leadership and other styles of collaborating between the Managing Director and his subordinates were found difficult by Fabric's workforce as independent decision making had never been an issue before the change in management. Although these changes were compatible with the stakeholder logic of corporate governance, the Managing Director seemed to be rather unsuccessful as an institutional entrepreneur.

In terms of management control practices, the focus was at first on standardizing bookkeeping procedures to provide a basis for a reporting scheme. For that purpose, a new Head of Accounting with a background in taxation was hired to reassess financial accounting procedures. These lacked structure and coherence:

We had to start from scratch. We had to say, if you book this, then you have to have a look on that because these two issues belong together and if there is something peculiar, you have to inform x and y. (Head of Accounting)

However, breaking up routines proved to be difficult and required convincing and patience. There was a strong tendency to book transactions as they had been handled before and accountants refused to alter their routines. The former management was held responsible for these reactions:

That [to stand up to accountants] was very, very difficult. That was due to the corporate culture of the family firm. One was unconcerned about reporting issues. (Head of Accounting)

As a first management control practice, cost accounting has been introduced in the form of cost distribution sheets to analyze the firm's cost structure and to identify non-profitable products. Consequently, these products were either eliminated or formed the starting point for operational changes. In addition to cost accounting, the tight liquidity position made liquidity planning necessary.

A matter of particular concern for the Managing Director was a more systematic approach in the product development department. Each new product was henceforward assigned to a customer and got a profile that summarized its characteristics. This practice put an end to the rather unstructured way in which new products had been documented previously. Furthermore, product development was continuously monitored to ensure a full product pipeline. According

to the Managing Director, budgets for the product development department formed another integral part of his strategy:

Such a firm can only be successful in the long run if one invests heavily in innovation, if one creates a climate of innovation, if one provides budgets and ensures that the product, the brand and the service are a differentiation criterion. (Managing Director)

Related to product development budgeting was an ABC analysis to categorize customers according to their percentage of sales. Consequently, the full range of custom-made fabrics was only offered to A-customers, whereas C-customers could only choose between already available fabrics. Beforehand, customized fabrics were offered to each customer. In addition, target costing was introduced to calculate whether a new fabric could be produced at a competitive price:

We begin with product development... In the past, we brought fabrics onto the market which were much too expensive for their specific market segment. Now we calculate first and assess how much a fabric is allowed to cost. Then we produce it. Basically, we start from the end, which is the right way. (Head of Production Planning)

In contrast to the new management style, the introduction of management control practices did not represent a paradigm shift due to their congruence with the stakeholder logic. Although financial considerations gained more importance in the owner-manager era, the Managing Director tried to balance social and financial goals and never evoked a rhetoric different from the stakeholder rhetoric. Management control practices based on management accounting information formed part of his plan to professionalize processes at Fabric. According to the accounts given by department heads, they generally seemed to have a positive attitude towards practices focusing on efficiency, as these practices represented a way to secure jobs in the region. However, as indicated above, the implementation of a new bookkeeping evoked resistance among accountants who were deeply entrenched in their routines. Accordingly, management control practices were not particularly elaborated and mainly affected day-to-day business in the product development department.

However, similar experiences to those made in the accounting department were made in the quality management department. The current Head of Quality Management started to work at Fabric at the end of 2006 and was the first institutionalized quality manager. Before, a formalized quality management did not exist either:

Processes haven't been documented, but more or less maintained by employees who passed their knowledge down generations by telling, listening, learning by doing. (Head of Quality Management)

To begin with, the Quality Manager assessed which quality tests could be conducted at Fabric. For that purpose, all processes had to be recorded and employees were asked to describe the processes in their departments. Afterwards, it was evaluated whether and how these processes could be simplified. This involved further interviews with staff from different areas. Next, process improvements and operating procedures have been documented and communicated to staff in trainings. In particular, test instructions have been developed for the quality management department. This approach proved to be successful as it turned out that quite a few tests could be conducted and that the rejection rate could be decreased after a short time. However, despite these achievements and the involvement of different employees, the Quality Manager encountered substantial resistance among employees. An interviewee remarked that a good product would speak for itself and would not need such tests. This attitude could be part of the reason for employees' resistance. As with the accounting department, resistance was strongest when employees were asked to change their routines, i.e. the way in which they performed a particular task.

In spite of these difficulties, employees were generally sympathetic to the changes initiated by the Managing Director. In particular, open communication and the fact that "the Managing Director lends an ear to everyone's problems" were appreciated by employees. Nevertheless, the promising activities could not hide the fact that Fabric still had to cope with severe liquidity issues caused by the expansion to China and investments in new machinery. Specifically, the firm was regularly short of cash to buy raw materials, although the order volume was high. The purchase of yarn was often delayed because Fabric had to wait until other customers settled their account. Due to the usage of long terms of payment of its suppliers, it was impossible to deduct cash discounts. Moreover, Fabric still had to pay in advance until its suppliers would provide yarn. Consequently, it was impossible to stock up and Fabric had long delivery times. Another reason for its financial distress lied in a high capital lockup. Fabric was still able to produce a variety of textiles as it had different machine groups. Accordingly, capacity utilization was rather low. In addition, the production in China never took off owing to a lack of orders. It also turned out that these textiles were of an inferior quality compared to those produced in Germany. Another problem representing a major obstacle for the creation of a "global player" concerned fabrics finishing firms. Even if the firm had several production sites around the globe, these textiles would have to be finished somewhere before they could get sold. As transport can easily cause damage to fabrics, such a finishing firm would have to be located in the vicinity of each production site. In retrospect, some of our informants took a critical look at the strategic alignment:

If you are from this region, you make one mistake: to retain staff. We wanted to increase sales in order to retain all staff. We never achieved this goal and this was our doom. (Head of Production Planning)

There was a plate in the hall, 'flexibility is our business'. This was a reason for our financial distress because we had many machines, we had many machine groups, we had many people, we could do almost anything. And this was our undoing. (Head of Production Planning)

We discussed for the second and the third time whether we might be able to do it. Maybe we'll generate 200,000 Euros more sales next month and then we can afford to retain this employee or we don't need to close this department. (Head of Purchasing)

The issues described by interviewees relate to a precondition for the adoption of diversified quality production, namely to the presence of redundant capacities. In order to be successful, diversified quality production requires universally applicable, unspecified capabilities that can be employed for a variety of uses. Thus, it is difficult to measure the return on investment on those capacities which makes them particularly vulnerable to cost-cutting pressures. Examples for these capacities are broad and high skills, functional overlaps in organization structure enabling subunits to act as substitutes for each other, decentralized decision-making processes, and social peace manifested in the system of co-determination (Streeck, 1992). Ironically, a couple of these kinds of success factors turned out to be disadvantageous for the case firm. The quotations above also indicate a first questioning of the stakeholder logic. It was more and more considered impossible to combine the desire to pursue Fabric's social goals with the achievement of profitability necessary for the firm's survival. As in the family-firm era, neither structural overlaps nor institutional entrepreneurship triggered changes, but the sequence of events. Management control practices contributed to this changing perception by revealing which activities were financially feasible.

The financial position eventually became worse at the end of 2006, when the Deputy Managing Director, who was involved in several other businesses, got into difficulties. When his other firms became insolvent, he suddenly bowed out of the firm. At first, the Managing Director tried to run the business alone, but soon it became clear that Fabric needed more capital. In 2007, the Managing Director decided to look for a financial investor that would support a buy-and-build strategy. This means, after having focused on core competencies and efficiency improvements, Fabric would grow by acquisitions in a widened geographical base (Smit & Moraitis, 2010). A financial investor was preferred to a strategic investor:

I was looking for a financial investor who was interested in investing in the firm and in utilizing it as the basis for a buy-and-build strategy. I refrained from looking for a strategic investor because I wanted to give this site a future. A buy-and-build strategy seemed to me more promising than a takeover by a strategic investor who inevitably has his own production sites. I would have failed to meet this social goal. (Managing Director)

In a works meeting, the Managing Director informed his employees about his plan to look for an investor. Afterwards, he contacted more than a dozen potential investors. Due to his educational background and his consulting practice, he was socialized in this community. In summer 2007, he decided to cooperate with Equity for several reasons. First, Equity focuses on distressed situations in the German *Mittelstand* market and had thus experiences in dealing with organizational crises and reorganizations such as those of Fabric. Next, Equity has no definite investment periods which allow flexible investment strategies. According to Equity, they invest on a long-term basis, i.e. more than five years:

We are not interested in a ‘quick flip’ as other distressed investors, but in long-term value enhancements. (Equity’s Managing Director)

That suited the Managing Director who was of the opinion that neither the organization nor the market for elastic fabrics would fit into a rigid investment period. He also valued the entrepreneurial attitude of Equity’s Managing Directors. Finally, sympathy between the Fabrics’ Managing Director and Equity’s Managing Directors played a role as well. An extensive due diligence assessment conducted by a large international auditing firm and by an international law firm followed a tentative agreement in fall 2007. The management audit suggested that every employee in a managerial position had to reapply for his or her job. Two auditors interviewed each manager for three hours. At that point in time only the works council was informed about which financial investor would take a stake in Fabric. In addition, Equity offered Fabric’s work council to visit another firm owned by them. The opportunity to exchange experiences with the other firm’s work council was grasped and contributed to gaining confidence in the financial investor. Nevertheless, it became clear that considerable operational changes and some layoffs would follow. Since Equity’s stake meant that the firm would continue to exist, these constraints were accepted. In mid-November, the contract was signed and the closing took place at the end of January 2008. Owning 92% of stock, Equity became majority shareholder.

In conclusion, the owner-manager period was still characterized by a family logic and a stakeholder logic of corporate governance. However, the stakeholder logic has been questioned by some employees who felt that Fabric was trying to safeguard too many jobs and that its production was too flexible to survive in the industry of elastic textiles. Consequently, capacity utilization remained rather low and costs high. Yet, the stakeholder logic has not been replaced by alternative logics emphasizing financial goals over social goals. A reason for that lies in the motivation of the Managing Director. Although the new Managing Director as a former consultant and graduate of a business school was socialized in an institutional environment propagating a shareholder logic of corporate governance, his self-interests as an institutional entrepreneur were in many parts congruent with the stakeholder logic. In particular, he shared the view that Fabric had a certain responsibility for the region. Organizational ob-

jectives were concerned with growth and employee utility instead of shareholder value. The strategy was clearly focused on diversified quality production (Streeck, 1992). So he tried to create a balance between financial and social concerns. Cost accounting practices such as target costing and budgeting for product development were congruent with this agenda. Management control practices thus mediated economic considerations but within the constraints set by a stakeholder logic. In contrast, the Managing Director tried to break with central tenets of the family logic by adopting a more participative management style. However, he encountered substantial resistance among employees who did not abandon taken-for-granted routines. Thus, at the end of the owner-manager era, management control was shaped by a stakeholder logic of corporate governance and lingering elements of a family logic.

IV.4.3 The Private Equity Era

The first time that Fabric's employees met Equity's managing directors was after the closing in January 2008. First, a department head meeting took place in which Equity's managing directors introduced themselves and presented their vision for the modernization and expansion of the firm. Afterwards, Equity's managing directors introduced themselves to all employees in a works meeting. To many department heads and employees this buyout represented another radical change after interim managers took over the family business in 2004. Many of Fabric's stakeholders were skeptical and afraid of Equity's motives, not least due to the "locust" discussion (cf. Section 2.2):

We heard that there was an investor [...]. Then you read the newspapers from time to time: Bought by an investor, know how, machinery sold, bankruptcy, liquidation. You worry about what they are going to do now. [...] As every time when something changes, you assume the worst things. What are they going to cash in on the firm? (Deputy Head of Production)

Yet, this concern dissipated for the most part after the presentation:

Of course we had heard of financial investors and of locusts. But, right from the start, we had the impression that the investors had more time and were more patient. They didn't say 'we are going to sell this business next year with a profit, if possible'. [...] So we thought we found a good partner. (Head of Purchasing)

Similar reactions to those of the employees came from Fabric's customers:

When the customers heard that a financial investor joined the firm, they were skeptical as to whether this investor was really interested in the continuation of the business or whether he was only interested in short-term returns. (Head of Sales)

However, as Equity could convince all stakeholders that it was not interested in asset stripping, the mutual trust between the firm and its long-standing customers remained largely unaffected. What remained, though, was the awareness that a financial investor has different goals than a bank or a strategic investor. This lingering element will be picked up later again.

After the closing and the introduction of Equity's managing directors, the so-called 100-days plan was enacted. According to Equity, this plan aimed at stabilizing Fabric's liquidity position and at improving its operations within the first three months. The focus was to a lesser extent on strategy than on operative deficits. The plan was set up on the basis of SWOT (strengths, weaknesses, opportunities, threats) analyses that were part of the due diligence assessment. A look at it revealed that it contained large spreadsheets for each function, for instance for finance and control, sales, and product development. For each area within a function, the plan specified a range of activities that should be taken as well as deadlines for each activity. Red, yellow, and green traffic lights indicated the progress of each activity and were automatically calculated. The plan also provided spaces in which one could give reasons for the deviations. Overall, the 100-days plan seemed to be very detailed and comprehensive.

With the enactment of the 100-days plan, a process started that led to what many informants described as a more "tight" control. One of Equity's managing directors described their approach as follows:

We focus on the day-to-day business, on standing on management's feet and question the management: Did you initiate this step, where do you stand, what are your problems, what are you doing, what are further initiatives – traditional themes of coordination and control [...]. Take any textbook on management accounting and control – that's what we do. (Equity's Managing Director)

Instead of monitoring the management solely through their advisory mandate, Equity's managing directors have been almost daily on-site in the first couple of months in order to exert influence on the business. As the quotation indicates, this influence was mainly concentrated on the firm's top management. However, Equity also tries to connect well to middle managers and to the works council. While the works council was supposed to give a true and unfiltered summary of the situation, Equity expected to discover potential problems early in talks with middle managers.

In contrast to the abstract account given by Equity's Managing Director above, the beginning phase of Equity's commitment to the case firm proved to be more difficult than expected. Although the three managing directors got to know each other more than half a year before the signing of the contract and had been accompanied by a coach from this point in time onwards, in the initial phase they "had to find a new *modus operandi*", as Fabric's Managing Director put it. He stressed several times that it took a while to get accustomed to each other, not least

because Equity was lacking industry-specific knowledge. Even more challenging was gaining confidence of middle managers and employees:

Worlds clash together. Worlds in a sense that, on the one hand, there are people coming from a world where they do 150 cases in Excel... in two days [laughs]. On the other hand, there are people who do one case in reality, in five years. There are worlds in between, cultural worlds. (Managing Director)

In other words, the Managing Director illustrated that there were few, if any, structural overlaps between Equity's approach and the incumbent approach towards management control at Fabric. He further explained that the additional benefit of having a financial investor is often not obvious for middle managers, as advantages lie more in the strategic development than in their day-to-day business, once operational improvements have been completed in the first phase after the takeover by a private equity firm.

Against this background, Equity began to push its perception of management control by promoting basic control practices. Among the first practices was working capital management. The reason for introducing this practice was twofold. On the one hand, the case firm had been almost insolvent at the beginning of 2008 and, thus, its liquidity position had to be improved quickly. On the other hand, from Equity's point of view, cash flow represents the single most important performance figure for controlling a business. Thus, Equity emphasizes right from the start the role of cash flows for value creation (Rappaport, 1999). Parallel, Equity expected Fabric to compile a monthly report including a balance sheet, a profit-and-loss statement, and a statement of cash flows. This report should be available within ten days after the end of each month. In addition, reporting involved weekly reports focusing on sales figures and incoming orders. These were discussed in weekly meetings with department heads. Given the fact that with the closing of the deal, a new holding structure had been enacted in addition to the existing legal entity of the firm, the workload in the accounting department increased substantially. As a consequence, a Head of Finance was recruited in Mai 2008. Before, many issues relating to finance, financial and managerial accounting belonged to the responsibilities of the Head of Accounting.

The Head of Finance had to set up further a scorecard with key performance indicators (KPIs). This was of particular relevance for Equity as it allowed monitoring its primary objective, namely the creation of value (cf. Copeland, et al., 2000):

We try to implement on top-down control systems, not as complex as a balanced scorecard or an economic value added, but which represent a performance measurement system. We encourage the management to focus on key performance indicators [...]. In addition, we try to structure our meetings according to those key performance indicators and value drivers. (Equity's Managing Director)

The KPIs mentioned by Equity's Managing Director, included EBITDA, cash flow, unadjusted margin, and incoming orders at a ratio of sales in Fabric's case. Other KPIs were related to working capital management, quality management, utilization of machine groups, the delivery backlog, and productivity ratios. This scorecard was reported together with the end-of-month accounts.

While the Fabric's Managing Director was appreciative of Equity's desire for detailed and prompt numbers, he himself did not feel to need this information to run his business. Equity, in turn, used the reports in a diagnostic way, i.e. to identify deviations and to ask for explanations. In that way, Equity increased each middle manager's degree of accountability. Although almost every informant denied an influence by Equity on their area of responsibility, Equity was able to make its goals clear to middle management as well as top management by asking questions:

Equity has frequently been on-site. And you had to report to them why things were as they were. (Head of Quality Management)

They [Equity] truly have a financial background. In the beginning, we had to get used to the fact that basically everything was questioned. [...] For I have a rather technical background, but they saw everything only from a financial point of view. (Head of Key Account Management)

They [Equity] let us work as long as the numbers crunch perfectly. (Head of Purchasing)

These quotes demonstrate prominently how Equity was able to mediate a new institutional logic through management control practices. In contrast to reporting practices that did not affect middle managers, being accountable for financial results was new to them as issues of finance and control had traditionally fallen in the area of top management. While some previously approved a more financial orientation, changes in management control were more far-reaching than these considerations.

Another management control practice introduced by Equity concerned incentives for top and middle managers. Equity left everyone the choice to decide the extent of a variable compensation. Thereby, variable compensation was dependent on target achievement. In case of top management, these targets were always linked to the generation of a cash surplus, again stressing the importance of cash flows for shareholder value generation. However, some employees rejected this form of variable compensation:

As everyone, I had been asked whether I would like a variable compensation. I don't like bonuses in general. In my opinion, the supervisor has to decide whether her subordinates work or not. Then she has to realize that they showed a good performance

and it is her responsibility to say: My people worked hard, I was able to deliver everything on-time and now they deserve a bonus. (Head of Accounting)

This viewpoint of the Head of Accounting shows that variable compensation dependent on the achievement of formal targets mediated a corporate governance logic contended with the incumbent institutional logic. Instead, the Head of Accounting favored the incentive practice prevailing in the family-firm era, when the Managing Director would decide whether his employees got a bonus at the end of the year. The differences in incentive practices are salient examples for the clash in institutional logics.

Equity's influence on management control practices became also apparent in the area of budgeting. For the year 2009, budgets were defined for each department head in fall 2008. Thereby, the Managing Director and Equity agreed on key parameters, while the Head of Finance and his team worked out the details. Budgets reflected the cost incurred in the previous year as well as the targets for the current period. Targets are discussed and result in an agreement of objectives, but budgets could not be negotiated. While many department heads said that they just stayed within their budget in a sense that it turned out to be realistic base for their operations, the lack of a basis for negotiation led also to some paradoxical situations. An example is the budget for the sales manager responsible for technical and medical textiles. These textiles represented a by-product and had been neglected for a couple of years. Then, in October 2008, a sales manager for this area had been hired. As this manager had to start from scratch, she would have to travel a lot to build up a customer base. However, she immediately realized that this budget did not allow her to fulfill her tasks as budgeted travel expenses were far too low. This issue was discussed with the Managing Director when she got her budget. Although he agreed with her, the budget was not adjusted and sanctions for exceeding it did not exist. Overall, this suggests that budgeting was introduced as a legitimizing tool, but loosely coupled to organizational routines (Orton & Weick, 1990). In part, the problems associated with budgeting can be traced back to Equity's limited knowledge of the textile industry. It took some time until Equity became familiar with these specific issues:

They [Equity] could not imagine the problems which we have to face: The lead time, the backorders, delivery schedule adherence, and so on. They said to me, delivery schedule adherence has to be 100 percent. But that is impossible in our business, in our industry. No chance at all. For one year, they insisted on this issue, now they finally gave in. (Head of Production Planning)

A final area related to management control that got more attention in the private equity era concerned quality management. The Quality Manager, who began to work at Fabric under the current Managing Director, got his own department and became Head of Quality Management. As Equity emphasized a culture of quality management, KPIs such as the first quality ratio, to requirement, and the rejection rate were not only reported to top management, but al-

so hanged up in the production facilities since mid-2008. Another part of the responsibilities of the Head of Quality Management included projects such as ISO and Öko-Tex certifications. Öko-Tex Standard 100 applies when the fabric complies with certain test criteria, i.e. when it is free from harmful substances. In contrast, the ISO 9001 certification requires the company to meet substantial standards, such as having a quality policy and a quality manual. It contains detailed documented procedures, operating procedures, and test instructions. Again, it turned out to be difficult to convince employees of the necessity and benefits of such formal quality management processes, although the results continued to be impressive:

I hope that people, at the end of the day, recognize that these processes make sense. And the results speak for themselves. In spite of our success, it [quality management] is not on their minds. It is difficult. It represents additional work that will not be accepted easily. (Head of Quality Management)

Again, as in cases of incentive practices and budgeting, ambitions and reality were drifting apart. Employees resisted these practices and the prevailing opinion was still that a good product would not need these quality tests. Whereas there had been no open opposition against new management control practices, these were not really adopted by employees. The clash between the new corporate governance logic mediated by management control practices and the incumbent institutional logic was obvious.

Changes in connection with Equity affected also the organization structure. As it has been illustrated in Section 4.1, structures at Fabric were rather loose with roughly-defined areas of responsibility. This did not change much in the owner-manager era. Since Equity became majority stakeholder, the organization structure has been formalized with well-defined tasks assigned to each position:

Everything is very well and tightly organized. This is something that I hadn't known in the past and which I actually don't need: Now there is a department for production planning, there is a department for quality management, and so on. (Head of Sales)

Similar to the legal structure, the organization structure had been designed according to those of corporate groups. Another informant even perceived that a completely new management level underneath the Managing Director had been set up. In addition, various new departments and positions have been created, such as the department for export sales and technical textiles. At the request of Equity, most newly created positions were occupied by external applicants from other regions. Some of these candidates were not familiar with the industry of elastic fabrics, so that Fabric's workforce became a little more diverse in terms of training and origin.

With the beginning of Equity's engagement, not only management control practices changed, but also the collaboration of the Managing Director and the department heads. In the owner-

manager era, department heads played the role of a sparring partner by advising and supporting the Managing Director in decision-making processes. The Managing Director consulted these managers frequently and meetings several times a week were not unusual. Everyone was on a first-name basis with the Managing Director. In retrospect, they seemed to act more like a team. When Equity became majority shareholder, decisions were made in close coordination of the Managing Director and Equity, whereas the department heads were excluded from these discussions. They were presented with a *fait accompli*. It appears that the relationship between the Managing Director and the department heads became more hierarchical. The formalized organization structure contributed to this development as well as the fact that there were little interfaces between the department heads and Equity:

We actually don't have anything to do with the investors anymore. They say what they want and then it will be done. (Head of Production Planning)

Another incident reinforcing this change in the management style represented the recruitment of the Head of Finance. He was chosen by a headhunter and had previously worked in an organization financed by a private equity firm. As his responsibilities involved compiling the reports for Equity, he was the only person apart from the Managing Director who was in regular contact with Equity. When asked about the vision of the firm, the differences between his viewpoint and those of the department heads became obvious:

Fabric's vision is dependent on the financial investor. The financial investor has an investment period. The vision is to make the firm profitable in this investment period to such an extent that it hits the hurdle rate. (Head of Finance)

While the Head of Finance was primarily concerned with fulfilling tasks for the Managing Director and Equity, he was to a much lesser extent in contact with departments. His recruitment thus contributed to insulating top management from middle management.

As the previous remarks indicated, institutional entrepreneurship in the private equity era was exerted by Equity's two Managing Directors in their role as advisory board members. Changes in management control practices were made in order to follow their requirements. In the owner-manager era, management control practices were primarily introduced to monitor the firm's liquidity position and to ensure that product development focuses on the most promising innovations. In contrast, management control practices implemented as a response to Equity's requirements affected all department heads and, for the first time, held them accountable for financial results. Since Equity was not directly involved in the implementation of management control practices, institutional entrepreneurship seems to be of an indirect nature in this case.

Overall, both Equity and the Managing Director seemed to be satisfied with the progress of Fabric. However, in summer 2008, the economic crisis put an end towards the intended buy-

and-build strategy for the time being. It represented another disruptive event that triggered radical changes at Fabric, since, compared to other industries, the economic crisis hit the textile industry strongly and at an early stage. In mid-August, a major cost-cutting program for the production department was set up, as capacity utilization was down to 40 percent. The Managing Director, Equity as well as the designated Deputy Managing Director and Chief Operating Officer (hereafter: COO) were involved in the design of this reorganization plan. The COO, who started to work at the firm in October 2008, was supposed to carry out the reorganization. He gained experiences as a top manager in other German *Mittelstand* firms in which he conducted several restructurings and change initiatives. The cost-cutting program at Fabric provided for the consolidation of the two close-by production plants to a single plant. Again, machines were sold or relocated to other firms so that certain fabrics were now produced by outsourcing partners. Another 40 employees were either laid off or went into early or partial retirement in the following months, according to a social compensation plan. The production plant in China was closed and machinery was transferred to Germany in spring 2009. Only the distribution company in Hong Kong remained. In addition to the reorganization plan, both Equity and the Managing Director increased Fabric's capital base to avoid the firm's insolvency. This was a relief to most employees, as it was interpreted as the final sign that Equity had a sincere interest in the continuation of the firm. During the restructuring, established management control practices, in particular the reporting scheme, allowed monitoring how certain costs, machinery, and the number of employees changed. Management control practices as such were not affected by the restructuring. However, it turned out soon that most of the targets set for department heads were not achievable anymore, leaving many demotivated. At the end of the restructuring 120 employees were left at Fabric. It denoted the end of the shrinking process in the production department, as it was assumed that production could not be maintained with fewer employees.

These reactions to the economic crisis at last brought about a renunciation of ideas of diversified quality production that had inspired the initial strategy adopted by the Managing Director. While the brand was still intended to stand for high-quality and innovative products, these majority products were not necessarily produced at Fabric's facilities after the reorganization. The focus shifted to elastic textiles that guaranteed high capacity utilization, whereas other fabrics with small margins had to be bought in addition from outsourcing partners. In that way, redundant capacities – which are characteristic for diversified quality production (Streeck, 1992) – could be eliminated. Instead of forming alliances at different stages of the value chain, Fabric established partnerships with corporations at the same stage of production. However, as the restructuring plan was rather quickly executed, Fabric failed to train its partners in working with the outsourced machines. Consequently, from time to time, some of Fabric's employees had to visit these companies in order to help them. Nevertheless, these outsourcing activities demonstrate that decisions were now primarily made on the basis of finan-

cial implications, whereas social considerations seemed to play a minor role. Another indication for the primacy of finance is that, together with the COO and in the midst of the wave of layoffs, Fabric's first designated management accountant had been recruited to support the CFO. His main task was to conduct the monthly reporting, particularly for Equity.

Due to the reorganization, the new COO quickly became a central actor in the trajectory of change. His joining the firm resulted in a split of responsibilities at the top of the organization. The Managing Director's responsibilities encompassed all marketing and sales-related activities as well as strategic matters, communication, and human resource development. In contrast, the COO was responsible for activities related to production, quality management, finance, and management accounting and control. Although the Managing Director remained a *primus inter pari* in the eyes of employees, both top managers discussed many issues together and the COO saw his role as the Managing Director's critical counterpart. While the COO was not familiar with the textile industry, he was experienced in turnaround management. Hired by a head hunter to solve Fabric's quality and delivery problems, he described his day-to-day business as follows:

I lift a finger on those things that don't work and make sure that we get at the point at which we understand why it doesn't work, and then take actions to make it work.
(COO)

The COO had thus a hands-on approach that he described as "management by walking around". Indeed, in the course of the fieldwork, he would often stop by employees' offices to discuss current issues with them. My informants were generally impressed by the speed of his actions, as illustrated by a middle manager's comment that the COO "always pushes the pedal to the metal". For instance, the COO professionalized the firm's inventory management and made it possible to stock up at least frequently used yarns. Another example concerns the reduction of lead time by one-third as a result of constructive discussions with suppliers. As a result of the reorganization following the economic crisis, capacity utilization doubled to 80 percent. Similar to other actors in the organization trying to bring about change, the COO was confronted with a high inclination among employees to do things the way they had been done before. Encouraging employees to try out other ways and methods was viewed by the COO as the "hardest work" of his position. In addition to working close together with employees, he made a point of making mistakes and learning from them:

If someone makes a mistake, I say thank you, well done, how can we solve this? And look, that way it wouldn't have happened. [...] Nowadays, people are afraid of getting fired if they make a mistake. But you can turn it around and say, alright, fine, how could I do it differently, how could we avoid this? (COO)

Nevertheless, the COO was driven and pressured by the imperative to deliver results. He was aware that he would be fired by Equity if he did not achieve his targets. Furthermore, in any case, he would not stay for a long time at Fabric, but move on to another firm once the turnaround was achieved. According to him, he is only qualified for radical transitions, while his management approach would not fit to periods of stability and continuity.

In summer 2009, the restructuring was by and large completed. Every interviewee agreed later that Fabric managed the economic crisis fairly well in comparison to its competitors due to the financial and hands-on support by Equity before and during the crisis. While Fabric's liquidity position was still tight, the Managing Director could already see signs of an economic recovery. Contacts with Equity were also less frequent than during the restructuring, although the management of Fabric and the two managing directors of Equity communicated regularly. On the one hand, formal appointments were scheduled such as telephone conferences, board meetings, and bi-weekly meetings to discuss Fabric's performance, current issues, and projects. On the other hand, informal discussions over the telephone were frequent, sometimes several times a day. At that time, the Managing Director and the COO generally denoted more attention to internal problems, such as the communication between employees. Although staff had been downsized and everyone had an office in the two-storey administrative building, many employees did not talk to each other. One interviewee held the formalized organization structure responsible for this issue. According to him, it had led to fragmented viewpoints as people were only concerned with their tasks, did not network with colleagues outside their department, and lacked an understanding for the context. Therefore, all heads of sales-related departments as well as their staff had to share an open-plan office from October 2009 onwards.

At the time when the interviews were conducted, the atmosphere at the case firm was mixed. Employees still had an ambivalent relationship with Equity. On the one hand, they were aware that the firm would have gone bankrupt without the financial investor and were grateful that the financial investor supported them during the crisis. It was agreed that providing jobs for 120 people was better than nothing. On the other hand, they continued to prefer another type of shareholder as they constantly worried when Equity would sell the firm and what would happen to the firm afterwards. As the liquidity position continued to be tight, some were also quite frustrated that their sacrifices to keep their jobs, such as unpaid overtime hours or years without pay raises, were not honored accordingly. Instead they felt that the pressure on them to perform was constantly rising. Complaints about employees who stuck to established routines also remained. However, the staff structure had already become a little more diverse, as all employees recruited within the last two years did not stem from the region and showed less resistance to new approaches. At the level of the management board, a return to the original buy-and-build strategy was encouraged by Equity. Together with Equity, so-called "strategic options", i.e. potential acquisition objects, were discussed regularly.

However, Fabric's managing directors did not seem to be pleased with these discussions because those strategic uncertainties had to be managed in addition to the day-to-day business. Both managing directors described the firm as being constantly in flux and appeared to prefer to stabilize the firm further.

In terms of management control practices, reporting and performance measurement, planning, budgeting and target agreements were in place at the time of the fieldwork. Reports still fulfilled predominantly Equity's requirements, although the finance and accounting department also compiled a number of reports used by the COO. The Managing Director focused on sales-related figures, but did not feel the need for such detailed information as he was on site and did not need a report to be informed. Planning had been expanded with a rolling forecast to improve the firm's liquidity management and the adoption of the cost of sales method was intended. Budgets and target agreements continued to be unfamiliar practices for employees, as the Head of Finance noted:

When we talk about motivation, we do not talk about the top level of Maslow's pyramid. Instead, we are on the lowest level, that is livelihood, security and fear, and in the end, all employees are worried about their job. And the rest does not matter that much to them. (Head of Finance)

Accordingly, my informants often remarked that they just tried to stay within the limits of their budgets and to meet their targets, while their actual aim was to ensure the survival of the firm for the benefit of the region.

In conclusion, Equity's share in Fabric and the subsequent restructurings provoked a clash in institutional logics of corporate governance. Beforehand, management control was shaped by a stakeholder and lingering elements of a family logic. In their role as advisory board members, Equity's Managing Directors were able to engage in institutional entrepreneurship by promoting the introduction and professionalization of management control practices at Fabric. Thereby, Equity's primary aim was to increase the value of the firm, since its profits emanate from selling Fabric at a higher price in a couple of years. Consequently, management control practices mediated a shareholder logic of corporate governance. As Fabric was not quoted on a stock market, the shareholder value logic unfolded in profitability goals as hurdle rates, performance-dependent remuneration practices, and investment decisions based on discounted cash flow principles (Höpner, 2001). In addition, quality management practices gained more importance as well as budgeting and reporting. Fabric also got an organization chart with well-defined positions. Most of these changes were initiated within the first 100 days. Since Equity had no formal authority over Fabric's employees, it mainly brought about changes by providing advice and support and by making certain requirements, such as the information that should be included in the monthly report. Thus, Equity can be characterized as an indirect institutional entrepreneur. As such, Equity's possibilities to exploit and to effectuate structural

overlaps between the incumbent and the emerging logics were sparse, since Equity's interaction with Fabric's employees was limited to the questioning of certain KPIs in the first couple of months of the private equity era. Some department heads had not even met Equity's Managing Directors and for many, these elaborated management control practices did not seem to entail any guiding principles for social action. The economic crisis further impeded a process of logic hybridization, as it drew the attention to urgent operational problems. The original buy-and-build strategy was temporarily given up to reduce overcapacities. This was primarily achieved by outsourcing two-thirds of the value chain to partner companies. The economic crisis had also a considerable effect on management control practices, because budgets and target agreements were not valid anymore. As a result, management control practices continued to be meaningless in the eyes of Fabric's employees.

<i>Phase</i>	<i>Family-firm era</i>	<i>Owner-manager era</i>	<i>Private equity era</i>
Time period	Pre-2004	2004-2008	2008 onwards
Change in institutional logics	None; stakeholder and family logic remain unquestioned	Family logic challenged by Managing Director; stakeholder logic questioned towards the end of this era	Imposed shareholder logic mediated through management control practices
Institutional entrepreneurs	None	New Managing Director	Two Managing Directors of the private equity firm in their role as advisory board members
Structural overlaps	None	Overlaps between a more consensus-oriented and team-based management style and incumbent stakeholder logic	Limited overlaps between increased accountability and elaborated reporting practices, and incumbent management control practices
Event sequencing	Absence of shareholder logic Early 1990s: Increasing competition from low-cost countries Late 1990s: Head of Marketing criticizes the lack of a competitive strategy Drift into price competition Early 2000s: Illness of the Managing Director Increasing liquidity problems 2003: 1 st wave of layoffs	2005-2006: Consolidation and modernization of main production plant 2 nd wave of layoffs Vertical integration Expansion to China 2004-2007: Continued liquidity problems 2007: Search for a financial investor to prevent bankruptcy	Late 2008-2009: Economic crisis leads to 3 rd wave of layoffs and to the outsourcing of two-thirds of the value chain 2009: Closure of Chinese plant

Changes in ownership and top management	2003: Takeover of management by creditors	2004: Management-buy-in by former Head of Marketing; his business partner becomes deputy managing director and COO 2005: Death of the Patriarch; the Managing Director and his Deputy become shareholders at 50% each Late 2006: Deputy Managing Director bows out of the firm	January 2008: Equity purchases 92% of Fabric's shares May 2008: New CFO October 2008: New COO
Changes in strategy	None	Diversified quality production, internationalization	Buy-and-build strategy intended Fall 2008: Due to economic crisis focus on outsourcing and on those in-house products guaranteeing a high capacity utilization Late 2009: Return to a buy-and-build strategy
Changes in management control	None	2004: Introduction of new bookkeeping practices, cost accounting, and budgets for product development 2004-2007: Resistance to new accounting practices	2008: Professionalization of management control practices, e.g. working capital management, detailed monthly reporting scheme

Table IV-4: Phases in the process of institutional change and resistance

IV.5 Concluding Discussion

This study has been motivated by a research interest in how an organization responds to a clash in institutional logics of corporate governance that involves radical changes. In exploring this question, management control practices were deemed to mediate the incumbent stakeholder and family logics as well as the imposed shareholder logic, as these logics provide particular rationales for the introduction or the absence of management control practices. In contrast to prior studies, I started from notions of multiple logics (Dunn & Jones, 2010; Greenwood, et al., 2010). Following a sequence of events characterized by several organizational crises of the case firm, the traditional logic combining stakeholder and family perspective, and the shareholder logic finally clashed when a new institutional entrepreneur, the financial investor, became majority shareholder. Despite the efforts of the financial investor to enforce more shareholder value-oriented practices, the case analysis revealed that the stakeholder logic still had a pervasive influence on management control practices. In contrast to the Managing Director, who previously engaged in institutional entrepreneurship, the financial investor failed to exploit and to effectuate (Modell, 2010) structural overlaps. This also

seemed to impede a process of logic hybridization, as management control practices provided little meaning to actors at and below the top-management level. Table IV-4 provides a summary of key actors and events that hampered, initiated, and influenced changes in institutional logics.

The process of institutional change and resistance began in the early 1990s, when the case firm had still been owned by a family. At that time, management control was informed by a stakeholder logic of corporate governance. A nexus of stakeholders, particularly the local community and employees, provided legitimacy to the organization that was rather regarded as a social institution than a profit-making entity. Governance mechanisms included bank control, as banks were the source of debt capital, family ownership and employee co-determination. Technical competence in the textile production was highly valued, whereas proficiency in finance and accounting was of marginal importance. However, management control was also distinctly shaped by another, nonmarket institutional logic, namely that of the family. Patriarchal domination, rules of inheritance and succession as well as values such as loyalty and solidarity represent characteristics of the family-firm logic (Thornton, et al., 2005) that were also evident in my case study. Consequently and in line with prior research on Friedland and Alford's (1991) central institutions, I find that the management control in a particular setting is not exclusively influenced by one higher-order institutional logic, such as the stakeholder logic, but by multiple logics (Dunn & Jones, 2010; Greenwood, et al., 2010). In this case, the family logic as identified by Friedland and Alford (1991) played a central role. Whereas the literature agrees that organizational fields are typically characterized by multiple logics (e.g. Reay & Hinings, 2005), I show that this can also apply to *individual organizations*. Thus, we need to account for complex institutional contexts in organizational studies.

During the family-firm era, Fabric was headed by the founder's son who was described as a patriarchal leader. He assumed a high degree of social responsibility for employees, their families, and local clubs and associations. Formalized management control practices did not exist, as the Patriarch made all decisions on his own authority and gave only vague accounts, if any, of the firm's performance. Accordingly, only few employees were aware of the firm's profitability problems due to increasing competition from low-cost countries in the 1990s. The lack of formalized control practices contributed thus to the entrenchment of the stakeholder and the family logic. The mechanisms in place resemble a clan type of control, i.e. they are based on a common social agreement on legitimate goals and behavior (Ouchi, 1979). Organizational actors were dependent on the Patriarch's goodwill that inhibited any autonomous decision-making. A salient example is the failed attempt of the Head of Marketing to convince the Patriarch of strategic changes. Similarly, recommendations by consultants on how to improve the firm's increasingly tight liquidity position, its operations and strategic alignment were ignored. This allows extending prior theory on the materialization of institutional logics. In ex-

tant literature, the link between institutional logics as principles that define the meaning of institutions (Thornton & Ocasio, 2008) and management control practices as manifestations of logics is well-recognized (Biggart & Guillén, 1999; Greenwood, et al., 2010; Lounsbury, 2007). However, this study illustrates that not only the existence but also the *deliberate absence* of formalized management control practices mediates a particular logic.

Neither the incumbent stakeholder logic nor the family logic had been questioned during the family-firm era, as there were no other logics available. Accordingly, this period was characterized by stable institutions and a homogenous institutional environment. Institutional entrepreneurship and structural overlaps as mechanisms of change were absent while the sequence of events took place. At last, the family-firm era ended abruptly for most employees, when the banks installed an interim management due to the firm's devastating liquidity position and the inability of the Patriarch to take remedial actions. After the former Head of Marketing returned as the new Managing Director in 2004 – the starting point of the owner-manager era – he was finally in a position to pursue his vision of Fabric as a high-quality, international producer of elastic textiles. This involved the first, formalized management control practices such as budgets for the product development department. Furthermore, a Head of Accounting had been hired who advocated altered bookkeeping practices in order to render meaningful reports possible. In addition, a quality manager was recruited who started to analyze and to formalize quality management practices. Notably, none of these changes represent a renunciation from the stakeholder logic of corporate governance, although issues related to accounting and finance gained more importance and reflected the Managing Director's educational and occupational background. Rather, the firm was still perceived as an organization providing jobs for the benefit of employees, their families, and the region. The strategy formulated by the new Managing Director entailed basically the same goals as before albeit with fundamentally different ways to pursue those goals. For instance, the necessity to innovate efficiently in the product development department were framed by a way of saving as much jobs as possible in his home town. Thus, a change in practices does *not necessarily* involve a change in institutional logics (Thornton & Ocasio, 2008).

While the stakeholder logic remained unchallenged, the Managing Director tried to abandon essential tenets of the family logic. Again, his pluralistic background as citizen of the same town, graduate of a private business school based on the model of Anglo-American business schools, former Head of Marketing, and former consultant enabled him to perceive institutional contradictions and exploit them for his purposes. As an institutional entrepreneur, he intended to break with the patriarchal domination and to encourage employees to act more on their own initiative. His management style was also more participative and team-based in nature, as he frequently consulted long-time employees with wide expertise in the business. Since his approach tended to be more consensus-oriented than autocratic, these practices were congruent with the stakeholder logic of corporate governance. By recognizing a structural

overlap, the Managing Director seemed to have skillfully framed these practices within the stakeholder logic, although they mediated a logic distinct from the incumbent family logic (Fligstein, 1997). In general, my informants had a positive attitude towards these developments. They were relieved to get a successor with the same aspirations as theirs and looked upon the plans of the Managing Director favorably. Nevertheless, behavioral changes proved to be difficult to achieve, be they related to bookkeeping, quality management, or to a more independent work ethos. For instance, the Managing Director once remarked that there is still a tendency “to look up to him”, indicating that the desire for a patriarchal leader was deeply embedded in the organization. In other instances, employees simply resisted to abandon taken-for-granted routines. However, the Managing Director qualifies as an institutional entrepreneur although he was not able to fully convince all of his employees to change their routines (Battilana, et al., 2009). Such *relative failures in institutional entrepreneurship* are not uncommon (DiMaggio, 1988) and provide evidence against the widespread “heroization” of institutional entrepreneurs (Yang & Modell, 2009).

In 2007, the trajectory of change was again determined by the sequence of events. After the Deputy Managing Director, who had an equal stake in the firm as the Managing Director, left the firm suddenly, it became clear that the firm needed more capital to prevent insolvency. At the same time, the worsened liquidity position led some employees to questioning the stakeholder logic of corporate governance. From their point of view, the firm’s social goals were unachievable and financial considerations should have been given a greater weight. Against this background, the Managing Director still tried to combine these goals by deciding to cooperate with Equity. After an extensive due diligence followed, Equity became majority shareholder in January 2008. Immediately after the closing of the deal, a 100-days plan was enacted, a typical tool applied by private equity firms. It contained detailed activities for each area and represented the beginning of a substantial restructuring of the firm. The professionalization of management control practices formed an important part in this restructuring. For the first time, Fabric got an organization chart and well-defined tasks were assigned to each position. In addition, a couple of new positions were created, particularly in the sales department. Of particular importance for Equity were detailed and prompt reports that included a balance sheet, a profit or loss statement, liquidity information and KPIs. Target agreements, profitability goals, budgets and performance-related remuneration schemes for all department heads represented another management control practices that had been introduced on the initiative of Equity. Investment decisions were based on discounted cash flow principles. Changes in these first months of the private equity era happened very quickly, as the danger of insolvency had not yet been averted.

Equity’s role in this change process was focused on a close cooperation with the Managing Director, although Equity’s Managing Directors also used to question department heads about the progress of the measures in the beginning of the restructuring. At that time, they were al-

most daily on-site to initiate and to monitor the restructuring. By asking critical questions and increasing individual managers' accountability, they were able to communicate their goals. In contrast to the Managing Director, Equity was purely financially driven and aimed at maximizing Fabric's value in the investment period. After the first couple of months, Equity was less frequent at Fabric, but still in regular contact with the Managing Director through bi-weekly meetings and telephone calls. Instead of personally communicating with department heads, Equity's Managing Director made specific requirements and left the fulfillment to the Managing Director. In doing so, Equity exerted a particular, *indirect form of institutional entrepreneurship*. Through Equity's indirect influence, management control practices nonetheless mediated a shareholder logic of corporate governance, for instance by including profitability concerns in target agreements. Consequently, my informants perceived a more "tight" form of control and realized that Equity has to achieve its objectives within a limited time frame. However, structural overlaps between the incumbent stakeholder logic and lingering elements of the family logic and the imposed shareholder logic were limited. Due to its approach, Equity largely failed to exploit as well as to effectuate structural overlaps. While employees accepted the new, formalized management control practices, the logic mediated by these practices did not seem to provide meaning to them. Fabric remained to them a place where products were manufactured, which many families lived on and which formed an integral part of the region. In her study on competing rationalities, Townley (2002) described similar patterns of behavior according to which individuals gave the impression to agree to the new logic while their actions continued to follow the principles of the incumbent logic. Thus, although there was no direct opposition against management control practices at Fabric, employees have never agreed to their underlying principles.

The implementation of the initially intended buy-and-build strategy was then interrupted by another unforeseen event. The economic crisis hit the case firm early and strongly in summer 2008, when the demand for elastic textiles suddenly collapsed. With the aid of Equity, another restructuring plan was quickly set up that represented a temporal renunciation of the original strategy. Jobs in the production department were cut and machines with a comparatively low utilization rate got outsourced to so-called partner companies. In doing so, Fabric was able to retain its flexibility and to focus on the most profitable products at the same time. My informants agreed that, compared to its competitors, the case firm overcame the crisis through these measures fairly well. The economic crisis also had considerable consequences for management control practices. Budgets became irrelevant and targets unattainable. Since the outcomes of the crisis were incalculable, neither budgets nor targets were initially adjusted. As a result, these management control practices continued to be rather meaningless devices in the eyes of most middle managers. Their actions were still guided by established, taken-for-granted principles of maintaining Fabric for the benefit of the region. In terms of using management control practices for decision making, this means that profits are regarded as a neces-

sary but not as a sufficient criterion. Social ramifications that are not reflected in management control practices were also taken into consideration. Thus, in terms of logic hybridization, the stakeholder logic and lingering elements of the family logic still provided the principles that enabled employees to make sense of their situation almost two years after Equity took a stake in Fabric. Employees were aware that a financial investor has different goals than a bank, yet a shareholder logic of corporate governance was alien to them. In addition, for most of them, Equity became only visible through management control practices. Some had not even met Equity and the financial investor remained to some extent a mystery to them. This resulted in the frequent complaint that Equity lacked an interest in the fate of Fabric and its employees. In conclusion, I find that *environmental disturbances that affect operations suddenly and extensively so that they cannot be immediately be absorbed by management control practices*, such as the economic crisis, *can defer the process of logic hybridization*. Furthermore, as structural overlaps were limited from the outset, these disturbances seem to require a *continuous effort* – rather than a one-time effort – of institutional entrepreneurs to effectuate structural overlaps.

Future research on the interrelation between management control practices mediating competing institutional logics of corporate governance and radical organizational changes may be extended to gain a more profound understanding how and why institutional logics hybridize. In this study, the economic crisis as an “environmental jolt” (Amis, Slack, & Hinings, 2004, p. 35) has seemed to impede a process of logic hybridization, since budgets and target agreements suddenly lapsed. Other kinds of environmental disturbances, such as new industry regulations or the emergence of more innovative products by a competitor, may have less clear implications on management control and logic hybridization. In addition, as time was always short, changes happened rapidly and simultaneously. This contrasts with recommendations for bringing about change in extant literature (Amis, et al., 2004). Thus, further research may analyze how other approaches aimed at radical transformations within a larger time frame induce logic hybridization. In this regard, multiple incumbent logics should be taken into account to avoid an over-simplifying analysis of the institutional context. Another promising avenue of research has turned out to be the study of individual organization’s responses to conflicting institutional pressures. Exploring processes of change by looking inside organizations is likely to become a vibrant vein of research, as it extends our understanding of the institutionalization and de-institutionalization of institutional logics (Thornton & Ocasio, 2008). With respect to competing institutional logics, further research may go beyond analyzing how individual organizations interpret and react to complex institutional prescriptions by drawing attention to how these, in turn, provide opportunities for institutional entrepreneurs and leadership (Greenwood, et al., 2010). Finally, future research may deepen the insights into the role of different corporate governance models and equity capital investors, such as private equity firms, in processes of institutional change and resistance. Prior research on corporate ac-

quisitions and restructurings as well as on private equity buyouts studied the effects of such ownership changes on financial performance, employment and shareholder wealth primarily from an economic perspective (for reviews see Cumming, et al., 2007; Jensen, 1988). The literature on management accounting and control focused on the impact of equity capital investors on management control systems (Bruining, et al., 2004; Silvola, 2008a, 2008b). In contrast, social, institutional and behavioral insights related to management accounting and control in change processes, such as acquisitions, have been largely neglected (Granlund, 2003). Of particular interest seems to be the indirect nature of the influence exerted by private equity representatives as members of supervisory and advisory boards. Thus, further investigations may address the specific way in which this institutional entrepreneurship is exercised, for instance by following change processes in real-time from the due diligence until a couple of years after the transaction has been taken place.

In summary, this study contributes to our knowledge of organizational change. It has shown that radical organizational changes leading to a clash in institutional logics make high demands on institutional entrepreneurs to achieve institutional change, particularly when structural overlaps are sparse, when resistance to change is high and when the sequence of events follows a trajectory that is hardly capable of being influenced. Management control practices shaped by a shareholder logic were accepted, but provided little meaning to governance organizational actors. In contrast, the incumbent stakeholder and family logic still guided actions, probably because not enough time has elapsed since Fabric has been taken over by Equity. The study differs from extant research in three important points. First, I start from notions of multiple logics, thus denying the assumption that the organization is structured around a single, higher-order logic. Second, I examine radical rather than evolutionary changes and how the management control practices entailed in these change processes are informed by competing institutional logics. Finally, I take an institutional perspective on the interplay between a private equity firm and a firm that it owns, thus bringing issues of corporate governance into focus. Logic hybridization could not (yet) be observed in the case study and the findings indicate that a number of conditions impeded this process.

Postscript

In July 2010, Fabric announced that operations recovered due to cost savings. However, on the same day, Fabric also announced that the Head of Product Management and the Head of Export Sales left the company. The Head of Finance was supposed to quit in September. None of these positions were going to be reoccupied in order to save costs of administration.

At the end of October 2010, a local newspaper reported that Equity plans the exit from Fabric and that the Managing Director has entered in negotiations with another investor. In this ar-

ticle, the Managing Director is cited saying that these negotiations are in an advanced stage. Layoffs were neither confirmed nor disproved. At that time, 120 employees were left at Fabric.

About a month later, the same newspaper wrote that the Managing Director bought all shares from Equity, thus becoming the sole owner of Fabric. According to his own statement, a new investor would have led to massive job cuts. Yet, the article indicates that some layoffs are inevitable.

In December 2010, a more detailed report followed, revealing that Equity had already signaled its exit at the beginning of the year. The two “difficult” business years following the economic crisis are given as a reason for Equity’s wish to exit. An explanation for the failure of negotiations with the other possible investor is not provided. Instead, the Managing Director is cited saying that he took the opportunity to buy the shares at “attractive terms”. In addition, he assumes that an acquisition by a competitor would have threatened the site in his home town. However, in order to remain independent, the Managing Director further explicates that Fabric has to become as “lean” as possible. Thus, he intends to reduce the number of employees below 100 until the end of the year. The following months are expected to be difficult, despite a strong order backlog and customer base. Finally, employees’ reactions were described as a mix between insecurity and confidence. According to the Managing Director, the news did not induce euphoria. Nonetheless, he assumes employees to accept upcoming changes.

Internet research furthermore revealed that the COO left Fabric and became a quality manager in another portfolio company of Equity.

Even though I was not able to discuss these events with the Managing Director, the newspaper articles indicate that Equity was impatient of deferring the originally planned buy-and-build strategy longer than necessary. As the Managing Director and the COO described during our kick-off meeting, dissonances aroused between Fabric and Equity due to different strategic priorities. Whereas the Managing Director preferred to form cooperations and to recover stability, Equity pressed for acquisitions. Eventually, the Managing Directors of Equity gave up after having realized that these dissonances were insurmountable. The fact that the Managing Director was inarguably intertwined with Fabric’s fate and could hardly be replaced by another manager may have contributed to Equity’s decision.

In the end, it seems that competing institutional logics of corporate governance have not and will not hybridize in the case of Fabric, as the proponents of the shareholder logic withdrew from the company. The stakeholder and family logic were deeply embedded in organizational actions, structures and practices. Despite or maybe because of Equity’s formal authority to

impose certain structures and practices, it was not able to find allies supporting their vision and, consequently, to implement divergent change.

V Conclusion

V.1 Summary

The purpose of this dissertation was to explore management control and organizational change in private equity buyouts from the perspective of institutional theory. The transformation of the German system of corporate governance from a stakeholder model towards the Anglo-American shareholder model constituted the overall context of this dissertation. In particular, four research objectives have been addressed in each Chapters II, III, and IV representing the main part of this dissertation. Each chapter makes distinct contributions to extant management accounting literature. In light of the research objectives described at the beginning of this dissertation, the results of the papers are summarized in the following remarks.

Research objective 1 was to *summarize and synthesize conceptual MCS research*. This objective has been addressed in **Chapter II**. The review spanned a period from 1999 until 2009 and included five different frameworks for MCS research published in a book or in an international scientific journal. A traditional narrative review methodology has been combined with principles of a systematic review (Tranfield, et al., 2003) in order to identify all relevant frameworks. Scoping studies have been conducted and a review protocol has been composed. As a result, the levers of control framework by Simons (1995), the performance management framework by Otley (1999), the performance management systems (PMSs) framework by Ferreira and Otley (2009), the extension of the PMSs by Broadbent and Laughlin (2009), and the MCS package by Malmi and Brown (2008) have been included in the review.

Each framework has been illustrated briefly and its publication outlet as well as the affiliation of its author(s) has been examined. In the subsequent analysis, it became clear that all conceptual MCS researchers in my sample share the understanding that MCS consist of (1) mechanisms (processes, systems, routines), (2) used by managers to (3) achieve the objectives of (4) an organization. Furthermore, there is a high consensus as to which elements are indispensable for an MCS framework. All frameworks for MCS research include planning, target setting, key performance measures, performance evaluation, reward and compensation systems as well as cybernetic controls as functional elements. However, apart from these core elements, other functional elements as well as contextual elements differ substantially. For instance, strategy may be included as a functional element (Ferreira & Otley, 2009), as a contextual element (Simons, 1995), or strategy may not be included at all (Otley, 1999). Further differences refer to the theoretical underpinning of each framework. Finally, some frameworks have attracted more attention in the literature (Otley, 1999; Simons, 1995) than others (Broadbent & Laughlin, 2009; Malmi & Brown, 2008).

Recent criticism of the state of conceptual MCS research indicated that the field faces a dilemma. While frameworks for MCS research need to become more holistic to fulfill researchers' current requirements, this also can make them meaningless as they may lose their distinctiveness. As a result, the field of MCS research could disappear, such as the field of international business research which had been integrated into related areas of study (Nag, et al., 2007). However, as Nag et al. (2007) emphasized in their analysis of the field of strategic management, diversity can also be a strength as long as scholars share a common understanding of the field's core. Since it has been demonstrated that this applies to MCS research, its conceptual, methodological and theoretical diversity can represent a benefit. Thus, I suggest that it is exactly this duality of an implicit consensus and an intellectual variety which attracts scholars from different disciplines to the field of MCS research.

Research objective 2 was to *investigate the process of institutional entrepreneurship in the case of private equity firms*. This objective has been addressed in **Chapter III** which illustrated and extended the concept of institutional entrepreneurship by applying it to private equity firms. A particular focus was on the issue of power in processes of institutional change. A field study including 14 open-ended interviews with managers of private equity firms in German-speaking countries has been conducted to explore the process of institutional entrepreneurship and to illuminate the dynamics of different modes of power.

To begin with, my study suggested that private equity firms represent one of those rare cases in which an institutional entrepreneur is able to impose management control practices on an organization (Scott, 1987). Among those practices are financial statements and liquidity planning. Private equity firms consider these practices to be indispensable and thus press managers in portfolio companies to implement them. In addition, other management control practices such as the provision of key performance indicators are gradually introduced as proposed by the model of the process of institutional entrepreneurship (Battilana, et al., 2009).

According to the model of the process of institutional entrepreneurship, field characteristics and actors' social position represent enabling conditions for institutional entrepreneurship. However, the field study on private equity firms demonstrates that different field-level conditions are relevant than the model suggested. In addition, organizational characteristics play a pivotal role for the emergence of institutional entrepreneurship. Such micro-level aspects have been neglected by the framework, although it is acknowledged that institutional entrepreneurship can also refer to changes within the boundaries of an organization. Another finding is that in the process of divergent change implementation, prognostic and motivational framing are comparatively little used by private equity firms. In order to create a vision for divergent change, private equity firms mainly rely on diagnostic framing.

Regarding the issue of power, I distinguished between episodic and systemic forms of power in the process of institutionalizing management control practices (Lawrence, 2008). The field

study revealed that both forms of power are evident in the institutionalization process initiated by private equity firms. When private equity firms interact with managers of portfolio companies, particularly at the beginning of their involvement, episodic acts of power can be observed. On the contrary, systemic power is manifested in management control practices that are routinely and habitually exercised.

Overall, my study on private equity firms as institutional entrepreneurs directed attention towards the process of institutional change and to the ways in which actors initiate such a change process. Not at least, my study also deepened our understanding of private equity firms which, as new majority owners, have a pervasive influence on management control practices in their portfolio companies.

Research objective 3 was to *illustrate how actors in individual organizations make sense of and respond to multiple, often conflicting institutional logics mediated by management control practices*. This research objective has been addressed in **Chapter IV**, which comprises of an in-depth case study of a private equity buyout. Different data sources have been used in order to study management control and organizational change. 17 open-ended interviews with top managers, private equity managers, and department heads represented the main thrust of collected data and allowed me to study change processes in detail. The field research phase took place almost two years after the private equity firm became the case firm's majority shareholder and spanned a period of several months. Following a temporal bracketing strategy (Langley, 1999), the analysis has been split up in three phases: the family-firm era, the owner-manager era, and the private equity era.

The German system of corporate governance constitutes the macro-level context for this study. The stakeholder and the shareholder logic were identified as two competing institutional logics. Whereas the stakeholder model aims at balancing the interests of different organizational constituencies, the shareholder model follows a philosophy of shareholder value creation. In addition, the family logic as a nonmarket, core institutional logic of contemporary, Western societies (Friedland & Alford, 1991) was found to play a pivotal role in this study. The institutional logics approach further involves three distinct mechanisms by which institutional change can be achieved. Those mechanisms are institutional entrepreneurship, structural overlap, and event sequencing. Moreover, competing institutional logics can be antecedents or consequences of change (Thornton & Ocasio, 2008). All three mechanisms have been examined in this study.

In the first phase, management control was informed by a family logic and stakeholder logic of corporate governance. The case firm was characterized by a patriarchal leader and a lack of formalized management controls. Decisions were usually taken by the Patriarch. Performance information was only available to the Patriarch, accountants, and to the works council. Moreover, the case firm was rather regarded as a social institution serving the local community

than a profit-making entity. After the Patriarch was disposed from his position by the banks due to the firm's liquidity problems and his illness, an ex-manager of the firm took over operations. Yet, neither the family nor the stakeholder logic was questioned during the family-firm era.

In the subsequent owner-manager era, management control practices mediating by a stakeholder logic were introduced, while practices reflecting the family logic were challenged. For instance, budgets were drawn up for the product development department. The goal was to increase profitability in order to save as much jobs as possible. As a renunciation of the family logic, the Managing Director tried to cultivate a more consensus-oriented and team-based management style. While organizational actors appreciated these efforts, the liquidity position of the case firm was still tight. In consequence, organizational actors began to question the stakeholder logic, as it seemed increasingly difficult to combine profitability concerns with the goal to save jobs. The Managing Director finally decided to cooperate with a private equity firm in order to implement a buy-and-built strategy.

In the private equity era, the new majority owners of the case firm sought to maximize shareholder value. The private equity firm thus promoted management control practices mediating a shareholder logic of corporate governance. A particular emphasis was placed on cash flows, for instance by introducing liquidity planning and working capital management. However, these practices and their underlying rationale provided little meaning to organizational actors. There was a strong resistance against such practices, as they were perceived to be incompatible with the incumbent institutional logics. For example, some actors rejected variable compensation elements dependent on the achievement of pre-set targets. Such a practice would be incongruent with the principles of a family logic under which bonuses would be at the discretion of the patriarch.

Thus, my study revealed how management control practices became a contested terrain over what constitutes legitimate principles of corporate governance.

Research objective 4 was to *explore the conditions for the hybridization of institutional logics in the context of radical organizational change*. As the two previous objectives, this objective has been taken up in **Chapter IV**. The hybridization of institutional logics became relevant in the private equity era. In this final phase of analysis, two Managing Directors of the private equity firm in their role as advisory board members engaged in institutional entrepreneurship. By introducing management control practices mediating a shareholder logic of corporate governance, they tried to achieve radical organizational change. However, structural overlaps between increased accountability and elaborated reporting practices, and incumbent management control practices were rather limited. Another issue related to the sequence of events was the financial crisis that led to a collapse in demand for the case firm's products. The crisis focused attention to operational problems rather than to pursuing the intended buy-

and-built strategy. As a consequence, almost two years after the buyout, a process of logic hybridization could not be observed. Interviewees still perceived management control practices to be primarily implemented on behalf of the private equity firm. Accordingly, practices were rarely regarded as useful, let alone as reflective of the case firm's purpose.

Overall, my analysis indicated which conditions seemed to impede a process of logic hybridization. Organizational inertia, few pre-existing structural overlaps, and environmental disturbances, which cannot immediately be absorbed by management control practices, appear to solidify a status of competing logics. Hence, such conditions place high demands on institutional entrepreneurs for achieving institutional change. In particular, environmental shocks seem to require continuous efforts of institutional entrepreneurs to explain and to promote their change project.

V.2 Theoretical Contributions

Altogether, the theoretical and empirical insights presented in this dissertation lead to some overall contributions to research.

First, the review of frameworks for MCS research reveals the dilemma of conceptual MCS research. Current conceptual MCS research is caught between calls for broader and more holistic frameworks and the definition of a distinct field of study. By bringing this dilemma to light, the review provides a basis for further advances in conceptual MCS research. Such an analysis of conceptual approaches was lacking in extant management accounting literature. Complaints about the fragmented status of MCS research were rather used as an opportunity to develop new frameworks than for a detailed discussion of existing frameworks.

With respect to research on private equity firms, this dissertation contributes to our knowledge of how management control practices change in private equity buyouts, whereas prior research in this area has concentrated on cause-and-effect relationships (Cumming, et al., 2007). NIS is presented as an alternative theoretical perspective to mainstream financial and economic theories in management accounting research. NIS draws attention to the processes of change in private equity buyouts, the role of different actors in such processes and to the relation of management control issues to the wider organizational and social context. Moreover, this dissertation enhances our understanding of how a specific type of new owners change management control practices. So far, very little was known about this topic (Granlund, 2003; C. S. Jones, 1985, 1992; Roberts, 1990; Yazdifar, et al., 2008).

In the context of institutional theory, this dissertation focused on the concept of institutional entrepreneurship and on the concept of institutional logics. The contribution to the former lies in extending the model of institutional entrepreneurship as developed by Battilana et al. (2009). My suggestion is to include organizational characteristics to account for changes

within the boundaries of an organization. Corresponding to field characteristics, organizational characteristics encompass jolts and crises, acute organizational-level problems, the degree of heterogeneity, and the degree of institutionalization. Furthermore, notions of power are explicitly integrated in the analysis of institutional entrepreneurship which contributes to our understanding of how actors implement institutional change.

As regards the concept of institutional logics, this dissertation concentrated on exploring the conditions for the hybridization of institutional logics. Thereby, management control practices were deemed to mediate different institutional logics of corporate governance. It has been concluded that environmental disturbances have the potential to defer a process of logic hybridization. Moreover, radical organizational changes involving a clash in institutional logics represent a major challenge for institutional entrepreneurs. This seems especially true when structural overlaps are limited, when organizational inertia is high, and when environmental disturbances cannot be absorbed by management control practices.

V.3 Practical Implications

In addition to the abovementioned contributions to research, my dissertation has a number of implications for corporate practice. These implications are summarized and presented from the viewpoints of private equity managers, top managers in private equity buyouts, and management accountants in general.

Regarding private equity managers, this dissertation has demonstrated that they need to explain and promote change projects continuously rather than occasionally to bring about institutional change. This requires private equity managers to put themselves in the positions of other organizational actors. However, evidence suggests that private equity managers often fail to take the perspective of organizational actors, probably due to both deficits in ability and in motivation. Private equity managers' backgrounds in finance and economics seem to limit their ability to consider non-financially driven approaches. Interviews indicated that private equity managers are convinced of the superiority of their approach. Furthermore, private equity managers appear to lack the motivation to see things from another perspective. Instead, the emphasis is on making organizational actors understand and adopt the private equity mindset. A reason for the lack of motivation could be its incompatibility with the rigor that private equity managers perceived to be indispensable for implementing certain practices and structures. Yet, my dissertation suggests that it may be beneficial for private equity firms to overcome such limited abilities and motivation. In line with extant research, motivational framing is considered essential for a diffusion of divergent change and may be a first starting point for private equity firms.

Top managers in private equity buyouts play a pivotal role in processes of management control and organizational change, as they are in a position to mediate between private equity

managers and organizational actors. However, such a role of a mediator places high demands on executives and other members of the top management team, not at least because they are not outside observers but highly involved in the sequence of events. Thus, top managers in private equity buyouts need to understand and to familiarize themselves as soon as possible with the private equity approach. While passing on the demands made by private equity managers on the company's management control systems and practices, they also have to avoid giving the impression to be marionettes of the private equity firm. Another issue refers to the collaboration with the private equity firm. Private equity managers strive for constructive debates, believing that controversies lead to the best results. Conflict avoidant top managers may struggle with such manners and rather refrain from their position.

From the perspective of management accountants, the review of frameworks for MCS research enables them to critically evaluate the MCS of their organizations and to make suggestions for improvement. Due to the variety of frameworks presented, core elements were identified that are supposed to be part of any organization's MCS. Moreover, the frameworks explicated how the different elements of an MCS relate to each other and emphasized that MCS are embedded in, rather than isolated from, the wider organizational context. In a similar vein, the case and the field study demonstrate how management accounting and control practices are shaped by multiple organizational constituencies and rationalities. Such clashes of more technically-oriented stakeholders and more economically-focused stakeholders may be evident in a variety of different companies. Thus, management accountants in both private equity backed and non-private equity backed companies have to be aware of the underlying principles manifested in management accounting and control practices. Figures presented by management accountants are never neutral, but reflect the outcome of the assumptions set at the beginning of the measurement process. Management accountants have to make these assumptions explicit and to present, where appropriate, alternative ways of measuring or, for instance, sensitivity analyses. By stimulating a discourse on measurement techniques, management accountants may be able to increase the acceptance of their calculations. However, it has to be noted that such a claim requires management accountants to achieve a high level of proficiency and the addressees of management accounting and control practices to be open-minded towards a debate.

V.4 Limitations

This dissertation is subject to several limitations related to theoretical as well as methodical and to data issues. Both sets of limitations are commented on in this section.

As described at the outset of this dissertation, a fundamental problem of institutional theory is the number of approaches bearing the name "institutionalism" and, as a consequence thereof, the variety of different, sometimes even contradictory meanings associated with it. Depending

on which institutional approach is adopted, empirical evidence may be interpreted differently and different conclusions about the behavioral implications may be drawn. This range of meanings is regarded as a major obstacle to a more prominent position for institutional theory (Peters, 2000). While I dealt with this problem by being very specific about the institutional approach adopted in this dissertation, it nonetheless remains an unresolved issue.

With respect to NIS, another point of criticism concerns the handling of economic arguments. Following most recent developments in NIS, this dissertation has refrained from differentiating between technical pressures and rational decision-making on the one hand, and institutional pressures and an irrational imitation on the other hand. Such a narrow conceptualization has been used in the early NIS research which dichotomized between early adopters driven by technical reasons and late adopters blindly mimicking early adopters after a time lag. Instead, technical, market-driven forces are conceived to be institutionally embedded (Lounsbury, 2008). However, critics may argue that economic arguments provide an alternative, equally convincing explanation of my empirical evidence regardless of whether these arguments are institutionally embedded or not. For example, a manager may resist management control practices simply for reasons related to transaction costs. In a small or medium-sized company, it may be more efficient to ask a sales manager directly for sales figures instead of waiting for a detailed report compiled by a management accountant. Similarly, private equity managers may ask for certain performance indicators because they are held accountable to their investors and not because they intend to implement shareholder-value principles. Yet, given my ontological assumptions and my empirical evidence, I am convinced that NIS provides a more insightful approach to the study of management control and organizational change than economic theory.

A critical aspect of using NIS as a theory refers to the knowledge transfer between organizational research on the one side, and management accounting and control research on the other side. While NIS concepts originating in the field of organizations are applied, refined, and expanded in management accounting and control research, these efforts seem to remain unnoticed in organizational research. A look at the respective references reveals that a mutual exchange between both academic communities is largely absent. For instance, Scott (2004) only complained about the U.S. dominance in institutional research while disregarding that there is also a bias related to the subject of study. The knowledge transfer can thus be characterized as uni-directional, raising the question of how advances in NIS made in management accounting and control research can be recognized beyond the boundaries of the field. So far, research in the field of management accounting and control fails to arouse the attention from organizational researchers as one of its target audiences.

In terms of the case and field study method, the dissertation was faced by the difficulty of clearly defining the scope of the research topic. Central to any piece of interpretive research is

the study of management accounting and control practices within their context, i.e. the wider organizational, social and economic systems in which they are embedded. Yet, the extent to which relations between practices and these broader systems form parts of the study has to be defined by the researcher. Similarly, the researcher has to determine the temporal dimension of the case. Thus, the insights gained from the case and the field study have to be assessed in light of the boundaries drawn around the subject matter. These limits have been made explicit in Chapter III and Chapter IV.

Associated with the previous issue is the fact that my dissertation cannot be statistically generalized. Instead of following such a sampling logic, case and field study research follows a logic of replication and extension. Consequently, further case and field studies are needed for a process of theoretical generalization.

Another methodical limitation concerns the nature of the social reality which is being researched. As explicated in Chapter I, I assume reality to be socially constructed. Accordingly, reality is created by human beings and has to be interpreted by the researcher. Thus, case and field study research can never be an objective representation, as it is always biased by the researcher's interpretation. Following recommendations in the literature, I tried to reduce researcher bias in the data collection and assessment by discussing my impressions and results with more experienced researchers (Ryan, et al., 2002).

With respect to data issues, the most significant limitation probably relates to the fact that the production and reproduction of management control practices could not be observed in reality. For confidentiality reasons and due to the financial crisis, private equity firms were reluctant to grant researchers several weeks' access to the management accounting departments of their portfolio companies. In light of these difficulties, finding a private equity firm and a portfolio company that were willing to cooperate was not self-evident.

Similarly, a limitation refers to the availability of data for the case study on institutional logics. Due to the case firm's tense situation, access to data was limited. A second round of interviews would have provided the opportunity to further validate the data and to discuss my impressions with the interviewees. However, as I had the chance to interview all department heads, I was able to cross-check their statements. Moreover, I used a variety of documents to complement interview data. Despite a limited data access, the reliability and validity of data was ensured.

A final limitation of both the case and the field study is the lack of a longitudinal perspective. While the case study is after all retrospective in nature, the field study rather takes snapshots of different private equity firms. Yet, within the time constraints of a dissertation, it would have been difficult to conduct a longitudinal study spanning several years.

V.5 Further Research

This dissertation entails various points of reference for further research. These suggestions relate to conceptual MCS research, the use of institutional theory in management accounting research, and to methodical issues, and are outlined in the following.

The review of frameworks for MCS research has illustrated the dilemma of the current state of conceptual research in the field of management accounting and control. The need to develop broader and more integrative frameworks has to be balanced against the distinctiveness of the frameworks. In light of this dilemma, it seems to make little sense to develop more and more frameworks for MCS research. Instead, further research should focus on consolidating conceptual research and on improving existing frameworks. For instance, this could be achieved by applying different frameworks to the same case or field study. As Ferreira and Otley (2005, 2009) have demonstrated, such an approach can highlight the strengths and weaknesses of each framework and lead to an integrated framework. The review presented in this dissertation may be used as a basis for such studies.

Regarding NIS, the field study has illustrated how the concept of institutional entrepreneurship can be applied and extended in management accounting research. Further research in this area may use my extended concept of institutional entrepreneurship to study other types of actors trying to bring about institutional change on an organizational level of analysis. The case study on institutional logic of corporate governance suggests digging more deeply into the issue of how and why institutional logics hybridize. To this end, different institutional contexts and environments and their implications on management control practices and logic hybridization may be worth exploring. As the case study has shown, the study of individual organizations' responses to conflicting institutional pressures is a promising avenue of research.

In terms of methodical issues, further research may engage in longitudinal analyses of management control and organizational change in private equity buyouts. Ideally, such a study would span a period from the first contact between the private equity firm and the company to the exit of the private equity firm. In addition to interviews, observations could be increasingly used as a data source. Another field study on private equity firms as institutional entrepreneurs could also include the perspective of organizational actors in the portfolio company. Such studies would deepen our understanding of private equity buyouts and the role of management control practices in processes of organizational change.

Appendix A: Overview of Interviews

<i>Date</i>	<i>Firm</i>	<i>Interviewee's position</i>	<i>Location</i>	<i>Duration</i>
21.05.2008	PE 01	Managing Director	On-site	01:04:55
20.04.2009			On-site	00:50:03
26.05.2008	PE 02	Managing Director	On-site	00:51:03
30.05.2008	PE 03	Managing Director	On-site	00:46:54
08.06.2009			On-site	00:49:44
02.06.2008	PE 04	Investment Director	On-site	01:22:03
10.07.2009		Managing Director	On-site	00:52:45
02.06.2008	PE 05	Partner	On-site	00:25:26
05.06.2008	PE 06	Senior Investment Manager	On-site	00:49:32
10.06.2008	PE 07	Managing Director	On-site	00:43:52
31.03.2009		Managing Directors	On-site	00:55:42
17.06.2008	PE 08	CEO	Phone	00:27:19
24.02.2009	PE 10	Managing Director	On-site	00:42:47
30.03.2009	PE 11	Managing Director	On-site	00:54:20
02.09.2009	Case	Managing Director	Phone	00:39:04
22.09.2009	Case	Managing Director Operations	Phone	00:43:18
22.09.2009	Case	Head of Finance	Phone	00:41:50
24.11.2009	Case	Head of Sales (Central and Eastern Europe)	Case site	00:50:54
24.11.2009	Case	Head of Quality Management	Case site	00:50:46
24.11.2009	Case	Head of Key Account Management	Case site	00:46:07
26.11.2009	Case	Head of Production Planning	Case site	00:59:43
26.11.2009	Case	Head of Production	Case site	01:02:55
26.11.2009	Case	Deputy Head of Production	Case site	01:07:39
01.12.2009	Case	Head of Accounting	Case site	01:08:24
01.12.2009	Case	Head of Purchasing	Case site	00:58:51
01.12.2009	Case	Management Accountant	Case site	00:46:41
03.12.2009	Case	Head of Product Development	Case site	01:00:57
03.12.2009	Case	Head of Product Management	Case site	00:38:54
10.12.2009	Case	Head of Export Sales	Case site	00:43:32
10.12.2009	Case	Key Account Manager Technical and Medical Textiles	Case site	00:55:51

Appendix B: Sample Interview Questions

Sample interview questions for private equity firms

- Please describe your professional background!
- Please describe the distinguishing characteristics of your private equity firm!
- Which steps do you undertake right after a company has been acquired?
- Which role do management control practices play before and after the transaction?
- As an outside member of the board of directors, which information do you require from top management?
- How do you interact with organizational actors in the portfolio company?

Sample interview questions for organizational actors

- Please describe major events in the recent corporate history of the case firm!
- Which issues led to the buyout?
- Please describe your current responsibilities!
- If so, how did and why did your responsibilities change following the buyout?
- Which changes related to management control practices did you observe since the private equity firm took over your company? How did you perceive these changes?
- Which changes in corporate strategy did you observe since the private equity firm took over your company? How did you perceive these changes?

References

- Alford, R. R., & Friedland, R. (1985). *Powers of theory: Capitalism, the state, and democracy*. Cambridge: Cambridge University Press.
- Amigoni, F. (1978). Planning management control systems. *Journal of Business Finance & Accounting*, 5(3), 279-291.
- Amis, J., Slack, T., & Hinings, C. R. (2004). The pace, sequence, and linearity of radical change. *Academy of Management Journal*, 47(1), 15-39.
- Anthony, R. N. (1965). *Planning and control systems: A framework for analysis*. Boston, MA: Harvard Business School.
- Anthony, R. N., & Govindarajan, V. (2007). *Management control systems* (12th ed.). Boston et al.: McGraw-Hill.
- Battilana, J., & Leca, B. (2005). The role of resources in institutional entrepreneurship: Insights for an approach to strategic management combining agency and institutions. In L. A. Conzanzo & R. B. MacKay (Eds.), *Handbook of research on strategy and foresight*. Norwell, MA: Kluwer.
- Battilana, J., Leca, B., & Boxenbaum, E. (2009). 2 How actors change institutions: Towards a theory of institutional entrepreneurship. *Academy of Management Annals*, 3(1), 65-107.
- Bedeian, A. G., & Giglioni, G. B. (1974). A conspectus of management control theory: 1900-1972. *Academy of Management Journal*, 17(2), 292-305.
- Berger, P., & Luckmann, T. (1967). *The social construction of reality*. Garden City, NY: Doubleday.
- Berry, A. J., Coad, A. F., Harris, E. P., Otley, D. T., & Stringer, C. (2009). Emerging themes in management control: A review of recent literature. *The British Accounting Review*, 41(1), 2-20.
- Biggart, N. W., & Guillén, M. F. (1999). Developing difference: Social organization and the rise of the auto industries of South Korea, Taiwan, Spain, and Argentina. *American Sociological Review*, 64(5), 722-747.
- Bisbe, J., Batista-Foguet, J.-M., & Chenhall, R. (2007). Defining management accounting constructs: A methodological note on the risks of conceptual misspecification. *Accounting, Organizations and Society*, 32(7-8), 789-820.
- Bonner, S. E., Hesford, J. W., Van der Stede, W. A., & Young, S. M. (2006). The most influential journals in academic accounting. *Accounting, Organizations and Society*, 31(7), 663-685.
- Bottazzi, L., Da Rin, M., & Hellmann, T. (2008). Who are the active investors? Evidence from venture capital. *Journal of Financial Economics*, 89(3), 488-512.

-
- Boxenbaum, E. (2006). *Towards a research design for the emergence of new practices*. Paper presented at the European School of New Institutional Economics (ESNIE). Retrieved from http://www.clibyg.org/dyn/files/knowledge_items/22-file/Boxenbaum_Towards_Research_Design.pdf
- Broadbent, J., & Laughlin, R. (2009). Performance management systems: A conceptual model. *Management Accounting Research*, 20(4), 283-295.
- Broadberry, S. N., & Wagner, K. (1996). Human capital and productivity in manufacturing during the twentieth century: Britain, Germany and the United States. In B. Van Ark & N. Crafts (Eds.), *Quantitative aspects of post-war European economic growth*. Cambridge: Cambridge University Press.
- Bruining, H., Bonnet, M., & Wright, M. (2004). Management control systems and strategy change in buyouts. *Management Accounting Research*, 15(2), 155-177.
- Burns, J., & Baldvinsdottir, G. (2005). An institutional perspective of accountants' new roles - the interplay of contradictions and praxis. *European Accounting Review*, 14(4), 725-757.
- Burns, J., & Scapens, R. W. (2000). Conceptualizing management accounting change: An institutional framework. *Management Accounting Research*, 11(1), 3-25.
- Burrell, G., & Morgan, G. (1979). *Sociological paradigms and organizational analysis: Elements of the sociology of corporate life*. London: Heinemann Educational Books Ltd.
- Busco, C. (2006). Interpreting management accounting systems within processes of organisational change. In Z. Hoque (Ed.), *Methodological Issues in Accounting Research: Theories, Methods, and Issues* (pp. 223-245). London: Spiramus Press.
- Chua, W. F. (1986). Radical developments in accounting thought. *Accounting Review*, 61(4), 601-632.
- Clegg, S. R. (1989). Radical revisions: Power, discipline and organizations. *Organization Studies*, 10(1), 97-115.
- Coase, R. (1937). The nature of the firm. *Economica*, 4, 386-405.
- Colignon, R., & Covaleski, M. (1988). An examination of managerial accounting practices as a process of mutual adjustment. *Accounting, Organizations and Society*, 13(6), 559-579.
- Collier, P. M. (2005). Entrepreneurial control and the construction of a relevant accounting. *Management Accounting Research*, 16(3), 321-339.
- Collins, J. A., & Fauser, B. C. J. M. (2005). Balancing the strengths of systematic and narrative reviews. *Human Reproduction Update*, 11(2), 103-104.
- Copeland, T. E., Koller, T., & Murrin, J. (2000). *Valuation: Measuring and managing the value of companies*. New York: Wiley.
- Covaleski, M. A., Dirsmith, M. W., & Michelman, J. E. (1993). An institutional theory perspective on the DRG framework, case-mix accounting systems and health-care organizations. *Accounting, Organizations and Society*, 18(1), 65-80.

-
- Covaleski, M. A., Evans III, J. H., Luft, J. L., & Shields, M. D. (2003). Budgeting research: Three theoretical perspectives and criteria for selective integration. *Journal of Management Accounting Research*, 15, 3-49.
- Cruz, I., Major, M., & Scapens, R. W. (2009). Institutionalization and practice variation in the management control of a global/local setting. *Accounting, Auditing & Accountability Journal*, 22(1), 91-117.
- Cumming, D., Siegel, D. S., & Wright, M. (2007). Private equity, leveraged buyouts and governance. *Journal of Corporate Finance*, 13(4), 439-460.
- Cuny, C. J., & Talmor, E. (2007). A theory of private equity turnarounds. *Journal of Corporate Finance*, 13(4), 629-646.
- Dambrin, C., Lambert, C., & Sponem, S. (2007). Control and change: Analysing the process of institutionalisation. *Management Accounting Research*, 18(2), 172-208.
- Davila, A. (2005). An exploratory study on the emergence of management control systems: Formalizing human resources in small growing firms. *Accounting, Organizations and Society*, 30(3), 223-248.
- Davila, A., & Foster, G. (2005). Management accounting systems adoption decisions: Evidence and performance implications from early-stage/startup companies. *Accounting Review*, 80(4), 1039-1068.
- Davila, A., & Foster, G. (2007). Management control systems in early-stage startup companies. *Accounting Review*, 82(4), 907-937.
- Davila, A., Foster, G., & Li, M. (2009). Reasons for management control systems adoption: Insights from product development systems choice by early-stage entrepreneurial companies. *Accounting, Organizations and Society*, 34(3-4), 322-347.
- Davis, G. F., & Useem, M. (2002). Top management, company directors, and corporate control. In A. M. Pettigrew, H. Thomas & R. R. W. Whittington (Eds.), *Handbook of strategy and management* (pp. 232-258). London: Sage.
- Déjean, F., Gond, J.-P., & Leca, B. (2004). Measuring the unmeasured: An institutional entrepreneur strategy in an emerging industry. *Human Relations*, 57(6), 740-764.
- Dillard, J. F., Rigsby, J. T., & Goodman, C. (2004). The making and remaking of organization context: Duality and the institutionalization process. *Accounting, Auditing & Accountability Journal*, 17(3), 504-542.
- DiMaggio, P. J. (1988). Interest and agency in institutional theory. In L. G. Zucker (Ed.), *Institutional patterns and organizations: Culture and environment*. Cambridge, MA: Ballinger.
- DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48(2), 147-160.
- DiMaggio, P. J., & Powell, W. W. (1991). *The new institutionalism in organizational analysis*. Chicago [u.a.]: Univ. of Chicago Press.

-
- Dorado, S. (2005). Institutional entrepreneurship, partaking, and convening. *Organization Studies*, 26(3), 385-414.
- Doty, D. H., & Glick, W. H. (1994). Typologies as a unique form of theory building: Toward improved understanding and modeling. *Academy of Management Review*, 19(2), 230-251.
- Dunn, M. B., & Jones, C. (2010). Institutional logics and institutional pluralism: The contestation of care and science logics in medical education, 1967-2005. *Administrative Science Quarterly*, 55(1), 114-149.
- Emmanuel, C., Otley, D. T., & Merchant, K. A. (1990). *Accounting for management control* (2nd ed.). London et al.: Chapman & Hall.
- European Private Equity and Venture Capital Association (EVCA). (2011). Glossary. from <http://www.evca.eu/toolbox/glossary.aspx?id=982>
- Ezzamel, M., & Bourn, M. (1990). The roles of accounting information systems in an organization experiencing financial crisis. *Accounting, Organizations and Society*, 15(5), 399-424.
- Ezzamel, M., Willmott, H., & Worthington, F. (2008). Manufacturing shareholder value: The role of accounting in organizational transformation. *Accounting, Organizations and Society*, 33(2-3), 107-140.
- Ferreira, A., & Otley, D. T. (2005). The design and use of management control systems: An extended framework for analysis. *SSRN eLibrary*.
- Ferreira, A., & Otley, D. T. (2009). The design and use of performance management systems: An extended framework for analysis. *Management Accounting Research*, 20(4), 263-282.
- Fink, A. (2005). *Conducting research literature reviews: From the internet to paper* (2nd ed.). Thousand Oaks, California: Sage Publications.
- Fisher, J. G. (1998). Contingency theory, management control systems and firm outcomes: Past results and future directions. *Behavioral Research in Accounting*, 10, 47.
- Fiss, P. C. (2008). Institutions and corporate governance. In R. Greenwood, C. Oliver, R. Suddaby & K. Sahlin (Eds.), *The SAGE handbook of organizational institutionalism* (pp. 389-410). Los Angeles et al.: SAGE.
- Fiss, P. C., & Zajac, E. J. (2004). The diffusion of ideas over contested terrain: The (non)adoption of a shareholder value orientation among German firms. *Administrative Science Quarterly*, 49(4), 501-534.
- Flamholtz, E. G. (1983). Accounting, budgeting and control systems in their organizational context: Theoretical and empirical perspectives. *Accounting, Organizations and Society*, 8(2-3), 153-169.
- Fleming, J. E. (1972). The spectrum of management control. *SAM Advanced Management Journal*, 37(2), 54-61.
- Fligstein, N. (1990). *The transformation of corporate control*. Cambridge, Mass.: Harvard University Press.

-
- Fligstein, N. (1991). The structural transformation of American industry: An institutional account of the causes of diversification in the largest firms, 1919-1979. In W. W. Powell & P. DiMaggio (Eds.), *The new institutionalism in organizational analysis* (pp. 311-336). Chicago: University of Chicago Press.
- Fligstein, N. (1997). Social skill and institutional theory. *American Behavioral Scientist*, 40(4), 397.
- Friedland, R., & Alford, R. R. (1991). Bringing society back in: Symbols, practices, and institutional contradictions. In W. W. Powell & P. J. DiMaggio (Eds.), *The new institutionalism in organizational analysis* (pp. 232-263). Chicago: University of Chicago Press.
- Fuchs, D., & Twellmeyer, M. (2008). *Private Equity: Aktives Management der Portfolio-Unternehmen durch die Private-Equity-Gesellschaft mittels Management-Control-Systems*. Unpublished diploma thesis, WHU - Otto Beisheim School of Management, Vallendar.
- Gamba, J., & Gebert, A. R. G. (2008). *Private Equity: Start-Up vs. Turnaround*. Unpublished diploma thesis, WHU - Otto Beisheim School of Management, Vallendar.
- German Council of Economic Experts. (2005). *Report 2005/2006: Seize the change – boldly advance the reforms*. Wiesbaden: Statistisches Bundesamt.
- Glynn, M. A., & Lounsbury, M. (2005). From the critics' corner: Logic blending, discursive change and authenticity in a cultural production system. *Journal of Management Studies*, 42(5), 1031-1055.
- Granlund, M. (2003). Management accounting system integration in corporate mergers: A case study. *Accounting, Auditing & Accountability Journal*, 16(2), 208-243.
- Greenwood, R., Díaz, A. M., Li, S. X., & Lorente, J. C. (2010). The multiplicity of institutional logics and the heterogeneity of organizational responses. *Organization Science*, 21(2), 521-539.
- Greenwood, R., & Hinings, C. R. (1988). Organizational design types, tracks and the dynamics of strategic change. *Organization Studies*, 9(3), 293-316.
- Greenwood, R., & Hinings, C. R. (1996). Understanding radical organizational change: Bringing together the old and the new institutionalism. *Academy of Management Review*, 21(4), 1022-1054.
- Greenwood, R., Oliver, C., Sahlin, K., & Suddaby, R. (2008). Introduction. In R. Greenwood, C. Oliver, K. Sahlin & R. Suddaby (Eds.), *The Sage handbook of organizational institutionalism*. Thousand Oaks: Sage.
- Hall, P. A., & Soskice, D. (2001). An introduction to varieties of capitalism. In P. A. Hall & D. Soskice (Eds.), *Varieties of capitalism* (pp. 1-68). Oxford: Oxford University Press.
- Hardy, C., & Maguire, S. (2008). Institutional entrepreneurship. In R. Greenwood, C. Oliver, K. Sahlin & R. Suddaby (Eds.), *The SAGE handbook of organizational institutionalism* (pp. 198-217). Thousand Oaks: Sage.
- Hart, C. (1998). *Doing a literature review: Releasing the social science research imagination*. London: Sage Publications.

-
- Hasselbladh, H., & Kallinikos, J. (2000). The project of rationalization: A critique and reappraisal of neo-institutionalism in organization studies. *Organization Studies*, 21(4), 697.
- Haveman, H. A., & Rao, H. (2006). Hybrid forms and the evolution of thrifts. *American Behavioral Scientist*, 49(7), 974-986.
- Henri, J.-F. (2006). Organizational culture and performance measurement systems. *Accounting, Organizations and Society*, 31(1), 77-103.
- Hofstede, G. (1978). The poverty of management control philosophy. *Academy of Management Review*, 3(3), 450-461.
- Holm, P. (1995). The dynamics of institutionalization: Transformation processes in Norwegian fisheries. *Administrative Science Quarterly*, 40(3), 398-422.
- Höpner, M. (2001). Corporate governance in transition: Ten empirical findings on shareholder value and industrial relations in Germany. *SSRN eLibrary*.
- Höpner, M., & Jackson, G. (2001). An emerging market for corporate control? The Mannesmann takeover and German corporate governance. *MPIfG Discussion Paper 01/4*.
- Höpner, M., & Jackson, G. (2002). Das deutsche System der Corporate Governance zwischen Persistenz und Konvergenz: Replik auf den Beitrag von Thomas Heinze in Heft 4/2001 der KZfSS. *Kölner Zeitschrift für Soziologie & Sozialpsychologie*, 54(2), 362-368.
- Hopper, T., & Major, M. (2007). Extending institutional analysis through theoretical triangulation: Regulation and activity-based costing in Portuguese telecommunications. *European Accounting Review*, 16(1), 59-97.
- Hopper, T., & Powell, A. (1985). Making sense of research into the organizational and social aspects of management accounting: A review of its underlying assumptions. *Journal of Management Studies*, 22(5), 429-465.
- Ittner, C. D., & Larcker, D. F. (2001). Assessing empirical research in managerial accounting: A value-based management perspective. *Journal of Accounting and Economics*, 32(1-3), 349-410.
- Jackson, G., Höpner, M., & Kurdelbusch, A. (2005). Corporate governance and employees in Germany: Changing linkages, complementarities, and tensions. In H. Gospel & A. Pendleton (Eds.), *Corporate Governance and Labour Management: An International Comparison* (pp. 84-121). Oxford: Oxford University Press.
- Jensen, M. C. (1988). Takeovers: Their causes and consequences. *Journal of Economic Perspectives*, 2(1), 21-48.
- Jensen, M. C. (1989). Eclipse of the public corporation. *Harvard Business Review*, 67(5), 61-74.
- Jepperson, R. L. (1991). Institutions, institutional effects, and institutionalism. In W. W. Powell & P. DiMaggio (Eds.), *The new institutionalism in organizational analysis* (pp. 143-163). Chicago and London: The University of Chicago Press.

-
- Jones, C. S. (1985). An empirical study of the role of management accounting systems following takeover or merger. *Accounting, Organizations and Society*, 10(2), 177-200.
- Jones, C. S. (1992). The attitudes of owner-managers towards accounting control systems following management buyout. *Accounting, Organizations and Society*, 17(2), 151-168.
- Jones, K. (2004). Mission drift in qualitative research, or moving toward a systematic review of qualitative studies, moving back to a more systematic narrative review. *The Qualitative Report*, 9(1), 95-112.
- Jürgens, U., Naumann, K., & Rupp, J. (2000). Shareholder value in an adverse environment: The German case. *Economy & Society*, 29(1), 54-79.
- Kaplan, S. (1989). The effects of management buyouts on operating performance and value. *Journal of Financial Economics*, 24(2), 217-254.
- Lane, C. (2005). Institutional transformation and system change: Changes in corporate governance of German corporations. In G. Morgan, R. Whitley & E. Moen (Eds.), *Changing capitalism? Internationalization, institutional change, and systems of economic organization* (pp. 79-109). Oxford: Oxford University Press.
- Langfield-Smith, K. (1997). Management control systems and strategy: A critical review. *Accounting, Organizations and Society*, 22(2), 207-232.
- Langley, A. (1999). Strategies for theorizing from process data. *Academy of Management Review*, 24(4), 691-710.
- Lawrence, T. B. (2008). Power, institutions and organizations. In R. Greenwood, C. Oliver, K. Sahlin & R. Suddaby (Eds.), *The SAGE handbook of organizational institutionalism* (pp. 170-197). Thousand Oaks: Sage.
- Lawrence, T. B., & Suddaby, R. (2006). Institutions and institutional work. In S. R. Clegg, C. Hardy, T. B. Lawrence & W. Nord (Eds.), *Handbook of organization studies* (2nd ed., pp. 215-254). London: Sage.
- Lawrence, T. B., Winn, M. I., & Jennings, P. D. (2001). The temporal dynamics of institutionalization. *Academy of Management Review*, 26(4), 624-644.
- Leca, B., & Naccache, P. (2006). A critical realist approach to institutional entrepreneurship. *Organization*, 13(5), 627-651.
- Lichtenberg, F. R., & Siegel, D. (1990). The effects of leveraged buyouts on productivity and related aspects of firm behavior. *Journal of Financial Economics*, 27(1), 165-194.
- Lillis, A. M., & Mundy, J. (2005). Cross-sectional field studies in management accounting research: Closing the gaps between surveys and case studies. *Journal of Management Accounting Research*, 17, 119-141.
- Lounsbury, M. (2002). Institutional transformation and status mobility: The professionalization of the field of finance. *Academy of Management Journal*, 45(1), 255-266.
- Lounsbury, M. (2007). A tale of two cities: Competing logics and practice variation in the professionalizing of mutual funds. *Academy of Management Journal*, 50(2), 289-307.

-
- Lounsbury, M. (2008). Institutional rationality and practice variation: New directions in the institutional analysis of practice. *Accounting, Organizations and Society*, 33(4-5), 349-361.
- Lowe, E. A. (1971). On the idea of a management control system: Integrating accounting and management control. *Journal of Management Studies*, 8(1), 1-12.
- Lukka, K., & Kasanen, E. (1995). The problem of generalizability: Anecdotes and evidence in accounting research. *Accounting, Auditing & Accountability Journal*, 8(5), 71-90.
- Machin, J. L. J. (1983). Management control systems: Whence and whither? In E. A. Lowe & J. L. J. Machin (Eds.), *New perspectives in management control* (pp. 22-42). New York: Macmillan.
- Maguire, S., Hardy, C., & Lawrence, T. B. (2004). Institutional entrepreneurship in emerging fields: HIV/AIDS treatment advocacy in Canada. *Academy of Management Journal*, 47(5), 657-679.
- Malmi, T., & Brown, D. A. (2008). Management control systems as a package: Opportunities, challenges and research directions. *Management Accounting Research*, 19(4), 287-300.
- Malmi, T., & Granlund, M. (2009). In search of management accounting theory. *European Accounting Review*, 18(3), 597-620.
- Malmi, T., & Ikäheimo, S. (2003). Value Based Management practices: Some evidence from the field. *Management Accounting Research*, 14(3), 235-254.
- Merchant, K. A., & Otley, D. T. (2007). A review of the literature on control and accountability. In C. S. Chapman, A. Hopwood & M. Shields (Eds.), *Handbooks of management accounting research* (Vol. Volume 2, pp. 785-802). Oxford: Elsevier.
- Merchant, K. A., & Simons, R. (1986). Research and control in complex organizations: An overview. *Journal of Accounting Literature*, 5, 183-203.
- Merchant, K. A., & Van der Stede, W. A. (2003). *Management control systems: Performance measurement, evaluation and incentives* (2nd ed.). Harlow et al.: Prentice Hall.
- Meyer, J. W., & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology*, 83(2), 340-363.
- Meyer, R. E., & Hammerschmid, G. (2006). Changing institutional logics and executive identities. *American Behavioral Scientist*, 49(7), 1000-1014.
- Modell, S. (1995). A three-dimensional approach to management control systems. *Journal of Business and Management*, 2, 35-74.
- Modell, S. (2001). Performance measurement and institutional processes: A study of managerial responses to public sector reform. *Management Accounting Research*, 12(4), 437-464.
- Modell, S. (2009a). Bundling management control innovations. *Accounting, Auditing & Accountability Journal*, 22(1), 59-90.

-
- Modell, S. (2009b). Institutional research on performance measurement and management in the public sector accounting literature: A review and assessment. *Financial Accountability & Management*, 25(3), 277-303.
- Modell, S. (2010). Strategizing, political regulation and management control in the public sector: An institutional analysis. Manchester Business School, University of Manchester.
- Modell, S., Jacobs, K., & Wiesel, F. (2007). A process (re)turn? Path dependencies, institutions and performance management in Swedish central government. *Management Accounting Research*, 18(4), 453-475.
- Modell, S., & Wiesel, F. (2008). Marketization and performance measurement in Swedish central government: A comparative institutionalist study. *Abacus*, 44(3), 251-283.
- Moll, J., Burns, J., & Major, M. (2006). Institutional theory. In Z. Hoque (Ed.), *Methodological issues in accounting research: Theories, methods, and issues* (pp. 183-205). London: Spiramus Press.
- Moll, J., Major, M., & Hoque, Z. (2006). The qualitative research tradition. In Z. Hoque (Ed.), *Methodological issues in accounting research: Theories, methods, and issues* (pp. 375-398). London: Spiramus Press.
- Morgan, G., & Smircich, L. (1980). The case for qualitative research. *Academy of Management Review*, 5(4), 491-500.
- Nag, R., Hambrick, D. C., & Chen, M.-J. (2007). What is strategic management, really? Inductive derivation of a consensus definition of the field. *Strategic Management Journal*, 28(9), 935-955.
- Nixon, W. A. J., & Burns, J. (2005). Management control in the 21st century. *Management Accounting Research*, 16(3), 260-268.
- Oliver, C. (1991). Strategic responses to institutional processes. *Academy of Management Review*, 16(1), 145-179.
- Oliver, C. (1992). The antecedents of deinstitutionalization. *Organization Studies (Walter de Gruyter GmbH & Co. KG.)*, 13(4), 563.
- Orton, J. D., & Weick, K. E. (1990). Loosely coupled systems: A reconceptualization. *Academy of Management Review*, 15(2), 203-223.
- Otley, D. T. (1994). Management control in contemporary organizations: Towards a wider framework. *Management Accounting Research*, 5(3-4), 289-299.
- Otley, D. T. (1999). Performance management: A framework for management control systems research. *Management Accounting Research*, 10(4), 363-382.
- Otley, D. T., Broadbent, J., & Berry, A. (1995). Research in management control: An overview of its development. *British Journal of Management*, 6(6), 31.
- Ouchi, W. G. (1977). The relationship between organizational structure and organizational control. *Administrative Science Quarterly*, 22(1), 95-113.
- Ouchi, W. G. (1979). A conceptual Framework for the design of organizational control mechanisms. *Management Science*, 25(9), 833-848.

-
- Parker, L. D. (1986). *Developing control concepts in the 20th century*. New York: Garland.
- Peters, G. (2000) Institutional theory: Problems and prospects. *Vol. 69/2000. Political Science Series* Vienna: Institute for Advanced Studies.
- PSE Group of the European Parliament. (2007). *Hedge funds and private equity: A critical analysis*: Report of the PSE-Group in European Parliament.
- Purdy, J. M., & Gray, B. (2009). Conflicting logics, mechanisms of diffusion, and multilevel dynamics in emerging institutional fields. *Academy of Management Journal*, 52(2), 355-380.
- Rappaport, A. (1986). *Creating shareholder value: The new standard for business performance*. New York: Free Press.
- Rappaport, A. (1999). *Shareholder Value. Ein Handbuch für Manager und Investoren* (2 ed.). Stuttgart: Schäffer-Poeschl.
- Reay, T., & Hinings, C. R. (2005). The recomposition of an organizational field: Health care in Alberta. *Organization Studies*, 26(3), 351-384.
- Reay, T., & Hinings, C. R. (2009). Managing the rivalry of competing institutional logics. *Organization Studies*, 30(6), 629-652.
- Roberts, J. (1990). Strategy and accounting in a U.K. conglomerate. *Accounting, Organizations and Society*, 15(1-2), 107-126.
- Ryan, B., Scapens, R. W., Theobald, M., & Beattie, V. (2002). *Research method & methodology in finance & accounting* (2nd ed.). London: Thomson.
- Sandino, T. (2007). Introducing the first management control systems: Evidence from the retail sector. *Accounting Review*, 82(1), 265-293.
- Scapens, R. W. (2006). Understanding management accounting practices: A personal journey. *The British Accounting Review*, 38(1), 1-30.
- Schneiberg, M. (2007). What's on the path? Path dependence, organizational diversity and the problem of institutional change in the US economy, 1900-1950. *Socio-Economic Review*, 5(1), 47-80.
- Schrader, U., & Hennig-Thurau, T. (2009). VHB-JOURQUAL2: Method, results, and implications of the German Academic Association for Business Research's journal ranking. *BuR - Business Research*, 2(2), 180-204.
- Scott, W. R. (1987). The adolescence of institutional theory. *Administrative Science Quarterly*, 32(4), 493-511.
- Scott, W. R. (2001). *Institutions and organizations* (2nd ed.). Thousand Oaks, Calif.: Sage Publications.
- Scott, W. R. (2004). Institutional theory: Contributing to a theoretical research program. In K. G. S. Smith & M. A. Hitt (Eds.), *Great minds in management: The process of theory development* (pp. 460-484). Oxford: Oxford University Press.
- Scott, W. R. (2008). Approaching adulthood: The maturing of institutional theory. *Theory and society*, 37(5), 427-442.

-
- Scott, W. R., & Meyer, J. W. (1991). The organization of societal sectors: Propositions and early evidence. In A. Powell & P. DiMaggio (Eds.), *The new institutionalism in organizational analysis* (pp. 108-140). Chicago: The University of Chicago Press.
- Sewell, W. H. J. (1996). Historical events as transformations of structures: Inventing revolution at the Bastille. *Theory & Society*, 25(6), 841-881.
- Shelleman, J. M. (1995). Levers of control: How managers use innovative control systems to drive strategic renewal. *Academy of Management Executive*, 9(2), 82-84.
- Silvola, H. (2008a). Design of MACS in growth and revival stages of the organizational life-cycle. *Qualitative Research in Accounting & Management*, 5(1), 27-47.
- Silvola, H. (2008b). Do organizational life-cycle and venture capital investors affect the management control systems used by the firm? *Advances in Accounting*, 24(1), 128-138.
- Simons, R. L. (1987). Accounting control systems and business strategy: An empirical analysis. *Accounting, Organizations and Society*, 12(4), 357-374.
- Simons, R. L. (1990). The role of management control systems in creating competitive advantage: New perspectives. *Accounting, Organizations and Society*, 15(1-2), 127-143.
- Simons, R. L. (1991). Strategic orientation and top management attention to control systems. *Strategic Management Journal*, 12(1), 49-62.
- Simons, R. L. (1994). How new top managers use control systems as levers of strategic renewal. *Strategic Management Journal*, 15(3), 169-189.
- Simons, R. L. (1995). *Levers of control: How managers use innovative control systems to drive strategic renewal*. Boston, MA: Harvard Business School Press Books.
- Smit, H. T. J., & Moraitis, T. (2010). Serial acquisition options. *Long Range Planning*, 43(1), 85-103.
- Smith, A. J. (1990). Corporate ownership structure and performance: The case of management buyouts. *Journal of Financial Economics*, 27(1), 143-164.
- SPD. (2005). *Programmheft I: Tradition und Fortschritt*. Berlin: SPD-Parteivorstand.
- Speklé, R. F. (2001). Explaining management control structure variety: A transaction cost economics perspective. *Accounting, Organizations & Society*, 26(4/5), 419-441.
- Steiger, M. (2000). *Institutionelle Investoren im Spannungsfeld zwischen Aktienmarktliquidität und Corporate Governance*. Baden-Baden: Nomos.
- Stinchcombe, A. L. (1968). *Constructing social theories*. Chicago: University of Chicago Press.
- Stinchcombe, A. L. (1991). The conditions of fruitfulness of theorizing about mechanisms in social sciences. *Philosophy of the Social Sciences*, 21(3), 367-387.
- Strauß, E. (2011). *The emergence of management control systems: A governance perspective*. WHU - Otto Beisheim School of Management, Vallendar.

-
- Streeck, W. (1992). *Social institutions and economic performance: Studies of industrial relations in advanced capitalist economies*. London/Newbury Park, CA: SAGE Publications.
- Stringer, C. (2007). Empirical performance management research: Observations from AOS and MAR. *Qualitative Research in Accounting & Management*, 4(12), 92-114.
- Suddaby, R., & Greenwood, R. (2005). Rhetorical strategies of legitimacy. *Administrative Science Quarterly*, 50(1), 35-67.
- Ter Bogt, H. J., & Scapens, R. W. (2009). Performance measurement in universities: A comparative study of two A&F groups in the Netherlands and the UK. *SSRN eLibrary*.
- Thornton, P. H. (2004). *Markets from culture: Institutional logics and organizational decisions in higher education publishing*. Stanford, CA: Stanford University Press.
- Thornton, P. H., Jones, C., & Kury, K. (2005). Institutional logics and institutional change in organizations: Transformation in accounting, architecture, and publishing. *Research in the Sociology of Organizations*, 23, 125-170.
- Thornton, P. H., & Ocasio, W. (1999). Institutional logics and the historical contingency of power in organizations: Executive succession in the higher education publishing industry, 1958-1990. *American Journal of Sociology*, 105(3), 801-844.
- Thornton, P. H., & Ocasio, W. (2008). Institutional logics. In R. Greenwood, C. Oliver, K. Sahlin & R. Suddaby (Eds.), *The SAGE handbook of organizational institutionalism*. Thousand Oaks: Sage.
- Tolbert, P. S., & Zucker, L. G. (1983). Institutional sources of change in the formal structure of organizations: The diffusion of civil service reform, 1880-1935. *Administrative Science Quarterly*, 28(1), 22-39.
- Tomkins, C., & Groves, R. (1983). The everyday accountant and researching his reality. *Accounting, Organizations and Society*, 8(4), 361-374.
- Townley, B. (1997). The institutional logic of performance appraisal. *Organization Studies*, 18(2), 261.
- Townley, B. (2002). The role of competing rationalities in institutional change. *Academy of Management Journal*, 45(1), 163-179.
- Tranfield, D., Denyer, D., & Smart, P. (2003). Towards a methodology for developing evidence-informed management knowledge by means of systematic review. *British Journal of Management*, 14, 207-222.
- Tsamenyi, M., Cullen, J., & González, J. M. G. (2006). Changes in accounting and financial information system in a Spanish electricity company: A new institutional theory analysis. *Management Accounting Research*, 17(4), 409-432.
- Tuomela, T.-S. (2005). The interplay of different levers of control: A case study of introducing a new performance measurement system. *Management Accounting Research*, 16(3), 293-320.

-
- Vitols, S. (2001). Varieties of corporate governance: Comparing Germany and the UK. In P. A. Hall & D. Soskice (Eds.), *Varieties of capitalism* (pp. 337-360). Oxford: Oxford University Press.
- Weber, J., Bender, M., Eitelwein, O., & Nevries, P. (2009). *Von Private-Equity-Controllern lernen: Wie Controller und Manager mit Finanzinvestoren erfolgreich zusammenarbeiten*. Weinheim: John Wiley & Son Ltd.
- Widener, S. K. (2007). An empirical analysis of the levers of control framework. *Accounting, Organizations and Society*, 32(7-8), 757-788.
- Williamson, O. E. (1981). The economics of organization: The transaction cost approach. *The American Journal of Sociology*, 87(3), 548-577.
- Williamson, O. E. (1985). *The economic institutions of capitalism: Firms, markets, relational contracting*. New York, London: Free Press, Collier Macmillan.
- Wright, M., Amess, K., Weir, C., & Girma, S. (2009). Private equity and corporate governance: Retrospect and prospect. *Corporate Governance: An International Review*, 17(3), 353-375.
- Wright, M., Hoskisson, R. E., Busenitz, L. W., & Dial, J. (2000). Entrepreneurial growth through privatization: The upside of management buyouts. *Academy of Management Review*, 25(3), 591-601.
- Wright, M., Robbie, K., Chiplin, B., & Albrighton, M. (2000). The development of an organisational innovation: Management buy-outs in the UK, 1980-97. *Business History*, 42(4), 137-184.
- Yang, C., & Modell, S. (2009). Power and performance: A field study of the rise and fall of an institutional entrepreneur. Manchester Business School, University of Manchester.
- Yazdifar, H., Zaman, M., Tsamenyi, M., & Askarany, D. (2008). Management accounting change in a subsidiary organisation. *Critical Perspectives on Accounting*, 19(3), 404-430.
- Yin, R. K. (2003). *Case study research: Design and methods* (3rd ed.). Thousand Oaks et al.: Sage.
- Zeff, S. A. (2008). The contribution of the Harvard Business School to management control, 1908-1980. *Journal of Management Accounting Research*, 20, 175-208.
- Zucker, L. G. (1977). The role of institutionalization in cultural persistence. *American Sociological Review*, 42(5), 726-743.
- Zucker, L. G. (1987). Institutional theories of organization. *Annual Review of Sociology*, 13(1), 443.
- Zucker, L. G. (1988). *Institutional patterns and organizations: Culture and environment*. Cambridge, Mass.: Ballinger Pub. Co.