REVISTA ESPAÑOLA DE FINANCIACIÓN Y CONTABILIDAD
Vol. XLI, n.º 155 · julio-septiembre 2012 · pp. 353-370

Management control systems and strategy alignment after an MBO: A case study on the influence of the personal preferences of dominant individuals *

Sistemas de control de gestión y alineación con la estrategia después de un MBO: estudio de caso sobre la influencia de las preferencias personales de individuos dominantes

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ABSTRACT Previous research argues that management control systems (MCSs) should be tailored to support business strategy. However, the personal preferences of a dominant individual or coalition can also play a significant role in the design and use of MCSs. This case study analyses how the personal preferences of the members of a dominant coalition, not necessarily holding a legal controlling interest, influenced the MCS of the case company after an MBO. The findings provide evidence of a dominant coalition whose personal preferences (based on previous experience, personal agenda, and managerial style) have a greater influence on the design and use of MCSs than the alignment with strategy.

KEY WORDS Management control; MBO; Personal preference; Dominant coalition; Strategy alignment; Case study.

RESUMEN La literatura sobre Sistemas de Control de Gestión (SCG) establece que éstos deberían diseñarse específicamente para apoyar la estrategia del negocio. Sin embargo, otros trabajos sugieren que las preferencias personales de un individuo (o grupo) dominante, pueden desempeñar un papel más significativo en el diseño y uso de los SCG que la estrategia. En este contexto, el presente trabajo tiene como objetivo analizar, mediante el estudio de un caso, de qué modo las preferencias personales de los miembros de un grupo dominante (no necesariamente poseyendo la mayoría de control) influyen en el diseño y uso de los SCG tras un MBO. El estudio aporta evidencia de la existencia de este grupo dominante y de cómo sus preferencias personales (basadas en la experiencia, intereses individuales y el estilo de dirección) tienen mayor influencia en el diseño y uso de los SCG que la alineación esperada con la estrategia.

PALABRAS CLAVE Control de gestión; MBO; preferencias personales; Grupo dominante; Alineación estratégica; Estudio de caso.

* **Acknowledgments:** The authors are grateful to Josep Bisbe, Hans Bruining, Nigel Hayes, Scott Kerth, Inger Pettersen, Miko Sandelin and Erkki Vuorenmaa, for their comments and suggestions. We also acknowledge the anonymous reviewers and the editor, Juan Manuel García Lara, for their valuable advice.
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1. INTRODUCTION

Research in the last 20 years has placed considerable focus on the relationship between management control systems (MCSs) and strategy (Langfield-Smith, 2007). Most of this research asserts that MCSs should be tailored explicitly to support the strategy of the firm and that, as a consequence of a new strategic approach, MCSs are subject to revision to fit with the new strategy (Atkinson *et al.*, 1997, Malina and Selto, 2001, Langfield-Smith, 2005).

This article examines the operation of formal MCSs in a management buyout (MBO) context. We define MCSs as formal information-based routines and procedures that managers use to maintain or alter patterns of behaviour in organisational activities (Simons, 1995). Although MBOs are heterogeneous operations (Bruining *et al.*, 2004), there is consensus in the literature that companies undertake strategy restructuring processes after an MBO (Green, 1992; Zahra, 1995; Bruining and Wright, 2002). As a consequence of this strategy renewal, the MCSs are typically reviewed to align them with the new strategy (Jones, 1992; Atkinson *et al.*, 1997). After an MBO, the marriage of ownership and management may facilitate changes in the MCSs, because owner-managers have both the enhanced freedom to choose appropriate MCSs and the power to implement changes.

Jones (1992) finds that MBO processes lead to the emergence of a dominant individual (or coalition) that does not necessarily hold a controlling legal interest. A dominant coalition is a social network of individuals having the greatest influence on the selection of the goals and strategies of an organisation (Pearce II and DeNisi, 1983; Pearce II, 1995). Research to date has ignored the calls to investigate the influence of personal preferences of the members of a dominant coalition on the design and use of management accounting systems (Jones, 1985b; Jones, 1992; Granlund, 2003) and MCSs (Jones, 1992; Abernethy and Chua, 1996). The literature review reveals that the factors influencing personal preferences are managerial style, previous experience, and personal agenda of the decision maker.

We conduct a case study to analyse how the personal preferences of a dominant individual or members of a coalition influence the design and use of formal MCSs. In our study we use Otley's framework (1999) to analyse the MCSs of Indusa (pseudonym), an industrial business with production facilities on three continents that underwent an MBO in 2007. Our most significant finding is that the influence of the personal preferences of the members of the dominant coalition (based on previous experience, personal agenda, and managerial style) has a greater influence on the design and use of MCSs than the alignment with strategy. We interpret the weak fit of the MCSs with strategy as further evidence of the influence of personal preferences in the design of MCSs.

The remainder of the study is as follows: we start with a literature review of the impact of MBOs on strategy reformulation and on MCSs, specifically, the influence of the preferences of dominant individuals and the framework used to analyse MCSs. We next describe the research methodology used and data-gathering techniques. Then, using the framework, we present the data collected through the research on the case company. The subsequent section discusses the case study evidence in light of existing literature. The final section provides conclusions and presents implications arising from the study.

2. LITERATURE REVIEW

2.1. MBOs: Redefining Strategy and MCSs

An MBO involves the acquisition of a significant portion of the equity of a company by its current management team with the support of a financial institution, with the aim of taking control of the company. The literature indicates that after an MBO, companies face a process of strategic reorientation (Green, 1992; Zahra, 1995; Bruining and Wright, 2002). As a consequence of this strategy renewal, the MCSs are typically reviewed to align them with the new strategy (Jones, 1992; Atkinson *et al.*, 1997).

After an MBO, managers, adopting the role of owner-managers, take on responsibility for strategy and management control. An MBO constitutes an important 'threshold' in the life cycle of a company because it leads the company to reconsider corporate strategy (Bruining *et al.*, 2004). After an MBO, certain existing limitations that were imposed under previous ownership are removed, and the new owner-managers are able to take advantage of opportunities they had previously identified but were not able to implement (Wright *et al.*, 2000), narrowing the gap between the design of strategic policies and their implementation (Alchian and Demsetz, 1972). New owners show a higher level of commitment to strategies oriented towards corporate growth (Zahra, 1995), directing the culture of the company towards a more entrepreneurial mentality (Green, 1992; Jones, 1992) and fostering the development of emerging strategies (Volberda, 1998; Bruining *et al.*, 2004). Considering the consequences of an MBO on the strategy of a firm, it is expected that MCSs should be subject to review following this strategic redesign (Jones, 1992; Atkinson *et al.*, 1997).

There are few previous studies that have analysed MCSs following an MBO. One such effort is the two-case study by Bruining *et al.* (2004). Using Simons' (1995) framework, they conclude that after an MBO, there is a need to establish consistency between a change in strategy and the use of levers of control. This consistency, which was lacking pre-buyout, develops dynamically post-buyout. Bruining *et al.* (2004) also suggest that their findings broaden the contingency perspective on control systems, because the nature of the buyout also appears to influence control systems.

In a different study, Jones (1992) examines 17 MBOs in the UK and finds that after an MBO the budgetary process and the levels of participation improved. He also finds more frequent reporting, better matching between accounting control systems and contextual variables, higher quality reports, and more formal controls and feedback. Jones (1992) points out that MBO operations lead to more independence in management, enabling managers to seek a greater degree of alignment between MCSs and contextual variables. Jones (1992) also finds that the process of an MBO leads to the emergence of a dominant individual (or coalition) not necessarily holding a controlling legal interest. The establishment of formal control secures the dominance of the coalition and the maximum organisational effort for achieving the goals set by the coalition (Pearce II, 1995).

The role played by dominant individuals (or coalitions) in defining management accounting systems (Jones, 1985b, Jones, 1985a, Granlund, 2003) and MCSs (Jones, 1992, Abernethy and Chua, 1996) has already drawn the attention of researchers. Jones (1985a) introduces the concept of dominant individuals in the management accounting literature, suggesting that their personal preferences may play a significant role in the design of management accounting systems. Granlund (2003, p. 236) also suggests: 'The personal choice of dominant individuals may be a significant factor confusing the explanatory power of contingency theory'.

2.2. MCSs: Performance Management Framework

For the purposes of this article we define MCSs as the formal information-based routines and procedures managers use to maintain or alter patterns of behaviour in organisational activities (Simons, 1995). Formal controls contain such bureaucratic mechanisms as direct supervision, standardisation of processes, and standardisation of outputs (e.g. performance measures or budgets) (Mintzberg, 1983; Anthony and Govindarajan, 2004).

To analyse how the personal preferences of the members of a dominant coalition influence the design and use of formal MCSs at the case company, we analyse the MCSs as a whole, including its alignment with the strategy. For this purpose, we use the framework proposed by Otley (1999), which offers a template for describing and assessing extant practices. Analysing the consistency in the structure of MCSs is important because a weak alignment of the MCSs of the company with strategy suggests a greater influence of personal preferences in the design and use of MCSs.

Otley's (1999) performance management framework is widely used in the literature. It is not developed to provide a normative or prescriptive approach, but rather to offer a more comprehensive and descriptive framework within which the features of an overall control system can be assessed and evaluated. The framework consists of five areas represented as a set of questions; answering them guides the assessment and evaluation of the features of an overall control system for an organisation. The areas are as follows (Otley, 1999: p. 365):

> «1. What are the key objectives that are central to the organization's overall 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 behaviour in the light of that experience?».

3. RESEARCH METHODOLOGY

We used the Mergermarket database (data on worldwide mergers and acquisitions from all industries) to select a company from among those undergoing an MBO in Spain in 2007. Three companies matched the research requirements and from those, non-substantive issues (such as access and logistics) determined the final selection. We refer to the chosen firm with the pseudonym «Indusa».

The data for the study came from three different sources. The first consisted of internal company reports, such as mission and vision, strategic plans, strategic analysis, board reports, innovation plans, manufacturing reports, commercial plans, budgets, investment proposals, and internal profit statements, all of which were analysed. Second, nineteen individual face-to-face interviews (based on semi-structured questions) were conducted with nine individuals between January and September 2008 along with two visits to the company facilities. Overall the interviewees adequately covered the various actors and management levels that were involved in the processes studied. All interviews were recorded for future reference; they took place at the premises of the company and were strictly limited to 1.5 hours each. Third, we attended five different meetings of the board of directors and the product committee, in order to observe the issues covered and the behaviours and dynamics of the attendees.

We triangulated the information from the three sources identified above. We also conducted final interviews with the CEO and the General Manager to confirm the accuracy of the information and clarify possible discrepancies. We grouped the information on the MCSs into the five areas identified in Otley's framework and then cross-referenced this information with both the strategic plan and the traits of personal preferences.

4. DESCRIPTION OF THE CASE COMPANY BEFORE AND AFTER THE MBO

Indusa was founded in Barcelona, Spain in 1962. In the 1980s, it began to specialise in the research, design, development, and manufacturing of customised electronic components. The products of the company currently can be grouped into three technological categories: radio frequency identification data (RFID), inductive components, and electromagnetic components. To fulfil the orders of its customer, the company must be able to mass-produce the prototype accepted by the customer and meet strict deadlines and output requirements. The complex sales process results in relatively few negotiations leading to the prototyping stage and even fewer to the mass-production stage. At the moment, according to the company's General Manager:

> «(...) Our salespeople sell [the] future. The drawback is that the maturation period is long. The advantage is that when you land a contract you sell large volumes for a very long period of time, around seven years in the automotive industry and up to 15 years in the railway industry».

4.1. The background of the company before the MBO

Since 1981, Indusa grew through a succession of spin-offs, creating a series of companies that made up the Indusa Group. The owners placed managerial staff from Indusa— with whom they had a particularly trusting relationship —as managers of these spin-offs. Indusa retained 90% of the property of the new companies and granted the remaining 10% to those managers. In this manner, six companies were set up —five in Barcelona and one in Seville— beginning a period of significant expansion for the Indusa Group. This was especially true of the Seville plant (RFID technology), which was the most successful. Additionally, interviewees who worked in the Seville plant expressed a «pride of belonging», which did not come across in the interviews with other managers: «(...) we are capable of everything» (Seville Plant Manager). Furthermore, interviewees were linked by strong personal ties: «(...) we are friends with the CEO» (Controller).

We could not identify all five areas of Otley's framework in the MCSs of the organisation before the MBO from the data collected in our research. Until January 2002, each company operated autonomously and the top management of the group did not formally define any key objectives nor strategies or plans, although they did limit the development of products in the group that could eventually compete with other products made by other companies in the Indusa Group. The companies were instructed:

> «(...) Not to develop anything that could come up against anything we have in another company and that's it (...) we were not told what we had to do, only what we shouldn't do (...)» (CEO).

Performance measurement was based on the income statement of the subsidiary. Managers were expected to «make a profit», although the target was loosely structured as «(...) not to have loses» (CEO). Regarding rewards, managers of subsidiaries received a bonus amounting to 10% of their company profit. Finally, the only formal exchanges of information between subsidiaries and the parent company were bimonthly visits by the top management of Indusa to each of the companies:

> «(...) The former partners, when they came over, which was between six and eight times a year, looked at the income statement and debt» (Controller).

In 2002, the companies of Indusa Group merged into one company. The new company was structured into three strategic business units (SBUs), one for each of the core technologies, and the managers of the three largest companies prior to the merger were appointed managers of the SBUs. However, the new organisation chart kept the vision of Indusa practically intact, that is, each being run virtually independently (SBUs remained as profit centres and their managers were held accountable for the income statement). The bimonthly visits owners made to each of the SBUs continued to serve as a monitoring mechanism.

In January 2005, the sales manager of Indusa (previously sales manager in Seville) was appointed Indusa General Manager. In February 2006, the R&D Manager of the RFID Unit (Seville) was appointed to the new position of R&D Coordinator for Indusa.

4.2. MCSs after the MBO

In March 2007, the management team of Indusa executed an MBO backed by a venture capital firm and an investment bank. The General Manager then became CEO and hired a General Manager with previous experience in strategic reformulation.

The first MCS area in Otley's framework (1999) is concerned with the definition of goals. In this regard, the company undertook a strategic revision, accompanied by a reorganisation of functions and responsibilities. The strategic formulation culminated in the preparation of the Strategic Plan 2008. Indusa's strategic plan document featured a strategic analysis of the company, a segregated plan for the different industries and technologies, and a new organisation chart (where SBUs were eliminated).

In the new organisational chart, the company was divided into functional areas. The CEO had previously held the position of Seville sales manager; the Chief Technological Manager had been the head of technology in Seville; the Controller had been the Seville Plant Manager; and the Corporate Finance Manager had been the accounting manager in Seville. With the post-MBO organisation chart, the former SBU managers lost their positions on the board of directors with the exception of the RFID unit (Seville) manager.

The salespeople at Indusa make the sale during the product design process of the customer. Indusa, therefore, needs to be able to come up with technological solutions to customer problems during this design stage called «technological feasibility». It then needs to mass-produce (i.e. industrialise) the prototype accepted by the customer, complying with the established deadlines and production volumes called «industrial feasibility». This long maturation period and the high mortality rate of projects initiated means that the first key success factor is identifying new potential projects. Although not stated explicitly in the Strategic Plan 2008, most of the interviewees repeatedly mentioned or recognised three key success factors at Indusa: (1) identifying new projects, (2) technological feasibility, and (3) industrial feasibility:

> «We need to convince the customer that with Indusa, their uncertainties can be solved (...) and then we have to manufacture the prototype industrially (...) our capacity to do this repeatedly is crucial' (Sales Manager)».

Finally, the Strategic Plan 2008 had an ultimate financial objective: to achieve by 2012 an EBITDA goal agreed upon by the new owner-managers and the venture capitalists to reach the desired level of profitability on the investment.

The second area of Otley's framework connects the strategy deployment with the budgeting process and non-financial performance measures. The first budgeting process was coordinated by the Corporate Finance Manager (previously the accounting manager of the Seville SBU). The managers of each SBU produced an income statement form and then consolidated by the corporate financial manager:

> «(...) There were no formal instructions [on budget preparation] but the CEO took a very active part (...) the people who most actively participated in the budget were the CEO, the Controller, and myself» (Corporate Finance Manager).

The board of directors approved the budget for 2008 in December 2007 before the approval of the strategic plan in January 2008:

> «The budget was produced prior to the Strategic Plan 2008 (...) it does not mention in any way how the strategy is progressing (...). The budget by customer, sector, etcetera does not exist. Today we would have to write it out by hand. This information is not in the system» (Corporate Finance Manager).

The budget included the expenses of the recently created functional departments and a consolidation of the income statements of the plants. The board of directors reviewed the income statement against the budget in a monthly meeting:

> «The P&L is analysed against the budget; deviations are explained at the board of directors meeting. When there are no deviations, the process is fast. If sales decrease, we are required to adjust costs accordingly» (Morocco Plant Manager).

Although the Strategic Plan 2008 did not specify key success factors, the Controller was in charge of 'developing and supervising a system of indicators and setting objectives' (Strategic Plan Organisation: p. 6). By July 2008, the Controller had only developed production-related indicators which the managers were reluctant to use: «They don't believe the indicators» (Controller).

The third area of the framework relates to the process of setting performance targets. To a large extent, the board of directors defined targets for Indusa managers with a low level of participation of first-line managers. The board set aggressive targets for sales growth (from €30 million in 2007 to €75 million in 2012) and manufacturing plants' profits to contribute to the corporate EBITDA target required by the venture capital firm: «I have to reach a certain net turnover and EBITDA by 2012» (CEO).

The fourth area of the MCS framework draws attention to the rewards linked to the accomplishment of performance targets of managers. The main responsibility of the sales manager was to come up with new projects, although his performance appraisal and incentives were based on the sales figures of the current year, a consequence of actions and contracts signed in previous years. In the R&D department, the Chief

Technological Manager was appraised, and incentives were calculated based on the progress of the R&D projects in terms of time and cost.

The Plant Managers were accountable for production quality and timely delivery to customers, as well as for controlling manufacturing costs. Although the plant reports included ratios on quality and timely shipments, the performance appraisal of the Plant Managers was based on four items of the income statement (sales turnover, cost of materials, direct labour and overhead costs), while their incentive was based on the required EBITDA target for the plant «which is the magic word» (Corporate Finance Manager).

Furthermore, in addition to EBITDA target for the plants, the board set a corporate EBITDA target for all chief officers of the company. The new incentive scheme featured what was called the 'EBITDA corrector' which multiplied the incentive of each manager by either 1.5 or 0.5 depending on whether the Indusa corporate EBITDA was attained or not.

Information flows are the fifth and final ingredient of the framework. At Indusa, this included both the information system and the formal meetings set out in the Strategic Plan 2008. In October 2005, the General Manager decided to acquire a centralised information system (SAP) and placed the manager of the Seville unit in charge of its implementation: «(...) the basic function of the SAP system is to integrate the operational practices of the SBUs» (Controller).

The Strategic Plan 2008 set out three formal meetings: the board of directors, the product committee, and the sales committee meetings. The board of directors organised meeting discussions around two reports: the monthly board report of the corporation and monthly manufacturing report of each plant. The monthly board report is a financial report divided into four sections: key financial data plus consolidated and by plant EBITDA, overview of sales and main customers, employee headcount, and liquidity analysis. The second report, the monthly manufacturing report, was originally developed by the Seville company manager. This is a standardised document produced and presented by each Plant Manager, comprising monthly income statements and working capital, productivity indicators, scrap, orders for the next month, and explanation of deviations from the budget.

The purpose of the monthly product committee meeting was the coordination of the R&D and sales departments. The CEO and the General Manager used the product committee meeting to transmit information and also to decide on matters discussed such as the commercialisation and industrialisation aspects of new products, investments needed for product development and for new industrial processes. Both the CEO and the General Manager used the meeting to inculcate changes and mediate the decision making of other managers. The third of the formal meetings, the sales committee meeting was never convened.

5. DISCUSSION

5.1. Alignment between Strategy and MCSs at indusa after the MBO

In analysing the consistency of MCSs with strategy, we first discuss how each of the components of the control system is aligned with the strategy of the company. In table 1, we group the components of the MCS of the company following the five areas of Otley's framework and contrast them to previous literature on MCS.

Table 1

Management control systems before and after the MBO

Otley's Framework	*Before MBO*	*After MBO*
KEY OBJECTIVES	– Companies operated autonomously. – Top management did not formally define any key objectives.	– Key success factors acknowledged but not formalised. – Key products, industries and geographic areas formalised in Strategic Plan 2008. – Ultimate financial objective set by investors is EBITDA goal.
STRATEGIES, PLANS, AND MEASURES OF PERFORMANCE	– Top management did not set strategies or plans. – Not to compete with products of other companies of the group.	– Development of a strategic plan. – The budget produced prior to the Strategic Plan 2008, no breakdown by customer or industry. – Organisational Proposal document showed 28 indicators, never implemented. – Board of directors reviewed the income statement against the budget in the monthly meeting.
LEVEL OF PERFORMANCE AND TARGET SETTING	– Performance measurement based only on subsidiary's income statement. – Managers expected to 'make a profit', although target loosely structured.	– The board set aggressive targets for sales growth and manufacturing plants' profits to contribute to the corporate EBITDA target. – Top-down imposition of targets. – Limited attention to non-financial indicators. – Low level of participation (negotiation) of first-line managers.
REWARDS SYSTEM	– Regarding rewards, managers of subsidiaries received a bonus amounting to 10% of their company profit.	– R&D Dept. rewards based on projects time and cost. – Manufacturing plants rewards based on EBITDA´s plant. – Sales Dept. rewards based on current year sales. – All chief officers subject to corporate EBITDA corrector.
INFORMATION FLOWS	– Top management visited company every second month.	– Three formal meetings: board of directors, product committee and sales committee (never called). – Two reports: Monthly Board Report and Monthly Manufacturing Report.

Following the first area of the framework, we have identified three key success factors in Indusa's strategy: identifying new projects, technological feasibility, and industrial feasibility. Although the interviewees widely acknowledged these factors, they were not formally stated in the strategic plan, in spite of the need to make them explicit (Berry *et al.*, 2008; Ferreira and Otley, 2009). Also, these success factors were not linked to any key performance indicators despite the need of having key performance indicators for all key success factors linked to corporate strategy (Kaplan and Norton, 1996; Henri, 2006). The only indicators appearing in a formal document were production-related not addressing any of the key success factors.

The second area of Otley's framework connects strategies, plans, and measures of performance. Despite the suggested need of connecting the budgeting process to strategic goals (Kaplan and Norton, 1996; Chenhall, 2003), such an alignment at Indusa was not possible even with the direct participation of the CEO. The budget was produced before the strategic plan and its information was not organised according to the three 'basic lines' defined in the plan (product, industry, and geographical areas). Because the budget preceded the strategic plan, it could not follow the guidelines of the plan and consequently be aligned with it. Similarly, not having the breakdown of the budget by the strategic lines made the budget useless as a planning tool (Davila, 2005; Ihantola, 2006).

The third area of the framework is target setting. The board of Indusa set aggressive targets for sales growth and profits despite aggressive target setting does not necessarily leads to higher performance (Chan, 1998). Also, even though participation in target setting processes can improve morale, motivation, and cohesion among groups of individuals (Hopwood, 1974; Agbejule and Saarikoski, 2006) at Indusa it was made in a top-down manner with low level of participation of first-line managers.

The fourth area of the MCS framework draws attention to the rewards system. To motivate managers to consistently meet strategic corporate objectives, it is important to have performance-based incentives linked to these objectives (Fama, 1980; Baiman, 1990; Sprinkle, 2000). However, at Indusa, the incentive scheme lacked alignment. Although the current sales are a consequence of actions and projects signed in previous years, the performance appraisal and incentives of the sales manager were based on the sales of the present year. Consequently, incentives are not aligned with the key success factor for which this manager is responsible —identifying new projects—. Similarly, the Plant Managers were responsible for quality and timely shipments (i.e. industrial feasibility). Instead, their performance appraisal was based on the income statement and EBITDA goals for their plants. As these evidences reveal, the incentive scheme focused on short-term financial measures (sales and EBITDA), rather than the strategic goals, incurring the risk of managers overlooking responsibilities not tied to rewards (Eccles, 1991; Kaplan and Norton, 1996).

The fifth and final area of the framework is information flows. The discussions at the board of directors meeting were based on reports that focused on financial information (e.g. liquidity, debt) and did not include indicators linked to the accomplishment of the strategy. This reliance only on accounting-based indicators may encourage short term orientation (Buckmaster, 2000). Finally, the CEO and the General Manager channelled information at the board of directors and the product committee in a top-down manner to inculcate changes and mediate the decision-making processes of other managers instead of serving as vehicles for conveying strategy (Spicer and Ballew, 1983, Jones, 1992) or organisational learning (Argyris and Schön, 1978).

Although the individual components of a control system may be well-designed, if they do not fit well together (either in design or use), control failures can occur (Ferreira and Otley, 2009). We found that at Indusa, key success factors were not formalised in any document nor were indicators for those success factors used. The budget was also prepared before the strategic plan. Furthermore, the performance assessment and incentive systems of managers and meetings focused on short term financial measures and not on strategy implementation. In conclusion, the guidelines of the Strategic Plan 2008 were not able to justify the choices made on the MCSs of Indusa and, as a result, the MCSs lacked alignment with the strategic plan.

5.2. The influence of personal preferences on the design MCSs at Indusa after the MBO

In this section we discuss whether a dominant coalition exists and how the personal preferences of its members influence the design and use of MCSs. We identified a tight social network of individuals within the top management team (after the MBO) that originally worked for the production plant in Seville. More importantly, we found that the organisation chart following the Strategic Plan 2008 provided key positions in the company for members of this cohesive group. As a result, they dominated the board of directors and the product committee. Without undermining alignment with strategy, the evolution of the design of the organisation was aimed, in line with the findings of Jones (1992), at reducing the power of the earlier managers of the independent companies (then SBU managers) and transferring this power to the members of the group formed in Seville. Two key members of the dominant coalition, the CEO and Chief Technological Manager, took on the responsibility of preparing the strategic plan, selecting organisational goals and strategies, and designing and implementing the MCSs.

To recognise the influence of the personal preferences on MCSs, we have identified how the members of the dominant coalition replicated MCSs that they previously used. These systems included those used by the original owners before the merger and those developed at the Seville branch. Before the merger, Indusa Group companies operated autonomously and their managers were expected to «make a profit». They were monitored every two months through personal visits by the top management of Indusa to each of the subsidiaries. The previous experience of the top managers coincided with the central role assigned to meetings after the MBO and with the focus on a single financial measure to appraise managers (before the MBO that measure was profit, after the MBO it was EBITDA).

Regardless of the change in strategy and differences in size and organisational complexity of pre-MBO and post-MBO contexts, practices that in the past had proved to be successful in the Seville Plant were subsequently applied company wide. In this sense, the introduction of a centralised information system replaced the management practices of SBUs with the preferred practices of the members of the dominant coalition originating in Seville. Also, the monthly manufacturing report developed and used locally at the Seville plant became the standard corporate manufacturing report.

The personal agendas of the members of the dominant coalition also revealed their personal preferences in the design of the MCSs. The CEO and other managers in the dominant coalition, who took part in the MBO, had a personal interest in achieving the best possible EBITDA by 2012 because the price at which investors expected to sell their stake at the company would be proportional to that EBITDA. The incentive scheme of the company reflects this priority by setting an EBITDA goal for the corporation and making all managers incentives dependant on the achievement of that goal on top of their specific departmental objectives.

The CEO exercised a strong leadership in the coalition. His management style influenced heavily the MCSs choices, regardless of the company's strategic plan. Consistent with the transactional managerial style (Bass, 1990), the CEO neglected to appeal to the motivational aspects or coach the managers to a commitment to strategic goals. He used accounting data to communicate the performance he expected from managers, who had low levels of participation in budget and indicators goal setting. Consequently, the performance expected from them was communicated top-down, forgoing motivation and morale improvement found in participative processes (Hofstede, 1967; Bush, 1998; Agbejule and Saarikoski, 2006). The performance appraisals and monetary rewards for the sales manager and Plant Managers were based only on accounting data, despite the risk of managers overlooking behaviours when not rewarded (Kerr, 1975). These findings show that the management control systems choices of the CEO corresponded to those of a transactional leader as identified by Bass (1990) regardless of strategic alignment.

These results reveal a clear connection between the personal preferences of the CEO and other members of the dominant coalition with the MCSs of Indusa. We therefore conclude that the previous experience, personal agenda, and managerial style of the members of the dominant coalition had a greater influence in relation to the design and use of the MCSs than the strategic plan. This claim is additionally reinforced by the previously found misalignment of the MCSs with the strategic plan.

6. CONCLUDING REMARKS

This study aims to analyse how the personal preferences of the members of a dominant coalition in the case company (Indusa) influence the design and use of MCSs. The proposition of this research is that the preferences of the members of the dominant coalition have a greater influence on the design and use of formal MCSs than strategy as it is generally accepted in existing literature.

Supporting the findings from previous studies (Wright *et al.*, 2001; Bruining *et al.*, 2004), we find a strategic reorientation after the MBO at Indusa, where new owner-managers established ambitious growth objectives accompanied by a sharp increase in market focus. While this study supports many of the findings of earlier studies, differences also have emerged. For example, while Jones (1992) and Bruining *et al.* (2004) found a development of consistency between a new strategy and MCSs after an MBO, we find evidence of inconsistencies in the expected alignment of MCSs with strategy at Indusa. Specifically, key performance indicators are not used as a management control tool, the budget doesn't reflect the strategic guidelines and priorities and. the incentive scheme is linked to short-term financial objectives such as sales and EBITDA and, surprisingly, not to the success factors of the strategy. These evidences lead us to reject the alignment between MCSs and strategy, suggesting instead the influence of the personal preferences.

In this study, we show the existence of a dominant coalition led by the CEO. This coalition was a social network of individuals who originally worked for the production plant in Seville and were linked by strong personal ties. The influence of the personal preferences of the members of the dominant coalition on the MCSs was specifically recognised in this case by: (1) identifying the replication of the MCSs used by the coalition members before the merger at the Seville branch; (2) their personal agendas; and (3) the managerial style of the CEO. The lack of alignment of the MCSs with the strategy reinforces the relevance of the personal preferences of the members of the dominant coalition in the shaping of the MCSs at Indusa.

This study contributes to existing literature by demonstrating that, at the case company, the personal preferences of the members of the dominant coalition, rather than strategy alignment, has a greater influence in the design and use of the MCSs. The study is not concerned with comparing management accounting practice against theoretical ideals, but rather with contributing to Scapens' (1994) call to extend the knowledge of control system practice within the organisational context. The study is not intended to provide an argument against previous research connecting strategy and MCSs but to identify additional influencing factors on MCSs.

We believe the study has implications for researchers and practitioners. Our research can help managers understand the importance of approaching the MCSs of their organizations in a holistic manner in which all areas are interrelated and must fit together. Also, it can help them in understanding the risks of implementing control mechanisms that are designed based on personal preferences, instead of based on backing up the strategy to help in achieving the goals of the organization. The results and the constraints of our study also suggest avenues for further research. We used Otley's framework (1999), which focuses on formal MCSs. While this is not necessarily a limitation, we recognise that organisation control also involves more subtle ways of motivating and coordinating organisational behaviour not included in the framework. Consequently, further analysis on the influence of personal preferences on informal control mechanisms could be conducted using frameworks such as that by Malmi and Brown (Malmi and Brown, 2008). We also acknowledge that other determinants of personal preferences, such as personality traits, may affect MCSs design. This limitation highlights an opportunity for incorporating the field of psychology into management control research.

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(Continue in next page)

APPENDIX A.

TIMELINE OF EVENTS AT INDUSA

Year	*Month*	*Events*
2002	Jan	Merger of Indusa Group companies. Seville sales manager appointed Indusa sales manager; Indusa is structured into SBUs
…		
2005	Jan	Indusa sales manager becomes Indusa General Manager
2006	Jan	
	Feb	RFID unit R&D director appointed Indusa R&D Coordinator
	…	
	Dec	2007 budget approval (first budget)
2007	Jan	First board of directors meeting
	Feb	
	Mar	**MBO**; General Manager becomes CEO; new General Manager appointed
	…	
	Nov	RFID unit accounting manager appointed new Corporate Finance Manager
	Dec	2008 budget approval (second budget)
2008	Jan	Strategic Plan 2008 approval
	…	
	Mar	Strategic plan organisation chart implementation; chief financial officer resigns; new Controller
	…	
	May	First product committee meeting
	Jun	New chief financial officer appointed
	Jul	Barcelona Plant Manager and sales manager resign