How Initial Public Offerings Change Management Control System Packages

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Abstract

This study aims to further develop research, from a management approach, by studying how MCS packages change when an organization undergoes an initial public offering. Furthermore, it aims to use Malmi and Brown’s (2008) management control system package in order to categorize and analyze the complexity of organizational change brought on by an initial public offering. This study draws on interviews with top managers in a high technological firm, which has recently been listed on the stock exchange. The results of this study imply that an initial public offering can change the MCS package in a number of different ways. Public companies do not necessarily become short-term, an initial public offering can affect a company’s external focus and measurements without affecting its internal measurements, in order for companies to become suitable for the stock market they formalize policies and appoint an independent board and listed companies can experience changes to their culture.

Keywords: change, management control systems change, management control system package, initial public offering
Acknowledgments

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Uppsala, January 2016.

Christopher Sander and Clara Laidlaw
# Table of Contents

1. Introduction .......................................................................................................................... 6
   1.1 Research question ........................................................................................................... 7
   1.2 Purpose ............................................................................................................................ 8
   1.3 Disposition ....................................................................................................................... 8
2. What do we know? A literature review ............................................................................... 9
   2.1 Defining MCS .................................................................................................................. 9
      2.1.1 MCS as a package ...................................................................................................... 9
   2.2 Planning control .............................................................................................................. 10
      2.2.1 Defining planning control ....................................................................................... 10
      2.2.2 IPO effect on planning control ................................................................................ 10
   2.3 Cybernetic control ......................................................................................................... 11
      2.3.1 Defining cybernetic control .................................................................................. 11
      2.3.2 IPO effect on cybernetic control ........................................................................... 11
   2.4. Rewards and compensation control .......................................................................... 12
      2.4.1 Defining rewards and compensation control ......................................................... 12
      2.4.2 IPO effect on rewards and compensation control .................................................. 12
   2.5 Administrative control ................................................................................................. 12
      2.5.1 Defining administrative control ............................................................................ 12
      2.5.2 IPO effect on administrative control ...................................................................... 12
   2.6 Culture control .............................................................................................................. 13
      2.6.1 Defining culture control ....................................................................................... 13
      2.6.2 IPO effect on culture control ................................................................................ 13
   2.7 Categorizing previous research ................................................................................... 14
3. Method .................................................................................................................................. 16
   3.1 Research approach ......................................................................................................... 16
   3.2 Configuration of analytical model ................................................................................. 17
   3.3 Choice of literature ........................................................................................................ 17
   3.4 Choice of company ......................................................................................................... 18
      3.4.1 Choice of participants ............................................................................................ 18
   3.5 Collecting data ............................................................................................................... 20
   3.6 Analysis of data ............................................................................................................. 22
4. Empirical findings ................................................................................................................. 23
   4.1 Background and timeline ............................................................................................. 23
   4.2 Changes in planning control .......................................................................................... 24
      4.2.1 Interviews and documents ....................................................................................... 24
   4.3 Changes in cybernetic control ...................................................................................... 27
      4.3.1 Listing rules for cybernetic control ....................................................................... 27
      4.3.2 Interviews and documents ...................................................................................... 27
   4.4 Changes in rewards and compensation ........................................................................ 28
      4.4.1 Listing rules for rewards and compensation ........................................................... 28
      4.4.2 Interviews and documents ....................................................................................... 28
   4.5 Changes in administrative control ................................................................................ 29
      4.5.1 Listing rules for administrative control ................................................................. 29
      4.5.2 Interviews and documents ....................................................................................... 29
   4.6 Changes in cultural control ............................................................................................ 33
4.6.1 Interviews and documents ................................................................. 33
4.7 Summary of changes in MCS package .................................................. 34
5. Discussion .............................................................................................. 37
6. Conclusion and future research suggestions .......................................... 42
   6.1 Conclusion ....................................................................................... 42
   6.2 Limitations and future research suggestions ..................................... 43
7. References .............................................................................................. 44
   7.1 Written references ........................................................................... 44
   7.2 Oral references ................................................................................ 46
Appendix 1. Interview questions for CEO, CFO and Chairman of the board .................................. 47
Appendix 2. Interview questions for HR Manager ........................................ 49
Appendix 3. Interview questions for the Auditor ........................................ 50
Appendix 4. Interview questions for the Presidents of the business units .......... 51
1. Introduction
Management control system change has in the last 20 years been highly debated both from an academic and practitioner point of view (Burns and Scapens, 2000). Further, there has been little theoretical and empirical research regarding the phenomena of management control systems (MCS) as a package, despite its existence for over 30 years (Malmi and Brown, 2008). The environment in which management control systems (MCS) has been applied seems to have changed with more competitive markets, advances in technology and different organizational structures (Burns and Scapens, 2000). A way for organizations to survive in today’s competitive market is to undergo an initial public offering \(^1\) (IPO), (Brealey, Meyers and Franklin, 2014). von Eije, de Witte and van der Swaan (2004) discuss the idea that the preparation for an IPO and the IPO itself could bring about organizational change.

The complexity of political, regulatory, and technological change, confronting most organizations has today made organizational change and adaptation to change a central research topic. The ability to cope with dramatic changes has become a key determinant of competitive advantage and organizational survival (Greenwood and Hinings, 1996). One way for an organization to survive is to look for growth opportunities and a natural step for young companies to achieve growth is to make an IPO (Brealey, Meyers and Franklin, 2014). Kraus and Strömsten (2012) explain that when firms make an IPO, top management faces new challenges. Top management must prepare for uncertainties arising from being listed on the stock exchange, learn to adapt to change and must be able to respond to new situations as they arise.

Burns and Scapens (2000) discuss the concept of organizational change, which involves change to existing routines and challenging the predominant institutions. MCS are the formal routines and procedures used by managers to maintain or alter patterns in organizational behavior (Merchant and Van der Stede, 2007). Furthermore, Morelli and Lecci (2013) explain that these routines include tools and systems to ensure that employee behavior and decisions are consistent with the objectives and strategies of the organization. This thesis will focus on how an IPO acts as a change mechanism and therefore has an effect on the existing MCS.

\(^1\) An initial public offering is the first sale of shares by a private limited company to the public (Law, 2014)
Malmi and Brown (2008) have developed the concept of MCS package. The aim of this concept is to gain a broader understanding of MCS as a package in order to develop theory of how to design a range of controls to support organizational objectives, control activities and the drivers behind organizational performance. However, comparatively little empirical research has been done on the topic, as Abernethy and Chua (1996) (p. 570) discuss:

“Little progress has been made on studying the simultaneous and/or sequential operation of multiple control systems”.

Malmi and Brown (2008) explain that it is important to study MCS as a package since MCS do not operate in isolation. According to Malmi and Brown (2008), in practice MCS rarely act in solitude, but are instead linked to each other and work together. Studying them in isolation could lead to misleading conclusions and it is therefore important to understand that MCS operate as an inter-related whole (Chenhall, 2003). Therefore, we will use the MCS package as a framework throughout this thesis.

von Eije, de Witte and van der Swaan (2004) study the effect of IPO-related organizational change. Their conclusion is that IPOs can cause changes within a company, but it is not easy to know which changes can be expected. The authors explain that financial scholars mainly study IPOs from a financial aspect and therefore argue that a financial and accounting approach comes natural when studying an IPO. The findings, however, show that IPO-related changes are not necessarily financial but can also originate from within the company. von Eije, de Witte and van der Swaan (2004) stress the importance that if an organization wants to create long-term performance they need to generate organizational change. The authors conclude their research by explaining that they are, to their knowledge, the first to study IPO-related organizational change. Therefore we aim to further develop this research, from a management approach, by studying how the MCS package changes when an organization undergoes an IPO.

1.1 Research question
Due to the relatively little use of MCS as a package in empirical research and the broad perspective it provides, this paper aims to use the MCS package to analyze: How does the management control system package change when a company undergoes an initial public offering?
1.2 Purpose
The purpose of this thesis is to examine how and to what extent an IPO can trigger MCS change. In doing so, the paper will aim to draw parallels between the MCS before and after the IPO. The implications of this study may be significant, as it provides a broader and holistic view of what happens when an organization undergoes change characterized by an IPO. Furthermore, we will study and operationalize the concept of MCS package provided by Malmi and Brown (2008) and analyze the complexity of organizational change brought on by an IPO.

1.3 Disposition
This thesis will be presented in the following way: To begin with, this paper will define Malmi and Brown’s (2008) MCS package and the theoretical and empirical findings on how an IPO has changed the different MCS (Section 2). Following this we are going to present the methods that we have used in order to carry out this study (Section 3). After this we will present the empirical findings of our research, i.e. interviews and observed documents, at the observed company (Section 4). The data collected will then be analyzed, where we will draw parallels to previous research and further discuss the implications of our findings (Section 5). We will conclude our study with a conclusion, where the researched question will be answered and a concluding discussion considering limitations with our study as well as suggestions for further research (Section 6).
2. What do we know? A literature review

This section will define MCS as well as the five different types control systems included in the MCS package. It will present theoretical and empirical findings on how an IPO changes the five different control systems.

2.1 Defining MCS

There are a number of definitions of MCS which differ from each other, while other definitions overlap (Malmi and Brown, 2008). However the implications of control systems operate as a package and not in isolation and we will therefore use Malmi and Brown's (2008) (p. 290) definition of MCS, who define it as:

“All the devices and systems managers use to ensure that the behaviors and decisions of their employees are consistent with the organization’s objectives and strategies.”

2.1.1 MCS as a package

According to Malmi and Brown (2008) there are three challenges with studying MSC as a package. The first is clearly defining the concept of MCS and what it is that MCS are supposed to control. The second challenge is what to include in the MCS package, and why? Previous research has focused on MCS individually and it is important to understand how all the systems in a MCS package operate as an inter-related whole. The third and final challenge is empirically studying a MCS package due to the fact that they are large and complex systems. It is important to be able to present the package in a comprehensible way and it is therefore just as important to define and clarify how the package is going to be studied. The section below addresses these challenges and defines in what way this thesis will use MCS as a package.

The term MCS package should not be defined as a single system, but instead as a package of multiple systems (Malmi and Brown, 2008). Furthermore, according to Sandelin (2008) there is a consensus within organizational design literature that suggests multiple control systems do not only complement each other but also acts as substitutes. Malmi and Brown (2008) include five different types of control in their package; planning, cybernetic, reward/compensation, administrative and culture. In order to analyze the effects of change from IPOs, this section will survey theoretical and empirical studies published in different academic journals.
2.2 Planning control

2.2.1 Defining planning control
Malmi and Brown (2008) describes planning as a type of ex ante control. It sets up goals in functional areas in order to direct effort and behavior. Planning also provides standards on how work should be carried out in relation to established goals, and therefore clarifies what is expected of employees. Planning is a way of ensuring that the activities of individuals and groups are in alignment with the organization’s objectives.

2.2.2 IPO effect on planning control
Geddes (2003) find in his research that an IPO can lead to short-termism, due to investors and analysts exclusive focus on the current quarter, without giving consideration to the long-term impact of decisions. Geddes (2003) means that this may pressure management to focus on short-term strategies instead of long-term goals. Furthermore, Trostel and Nichols (1982) observe that in a public company the management focuses more on next quarter's earnings and have an increased concern for growth, especially growth in earnings per share, compared to a private company.

Kraus and Strömsten (2012) discuss in their study that it is important for top management to make sense of uncertain situations, such as an IPO, by using specified goals, which are then presented in the prospectus\(^2\). These specified goals are linked to financial measures and is a way for managers to create commitment throughout the organization. After going public it is highly important to achieve the goals presented in the prospectus. For instance, as a top manager in Kraus and Strömsten’s (2012) (p.196) study stated:

“\textit{We have to stick to what was said: We had publicly communicated these long-term financial goals. This was important; they need to be fulfilled, otherwise the market would not trust us.}”

\(^2\) Formal written document describing the company’s business, information regarding past performance and risks associated with investment. This document should provide a basis for deciding whether to invest or not (Bhabra and Pettway, 2003).
2.3 Cybernetic control

2.3.1 Defining cybernetic control
Cybernetic control is the relationship between cause and effect. In this process a feedback loop is received which shows if performance is on the right path or if corrective actions need to be taken. Cybernetic systems, in relation to MCS, include budgets, financial measures and non-financial measures (Malmi and Brown, 2008).

2.3.2 IPO effect on cybernetic control
Dai, Tan, Tang and Xiao (2014) find in their research that before an IPO, budgeting was used to control costs, set internal goals and was prepared infrequently with no structural timeframe. After the IPO, budgeting is conducted more formally and detailed, and serves more as a promise for the investors. Furthermore, the frequency of preparing budgets increase and the connection between strategy and budgets becomes clearer and closer. Dai et al. (2014) also find that performance evaluation becomes more formal after the IPO.

Being listed on the stock exchange, according to Kraus and Strömsten (2012), entails that top management has a greater short-term financial focus in terms of profits, margins and cash flow. The process of an IPO offers an insight into how top managers become more focused on short-term financial measures due to the “quarterly capitalism” on the stock exchange (Kraus and Strömsten, 2012). Quarterly capitalism entails that the short-term financial measures published in the quarterly reports become a priority for top management leading to short-term orientation. For instance, one top manager from Kraus and Strömsten’s (2012) (p. 198) research stated:

“Before we monitored both financial and non-financial measures closely at the corporate level, now we focus on the financial measures. It has also become much more short-term.”

Robson (1992) discusses the increased importance of numbers as they have the ability to reduce ambiguity. When top managers specify financial measures in the prospectus it involves making financial performance comprehensible to the investors. Mather, Ramsay and Steen (2000) means that this naturally entails an increase in the importance of understanding numbers. Mather, Ramsay and Steen (2000) also explains that top managers and other actors involved in the preparation of an IPO work hard in reducing ambiguity and uncertainty concerning the company when it is presented to potential investors.
2.4. Rewards and compensation control

2.4.1 Defining rewards and compensation control
Reward and compensation controls focus on motivating and increasing the performance of individuals and groups. The basic argument is that rewards and compensation increase effort and motivation (Malmi and Brown, 2008).

2.4.2 IPO effect on rewards and compensation control
Geddes (2003), explain that there are different ways of motivating management and employees after a company goes public. Incentives such as stock options, warrants and stock bonuses can be used to attract and retain both employees and management. Ownership and equity-based awards tend to be spread more broadly among employees and management in public companies. Kraus and Strömsten (2012) also explain that the stock market has an effect on the use of incentive systems. The incentive systems, according to them, are designed and based on financial measures advocated by the stock market. Furthermore, in Kraus and Strömsten’s (2012) research, top managers describes that earnings per share, a measure never used before the IPO, becomes the most important on the corporate level and that all incentive systems for top managers are now based on it.

Dai et al. (2014) observed in their research that a performance-related pay system is introduced for senior and middle managers after the IPO. Also information about the performance of top management is now disclosed publicly, which was not the case before the IPO.

2.5 Administrative control

2.5.1 Defining administrative control
Administrative control consists of systems that direct employee behavior through the organizing of individuals and groups, the monitoring of behavior and the process of specifying how tasks or behaviors are to be performed. This includes three groups of control; organizational structure, governance structure and the procedures and policies within an organization (Malmi and Brown, 2008).

2.5.2 IPO effect on administrative control
Geddes’ (2003) research finds that companies try to create an enhanced image of the organization after an IPO. This is achieved through an increase in transparency, which entails
reporting of company results and disclosure of management salaries. If a company is well run and complies a record of success, it can gain a first class reputation on the stock market.

Trostel and Nichols (1982) explain that in private companies there are fewer formal written policies and processes requiring less formal written documentation than in public companies. Certo, Holcomb and Holmes Jr. (2009) further explain that listed companies often alter their strategies and structures to deal with new investor expectations and the strict reporting requirements of the stock exchange. Atinc and Ocal (2014) find in their research that the corporate governance in a company, that undergoes an IPO, need to have the expertise, experience and knowledge in order to make strategic decisions and compete in its environment.

von Eije, de Witte and van der Swaan (2004) presents in their research that when a company enters the stock exchange, they are required to agree with a listing code and they have to sign a listing contract. Therefore there must be an equal distribution of information, especially financial, among all investors. Information cannot be broadly communicated internally without also communicating it publically. The result of this is that companies may need to revise their public relations policies.

2.6 Culture control

2.6.1 Defining culture control
Organizational culture is defined by Malmi and Brown (2008) as a shared set of values, beliefs and social norms by its members which, in turn, influences their behavior. Culture becomes a control system when it is used to regulate behavior.

2.6.2 IPO effect on culture control
Certo, Holcomb and Holmes Jr. (2009) find that the strategies of listed companies reflect top management’s values, ideals and beliefs. Therefore executives in such companies prove to be especially influential in employee behavior and performance. Moreover, Kraus and Strömsten (2012) argue that the stock market has considerable influence on the behavior of employees in listed companies, as it has become a priority to increase shareholder value.

Sandelin (2008) discusses that top management feel the need to establish an accounting culture, in order to increase employees’ interest in financial results. The reason behind creating an
accounting culture is to help employees understand the significance of being a listed company and how being exposed to the stock market can affect the company.

2.7 Categorizing previous research

Table 1 presents the findings of previous research on IPO related change and the drivers behind these changes. We have categorized the findings according to Malmi and Brown’s (2008) MCS package in order to analyze the complexity of organizational change due to an IPO.

Table 1. Management control system change due to an initial public offering

<table>
<thead>
<tr>
<th>Management control systems</th>
<th>Drivers of change</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geddes (2003)</td>
<td>Investor expectation</td>
<td>Pressures top management to focus on short-term strategies instead of long-term goals</td>
</tr>
<tr>
<td>Trostel and Nichols (1982)</td>
<td>Stock market pressure</td>
<td>Top management focus greater attention on the next quarter’s earnings and exhibit more concern for growth in earnings per share</td>
</tr>
<tr>
<td>Kraus and Strömsten (2012)</td>
<td>Top management</td>
<td>Formulate specified goals in the prospectus. These specifications create commitment, to ensure that the goals are achieved in order to gain a first class reputation on the stock market</td>
</tr>
<tr>
<td>Cybernetics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dai et al. (2014)</td>
<td>Top management</td>
<td>Budgeting is more externally oriented and serves as a promise for the investors. It is conducted in a more formal and detailed manner</td>
</tr>
<tr>
<td>Kraus and Strömsten (2012)</td>
<td>Stock market pressure</td>
<td>Top management has a greater short-term financial focus in terms of profits, margins and cash flow. Quarterly reports become a priority and non-financial measures are no longer closely monitored</td>
</tr>
<tr>
<td>Robson (1992) and Mather, Ramsay and Steen (2000)</td>
<td>Investors and analysts</td>
<td>Top management reduce ambiguity by increasing the importance of numbers and creating comprehensible financial measures for investors</td>
</tr>
</tbody>
</table>
### Rewards and compensation

<table>
<thead>
<tr>
<th>Source</th>
<th>Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geddes (2003)</td>
<td>Top management</td>
<td>Use incentives such as stock options and stock bonuses to attract and retain both employees and management</td>
</tr>
<tr>
<td>Kraus and Strömsten (2012)</td>
<td>Stock market</td>
<td>Incentive systems are designed and based on financial measures advocated by the stock market. Incentive systems, for top management, are now based on earnings per share</td>
</tr>
</tbody>
</table>

### Administrative

<table>
<thead>
<tr>
<th>Source</th>
<th>Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geddes (2003)</td>
<td>Stock market requirements</td>
<td>Increase in transparency, which entails reporting of company results and disclosure of management salaries</td>
</tr>
<tr>
<td>Trostel and Nichols (1982)</td>
<td>Stock market requirements</td>
<td>More formal written policies and processes requiring formal written documentation</td>
</tr>
<tr>
<td>Certo, Holcomb and Holmes Jr. (2009)</td>
<td>Investor expectation and stock market requirements</td>
<td>Public companies alter their strategies and structures to deal with new investor expectations and the strict reporting requirement of the stock exchange</td>
</tr>
<tr>
<td>Atinc and Ocal (2014)</td>
<td>Stock market pressure</td>
<td>The corporate governance needs to be suitable for the stock market in order to make strategic decisions</td>
</tr>
<tr>
<td>von Eije, de Witte and van der Swaan (2004)</td>
<td>Stock market requirements</td>
<td>Public companies must sign a listing contract and agree to a listing code. This entails equal distribution of information, meaning that information communicated internally must also be communicated externally</td>
</tr>
</tbody>
</table>

### Cultural

<table>
<thead>
<tr>
<th>Source</th>
<th>Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certo, Holcomb and Holmes Jr. (2009)</td>
<td>Top management</td>
<td>Strategies reflect top management values, ideals and beliefs, which in turn effects employee behavior to a greater extent</td>
</tr>
<tr>
<td>Kraus and Strömsten (2012)</td>
<td>Stock market</td>
<td>The stock market can have an influence on the behavior of the employees of listed companies, as it is a priority to increase shareholder value</td>
</tr>
<tr>
<td>Sandelin (2008)</td>
<td>Top management</td>
<td>Top management establish an accounting culture to increase employees’ understanding of being listed on the stock market</td>
</tr>
</tbody>
</table>
3. Method

This section will present, in a comprehensible way, how we have designed and operationalized our study. The chapter will give an account of the collection of data, research approach, review and discussion of the method so that the reader may gain a clear understanding of our thesis.

3.1 Research approach
Research done on MCS change due to an IPO is, as earlier presented, fairly limited (Malmi and Brown, 2008). There has also been little focus on how MCS act simultaneously in a package. Therefore an interest naturally grew to discover, develop and interpret new insights in relation to the research question, thus aspiring to reach some form of cumulatively. Furthermore, due to the nature of the study being explorative, a qualitative study was best suited, as it provides an opportunity to interpret and describe individual’s perceptions (Saunders, Lewis and Thornhill, 2012; Bryman, 2012). The five types of control systems in Malmi and Brown's (2008) MCS package acts as a framework for our study and we chose to keep the definitions broad in order to cover as much of the MCS as possible.

Since the goal with our paper was to examine how Malmi and Brown’s (2008) five types of control systems changed due to an IPO, we performed a single case study on a company, which had recently done an IPO. Even though a single case study may not represent a wider population and cannot generally be applied to other situations, they can be useful in order to gain a deeper understanding of this research (Bryman, 2012). Furthermore, a case study was the optimal choice as interviews and personal meetings enables a broader discussion of the research question. (Saunders, Lewis and Thornhill, 2012). This avoided the risk of predetermined boundaries and prejudices regarding the theoretical and empirical expectations for reliable final results (Holme & Solvang, 1997). The reason for collecting different types of data, such as documents and interviews, was to compare the data and to ensure that the data was interpreted in a critical manner (Saunders, Lewis and Thornhill, 2012).

We have understood that Malmi and Brown’s (2008) MCS package is very large and that there is a possibility that we might leave out details that can be of importance. However, using a broad focus on the five different types of control we were able to capture a comprehensible picture of how the different control systems have changed by the IPO.
3.2 Configuration of analytical model
The aim of an introductory literature review was to bring attention to the concept of the MCS package and to present what studies, both theoretical and empirical, have previously been done regarding IPO related change on MCS. Malmi and Brown’s (2008) MCS package has been used as a framework throughout our study in order to categorize and analyze how MCS packages change when a company undergoes an IPO. With the help of Malmi and Brown’s (2008) MCS package, the literature review was conducted in a systematic way by analyzing previous research studies’ findings regarding IPO related change on the five different control systems. The results of our study has therefore been analyzed in the same way as we have analyzed previous research.

3.3 Choice of literature
The majority of the references used in this thesis were collected from renowned management-reviews and journals, mainly from Management Accounting Research, Strategic Management Journal, Accounting, Organizations and Society and Academy of Management Journal. According to Saunders, Lewis and Thornhill (2012), references chosen from relevant and trustworthy reviews can strengthen the results in a study. In order to find relevant literature we searched for key words such as MCS, MCS change, IPO, public companies, management accounting systems and corporate governance, as well as searched for sources in reference lists in different reviews, journals and thesis. The reviews and journals were found in Uppsala University’s database and in databases such as Business Source Premier, JSTOR and Google Scholar. There has also been a frequent use of literature from books and PhD thesis. We have, where it has been possible, used original sources to strengthen the reliability of our thesis. According Saunders, Lewis and Thornhill (2012), although all literature read will enhance the knowledge of the subject and help clarify the research question, only the relevant literature from the study will be included in the literature review. The sources have therefore been critically analyzed to make sure that they are relevant and reliable for our thesis. After a thorough search for literature, we found ten secondary sources relevant for our study. Even though ten sources can be seen as limited, it strengthened our motivation to study IPO related change on MCS packages.
3.4 Choice of company
To be able to carry out the purpose of our study we needed to be introduced to a company that was listed on the stock exchange. Through personal contacts an introduction was carried out with such a company. We did not want to study an organization that had been listed for many years due to 1) it is important that the people we interviewed were present in the company before and after the IPO and 2) prevent the risk that the interviewees had forgotten important information that could affect the outcome of the study. The people whom we interviewed asked to remain anonymous in our study; therefore we have also kept the name of the company anonymous. Even though it is difficult to entirely eliminate the possibility of identification (Bryman, 2012), this may alleviate the risk for participants to lose their anonymity since we have, in our study, used the titles they have within the company.

Due to the fact that we are using Malmi and Brown’s (2008) MCS package, we wanted to study a larger company to ensure that the five types of control systems were present. For our thesis we chose a large-sized company which operates in an advanced technology industry. Since we have kept the company anonymous we cannot specify exactly when the company carried out their IPO except that it was listed sometime in the past year, which makes it an acceptable candidate for our study.

3.4.1 Choice of participants
Bryman, (2012) discuss the ability to choose participants strategically so that their knowledge is relevant to the research question. MCS and MCS design is often associated with top level management (Merchant and Van der Stede). Furthermore, in the company we researched it was mainly top management whom worked actively with the IPO. Therefore the strategic choice for us was to interview top management within the company. It was very important for our study that the participants had been present at the company, and had the same role, before and after the IPO. This was to ensure that the participants had experienced the change themselves and to minimize the risk of gaps in information with the collected data. Our goal with the amount of interviews was to achieve saturation, and according to Bryman (2012) there is no minima or maxima for sample size to achieve saturation. In total seven interviews were carried out. This can be seen as an insufficient amount of information in order to draw conclusions regarding the changes in MCS due to an IPO. However, due to the information collected from the interviews and observed documents, no more interviews would have contributed with new

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3 A large company has more than 249 employees (European Commission, 2014).
information and therefore empirical saturation had been achieved. Moreover, it is also, according to Bryman (2012), an advantage that the sample sized is small in order to undertake.

The Chief Executive Officer (CEO) was an important person for us to interview as this role entails having a good understanding of the MCS within the company, as well as being one of the central figures in an IPO. We also interviewed the Chief Financial Officer (CFO) in order to understand the effect the IPO has had on the financial aspects of the company but also what the CFO thought were the central changes after the IPO. We asked the CEO whom might be helpful to interview for our study and made an introduction with the manager of Human Resources (HR manager). The HR manager had a good understanding of the company, how the employees were controlled and most importantly how the employees experienced the change from going private to public. We arranged to interview the Chairman of the board (COB), as this person was one of the central figures in the IPO and who is also required to have a deep insight of how the company is managed. During the interview with the COB, we were given an understanding into how the company is run after the IPO. It was also important to interview this person in order to establish the changes carried out in the board. The COB introduced us to the company’s auditor who provided us with financial information relevant to an IPO. However, the Auditor had professional secrecy, and therefore could neither disclose information nor answer questions specifically about the company. Therefore general questions were designed and the answers were used to complement information from the other participants as this person acts as a control body for the company.

In addition to these interviews, we also interviewed two business unit presidents, President one (P1) and President two (P2). It was important to interview these two presidents as they are not only a part of top management but also involved in the company’s core business and daily affairs.

The people whom we interviewed, length of the interviews, the number of words transcribed and the language of the interviews were held in are summarized in Table 2. By combining the different responses from the interviews, the relationship between IPO and MCS in the company could start being mapped.
Table 2. Participants and information about the interviews

<table>
<thead>
<tr>
<th>Title</th>
<th>Date</th>
<th>Length of interview</th>
<th>Type of interview</th>
<th>No. of words</th>
<th>Language</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer and co-founder</td>
<td>11.12.2015</td>
<td>1:24:24</td>
<td>Face to face Interview</td>
<td>Transcribed: 9210</td>
<td>Swedish</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>03.12.2015</td>
<td>1:01:27</td>
<td>Face to face interview</td>
<td>Transcribed: 6754</td>
<td>English</td>
</tr>
<tr>
<td>Human resource manager</td>
<td>11.12.2015</td>
<td>0:45:20</td>
<td>Face to face interview</td>
<td>Transcribed: 4685</td>
<td>Swedish</td>
</tr>
<tr>
<td>Chairman of the board</td>
<td>13.12.2015</td>
<td>0:21:15</td>
<td>Telephone interview</td>
<td>Noted: 726</td>
<td>Swedish</td>
</tr>
<tr>
<td>Auditor</td>
<td>16.12.2015</td>
<td>0:31:00</td>
<td>Telephone interview</td>
<td>Noted: 1244</td>
<td>Swedish</td>
</tr>
<tr>
<td>President 1</td>
<td>12.16.2016</td>
<td>0:21:32</td>
<td>Telephone interview</td>
<td>Noted: 732</td>
<td>Swedish</td>
</tr>
<tr>
<td>President 2</td>
<td>12.16.2016</td>
<td>___________</td>
<td>Interview via email</td>
<td>Noted: 253</td>
<td>Swedish</td>
</tr>
</tbody>
</table>

3.5 Collecting data
Our interviews were designed in a semi-structured manner. The reason behind forming our interviews this way was to give our participants the freedom to build on their answers. This, according to Saunders, Lewis and Thornhill (2012), can lead to discussions not previously considered, which can be significant for final results. In order to strengthen the validity of our research, the interview questions were categorized into Malmi and Brown’s (2008) five types of control. This was to ensure that the research question and purpose of this thesis was addressed. We chose to adapt our interview questions depending on the participants roll in the company, which are fully presented in appendix 1, 2, 3 and 4. The interview started with general questions to establish an initial relationship with the participants. The five types of control were not brought up or explained in our interviews in order to prevent confusion.
In our contact with the participants we found it important to be flexible and adapt after their schedules. To achieve reliability in this thesis, each participant was given a short summary of our research and an overview of our main themes before each interview. The participants could then prepare themselves in the areas we asked questions (Bryman, 2012). Three of our interviews were held face-to-face, two of which were held in their offices. This was practical for us as they could easily access material and helpful documents as well as avoid disturbances, which, according to Saunders, Lewis and Thornhill (2012), raises the reliability of a thesis. One meeting was held in a café due to a last minute reschedule. This was somewhat of a disturbance, however, the participant did not seem effected by this environment, as the conversation between us was relaxed and personal. The personal contact in our face-to-face meetings enabled us to create a discussion and ask follow up questions.

The interviews were audio-recorded, after given permission from the participants and then transcribed, whereas during the telephone interviews, notes were taken. The audio-record of interviews allowed us to re-listen to the interviews and enabled us to use direct quotes. Each audio-recorded interview was thoroughly transcribed by both researchers, which also increased the reliability of our thesis. Bryman (2012) explains that the reliability increases when more than one member of a research team participates actively in the interview process. The transcribed documents were then analyzed and categorized by color in regard to each control system. However, the participants were clear to state that this audio-recording would only be for the ears of the researchers and only used for our thesis. Therefore all recordings were deleted after the completion of our thesis. Three of our interviews were held over the phone and one over email, due to geographical difficulties and limited time to meet us. Even though telephone interviews are restricted as it is difficult to observe the participants’ behavior and emotions, we were able to obtain the information needed for our study (Bryman, 2012). Contact by email meant that, even though we could not pick up on the participant’s visual or auditory cues, the participant could answer the questions when there was time to spare (Bryman, 2012).

We also gathered data from the listing rules (the Code) for public companies, as these rules clearly state what an organization must do in order to act as a public company on the stock market. The information gathered from the listing rules were also categorized under Malmi and Brown’s MCS package. Information was clearly stated for three out of five of the controls from Malmi and Brown; cybernetic control, rewards and compensation and administrative control.
We were also given the opportunity to observe documents such as budget reports, core values, prospectus and the approval matrix.

We are aware of the fact that we cannot generalize our study of how MCS package is changed by an IPO, as we only have studied one social environment. However, we can generalize our research to similar studies (Ahrne and Svensson, 2011).

3.6 Analysis of data
The data gathered is analyzed through Malmi and Brown’s (2008) five types of control systems; planning, cybernetics, administrative, rewards and compensation and culture. As mentioned above our analysis was done in a systematic way where we collected data, which reflected the five types of control systems, and similarly to how we presented the literature review in order to make clear comparisons to previous studies. This made it also possible to compare and explore contrasts between the participant’s answers and previous research.

When we have referred to after the IPO in our results, we included all changes that have come from the preparation for the IPO, entering the stock market and present time. Therefore after the IPO does not only refer to the day after the company went public. This is to fully explore the changes triggered by the IPO from day one of preparations up until today.
4. Empirical findings

This section will present empirical data collected through interviews and documents. Focus will lie on changes due to the IPO in the MCS package. These changes will be categorized into the five different control systems; planning, cybernetics, rewards and compensation, administrative and culture. By doing so we analyze the situation before and after the IPO in a systematic way.

4.1 Background and timeline
The CEO and CFO provided a background regarding the preparations for the IPO, see figure 1. The preparations began about eight years before the IPO took place. This process started with implementing the International Financial Reporting Standards (IFRS), which is a systematic auditing system that the company needed in order to become public. At this time the company had 80 shareholders. This was also when the company started making quarterly reports, which is a must if an organization is to be public. Four years before the IPO the company had the first meeting with NASDAQ OMX Stockholm. This was an informal meeting where NASDAQ and the company discussed what needed to be done in order to make an IPO. At that time the company went to 5 different investment bankers in order to select which investment banks would perform the IPO. Formally the decision to make an IPO was in the beginning of the first quarter one year before the IPO and the preparation for the IPO started in the third quarter. The following year, in the second quarter, the organization made an IPO and officially became public.
4.2 Changes in planning control

4.2.1 Interviews and documents
The CEO explains that in a market where trends come and go, and change comes around quickly, it is hard to always maintain long-term orientation. However this is critical when working with high technological products in order to compete in the market. As the CEO states, this long-term mentality is still present after the IPO:

“It takes strong will from management to not think and act short-term after the IPO. The top management now works actively to ensure that the budgets, goals and strategies are not influenced by short-term results and what investors think.”

Furthermore, the CEO explains that the company’s optimization criteria does not only take into account the investor's opinion but rather concentrate how to create the best organization in the long run (CEO, 2015).
The CFO says that one obvious change regarding goals is that previously, much of the vision for the future was for the company to undergo an IPO. However, now that this has been done, there is room to focus on other goals. The HR manager also describes that the company’s goals have become more clearly defined and explicit after the IPO. For example, the goals now specifically state the timeframe of investments and are more precise for each business unit. These goals were formalized at the same time as the prospectus was developed, in order to clarify for investors. P2 further explains that the company feels a greater responsibility to achieve their goals, as they have openly communicated these to the public.

The CFO states that before the IPO the company presented future goals to investors and what the company would like to achieve in the next five years. Now, after the IPO, when top management gives presentations for investors they talk about the past. For example, now they present how much each business unit has grown the past quarter instead of presenting future predictions. The only mention about the future is the overall goals, which are also clearly stated in the prospectus. They can only discuss new products and plans after they have done a press release. The Auditor further explains that the goals organizations present in their prospectus are the ones that they must follow:

“These are the goals the organization presents to investors and therefore you must achieve them. If you do not achieve these goals there is a risk that the organization does not maintain a lucrative standing on the stock exchange.”

The CFO reflects over the business plan, that the company can now plan more long-term than before the IPO. Prior to the IPO, the company constantly had to search for new capital and investors in order to make sure that their plans and business was fully funded. For instance, the CFO explained:

“Every year we did a round of presentations to potential investors in order to raise capital. A round could take up to 12 months resulting in a lot of presentations. This process was so very time consuming.”

The CFO describes it as a “go and stop” motion because there were times that the company had to look for capital instead of continuing to only focus on developing their products. Now top management can actually have a situation where they can schedule their calendar for the
full year and can therefore spend more time on other priorities in the company. The COB mentions that the company raised enough capital in the IPO to finance the long-term business plan and goals as stated in the prospectus. This has enabled management to focus on the long-term goals and run the business accordingly.

The CEO perceives that the company's top management today spends more time in meetings, discussing formalization of processes and structures. There are also more meetings and planning around press releases, quarterly reports and external communication. The CFO describes the process of the reporting and writing press releases as much more formal than in the past. Around every quarter the company will have an extra board meeting just to insure that everything is correct in the reports, and that the language and tone reflects the results. Before every press release the organization has, at least, one extra board call where they go through and discuss the details of the content of the press release. This is to ensure that the business operations are not impacted by the work being done in preparation for each release of the quarterly results. The CEO experiences that the time spent on quarterly reports, press releases, processes and policies are around 20 percent of the CEO’s working hours. The time spent in meetings with investors and media has increased takes around 20 percent of the CEO’s time. So, in total the experience is that there has been an increase of about 40 percent in workload as a consequence of the IPO.

The CFO also experiences that meetings and preparation for board presentations and press releases has increased the workload. Emphasizes the change in workload, the CFO put it like this:

“You have to be hundred percent sure that everything you do is correct […] and writing a formal quarterly report takes more time now because we have to consider every little word in the messaging to insure that we are very objective in what we are saying.”

Furthermore, the management team for each business unit also spend more time on planning, budgeting and preparing press releases, however, this time consumption is mainly felt by top management and does not generally affect the individual employees (HR manager).
4.3 Changes in cybernetic control

4.3.1 Listing rules for cybernetic control
The listing rules state that regular and systematic evaluations constitutes the foundation for assessment of the board’s and the CEO’s performance as well as the continuous development of their work. The evaluation results should be provided to the nomination committee (Swedish Corporate Governance Board, 2015).

4.3.2 Interviews and documents
Monthly reporting and following up of the business units are done in the same way as before the IPO. The budget process also functions in the same way as it did before the IPO but the actual process now starts earlier than before (HR manager). However in the past the company focused on cash flow as a financial measure, now, after the IPO the company focuses more on EBIT (CFO). Earnings before interest, tax, depreciation and amortization (EBITDA) with research and development (R&D) investments is a financial measure, which has been used in the company since day one. When the company went public, earnings before interest and tax (EBIT) and EBITDA became an important financial measure and according to the CEO:

“...these measurements have historically been ignored in the company but with the IPO more focus has been drawn to EBIT and EBITDA, as they are financial measures that many investors look at and analyze. However, internally EBITDA with R&D investments is still the most important internal measurement.”

The CFO explains that there have been no direct changes to the non-financial measures due to the IPO. The COB also expresses this, however, and is clear to state that they are still just as important as the financial measures. The non-financial measures are used internally in order to receive feedback for operational improvement as it measures how the business is running (COB).

The CEO explains that even though the process of budgeting is the same, the process has become more significant. The presentation of the budget has become more formal and structured (Observed document: Budget). Furthermore, the CEO states that the managers and the board also take the budgeting process and forecasts more seriously after the IPO. The CEO and the CFO have a greater understanding for the financials due to their need to present them for the board and investors. This has put pressure on them to know the company in detail, a
pressure that did not exist to the same extent before the IPO. The business unit managers understanding of the numbers has elevated, as their financial results are more thoroughly reviewed by the CEO, CFO and the board (CEO).

4.4 Changes in rewards and compensation

4.4.1 Listing rules for rewards and compensation
The company should have formal and clearly stated process for deciding on remuneration to senior executives. Remuneration and other terms of employment for senior executives shall be designed with the purpose of ensuring that the company has access to executives with the right competence. However, the remuneration should be in line with the company’s expenses and have the intended effects (Swedish Corporate Governance Board, 2015).

4.4.2 Interviews and documents
The CEO explains that the different forms of rewards and compensation in the company are wages, bonuses and different incentive programs. Wages and bonuses are designed in the same way as before the IPO. For example, each business unit manager’s bonus has always been based on their unit’s EBITDA with R&D investments. However, the company is in the process of reconstructing new incentive programs. It is not yet clarified in what way they will construct them, but as a public company there are different potentials solutions as well as restrictions compared to private companies. Historically, the company has been using an options program, but are now considering using a stock saving/match program. There are a few different reasons for doing so. The COB explained:

“Stock saving/match programs are more common in Sweden than anywhere else. Due to the Swedish tax situation, option programs have a poor reputation and have been in focus by media, the larger investors generally would like to avoid using them. Therefore investors prefer a stock saving/match program.”

According to the CEO, it also places those who are included in the incentive program in the same seat as any other shareholder, meaning that managers incentives program become more aligned, in term of rewards, with the shareholder base. An IPO opens the door for this type of incentive program, as it is complicated for private companies to work with stock saving/match programs.
In conjunction with the IPO process, there were incentive programs in the form of employee options and warrants for management (CFO; HR Manager). Every employee was given the option to buy shares in the offering. The HR Manager explains:

“Nothing out of the ordinary but it is a symbolic deed which has been appreciated among the employees. It shows that the employees really believe in what they do and that they want to be a part of this for a long time.”

Now that the IPO is done, management is looking at what their peers are doing and what expectations the different shareholders have (CFO). Once the company is listed, the different investors and venture capitalists will compare the programs to the peer groups and therefore it is important to establish a balanced structure in order to be compliant towards other peers (CFO).

4.5 Changes in administrative control

4.5.1 Listing rules for administrative control
In the listing rules for public companies, on regulated markets in Sweden, it specifically states that there needs to exist three levels of decision-making; Annual General Meeting, Board of directors and CEO. These three levels need to stand hierarchically in relation to each other. The rules also state that the annual general meeting appoints the auditor who acts as a control function. The board is responsible for the organization’s structure and management. The CEO is responsible for overseeing the operational management. A public company must also have a nomination committee, who are responsible for submitting proposals to the annual meeting (Swedish Corporate Governance Board, 2015).

4.5.2 Interviews and documents
Before the IPO, the CEO was also president over one of the business units. However, due to the IPO, the company decided to appoint a president for each business unit (CEO). According to the CEO, this was due to the increase in workload for a CEO when a company goes public. The objective was to make sure the company becomes more formalized and that it stays aligned with the demands from the stock exchange and shareholder community.

The CFO explained that they try to organize and structure the company in a way that ensures that the different business units are not affected by the IPO. The presidents of these units should
run the business without thinking about being listed on the stock exchange. This is to prevent
the presidents from becoming focused on quarterly reports and therefore victims of short-term
orientation. The CFO further explained:

“So you can say that the people who are working with the operation of the business are
not involved in anything related to the IPO”.

The Auditor describes quarterly capitalism as one of the most common drawbacks with being
listed:

“That you become mainly focused on following the goals that satisfy the investors.
Sometimes to the point that management get stuck in the quarterly capitalism, as you
do not want to show a bad quarter and therefore risk, potentially, tampering with the
numbers.”

The board, CEO and CFO are the ones who take care of investor relations and everything
related to the stock exchange (CEO). The CFO experiences this as something positive because
it means that the rest of the business is not distracted. Otherwise, the company structure has
not changed in any way since going public, except that an Investor Relations position has been
created and filled. P1 further noted that the company’s investor relations helped ease the
increased workload around reporting requirements, such as quarterly and annual reporting.

According to the CEO, the IPO has changed how top management communicates information
about the company, both internally and externally. They must be stricter in what they say and
the communication cannot disclose any sensitive information that can have an effect on the
value of the company. The information shared has become more secretive and on a need- to-
know basis. However, the CEO says:

“We try not to make this a big difference from the past. We have a very open climate
and don’t want to over exaggerate anything.”

The CEO explains, the largest change is how the organization communicates information
externally:
“We must ensure that the information is interpreted by investors in the right way. It is the same principle in communicating financial reports, everything must be much more thorough, where every word is proof read over and over.”

The HR Manager further explains that the largest difference in being a public company is how the communication process has changed. Before the IPO, the company did not spend much time on external communication, however, now there is more information about the company on the website, in the press, in different analysis rapports, investor reports, etc. The internal communication has also changed. According to the HR Manager, the internal communication has become more closed, as all information now can be price sensitive on the stock exchange. This is a major difference from before, where all internal communication in the company was open to all employees. There are now stricter rules on what employees can say to their colleges, what type of information they can and cannot have on their desk and what employees can talk about during dinner parties (HR Manager)

The investors changed the board of directors in preparations for the IPO. The previous board contained mainly venture capitalists with dominant proprietary interests. The CEO explains that this can become problematic in a public company because the majority of the board may be focusing more on the share price or an exit rather than on what is best for the company. The COB further explains this by saying,

“The difference is that, previously, there were representatives for a number shareholders. The result of this was that the work of the board was not as efficient as it could be. Especially when they were starting to look for an exit. In those situations there are a lot of proprietary based questions in the board that should not be there”

However, now, the board has less of a proprietary interest and being able to focus more on the long-term strategies (CEO). Due to that the company is now in the “public eye”, it is important that the board is independent, cares about the long-term growth of the company and suitable to be listed on the stock exchange (CEO). Another change to the board is that it has become more formal with the creation of a compensation committee, nomination committee and an audit committee (COB).
The Auditor explains that the stock exchange puts pressure on organizations that they must achieve their set goals and therefore there are strict rules on how to report your financial reports. It is important that a public company has the correct accounting systems, competent employees and good routines. The Auditor clarifies:

“When this is functioning correctly and a company follows the rules from the stock exchange, you will have a dynamic organization with better control”

In the process of going public, the company had to upgrade all of their policies and therefore today manage the company in a more formal manner than before (HR Manager). The HR Manager, who was involved in the process of upgrading the policies, explained that before the IPO the policies were not as structured and outspoken and states:

“You had to find the policies yourself. Some were just lying around, others in the employee manual. Some you didn’t even know they existed and there were no real consequences if you didn’t follow them.”

The rules and policies have become more clear, outspoken, and visible and now the company is able to hold people accountable for their actions (HR Manager). The CFO explained that today there is a policy for everything they do. Today, the employees must act accordingly to the Code of Conduct⁴, which was not a requirement prior to the IPO (HR Manager). The CEO and the HR manager experience that the effect of these policies on employee behavior is mixed. Having rules and policies for everything now makes it a little boring, rules limits one’s behavior. This is mostly perceived by employees that have been present in the company for a long time. However, there are those in the company who experiences this in a positive way and are happy that there is more structure in the company (HR Manager).

Another change in the policies is the formalization of an approval matrix. Before the IPO, employees knew what documents they were allowed to sign and not to sign, but now that the company is public there has to be a charted matrix over who can sign what (Observed document: approval matrix) The CEO further explains that such a document is important, as it

⁴ Code of conduct are the set of rules and standards regarding organizational values, beliefs and ethics. The code entails that members are responsible for following it and can be held accountable if failed to do so (HR Manager).
ensures control over decision making. There was an approval matrix in the company before the IPO. However, according to the CEO, the old matrix did not work in practice. The new one is more sophisticated and elaborate, and the company must abide to it.

4.6 Changes in cultural control

4.6.1 Interviews and documents

The company culture is described as innovative, action oriented and entrepreneurial. It is a flat organization where employees are encouraged to take action rather than sit around and think about what to do or wait for direction (CEO; CFO; HR Manager; COB). In regards to this organizational behavior there have been little to no changes by the IPO. However, the CEO explains that the company practiced an open and transparent policy before the IPO, but after the IPO, people perceive the company as more transparent and professional. According to the HR Manager, the CEO has been clear that the culture of the company is not to be affected by the IPO. The CEO does not want the company to become a closed organization that does not share information, is controlled by quarterly reports and does not have the ability to maintain a long-term orientation.

The HR Manager further explains that only a few changes have taken place in regard to the company’s culture. One of these changes is how information is communicated. Internal communication has become slightly closed, making employees feel left out and nervous that they will overstep their mandate. The other change is what it means to be a public company. The pride in working at the company has risen due to an increase of press and publicity. This is thanks to the increase of recognition of the company and its brand. The HR manager states:

“I was not prepared for it. The CEO explained to us that this is one of the advantages of being public. The effect is that almost all the employees feel an increase in pride of being part of the organization and it has become much easier to find new people to recruit to the company.”

P1 confirms the new sense of pride which has come after the company went public and says:

“I want to be part of the success story and now that we are listed we are looked at in a whole new way. We want to build a large Swedish company that contributes to the Swedish economy. I feel a sense of pride to be able to drive Swedish innovation.”
The CEO and P1 both discuss the increased responsibility they feel due to being a public company. They explain that the employees feel a greater duty to deliver to the shareholders expectations. The “public eye” is upon not only top management, but the entire company, motivating everyone to live up to the standards of the stock market.

Even though there have been no specific actions from top management to influence the culture after going public, there are other indicators that point towards strengthening a more professional culture. The HR manager and P2 explained that smaller changes have taken place that can have a strong effect on the culture of the company. The head office has become more organized and much of the furniture has been replaced and updated. The company also changed their total branding strategy, including logotype, due to the IPO. The HR manager explained that the old one was not very appealing and now that the “public eye” is upon them they need a representable brand.

There have been no direct changes to the core values due to the IPO. However, they are in the middle of revising the values since they have not been revisited in four years. This has been a big project, as it needs to cover all the different business units as well as the company. The plan is to present the final Core Values to the board in the beginning of 2016 (CEO; COB; Observed document: Core Values).

### 4.7 Summary of changes in MCS package

Table 3. summarizes the changes within the MCS package, which are a result of the IPO. These changes are gathered from the empirical data collected from the interviews with the top management of the organization.

**Table 3. How the initial public offering changed the management control system package**

<table>
<thead>
<tr>
<th>Management control systems</th>
<th>Before</th>
<th>Drivers of change</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td>Long-term orientation</td>
<td>Top management</td>
<td>Work actively to maintain long-term</td>
</tr>
<tr>
<td>Presented future goals to investors</td>
<td>Stock market pressure</td>
<td>orientation in order to prevent becoming influenced by short-term results</td>
<td></td>
</tr>
<tr>
<td>------------------------------------</td>
<td>-----------------------</td>
<td>---------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Constant search for capital</td>
<td>Initial public offering</td>
<td>Presentation for investors only consider the past and top management can only present goals stated in the prospectus</td>
<td></td>
</tr>
<tr>
<td>Meetings and the process of reporting quarterly reports was less formal</td>
<td>Stock market requirements</td>
<td>Enough capital raised in the public offering enables management to focus on long-term goals</td>
<td></td>
</tr>
</tbody>
</table>

**Cybernetic Control**

<table>
<thead>
<tr>
<th>Focus on cash flow and earnings before interest, tax, depreciation and amortization with research and development investment</th>
<th>Investors and analysts</th>
<th>Focus on earnings before interest and tax and earnings before interest, tax, depreciation and amortization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeting process is the same as after the initial public offering</td>
<td>Investor and board expectations</td>
<td>Presentations of the budget has become more formal and structured. Top managers understanding of the business and financial results has elevated</td>
</tr>
</tbody>
</table>

**Rewards and compensation**

<p>| Incentives based on option programs | Stock market and investors expectation | Revising incentives and are considering a stock saving/match program. Also the use of employee options and management warrants during the public offering |</p>
<table>
<thead>
<tr>
<th>Administrative</th>
<th>Stock market requirements</th>
<th>New president was hired for the business unit and the CEO maintains the roll as CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>The current chief executive officer (CEO) was president for one of the business units as well as the company’s CEO</td>
<td>Stock market requirements</td>
<td>Top management try hard to ensure that the business units are not affected by the initial public offering</td>
</tr>
<tr>
<td>Same organizational structure</td>
<td>Stock market requirements</td>
<td>Broad Information communicated internally must also be communicated externally</td>
</tr>
<tr>
<td>A very open climate in terms of internal communication</td>
<td>Stock market requirements</td>
<td>More independent board members suitable for being listed on the stock exchange</td>
</tr>
<tr>
<td>A Board made up of large shareholders and Venture Capitalists</td>
<td>Stock market requirements</td>
<td>There are policies for everything. They are more clear, outspoken, visible and now the company is able to hold people accountable for their actions</td>
</tr>
<tr>
<td>Policies and rules were not structured and outspoken</td>
<td>Stock market requirements</td>
<td></td>
</tr>
<tr>
<td>Culture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The culture was innovative, action-oriented and entrepreneurial</td>
<td>Press and publicity</td>
<td>In addition to previous culture, a sense of pride and professionalism has risen throughout the company due to brand awareness</td>
</tr>
<tr>
<td>Outdated logotype and core values</td>
<td>Top management</td>
<td>Updated branding strategy, including logotype. Core values are under revision</td>
</tr>
</tbody>
</table>
5. Discussion

This section will conduct a deeper discussion of the five controls systems analyzed above. This chapter will discuss the differences and similarities of the results of this paper with the findings of different authors, presented in the literature review. Further, there will be a discussion about why there were similarities and differences and the implications of our findings.

The empirical findings reveal factors that both coincide with and oppose to previous research studies. In terms of planning control, Geddes (2003) found that due to investor expectations, organizations risk becoming short-term orientated after going public. However, in the empirical findings, the top management was very aware of this risk and therefore work actively to avoid it. In order to prevent becoming a victim of quarterly capitalism, they emphasize more than ever to maintain a long-term orientation. One of the possible reasons the company has not become short-term oriented is due to their long and thorough preparation for the IPO. Top management, therefore maintain an organizational structure which allows the daily lives of employees to carry on without the IPO effecting their work.

Short-term orientation is an effect that the company, in the empirical findings, has not yet experienced. This was an unexpected result, as Trostel and Nichols (1982) found that top management focus greater attention on next quarter’s earnings after an IPO. The reason why the company has not become short-term orientated can be due to a number of reasons. Firstly, the company conducted quarterly reports even before the IPO, giving them time to accustom themselves to the habit. Secondly, top management work actively to avoid becoming strictly focused on the contents of each quarterly report and respond to external demands from the stock market to see an incremental increase in performance on a quarterly basis. Finally, it is important to point out that the company raised enough capital in the IPO to be able to finance the long-term strategic plan until being cash flow positive. The freedom of having a strong balance sheet in conjunction with the pressure of meeting the long-term goals stated in the prospectus, clearly makes it easier for management to act and plan for the long-term. However, the results may have been different if they had not been prepared for the changes that often come with an IPO. Without these preparations, they could have been at risk of becoming a short-term orientated organization, with a primary focus to satisfy shareholders. It is not certain that the company will maintain a long-term focus since they have been listed on the stock
exchange for a short period of time. It can therefore be discussed whether the company would be able to maintain a long-term focus if the IPO had been less successful. It is also uncertain if the company can maintain long-term orientation in period of bad quarters.

Previous research (Kraus and Strömsten, 2012) and the empirical findings of this study both emphasize the importance of accomplishing the goals presented in the prospectus in order to stay lucrative on the stock exchange. If the goals presented in the prospectus are not met, there is a risk the company will be overlooked by potential investors. Furthermore, after the IPO, goals were processed and stated to a higher degree of formality as part of the elaborate prospectus work. The driver behind this is the demands of being a listed company. Every word that is written and presented is carefully reviewed, because now it is not only the organization that will be reading them but also a wide range of different stakeholders, including; media, potential and current investors and the various regulators.

Further, in terms of cybernetic control, Dai et al. (2014) found that the budget in public companies become more externally orientated and serves as a promise for investors as well as the process of budgeting becomes more formal and detailed. The empirical findings revealed that the budget was conducted in the same way after, as prior to the IPO. However, as Dai et al. (2014) found, the presentation of the budget has become more formal and structured in order to meet investor and board expectations.

Kraus and Strömsten (2012) explain that due to stock market pressure, top management has a greater short-term financial focus in terms of profits, margins and cash flow after an IPO. In the empirical findings, the results indicated that the main difference is that in the past top management focused on cash flow, but after the IPO, EBIT and EBITDA have become the main financial measures externally. By applying more focus on these measures, investors and analysts are able to follow the progress of the company in a comprehensible way. The company has used EBITDA with R&D investment as an internal financial measures and even though more focus is applied to EBIT and EBITDA externally, there has been no change in the internal use of EBITDA with R&D investment due to the historical use of this measurement. One can argue that the reason there has been no change to the internal use of financial measures is due to top managements’ will to keep the company from being affected by the IPO.
Kraus and Strömsten (2012) also found that non-financial measures are no longer closely monitored by top management after an IPO. However the results of the empirical findings point towards the opposite. The company still have a strong focus on non-financial measure as it is important for their operational improvement. It could be argued that this is, yet another reason why, the company has been able to maintain their long-term orientation.

The empirical findings indicate that top management have a greater understanding of the financials, after an IPO, due to their need to present them to the board and investors. Similarly, Robson (1992) and Mather, Ramsay and Steen (2000), discuss how top management reduce ambiguity by increasing the importance of numbers and creating comprehensible financial measures for investors. Being a listed company implies that organizations need to present themselves in a comprehensible way so that the many different shareholders are able to fully understand the risks and opportunities with their investments. The importance of financial numbers also increase, after an IPO, because the financial results can affect the share price.

As for rewards and compensation, Kraus and Strömsten (2012) found that after an IPO, incentive systems were based on new financial measures advocated by the stock market. However, the empirical findings present that the bonus system was based on the same measurements as prior to the IPO. The reason behind this could be that the bonuses have always been designed according to the same measure and therefore top management do not feel the need to change it. Previous research (Geddes, 2003) also found that after the IPO an organization has the opportunity to change their incentive programs to stock options and stock bonuses. This coincides with changes in the empirical findings. Previously, the incentive systems were based on option programs but now top management are considering stock saving/matching programs, as large investors prefer this type of program. This could be considered as one of the perks with being a public company as it places employees in the same seat as any other shareholder. It can also have a motivating effect as employees invest their own money in the company and therefore work hard to maintain a high share price.

As for administrative control, Geddes (2003) found, the company now has to increase their transparency and therefore disclose information publicly. This is due to stock market requirements and the listing code every public company must sign. The empirical findings indicate that the company changed their formal financial reporting system in order to be compliant with the stock market regulations. This increases the transparency in a company and
follows the policies regarding this. Trostel and Nichols (1982) also found that public companies must have more formal written policies. The empirical findings present that after going public, there are formal written policies regarding many of the processes in the business, which proves 30 year old research, making it still highly current. Further, this has had implications on the communication, as everything that is communicated internally must be communicated externally. von Eije, de Witte and van der Swaan (2004) also found that going public entails equal distribution of information. This naturally leads to the company’s internal communication becoming more restricted, making people feel left out. One could argue that this could potentially become harmful as it may lead to miscommunication between departments.

Certo, Holcomb and Holmes Jr. (2009) found that public companies alter their strategies and structures in order to deal with investor expectations and the strict reporting requirements of the stock exchange. To a certain extent this coincide with the empirical findings. The CEO went from being, both the president for one of the business units and CEO, to only being the CEO. The CEO is now able to focus on the extra work around the demands of being a public company. However, the company has not altered their strategies or changed the structure of the company. The top management have instead designed the company so that everything related to the IPO impacts top management and not the different business units. The Presidents of the business units are to run the company as normal, not thinking about that they now are public and an Investor Relations position has been appointed in order to simplify the Presidents’ work around reporting. By doing so a company can facilitate a more long-term orientation. Even though with a long-term perspective, a company may disappoint in certain quarters. However, top management does not want the employees of a company to focus on if it is a bad quarter or a good quarter.

Previous research (Atinc and Ocal, 2014) presented that a company must have a corporate governance structure that is suitable for the stock exchange. The empirical findings show that the company replaced a large amount of their board of directors prior to the IPO. The reason behind this is to establish a board that is independent, has experience from public companies and has a long-term oriented focus. The implications this can have in public companies is that an organization has a board of directors who are more concerned for the development of the business instead of a board mainly focuses on an exit.
Kraus and Strömsten (2012) found that the stock market can have an influence on employee behavior, as it is a priority to increase shareholder value. The empirical findings also indicate that the stock market has influenced employee behavior. Not only do the employees in the company feel a responsibility towards investors, they also feel a sense of pride working for the company. The increase in pride is due to the brand recognition and being in the “public eye”. This could be an advantage of being a public company, as it motivates employees. However, the company has seen a stable increase in its share price since the IPO, the question is if there would have been the same sense of pride if the IPO had not been as successful.

Sandelin (2008) found that top management establish an accounting culture in public companies in order to increase employee’s understanding of being listed on the stock exchange. For the same reason, top management, in the results of the empirical findings, have instead tried to influence a culture of professionalism. Small changes around the office by top management, such as re-organizing and replacing furniture, can instill a sense of professionalism in the employees. Certo, Holcomb and Holmes Jr. (2009) also discuss how strategies reflect top management’s values, ideals and beliefs which in turn affect employee behavior. One of top management’s strategies, in the empirical findings, is to work actively to avoid the culture becoming affected by the IPO. It can be discussed if cultural values are directly affected by an IPO, however, when undergoing such a large change it can bring about certain organizational aspects that also need to change. For example in the empirical findings, the core values had not been revisited in four years and therefore top management saw it fit to also change them due to the many other changes brought on by the IPO.
6. Conclusion and future research suggestions

This section will answer the research question of this thesis. The conclusion will be based on the empirical findings and the discussion. To conclude this thesis, the limitations of the study and suggestions for further research will be presented.

6.1 Conclusion

The researched question in this thesis is: How does the management control system package change when a company undergoes an initial public offering?

This thesis contributes to Management Research in relation to IPOs, as we have found in our case, results that present how the MCS package changes due to an IPO. Due to the complexity of change from an IPO, several conclusions could be made from the results and discussion of this thesis.

Firstly, the empirical findings revealed, that in terms of planning control, the goals of the company maintained long-term orientated. The reason for this is threefold; 1) the long timeframe of preparations, 2) top management working actively to avoid quarterly capitalism and 3) sufficient amount of capital raised in the IPO. Therefore it can be concluded that companies do not necessarily become short-term orientated after an IPO.

Secondly, in terms of cybernetic control, the study presented change in the company’s focus on financial measures and addressed EBIT and EBITDA as its main financial measure after the IPO. However, this was only a focus presented externally, internally their main focus was on EBITDA with R&D investments which has been the company’s main measurement both before and after the IPO. It can therefore be concluded that an IPO can affect a company’s external focus and measurements without affecting its internal measurements.

Thirdly, in terms of rewards and compensation, the empirical findings presented that an IPO can give the company alternative ways to build their incentive programs. Not only does the company have the tools to change the program after the IPO, but also satisfy investors by doing so. It can therefore be concluded that there are certain opportunities for public companies that do not exist for private companies.
Fourthly, in terms of administrative control, the study found that due to the requirements of the listing code, share price sensitive information must be disclosed and therefore information communicated internally must also be communicated externally. Furthermore, companies which undergo an IPO will experience an increase in policies and formalization of processes. In the empirical findings, the results explain that the company appointed a board with independent members, non-executive directors and chairman that do not have any previous ties to the company, and can make independent and unbiased decisions with what is in the best, long-term, interests of the company, that will in turn be rewarded by the stock market. It can therefore be concluded that a company changes how information is communicated, formalize policies and appoint an independent board in order to become suitable for the stock market.

Finally, in terms of cultural control, the empirical findings indicated that company still holds on to their entrepreneurial spirit. However it is clear that due to the strict reporting requirements the company has become slightly more closed in sharing internal information. The IPO has also brought about new aspects in the culture, as there has been an increase in professionalism and pride among the employees. Therefore it can be concluded that companies that undergo an IPO can experience changes to their culture, such as professionalism, pride and less open environments.

6.2 Limitations and future research suggestions
The results of the findings in this thesis are limited due to certain aspects. The main limitation is that this research was only conducted in one company. Therefore, the findings cannot be generalized to other public companies. A suggestion for future research would be to perform a similar study within both similar and different industries and develop the MCS package by adding or replacing new control mechanism and place them in relation to change related to an IPO. The company studied in this thesis had prepared for nearly eight years for the IPO. It would be interesting for further research to study companies with different preparation timeframes and compare the impact of an IPO on MCS package. Finally, another limitation of the findings is that the company has been public for a short period of time and it would therefore be interesting to follow up this study in the future, as there may occur more changes due to the IPO.
7. References

7.1 Written references


European Commission (2014). *What is an SME?*


7.2 Oral references
CEO, face to face meeting, 11.12.2015.
CFO, face to face meeting, 03.12.2015.
HR Manager, face to face meeting, 11.12.2015.
P1, telephone interview, 12.16.2016.
P2, email, 12.16.2016.
Appendix 1. Interview questions for CEO, CFO and Chairman of the board

General

When did the preparations start for the IPO?

What do you find is the biggest difference after going public?

How has your management control systems changed after the IPO?

Do you experience that the company is managed in more formal manner than before?

Planning control

Has the amount of time you spend in formal meeting changed?

Are your goals designed differently today compared to before the IPO?

Has your business plan changed after the IPO?

Cybernetics control

Do you use budgets? If so how have they changed?

What financial measures do you use today compared to before the IPO?

What non-financial measure do you use today compared to before the IPO?

Rewards control

How has the use of incentives and reward systems changed?

Administrative control

Has the organizational structure changed and if so, how?

We observed on your website that you present a corporate governance structure, has this changed in any way since going public?

Have the policies and procedures in the company changed and have the rules and regulations of being public affected the company in any way?
Culture control

How would define the company’s culture? Has it changed in any way?

Has the company’s core values in any way been affected by the IPO?

Do you in any way try to influence the culture in the company differently than before?
Appendix 2. Interview questions for HR Manager

General

When did the preparations start for the IPO?

What do you find is the biggest difference after going public?

How has your management control systems changed after the IPO?

Do you experience that the company is managed in more formal manner than before?

Planning control

Has the amount of time you spend in formal meeting changed?

Are your goals designed differently today compared to before the IPO?

Has your business plan changed after the IPO?

Rewards control

How has the use of incentives and reward systems changed?

Administrative control

Has the organizational structure changed and if so, how?

We observed on your website that you present a corporate governance structure, has this changed in any way since going public?

Have the policies and procedures in the company changed and have the rules and regulations of being public affected the company in any way?

Culture control

How would define the company’s culture? Has it changed in any way?

Has the company’s core values in any way been affected by the IPO?

Do you in any way try to influence the culture in the company differently than before?
Appendix 3. Interview questions for the Auditor

How does a company normally prepare for an IPO?

What do you think are the major pros and cons with going public?

What would you say are the major differences from being a private company and a public company?

In your opinion, do you think companies are controlled differently after an IPO? Does the way companies plan their goal change after an IPO?

How, would you say, is a company affected by the rules and regulations from the stock exchange?

Are there in your opinion any financial measures that are more important than others for public companies?

Does the roll of the corporate governance change after an IPO?
Appendix 4. Interview questions for the Presidents of the business units

What is the biggest difference with being a public company?

How has this affected you work?

Have your goals changed after the IPO?

Do you think that the structure of the organization has changed?

Has the culture changed in the company from before the IPO?