

# MASTER THESIS

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How are companies balancing short and long time  
planning when taking decisions and what consequences  
does that have for learning and innovation?

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## Sammendrag

Forskningen er fokusert på lederens evne til å balansere kort- og langsiktig planlegging i selskapet og hvordan denne balansen inspirerer ledere til læring og innovasjon. Ved hjelp av Simons (2013) LOC-rammen i casestudien fra det ukrainske landbruksselskapet "Bizon-tech 2006", beskriver forskningen utfordringer som oppstår når toppledelsen prøver å kontrollere og styrke ansatte samtidig.

Teoridelen av casestudien undersøker først begrepet kortsiktighet og spenninger som oppstår mellom langsiktig og kortsiktig planlegging. Etterpå er det beskrivelse av tradisjonelle styringssystemer og ulike alternative tilnærminger. Læring og innovasjon utforskes fra ulike perspektiver, noe som indikerer deres betydning for et selskap. Teoretisk rammeverk forklarer Simons (2013) tilnærming som vil bli brukt til å analysere data. Forskningen beskriver et enkelt tilfelle av ukrainsk selskap, og data ble samlet inn ved hjelp av semi-strukturerte intervjuer.

Empirisk del beskriver for det første selskapets bakgrunn og forklarer deretter selskapets MCS: toppledelsens intensjon om hvordan det skal fungere og lederens tolkning av det. Second-order analyse viser at i "Bizon-tech 2006" fungerer hver av de fire kontrollpakene kun for kortsiktige perspektiv, det er sentralisering av beslutningsprosesser og formell forretningsstyring. Manglende tillit og vekt på tvangskontroll fra siden av toppledelsen minimerer lederens evne til læring og innovasjon. Og skaper vanskeligheter for å balansere kort- og langsiktig planlegging i selskapet.

## Preface

This master thesis is compulsory part of the two-year Master of Science in Business program at Bodø Graduate School of Business, Nord University. The specialization is Management Control and this assignment is evaluated for 30 points.

Firstly, I would like to thank my supervisor professor Katarina Kaarbøe for her helpful advices, critical comments and always-friendly attitude.

Secondly, I would like to express my gratitude to Nord University for doing all the best to provide decent level of education for students and Anatoli Bourmistrov personally for lots of support and inspiration during the study.

Thirdly, I'm very grateful to managers of the company "Bizon-tech 2006", who spent time and answered all my questions, they made a crucial contribution to this research.

## Abstract

The research is focused on manager's ability to balance short- and long-term planning in the company and how this balance inspires managers for learning and innovation. Using Simons (2013) LOC framework in the case study of the Ukrainian agricultural company "Bizon-tech 2006", the research describes challenges that occur when top-management tries to control and empower employees in the same time.

The theory part of the case study firstly investigates the concept of short-termism and tensions that arise between long- and short-term planning. Afterwards, there is description of traditional management control systems and different alternative approaches. Learning and innovation are explored from various perspectives, indicating their importance for a company. Theoretical framework explains Simons (2013) approach that will be used to analyze data. The research describes a single case of Ukrainian company and data was collected using semi-structured interviews.

Empirical part firstly describes the background of the company and then explains company's MCS: top-management's intention how it should work and manager's interpretation of it. Second-order analysis show that in "Bizon-tech 2006" each of the four control levers works only for the short-term perspective, there is centralization of decision-making and formal style of business conducting. Lack of trust and emphasize on the coercive control from the side of top-management minimizes managers ability for learning and innovation; and creates difficulties to balance short- and long-term planning in the company.

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## Glossary of concepts

**Belief control system** is set of formal definitions that translate organization's values, goals, mission/vision and inspire managers for creativity and organizational search (Simons, 2013).

**Boundary control system** is set of parameters developed by the organization that indicate activities that are off-limits to prevent wasting of resources (Mundy, 2010).

**Diagnostic control system** provides comparison of present situation in the company against the pre-set targets to indicate possible deviations (Simons, 2013).

**Interactive control system** consist of communication between managers of different levels to debate and question strategic plans of the company (Mundy, 2010).

**Management control systems** are various techniques, rules, values that company uses to control and direct employees (Malmi and Brown, 2008).

**Simons LOC framework** is an analytical tool that helps to explore how companies use their management control systems via four control systems; belief, interactive, diagnostic and boundary. This framework explains how organizations use MCS to control goal achievement but simultaneously inspire managers for learning and innovation (Simons, 2013).



## Chapter 1. Introduction

*The aim of this chapter is to present short overview of the research background, indicate the problem statement and discuss possible limitations of the study.*

### 1.1 Background

We are living in the changing business environment and MC should adequately respond to its needs. There are always new technologies popping up, the markets are changing, the customers and suppliers are changing and the business structure is also going through a lot of changes. Therefore, it is important to adapt the management control system to such dynamics in the environment.

The purpose of the management control system (MCS) is to provide information, which will be useful for decision-making, planning, and performance evaluation (Otley, 2015).

Due to Mundy (2010) MCS has two roles: it is used to provide control over the achievement of strategic goals and to enable employees to look for opportunities. These roles force company to find ways to balance between taking actions that are necessary for firm's goals while also letting employees to make decisions with a sufficient level of autonomy. Henri (2006) stated that the balance between controlling and enabling uses of MC leads to dynamic tensions that create important organizational capabilities and competitive advantages. Many researchers (for example, Henri 2006; Mundy 2010; Simons 2013; Widener 2007) made their contribution about need for companies to balance coercive and enabling controls, but there are still some "grey" areas, which are still unclear, and this is the reason to do in-depth case study.

Organizations have difficulties in balancing for some reasons. Ahrens and Chapman (2007) pointed that it is hard for managers to indicate in advance what an optimal balance consist of because they have many complex decisions every day. Also, the possibility of organizations to balance controlling and enabling uses of MCS is specific for every company and depends on organizational attributes. Among such individual factors there are trust, power distance, autonomy and professionalism, capacities which are difficult to replicate (Chenhall and Euske, 2007; Marginson, 2002;). Due to Henri (2006) if firm fails to balance

uses of MCS it can lead to slower decision-making, inefficient use of resources and lower performance.

Eldridge et al. 2013 stated that many organizational members associate control function of MCS only with forecasting, efficiency and short-term targets orientation, many studies shows that it is important to study also other dimensions (Bisbe et al. (2012); Marginson (2013) for organization such as creativity, transparency, learning and adaptability.

Empirical studies in various sources of management control literature proposed the framework to determine how companies can use their MCS to encourage learning and innovation but still continue to have control over the ways of achieving their strategic goals (Bisbe et al, 2012; Marginson, 2013). MCS is constructed of multiple control systems that should work interconnectivity (Otley, 2015). For example, Simons (2013), in his levers of control (LOC) framework, proposed four control systems – beliefs, boundary, diagnostic, and interactive that should be implemented together to provide control over company's performance. Widener (2007) pointed that is important to take into account the interrelations between the different uses of MCS as the increased use of one lever of control provides the advantages attained from increasing the use of the other levers. All together levers of control lead to dynamic tension which contribute to positive growth in the company (Simons, 2013). Dynamic tensions facilitate development of such organizational capabilities as innovativeness, organizational learning, entrepreneurship, and market orientation (Henri, 2006).

Traditional MCS use budget as a main management control tool for controlling and translating strategic priorities of the company. Budgets are applied for evaluating performance and allocating responsibility for resources to particular organizational functions or people. Traditional MCS include such disadvantage like lack of strategic thinking strategic and more orientation to short-term results (Hopwood, 2013). In the LOC framework strategic plans which are a part of a belief system has specific purpose when managers convert them into success factors. In the majority of organizations, budgets are made to set performance targets for typically 12-month period. It means that resource allocation is made only once a year and is unchanged until the next period. Fraser and Hope (2001) noted that budgets in this case have negative effect on organization's performance as managers try to suit the budget, which was set in the past, and not always correspond to present needs. It is important to distinguish such concepts as short term from short-termism because it is not always a

disadvantage to take actions that can be useful for a company in one-year period. Short-termism must be seen as actions done in the short time period which can cause damage for the long-term goals and effectiveness of the company (e.g. Merchant, 2015; Van der Stede, 2016).

In many firms, managers are stimulated by different incentive systems in order to suit the budgets targets. This can lead to a situation where they only contribute to short-term perspective and loose possible opportunities. It means that salary, resources, and career opportunities starts to be dependent on the ability to meet the budget. Those who miss the targets face the dissatisfaction of upper management, loss of annual bonuses and probably even loss of the job (Merchant et al., 2015).

Hopwood (2013) pointed out that the only point of working starts to be the possibility to meet the budget at the end of the year. Managers in this case feel dissatisfaction of their work and can manipulate with data to improve their results. Consequently, managers are more likely to worry about what they can achieve in this period then to perform in respect to long-term goals. Managers sometimes tend to different kinds of falsification or irrational decision making to show reports with a planned performance but not the realistic one.

Another evidence of firm's short term goal orientation, which has received a lot of attention among reseachers, can be found at capital markets (Hansen et al., 1991; Samuel, 2000 to name few). Jacobs (1991) noted that chief executives of most American listed firms are ready to sacrifice their long-term performance targets for the benefit of short-term performance in order to meet the expectations of stock market and to secure their capital. Due to Barton et al (2015): *«on average, 74 per cent of remuneration is paid in cash, and tied to outperforming an annual stock market benchmark. The result is an obsession with next quarter's earnings rather than the next 10 years»* (Barton et al 2015, p.1).

In this case, all four levers of control, Simons (2013), are practically associated with manager's possibility to meet targets of so-called operational planning (Anthony, 1965) instead of commitment to strategic goals of the company. In practice, managers should ideally act to secure long-term values (Porter, 1992), but still short-term results are essential for firm to survive on market (Merchant, 2015; Simons, 2013; Van der Stede, 2016). Thus, it is important to find balance between long term and the short term needs.

Simons (2013) states that firms should use all four levers of control together to encourage managers for learning and innovation. Henri 2006; Mundy 2010; Simons 2013 presented how combinations of these controls contribute to improvements in innovation and effectiveness in the company.

Many researchers contributed to the problem of manager's balancing controlling and enabling uses of management control systems (Henri, 2006, Mundy, 2010, Simons, 2013, Widener 2007) and I found it interesting to look how it works in practice in agricultural company in Ukraine and propose my ways to improve the existing management control system. In my research, I will study management control system of one of the biggest distributors of seeds and fertilizers in Ukraine, which has subsidiaries in 14 cities. I chose company «Bizon-tech 2006» specifically as when I had my business practice as a part of Bachelor Program in Taras Shevchenko National University of Kyiv in this company; I noticed that it is hard for top-managers to balance between control and autonomy. By looking at a company's management control system I will use relevant theories and suggest appropriate practical techniques to develop its MCS.

## 1.2 Problem statement

In my research, I want to answer the following question: “How are companies balancing short and long time planning when taking decisions and what consequences does that have for learning and innovation?”

Using theoretical framework, I have outlined three more specific research questions, which will help to answer my problem statement:

1. What is known about balancing long and short term decision making in MCS and why it is a challenge for companies?
2. How are the four levers of control used to balance long and short term planning?
3. What consequences does the balance have on learning and innovation.

The first research question will review the literature to answer what we know about balancing long and short-term decision making in MCS and why it is challenging. The second research question will describe the case company's long and short term decision

making and how managers interpret those and how they try to balance between the four levers of control. Finally, the last research question analyzes how the way of handling the levers of control influence learning and innovation. In my research I will see how management control system are implemented on local level in «Bizon-tech 2006» and answer the problem statement by using relevant theory, adding empirical results of my qualitative research.

### 1.3. Implications of the research

The research will be useful both for researchers and for practioners. I would like this thesis to be helpful for researchers who can use the findings from this work for better understanding of the problem of manager's short-term goal orientation instead of long-term thinking.

This research might be also useful for practitioners from different business since this thesis provide practical knowledge about how balance is hindered and what can be done to create a more fruitful balance in the MCS of a company that operates in the unstable, dynamic environment.

### 1.4 Research limitations

Research includes some limitations and it is important to present them beforehand. The thesis is limited down to a regional level but this enables me to go more in depth of company's management control system and to my problem statement. The research will contain interviews brought from management of different levels and different divisions, which will enable me to see the process from different dimensions.

In addition, there are methodological limitations as it is a single case studies that why it is hard to generalize the results of the research. Research philosophy is social constructionism that assumes high extent of subjectivity when respondents tell about their experiences.,

## 1.5 Further structure of the thesis

This Master thesis consists of the following chapters: introduction, theoretical frame of reference, theoretical framework, methodology, empirical finding, analysis and conclusions.

The introduction chapter provides information about research and the motivation for the study field. Problem statement is clarified indicating possible practical implications and limitations of the study.

Theory part presents a theoretical background of long- and short-term planning, indicates traditional and dynamic MCS. Further, the concept of learning and innovation is discussed as it plays an important role for the study.

Theoretical frame of reference describes Simons (2013) LOC framework and the concept of balance which will be used to analyze empirical findings.

Methodology chapter introduces the research philosophy and design, which were applied to the study. In addition, it presents the choice of data collection method, data analysis framework, discuss ethical considerations and validity/reliability of the research.

This is followed by empirical findings showing the background of the study object – “Bizon-tech 2006”, the way company describes its short- and long-term planning and tensions that arise.

Analysis chapter presents second order analysis of the empirical data using Simons (2013) framework, shows how different levers are interrelated and balanced and how this influences learning and innovation. Finally, the conclusions provides summary of the study with some considerations for further research.

## Chapter 2. Theory

*In this chapter, I will partly answer my first sub-question: “What is known about balancing long and short term decision making in MCS and why it is a challenge for companies?” by exploring what is known about it in the literature. I will look through different frameworks, approaches and theories from academic scholars. I will answer the question by describing the concept of short-termism, then look at traditional MCS and alternative concepts. I will end up explaining how companies can stimulate employees for learning and innovation.*

### 2.1. Concept of short-termism

Balance between the needs of the long term and the short term is a crucial issue for a company if it wants to operate successfully on the market. Ideally, managers' short-term actions should contribute to long-term goals. However, sometimes managers take actions that will only make benefits in the nearest future that will have undesired consequences for the long-term objectives, Marginson et al (2008) call it “short-termism”.

Marginson et al (2008) argues that short-termism can be clearly seen through these four headings: a) stock markets; b) performance measurement; c) individual dimension; d) organizational dimension.

Jacobs (1991) pointed that some of listed companies are oriented only on short-term performance as they rely on the expectations of the stock market. Capital markets of USA, for example, were suspected in applying pressure on managers who should achieve short-term results by decreasing expenditure on research and development.

Companies conduct performance measurement through accounting information. Hopwood (1972) in his research discussed a problem of manager's work towards “suited” the annual budgets more than contributing to company's long-term achievements. Managers sometimes tend to different kinds of falsification or irrational decision making to show reports with in accordance with planned performance but not realistic one. There is no doubt that accounting data is one the most important indicators of managerial performance but it still has some serious disadvantages. Firstly, not all dimensions are included in the accounting report. There are many studies that contribute to the problem with short-termism

by use of such approaches as Balanced Scorecard or Beyond Budgeting. Secondly, planning can give only approximate forecast, which is rarely achieved in practice for 100%, as it is hard to predict costs or expenses in a changing environment. Also, in budgets it is shown accounting data with desired outcomes to the end of the year while managers are facing everyday working process to make these «wishes» come true and face different challenges. So if managers manipulate with accounting data in case if they don't achieve short-term targets, then relevance of the information about their performance is questionable.

Marginson et al (2008) noted that individual dimension of short-termism can be associated with managers who feel “role ambiguity” (source of stress due to the need to structure the environment). They can be oriented to meet only short-term requirements that have lower level of uncertainty comparing to the long-term ones. The organizational dimension of short-termism can be seen inside the company and is a result of social influence. Individual can act as his/her colleagues not as rules or code of conduct says.

Ideally, organizations should find the right balance between long-term goals and short-term goals. According to many studies there seem to be difficulties with balancing between different uses of MCS. Due to Marginson et al (2008), this can be because each company has its own specific individual and organizational features and own “right” balance. It can be trust, level of autonomy, power distance, and managerial skills.



## 2.2 Long-term planning vs short-termism

Anthony (1965) pointed that managers should distinguish management control (where budgets have central role) from other control processes such as operational and strategic planning. In his research, he identified operational planning as some types of activities that are different in different companies and include technological differences. Strategic planning is viewed as activity that provides future direction for a company and is decided by top-management of the firm.

Anthony (1965) suggested that strategic planning is crucial process, but he viewed it separately from MCS. Hansen et al (2003) noted that because of this management control in organizations should to be seen as universal processes which are common in all companies, and are done on a regular basis. So, Anthony's (1965) approach supposed an accounting-based view of control as it was the same in all organizations. As soon as control requires some standards to assess the performance, budgets started to be a widespread way of comparison. Consequently, budget year became a central component of the control system.

Kaplan et al (1996) in the Balanced Scorecard approach tried to improve Anthony's model and connect performance measures to strategy. He argued that strategy connection to the MCS is an important element for effective performance measurement (Kaplan, 1996). In addition, Simons' (2013) LOC framework also has an emphasis on strategy with different control mechanisms that should be used to gain this strategy.

Nevertheless, the majority of organizations use budgets as means for translating strategic priorities to the managers. Due to Abernethy et al (1999) budgets in this case have diagnostic role (as Simons (2013) calls it) and play a traditional role by evaluating performance and allocating responsibility for resources. However, budgets can also be applied alternatively for learning and creativity. Simons calls this role as "interactive" that means that budgets are used in continual dialogue between top management and low-levels managers.

Simons (2013) explained it as *«uses the planning and control procedures to actively monitor and intervene in ongoing decision activities of subordinates. Since this intervention provides an opportunity for top management to debate and challenge underlying data, assumptions and action plans, interactive management controls demand regular attention from operating subordinates at all levels of the company»* (Simons, 2013, p. 189).

Horváth et al (2004) argue that budgeting is not problematic by itself as it still has an important role for MCS of firms but in case if it is not isolated from its strategy. The real issue is that traditional use of budgets is inappropriate in today's dynamic environment. To manage companies effectively now, top management needs relevant information that should be continuously updated and translated to each member of a firm. Simons (2013) in his framework shows that interactive use of budgeting leads to communication between managers and exchange of their goals.

## 2.3 Traditional MCS

The literature about dynamic environments, control and points towards the need for changes in several management control areas, but we are going to focus on budgeting. Today, the discussion about relevance of using budgets as a management control tool becomes more and more frequent. Budget is the most frequently applied management control tool of most management control systems (MCS) and is used by management as a mean for controlling and communicating strategic goals of the company. Together with a reward system, it is often used to coordinate lower-level managers' commitment to firm's priorities (Hansen et al, 2004). Traditionally budgets serve the purpose of evaluating performance and allocating responsibility for outcomes to particular organizational functions or people. However, budgets can be also used for creative thinking and learning (Simons, 2013).

The control function of MCS is associated with forecasting, efficiency and short-term targets orientation, but in reality, it should contribute to more important things for organizations, such as creativity, transparency, learning and adaptability (Abernethy et al., 1999). Simons (2013) called this alternative role “interactive”, when there is continual exchange of information and ideas between top management and lower levels of management. Interactive role happens when top management “*uses the planning and control procedures to actively monitor and intervene in ongoing decision activities of subordinates. Since this intervention provides an opportunity for top management to debate and challenge underlying data, assumptions and action plans, interactive management controls demand regular attention from operating subordinates at all levels of the company*” (Simons, 2013, p.160).

Hansen et al (2004) pointed four reasons to use budgets: operational planning, performance evaluation, communication of goals, and strategy formation.

1. Operational planning reasons are: controlling of resources, formulation of action plans, coordination of production capacity, determination of selling prices, motivation for innovative behavior and provision of relevant information to stakeholders.

2. Performance evaluation reasons have two dimensions: staff evaluation and business unit evaluation. In a dynamic environment, according to Sivabalan et al. (2009), organizations may not use budgets in evaluation of staff due to the complex forecasting circumstances that make the budget an irrelevant performance benchmark. However,

organizations may still want to know how a business unit is working and whether it meets a budget targets.

3. Communication of goals. Budget performance for communication is higher when budgets are linked with strategy and when the ability to meet budgets is stronger. But, budgeting performance for communication falls down with budget target difficulty.

4. Strategy formation. Budgets also help employees to better understand organizational goals but only in case of more frequent, more detailed, and more in-time monitoring of results.

Budgeting is not an “evil” by itself as it can be still used as an effective control tool in organizations but only if it’s not isolated from strategic dimension. Researchers pointed out many drawbacks of budgets, but the real problem is that the traditional management control tool is no longer suited to the realities of today’s dynamic environment.

### 2.3.1 Criticism towards traditional MCS

Neely et al. (2001) in their research pointed out the twelve most cited weaknesses of budgets as control tools. Budgets are very time-consuming; constrain responsiveness and are often a barrier to change; rarely have strategic focus and are often contradictory; add little value, but require time to prepare; concentrate on cost reduction and not value creation; strengthen vertical command-and-control; do not contain the emerging network structures that organizations are adopting; encourage gaming; are developed and updated too infrequently, usually annually; are based on various assumptions and guesswork; reinforce departmental barriers rather than encourage communication; make people feel undervalued.

In addition, one of the serious disadvantages of budgets is that it gives only quantitative information concerning managerial performance. Hopwood (2013) explained in his research that a rigid type of evaluation, when the only point of working is too meet the budget, makes managers to feel dissatisfaction of their work and provokes them to manipulate the data to improve their performance. It is needless to say that in this case, managers are more likely to worry about what they can achieve in this period than to perform in respect to long-term goals. Managers sometimes tend to different kinds of falsification or irrational decision-making to show reports within accordance to planned performance, but that are not realistic ones.

Budgets contain important financial data that measures managerial performance, but not all dimensions are included in the accounting report. Nowadays, many studies contribute to this problem such as balanced scorecard, rolling forecast or beyond budgeting.

Another issue is that planning can only give approximate forecasts, which can very rarely be 100% achieved in practice, as it is hard to predict costs or expenses in a changing environment. Also, in budgets it is shown accounting data with desired outcomes to the end of the year while managers are facing everyday working processes to make these «wishes» come true and face different challenges. So, if managers manipulate with accounting data in case they do not achieve short-term targets, then top-management do not get relevant information of the firms performance and cannot make efficient decisions.

### 2.3.2 Shifting from traditional budgeting to alternative control tools

With all this criticism towards traditional budgeting, many companies have chosen other management control tools that are more appropriate for turbulent conditions. Next, I will shortly explain some of them below.

As dynamic business environment takes place, there is another way of introducing financial measurement, which does not replace them but is their complement - Balanced Scorecard. It adds some more criteria to the evaluation of the organization's performance: from the prospect of customers, internal business environment and possibility of continuous growing. The problem of building management control systems based only on financial measurement is that they are not always connected to long-term goals of the firm.

Kaplan and Norton (1996) emphasized the use of the Balance Scorecard where the main idea is that there are four management processes in organization that that can help to connect long-term objectives with short-term decisions. Firstly, its translating the vision, that enables managers to agree about the organization's vision/mission in the future. Secondly, it's communicating and linking, that means that the organization's strategy should be understood on the all levels of the organization and each member can contribute to reaching it. Thirdly, its business planning as balance scorecard helps organizations to make strategic planning and assess reaching targets from all selected perspectives, making short-term actions that will contribute to later success. And the last one is feedback and learning, that indicates that the organization is existing in a dynamic world and obtaining feedback from customers, internal business environment and continuous growing, and it can correct the strategy and modify the planned financial indicators based on this.

The Activity-Based Budgeting Approach as an alternative tool focuses on creating budget from an activity-based model of the firm, not from the used in the traditional - departmental focus (Hansen at al., 2003). There are several benefits of this approach. First, it generates budget explicitly from activities, which are done by a firm, and emphasizes on the sources of inefficiencies and imbalances. Secondly, managers can better understand budgeting information because it is presented in operational, not in financial terms.

Another alternative to traditional budgets is Beyond Budgeting concept. The core philosophy of this approach is to do what is best for the organization's current circumstances and encourage teamwork as much as possible. It is important to identify and exploit

opportunities, which can contribute to the organization's long-term goals. In addition, this approach avoids one of the main problems of budgets – infrequent update. That is, rather than using fixed targets, targets are identified by looking back and analyzing situation during the period (Bourmistrov and Kaarbøe, 2013). In addition, the beyond budgeting concept also uses various nonfinancial measures in evaluating the organization's performance, assuming that they also have huge impact on process of achieving of strategic objectives of the organization.

## 2.4 Dynamic MCS

Shifting to alternative control tools is as described above to increase dynamics in order to handle uncertainty in the environment better. World is changeable and not stable therefore firms need to adapt their MCS to its needs. Due to Hope et al (2011) companies should reorganize their management structures that means reducing the layers of management, letting employees take part in creating strategic objectives and goals replace budgets with more dynamic control processes. Researchers already named various drawbacks of traditional MCS and the way it influence on control and autonomy. This type of MCS supports centralization of decision-making, no connection to the strategy and formal style of making business. In contrast, dynamic MCS encourages decentralization, adaptability and transparency in all processes.

O'Grady et al (2017) noted in his article that firm can apply different modifications to budget-based control systems to make them more flexible. It can be absolute elimination of budgeting or making some replacements to traditional MCS. These types of improvements can include more frequent update of budgets, use of relative performance indicators, etc. If complete elimination takes place, companies can change management structure and start to be radically decentralized.

Decentralization is one of important changes on the way of improving traditional MCS. It means converting hierarchical structures into self-managing units and enables them to take decisions within the changing environment.

Hope et al. (2011) noted that radical decentralization facilitates management to participate in strategic decision-making, replace budgeting and promote transparency in the company. In this case managers have autonomy to make their own decisions within the discussed boundaries

O'Grady et al (2017) noted that firms can also enhance their adaptability by implementing such modifications to control processes: *“retain traditional budget-based control processes and introduce ways to improve them (changes within budget-based processes); completely remove budget-based control processes and replace them with more adaptive control processes (changes beyond budget-based processes); or selectively replace budget-based control processes, resulting in a mix of budget-based and adaptive control processes (change to hybridized budget-based processes)”* (O'Grady et al 2017, p.14).



## 2.5 Learning and innovation

Each company needs to motivate managers for learning and innovation to be prosperous in a long-term perspective and gain the desired objectives. However, learning and innovation are those factors that disappear if there is too much short-term focus in the organization.

It is hard to give definition to a such unclear concept as “innovation”, Kline et al. (1986) characterize it like: “*new process of production, new product, substitution of a cheaper material, reorganization of production, internal functions; improvement in instruments or methods of doing innovation*” (Kline et al., 1986, p. 279).

Company should establish that type of creative environment, where employees can freely express their opinions and have motivation for continuous learning. Zien et al (1997) states that as soon as managers change the concept ‘work life’ to the term ‘life work’ appears the environment where effectiveness and innovation coexist together.

However, companies face the dilemma as from the one hand; they need to give freedom to employees to let the innovations appear, but on the other hand controlling is still important in order to monitor use of resources, ensure achievement of operational and strategic goals. Here firm need to find some kind of balance as if there will be to tight control over employees, they will lose their ambition to creativity, while lack of control can lead to low results (Mundy, 2010). Innovation has impact on firm’s strategy as it focuses on new product, technologies or services. That’s why firm should consider it designing the MCS.

Simons (2013) noted that each of the control lever contribute to appearances of learning and innovation inside the company. Diagnostic lever monitors results, compares them to the planned and corrects deviations consequently assisting in the introduction of innovation. Interactive use provoke strategic renewal and innovation by continuous communication and debate of different levels managers inside the organization. Henri, 2006, Mundy 2010, Widener 2007 investigated in their researches how combinations of these controls contribute to improvements in innovation and effectiveness.

Henri (2006) pointed that in the core of Simons (2013) LOC framework there is ability to manage inherent organizational tension, which lies between innovative effort and predictable achievement of strategic objectives. Managers combine positive and negative

forces to achieve dynamic tension which will contribute to inherent organizational tension. In his research, he studies use of only two levers of control – interactive and diagnostic. Diagnostic has constraint function and control goal achievement. Interactive lever provides appearance of such capabilities as “*market orientation, entrepreneurship, innovativeness and organizational learning*” (Henri, 2006). Interactive use provokes organizational dialog inside the company that increases flow of information, share of knowledge and leads to innovation and learning that facilitates strategic renewal. He stated that balanced use of these two levers create dynamic tension. Dynamic tension also encourages organizational dialogue and increase creativity. Henri (2006) also noted that dynamic tension will be more useful in the environments that are changing and where there is need for innovative effort comparing to more stable markets where there are well-established routines.

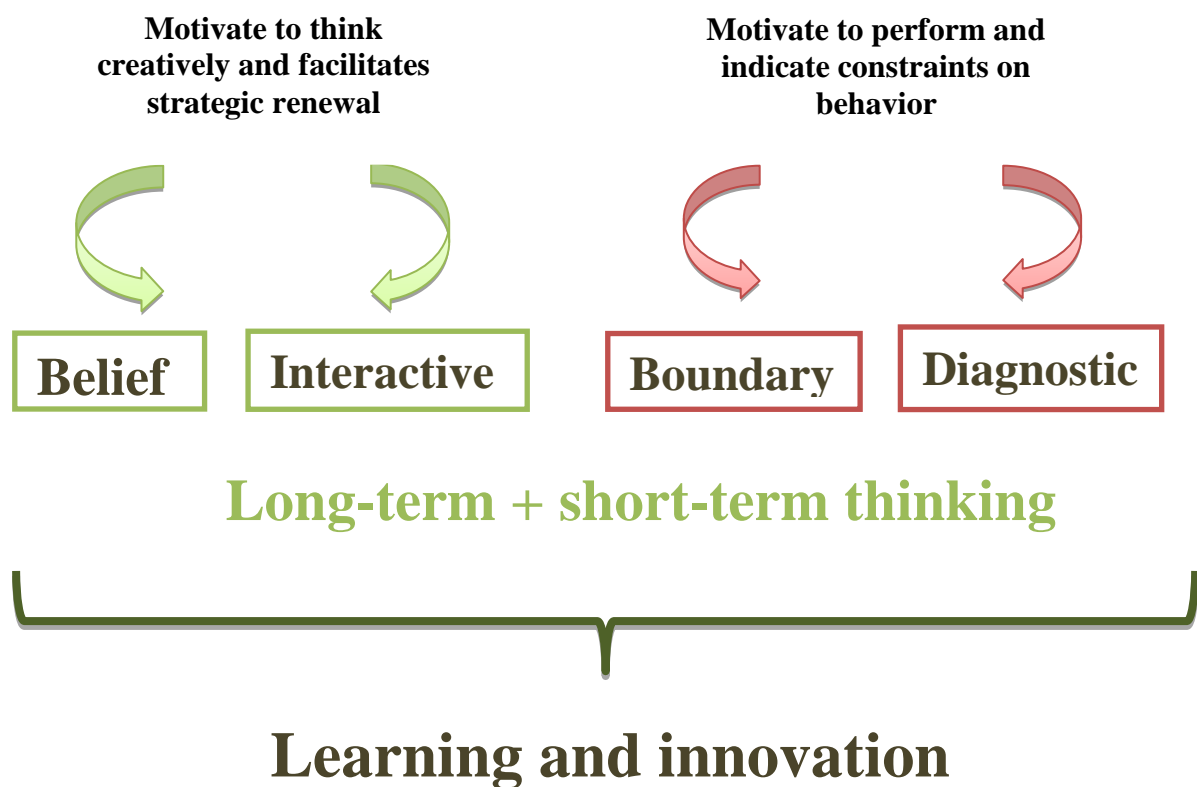


Figure 1. Interaction between different control levers

Source: own by use of a combination of Simons (2013) and Mundy (2010).

In Figure 1 I show how use of all four control levers will inspire innovation and learning in the organization (Mundy, 2010; Simons, 2013). Mundy (2010) argues that the LOC framework is about facilitating creativity among employees but still indicating

constraints on their behavior. In her research, she provides some evidence managers try simultaneously to direct and empower staff using different control levers and combination of both the negative and the positive forces inspires creativity. Her study is consistent with Simons' (2013) suggestion creativity and control can exist together, firm can be exploitative and innovative simultaneously.

Due to Simons (2013) when firm use all control systems together, employees start to understand the values, objectives and boundaries more clearly and are more inspired making decisions and look for opportunities. Speklé et al. (2014) pointed that information channels will appear inside the company and provide information that will motivate to learn, debate, and propose change. Inside the company, it will be an environment of self-management and freedom (Simons, 2013).

Speklé et al. (2014) noted that Simons (2013) describes belief and interactive control levers as positive forces, which inspire employees to think creatively, while boundary and diagnostic control levers motivate them to perform. In their research on the LOC framework, they empirically proved that simultaneous use of all four control levers are positively correlated with empowerment and creativity. They use concept "creativity" instead of "learning" and differentiate them as creativity is about generating ideas, while innovation is about implementing them. Nevertheless, in their research they agree that there is relationship between them. In addition, increase in intensity of the control levers use, increase the clarity of the control environment, which leads to additional motivation to be creative. Due to Speklé et al. (2014) clarity also gives information necessary which can help to rethink problematic issues and find new solutions. Simons (2013) pointed that information exchange can be used to identify emergent strategies and renovate the existing ones.

Cutris et al. (2017) are consistent with Simons (2013) that there are other control systems that are useful for innovation appearance: project management systems, brand revenue systems, intelligence systems and human development systems.

#### *Formal and informal controls*

Nevertheless, company needs innovation and learning but it still provide formal and informal controls on employee's performance. Chenhall (2015) noted that traditional type of controlling do not contribute much to innovative and creative thinking. Formal controls included just detailed plans how to produce innovative strategies but this process needs more

organic type of controlling that will enhance the potential for innovation. Simons (2013) suggested that formal controls can motivate to generate innovation when there is a reward system that encourages this. Formal controls can assist manager's intentions in this sphere.

Chenhall (2015) described in his article how Simons (2013) differentiate use of formal controls by firms with different strategies. Firms use formal control in an interactive way if they face much of strategic uncertainties, as there is changing environment that needs innovation. If organization has low cost strategies and environment is quite stable then it is more diagnostic ways of formal control usage.

Chenhall (2015) also noted that budgets, which relate more to traditional MCS, can also be used in a more flexible ways to produce innovative activity. Chenhall (2015) pointed an example of this usage which was described by Frow et al (2010). They introduced the concept of "continuous budgeting" that means that there are of course pre-set targets but firm can still revise them and reallocate resources if there is need for innovative response. But it is just a part of a new model of MCS which should also include strategic forecasting, performance plans, interactions with customers, fact-based reports of operations and protocols for meetings.

## Summary for the chapter

The chapter answers the first research question “What is known about balancing long and short term decision making in MCS and why it is a challenge for companies?” To answer the question, I looked through several concepts that plays crucial role for the research. Firstly, the concept of short-termism and the way short- and long-term planning are combined in company’s MCS. Afterwards, I described the theoretical perspectives of traditional and dynamic MCS, the way managers use control and autonomy in these two systems. Further, I investigated the concept of learning and innovation and why firms should create such environment where these components are present. We can conclude that companies, according to many studies, face difficulties with balancing between long and short term decision making because the majority of elements of MCS such as budgeting, reward system, performance measurement are focused on achieving short-term results mainly sometimes at expense of strategic priorities.

Therefore, to adapt to the dynamic environment companies should change the existing MCS to the new one, which will inspire employees not only to “suit” the annual targets, but also to contribute to long-term goals and motivate for learning and innovation.

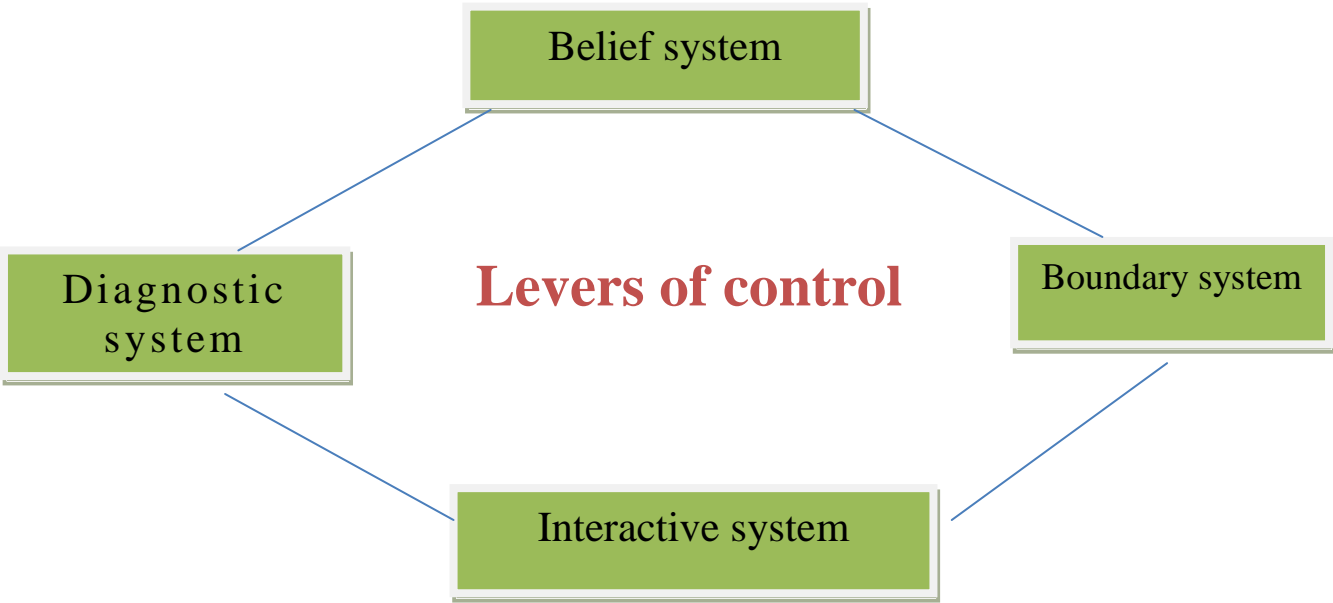
# Chapter 3. Theoretical frame of reference

*In this chapter, I will look through Simons LOC framework that I will use to analyze empirical finding. In addition, I will investigate the concept of balance using opinions of different researchers as it appears in each of my sub-questions and plays an important role for the research.*

## 3.1 Simons Levers of Control (LOC) framework

The analytical framework used in this study is Simons LOC framework, which is based on the idea of opposite forces that create tensions between freedom and constraint, between empowerment and accountability, between top-down direction and bottom-up creativity, between experimentation and efficiency” (Simons, 2013). These tensions in the LOC framework are positive and negative control systems. Simons (2013) in his research provides comparison of positive and negative controls to the yin and the yang, which are well-known in Chinese philosophy. Positive controls (the yang) represent sun and light and are responsible for motivation and learning. Negative controls (the yin) represent night and cold and are dedicated to coerce and control.

However, due to Tessier et al. (2012), each of these forces is very important and they have to coexist as they lead to dynamic tensions, which can create unique organizational capabilities for a firm. In order to manage positive and negative forces correctly, Simons proposes four levers of control (Figure 2).



## Figure 2. Four levers of control

*Source: adapted by the researcher using Simons (2013) LOC framework*

The *beliefs* system is “the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose, and direction for the organization” (Simons, 2013). This system communicates company’s core values and goals to employees in order to motivate them to innovate, create and search for new opportunities.

Nevertheless, in dynamic environments company should introduce some restrictions to prevent high-risk behavior. In the LOC framework, it is boundary system. A *boundary* system “communicates the acceptable domain of strategic activity for organizational participants” (Simons, 2013, p. 41). It consists of different organizational parameters in positive or negative terms that should prevent employees from using company’s resources in inappropriate manner. Due to Tuomela (2005), financial data are those boundaries that prevent financial risk and non-financial data are strategic boundaries basing on which managers should work.

The boundary and beliefs systems are similar as they are intended to inspire employees to look for new opportunities. However, the boundary system does it in negative way different types of restrictions while the beliefs system does it in a positive way by motivation (Simons, 2013). In the majority of cases, firms use belief system in a mission/vision statement and boundaries in their code of conduct.

Company’s success factors are included in the *diagnostic system* and translated to the employees. The aim of diagnostic system is to motivate employees to work accordingly to the organizational objectives. It shows information both financial and non-financial about success factors, which consequently should give managers understanding where to focus their attention so firm can realize the desired strategy.

The diagnostic use of MCS supposes comparison of actual performance against the planned and indicates deviations. Due to Tuomela (2005), financial data show when goals are being achieved and non-financial help managers to control success factors. Due to Simons (2013), the diagnostic system as the boundary system is a constraint on manager’s behavior.

Mundy (2010) noted that the *interactive* system include formal process of communication between employees at different levels of the company. The purpose of this system is to challenge the existing assumptions and plans of company. Managers use this system to indicate priorities and to stimulate appearance of new strategies and goals. It is important that not only top management is involved in this control system, but the whole organization is participating in the dialog. Also, interactive systems are used to provoke discussion and continuous learning.

Simons (2013) pointed that belief and interactive control systems supposed to encourage innovative behavior and learning, while boundary and diagnostic control systems help to ascertain that managers act according to pre-established plans.

It is important to understand that all four systems are interrelated. Widener (2007) pointed that the increased use of one lever leads to the opportunities, which can be attained from increasing the use of the other levers. Together, the levers of control create a “*dynamic tension between opportunistic innovation and predictable goal achievement that is essential for positive growth*” (Simons, 2013, p.30).

Due to Henri (2006), dynamic tensions appear from the interrelations between four levers of control, which lead to the development of organizational capabilities such as “*innovativeness, organizational learning, entrepreneurship, and market orientation*” (Henri, 2006, p.7).



## 3.2 Concept of balance

Central place in Simons LOC framework has a concept of balance. Simons (2013) argues that firms need balance between intended and emergent strategy, between unlimited opportunities and limited managerial attention and between learning and forecasted goal achievement. Due to Simons (2013) states that organizations need to balance four levers of control (belief, boundary, interactive and diagnostic), which will create dynamic tensions that will help to stimulate learning and innovation inside the company.

Nevertheless the notion of balance is explained by Simons (2013) in a quite vague way. Simons (2013) argues that all control levers relate to firms certain strategic goals. Kruis et al (2016) explain that if a firm understands strategy as a plan than it will focus on diagnostic control, monitoring employees performance and goal achievement. Otherwise, if top managers perceive strategy as a pattern then they emphasize on interactive control and identify opportunities for strategy. Boundary control sees strategy as a position where behavioral hazards are dealt with in codes of conduct. If there is an emphasis on beliefs control then strategy is concerned as a perspective and top-management translates vision/mission of the firm to employees and inspires them.

Initially concept of balance was used in opposing forces of interactive and diagnostic uses of performance measurement systems. Henri (2006) noted *“These two types of use work simultaneously but for different purposes. Collectively their power lies in the tension generated by their balanced use which simultaneously reflects a notion of competition and complementarity”* (Henri, 2006, p.9).

Then researchers started to use Simons’ (2013) that all four levers should work together but the notion of balance was still vague (e.g., Mundy, 2010; Tuomela, 2005; Widener, 2007). Mundy (2010) and Speklé et al. (2014) found that all four levers are important in the system, and mix of enabling and coercive forces enhances learning and creativity.

Due to Mundy (2010) diagnostic and boundary control together are focused on the achievement of annual goals have a strong restraining impact on the strategic goals through

the belief systems. In her article she provides several factors that can affect manager's ability to balance MCS use.

- *Internal consistency.* Company needs to be sure that managers understand clearly its goals and priorities. Belief system suffers much in this case as managers do not share firm's values and strategic objectives.
- *Logical progression.* This factor is one of the most important as it focus on effective use of interactive control lever in order to debate and question strategy before its implementation. Top-management should let employees discuss ideas before the strategic priorities are accepted. Afterwards, belief system communicates new action plan and boundary and diagnostic systems work within this direction.
- *Dominance/historical tendency.* Dominance means that one lever is a leader among others and indicate the direction of company's MCS. This factor may depend on the wishes of specific group of managers who leads the firm.
- *Suppression* is opposite to dominance concept that managers in some cases do not use one or two control levers and consequently make MCS of the company unbalanced.

Balance in the LOC framework means that all four levers work together to achieve both control over achievement of firm's objectives, but still give a possibility for learning and innovation.

## Summary for the chapter

To sum up, Simons (2013) LOC include four levers of control (boundary, interactive, belief and diagnostic) that are interrelated and all together help firms to balance between controlling and enabling. Each of the lever plays an important role to build a strong MCS for a company with unique organizational capabilities. Due to Henri (2006) these capabilities are: “*innovativeness, organizational learning, entrepreneurship, and market orientation*” (Henri, 2006). Henri (2006) noted that balanced use of four levers also creates dynamic tensions for a firm. The concept of balance is a core for creating such environment inside of organization in which managers will be inspired for learning and innovation. Mundy (2010) named factors that can influence on firm’s capacity to balance (internal consistency, logical progression, historical tendency, dominance, and suppression).

## Chapter 4. Methodology

*In this chapter I will elaborate how to answered my research question “How are companies balancing short and long time decision-making and what consequences does that have for learning and innovation?”. Firstly, I will define the concept of research philosophy, as it has impact on research design and data collection. Secondly, I will explain the research design that I used. Thirdly, I will discuss my data collection strategy. Forth, I will look through ethical issues, validity and reliability of the research.*

### 4.1 Research philosophy

In order to identify the research design and make the research more focus it is crucial to understand the philosophy of science. Due to Easterby-Smith et al (2012) there are three epistemological views on how the research should be done: positivism, relativism and social constructionism. In my study, I will use the last one.

Easterby-Smith et al (2012) argue that social constructionism like theory does not agree that reality is absolutely objective, but have social background and created by people. Society gives sense to everything when sharing their thoughts and experiences.

Due to Kim (2001), social constructionism has such assumptions: reality, knowledge, and learning. Social constructivists suggests that reality was created using human activity and do not exist without the society. Knowledge is also constructed by humans, which interact with each other. Social constructivists understands learning as a process which is engaged in social activities

To sum up, this Master's thesis is based on the principles of social constructivism as the process of short- and long-term planning in the company cannot be totally objective and rely on the opinions and truth of the people who works in the company. That is why, it is important to hear their story, understand their perceptions and beliefs.

## 4.2 Research design

Easterby-Smith et al. (2012) pointed that the research designs mean organizing research activity, including the collection of data, in the ways that are most likely to achieve the researcher's goals. Therefore, research design is based on the research components, which were used to search the answers to questions about the study.

### *Purpose of the research*

Saunders et al (2009) has such classification of research purposes: exploratory, descriptive and explanatory. The exploratory study is done when there is some kind of uncertainty and a researcher wants to clarify it or shed new light over a phenomenon (Saunders et al., 2009). The descriptive study is conducted when the researcher already obtains all the relevant information about the phenomenon but he wants to make a picture of actors, events or situations. The explanatory study tries to explain causal relationships between variables.

In this thesis is to explain how organizations try to balance short- and long-term decision-making, so the purpose of the research is explanatory. Explorative case study helps to investigate a particular phenomenon via different methods of data collection and analytical tools. I will make a research and analyses of empirical data about MCS of real-world firm.

### *Study object*

I decided to choose "Bizon-tech 2006" as soon as I agreed the topic with my supervisor. It was very useful that I had previous working experience in this company as that allowed to see how the company operates from the inside. I had a good reputation among colleagues that helped me to build trustful relationships with them during the interviews. In addition, it was interesting to find out how companies operate in one of the most successful and profitable sectors of Ukraine – the agriculture.

Before I started, I thought a lot about the scope of the research. I indicated several options how to investigate company's MCS. Firstly, I thought to go to the main office in Zaporizhshye and hear everything from the origin, but now only few people work there and they are not so representative for my research. Then, I had an idea to go to all 14 subsidiaries

and compare how each of them makes their planning process and compare. Then I got information from the Owner that all decisions are made in Kyiv.

So, I decided to investigate the biggest subsidiary as it contains many employees, bring the highest profit and regulation over the enterprise happens there. Bosses from Zaporizhche now operate in Kyiv that meant that I could get interviews from all levels of managers and fully describe the MCS of the company.

### 4.3 Data collection

During my research, I used two types of data collection. Secondary data collection was gathered from such sources: articles, analysis and statistics reports. However, secondary information was too general and was used just to indicate company's short- and long-term planning process, while interviews gave the picture of manager's perception of it.

In my research, I will obtain empirical data through semi-structured interviews. Due to Hopf (2004) it includes researchers experience, his or hers knowledge and intuition. It is important that you can go more in depth, and in that way uncover more of the meanings, motives and understandings behind the actions of the interviewee. If something is unclear to the interviewer, you can explain it to them, so you may get more representative answers than with quantitative methods. In our research, we will use an empirical method.

In semi-structured interviews, you have an interview guide with topics you need to cover, but the interviewer has more freedom when it comes to formulating the questions and the order of them throughout the interview. This way, you have the possibility to go more in depth on topics that seem interesting or important to the person you interview, or areas that you find out that they have significant knowledge about (Hopf, 2004). Due to Ryan et al (2009) the idea is to let the interviewee tell his/ her own experience rather than follow the predefined questions. After the interview, it should be possible to understand how the person sees the world, which means that this type of research is quite subjective.

The reason why a qualitative interview was chosen as a method is that it gives a possibility to understand how managers of different levels feel about long- and short-term planning, how company does it and what positive and negative sides are. That is why, qualitative methods, like interviews, is a better alternative than quantitative methods for my type of research question.

Since the main emphasis is on long- and short-term decision-making, the majority of questions will be about this using Simons LOC framework. In addition, it will also be some question that will help to understand what type of organization is it using specific classification. Based on this, it was created the interview guide that can be found in Appendix 1. The interview was done between managers of different levels, as it will give the possibility to see the experience and opinions of different level employees, compare the answer to look for similarities and differences between them, and make reliable recommendations. To make

sure that no one will be afraid of telling their true experience, both positive and negative; everyone will be anonymous only indicating the department they belong to.

When I conducted an interview guide I tried to design such questions that are open-ended, focused and clear. It helped to minimize the number of predetermined responses and see the real picture of the planning process. In addition, I tried to minimize the number of questions that would possibly have only “yes” or “no” answer to make managers talk. Neutrality of questions is another important factor during the interviews as I didn’t want to make or pressure from interviewer and force him to answer “as needed”.

One of the main problem during the interviews was managers desire to show the ideal picture of their company and miss some crucial problems that arise for example in budgeting. It was especially seen from the Owner's side. Nevertheless, as soon as I have already worked in the company and knew how it operates this problematic issue was minimizes. In addition, I have very trustful relationships with the whole team so from my point of view answers were reliable. However, it is obvious that managers could not discuss all the secrets as it can be known to the interested third parties and this can be one of the limitations of the research.

In addition, the interview was in Ukrainian as only 10% of people in the organization have an appropriate level of English, and I did the translation by myself trying to make it as close to the original text as possible.



### *Analysis of the interview data*

In my research, I will use first-order and second order analysis. Gioia et al (2013) noted that first-order analysis should contain information from the respondent in the form of quotes that should be separated to categories. On the first stage, it can be many categories but as the research goes, it is useful to find similarities and differences between them. On the next stage, second-order analysis, researcher should find relationships between the remaining data, interpret them and understand in what way they can help to describe the phenomena.

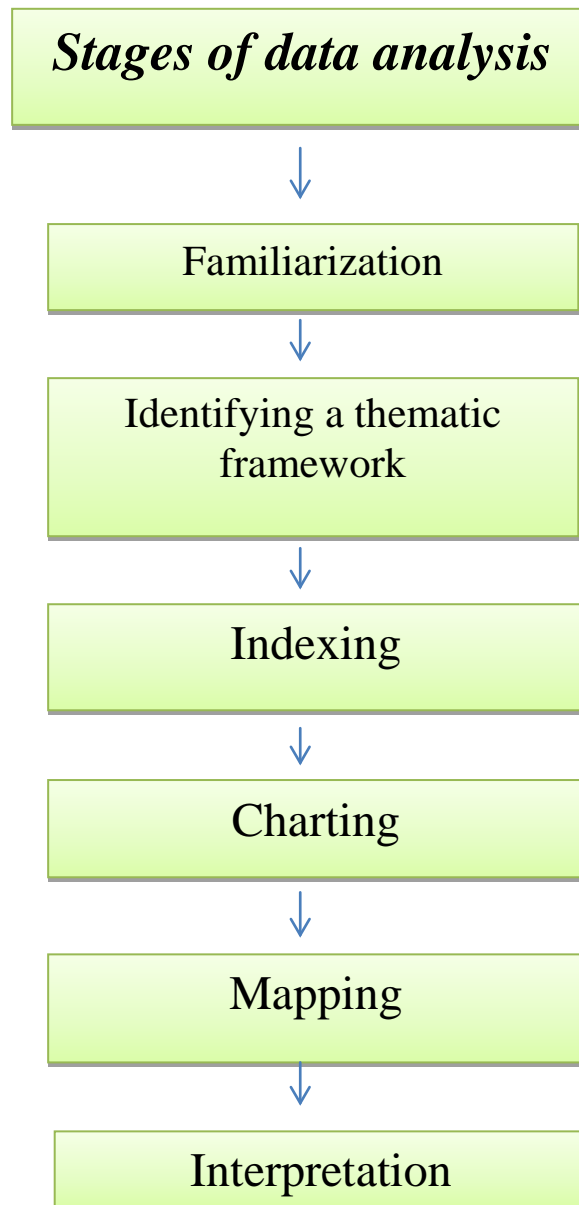


Figure 3. Map over analyzing data

*Source: adapted by the researcher using “framework analysis” of Ritchie et al (2002)*

Yin (2013) noted that data analysis has many stages: examining, categorizing and tabulating so that researcher was able to reach the objectives of the study. In my Master’s I used the “framework analysis” of Ritchie et al (2002), who noted that qualitative data analysis should include a particular number of stages (Figure 3).

The start is data collection, when researcher gets information during the interview. Afterwards it is time to make analysis of the data and begin from familiarization with the data, which means several times of listening to tapes and reading the transcripts. It is useful to make like “first impression” conclusions. Then the researcher can identify a thematic framework, when you focus on specific phrases or statements that will be a core of your analysis. Next stage is indexing when you compare quotes between cases. Then, the researcher should provide charting - look above the context and find a new thematic content.

All these previous stages prepare data to mapping and interpreting. Now researcher should try to look at all interviews together and find relationships between the quotes. Here the analytical part begins.

Miles et al (1994) identify three activities in data analysis: a) Data reduction (when data are transcribed), b) Data display (visualization of the obtained information), c) Verification (work with data to make reliable conclusions). In my research I experienced all these stages. Ryan et al (2009) states that it is important not to miss anything during the interview so the whole process should be recorded and then transcribed. Afterwards the transcript should be checked by the interviewee to confirm the validity of it.

#### 4.4 Ethical business research

Due to Weathington et al (2012) it is very important to conduct research concerning human behavior using ethical code and ethical principles. Researchers developed a specific list of principles called “The Nuremberg Code” to provide researches in a decent way (Resnick, 1991). It includes such points: 1. Informed consent (the object of the research should understand the purpose of the research and consequences); 2. Social value (research must be useful for society); 3. Scientific validity (only trained people can conduct a research); 4. No malfeasance (research should not harm participants); 5. Termination (research should stop if the object wishes); 6. Privacy (respect confidentiality); 7. Vulnerable populations (protect right those who cannot act for themselves); 8. Fairness (research should be consistent and fair); 9. Monitoring (continuous monitor the research process) (Resnick, 1991).

Weathington et al (2012) states that the researcher should collect the data in an accurate way and analyze them in the most objective way. In addition, much attention should be dedicated to the problem of confidentiality as some of the participants can ask not to reveal their actions in the study and researcher must guarantee this.

Gold (2002) states that ethical way of conducting a research should always take care of the rights and interests of the participants. In addition, the researcher by himself is a participant during the research design in a particular company. Gold (2002) suggests such types of attendances: 1. Complete participant (researcher stays incognito in the company and gathers information acting like a member of the team); 2. Participant-as-observer (researcher work in the company and collect data but everyone knows who he is); 3. Observer-as-participant (researcher takes interviews and do not interact into the company life); 4. Complete observer (researcher do not interact with people).

In my study I played two roles: complete participant and complete observer, as a year ago I worked in this company for 3 month and had the possibility to participate in company's life. Afterwards I decided to conduct a research about firm's long- and short-term planning and interviewed only those managers who obtained relevant information for my study. First role gave me a possibility to have opened and trustful relationships with managers and see the situation from inside. Second one, allowed conducting very informative interviews with the “right” people and providing a reliable picture of the processes.

## 4.5 Reliability and Validity

Quality of the explorative researches is a very complex concept as the research can consist of many stages and some issues are very hardly assessable. In my study I will follow the opinion of many scientists and rely on two criteria: reliability and validity.

### *Reliability*

Easterby-Smith et al. (2012) states that the study is reliable if data collection gives the expected and consistent results. In addition, research is reliable when everyone who reads, trusts it and the same results will happen when someone will repeat the research. However, qualitative research is not so easy to conduct similarly for 100% as it includes human factor, which is quite vulnerable. Seale (1999) states that research is trustfull if such issues as validity and reliability are present. Reliability is high when all stages of the research are free from errors and faithful.

To ensure reliability of my research and eliminate possible errors, I spent much time to prepare for the interview trying to make my questionnaire relevant and understandable for the interviewer. As soon as, I knew members of organization beforehand I sent them emails with purpose of my thesis and the interview guide. If I didn't understand some of the answer, I asked to explain me in that way I got the information entirely. I sent the interview transcription to each of the respondents and they confirm that nothing contradicts and I have the clear picture of what they meant.

Nevertheless, Stenbacka (2001) noted that reliability is not a useful measurement criteria in qualitative research and cannot be used to indicate the quality of this type of research.

### *Validity*

Every researcher wants to contribute knowledge to the field that is believable and trustworthy (Merriam et. al, 2009). Yin (2013) indicates several types of validity in his classification. In my research I will internal and external. Internal validity due to Yin (2013): “refers to the extent to which the data accurately reflect the phenomena under the study”, while external validity is: “applicability of data to other like cases” (Yin, 2013).

Internal validity was strengthened by an appropriate research design, where I formulated the study and followed the pre-made plan. Validity reflects the sustainability of the results during the study and whether they work with the established tasks. Even though I had an interview guide prepared, I was able to increase the validity by asking additional questions when some statements were unclear or when I wanted to get more details.

One of the treatments to validate the results of the study is a triangulation method. Due to Denzin (2012), states that triangulation helps to increase an understanding of the phenomena by using various types of triangulation:

1. Method type: the group of inquiry techniques (data collection);
2. Investigator type: two or more researchers should conduct one research to see it from different dimensions;
3. Theory type: applying several theories to analyze empirical data (short termism theory, Simons LOC framework, etc);
4. Data source type: various perspectives about one problem (managers of different levels).

If three of four triangulation types are present in the research then the validity is high. In my research, I used three types of triangulation missing only the investigator type as I was writing alone. Nevertheless, during my research I tried to increase the validity with all appropriate tools. I sent drafts of Empirical chapter and interview transcripts to make sure that all the information is accurate and I understand the MCS of “Bizon-tech 2006” correctly. In addition, all primary data were compared to the secondary information generators.

Due to Yin (2013) research has external validity if it can be applied equally to other cases and have scientific usefulness.

External validity of a qualitative research can be problematic as in the majority of cases, researcher investigate very small sample or single cases (Marshall et al, 2014). This kind of research is aimed to find specific information about a study object and describe a quite unique context. On the one hand it can be one of the limitations of my Master’s thesis as soon as all organizations are different with its values, rules, culture, external and internal environment. On the other hand, it is possible to apply my research on a firm with a similar

context, especially for companies from post-soviet union as they have close cultural modes and management styles.

## Summary for the chapter

Methodological chapter is an essential element of any type of scientific study. In short the way I will explore my case study is presented in Table 1.

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<b>Research philosophy</b>	<b>Social constructivism</b>
<b>Purpose of the research</b>	Explanatory
<b>Study object</b>	Ukrainian agricultural company “Bizon-tech 2006”
<b>Data collection method</b>	Semi-structured interviews
<b>Method of data analysis</b>	“Framework analysis” of Ritchie et al (2002)

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Table 1. Methodological framework of the case study

*Source: developed by the author*

I decided to start from the philosophical issues and choose the epistemological view that will suit my type of research. In my case social constructivism is the most appropriate as respondents had different opinions and viewpoints. Designing my research, I elaborated about the purpose of it and using Sanders et al (2009) classification indicated that it is the explanatory one. I will describe firm’s short and long-term planning and analyze it through various theories. I used semi-structured interview for data collection because it allowed to conduct interviews in an open form and give more freedom for respondents to answer. During all stages of the case study I strived to increase its validity and reliability using various approaches (for example, triangulation method). In addition, I tried to perform my research in an ethical way, taking care about interests and rights of the participants.

## Chapter 5. Empirical background

In this chapter I will provide the first-order analysis of the empirical findings which I collected doing my research. The first-order analysis contains empirical data that I will use to answer the second part of my first sub-question: “What is known about balancing long and short term decision making in MCS and why it is a challenge for companies?” This chapter is divided in two parts: firstly, I will provide the background of the company; secondly, I will specify how company makes it short-and long-term planning and what tensions arise in these processes.

### 5.1 Context

“Bizon-tech 2006” is a young Ukrainian company, which was opened in 2006 by two agronomists Vitaliy Bogovin and Vadim Kovernik in Zaporizhye. Firstly, it was a small local firm, which worked with Ukrainian producers and had 6 employees in the office. As soon as there was a huge demand for company’s products all around the country directors decided to grow and started new subsidiary every year. For now, there are 14 offices all around Ukraine with an average number of staff approximately 20-25 in each. At the beginning, “Bizon-tech 2006” focused only on distribution of pesticides from China but when the firm became big and well known enough, they also added more products and services in order to capture a bigger market share and now it specializes in such activities as:

1) Import of plant protection products (pesticides, herbicides) to Ukraine from China, India, Canada and Europe, registration and certification of pesticides and herbicides for use in Ukraine, storage and processing at chemical storage and sale to end-users across the country;

2) Organization and management of company’s own production of grain and oil crops on leased agricultural land, harvesting and storage on the own or leased premises, sale to customers in Ukraine and for export;

3) The storage and sale (both internally and for export) of grain and oil for both residents and non-residents;

4) Import of agricultural machinery from the United States (John Deere) for the sale to agricultural enterprises in Ukraine.



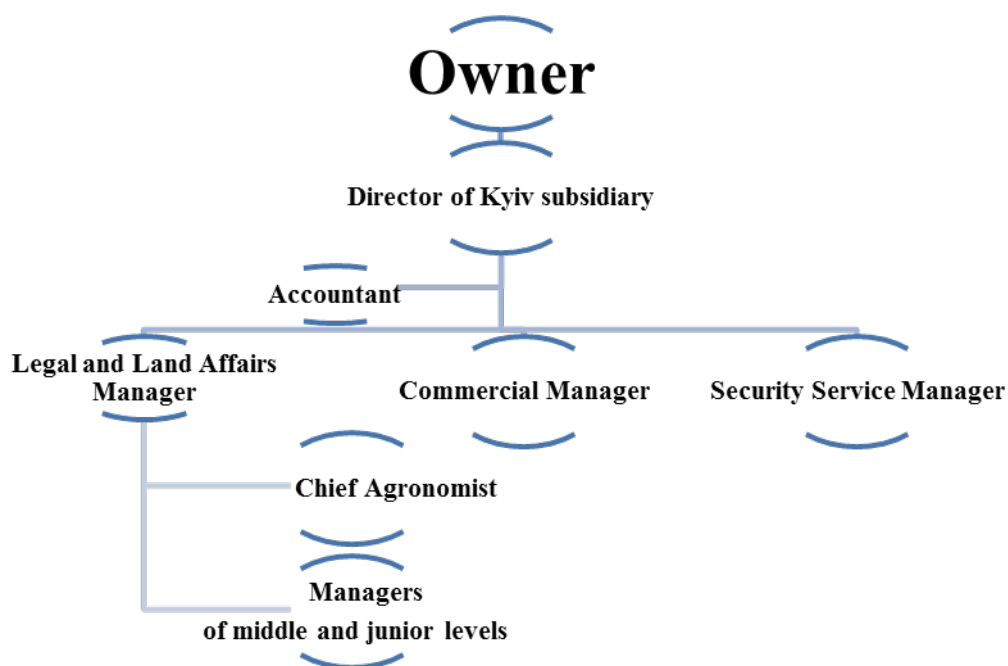


Figure 4. Management Structure of “Bizon-tech 2006”

*Source: made by other*

Company’s organizational structure is hierarchical that means that staff is ranked at various levels; each one is above of the other. In a traditional hierarchy, top-management is responsible for company’s strategy, while lower-level should care only about specific function (finance or sales). Each employee knows his role within the organisation and middle/low level managers are not allowed to take initiatives without permission from their seniors; decision-making and communication are top-down. Even though the firm is quite big, the Owner still control all-important processes in the firm.

“Bizon-tech 2006” has very ambitious plans for next three years which can be seen in their Strategic plan 2017-2020 where they indicate that they want to overcome one of the main competitors and market leader company “Adama” and increase the profit for 27%. Company is going to build a plant in the outskirts of Kyiv together with Chinese partners and senior management is concerned that traditional MCS that is present in the company is quite problematic and doesn’t work as effective as it supposed.

I will discuss MCS of one of the subsidiaries that include managers of all levels so it will provide a right impression how the company operates. The major responsibility of Kyiv subsidiary is to work with major foreign producers and on project of future plant, which will process and pack Chinese fertilizers. There are 25 employees who are working there now. As

soon as subsidiary is located in the capital of Ukraine, it works directly with main producers and customers and is some kind of “head office” of the company.

## 5.2 Interpretations of the long and short-term planning in the company

*In this part I will answer the research question “How are the four levers of control used to balance long and short term planning?” To do I will describe intentions from the head quarter and then the interpretation of long- and short-term planning among managers. I will start with short term planning and then describe the long term planning. In the end I will sum up the findings – tensions in short and long term planning.*

Company’s planning process includes two elements (Figure 5):

- short-term planning (annual budgeting with a possibility to correct it in spring).
- long-term planning (strategic goals for 3 years showed on the annual meeting in January);



Figure 5. Company’s planning process

*Source: made by author.*

### 1. Short-term planning – budgeting

Firstly, I will describe how top-management understands firms MCS and how it works from their point of view.

Short-term planning is done in a traditional way (annual budgeting) with a possibility to make some corrections in spring when they understand the demand for products. Sseasonality is an important a factor in this kind of business that can influence on resource

allocation. Budgets are formulated by top-management and economists of each subsidiary and accepted by Owner at the beginning of the “season” in January. Managers can make their recommendations in Spring such as reallocate resources from one customer to another but it should not cut budget entirely and they have to propose a reliable argumentation about this to bosses.

Owner comments need of budgets this way:

*“Budgets are important for our work as it’s some kind of “agreement” between us and producers where we indicate how much we will sell this year and respectively that’s amount we will buy. Basing on this we make budgets indicating our costs and possible income. But from my experience they have never worked for 100%. We have to plan yearly because we buy products from producers and we have to say in September what amount we will buy”.*

In addition, company is characterized by a high level of formalization; hierarchy is seen on all level of organization. There are strict rules and procedures concerning meetings, reports and resource allocation. Since the company works with annual budgets, everyone has cost budget to spend for the year and resources are allocated in January through the prognosis of the main office.

Owner comment it this way:

*“Yes, I prefer formal style of making business and formal way of communication with my subordinates. It makes it is easier as for me”.*

Only Directors of each subsidiary can re-allocate resources for his office but without any advices from lower level managers. Director of Kyiv subsidiary comment it this way:

*“I propose my way of allocation to main office in January and in the majority of cases they agree”.*

There is a spirit of competition inside the office as people want to gain more profit to get some bonus or to have a career growth.

Motivation of employees is done depending on the category of workers (whether they are managers or administrative workers). Owner of the firm said:

*“We have only one type of incentive for managers who are like 80% of workers and it is a percentage of sales (0,25), for administrative positions it is annual bonus in an amount of ordinary salary”.*

Now I will present interpretations of short term planning among managers.

If we talk about managers who really face day-to-day activities and have to perform within this budget, they are not satisfied with budgeting. Legal and land affair manager commented it like this:

*“Honestly I don’t like budgets at all as it is always hard to suit them and main office starts to be very strict if we do not. But there are so many factors that can change this numbers in the budget! And we are working day to day and sometimes when we need to relocate resources or find new customers it’s a long bureaucratic path to get the permission.”*

The performance measurement is mainly the financial one, but directors also pointed that they are interested in the some non-financial indicators. Managers send a monthly report to the Director of Kyiv subsidiary and then he aggregates the data and sends it to the Owner of the company. Report includes profit and loss statement, comparison of actual revenues and costs versus planned in budget, balance sheet, comments about present situation and customers, cash flow, etc. However, the most important indicators are market share and gross margin.

Director of Kyiv subsidiary understands that it important that managers can express their opinions about day-to-day business. Legal and land affair manager said he can talk with his boss anytime as:

*“It is important that people can fluently express their opinion as managers sell the product every day and if they will be shy to discuss the situation with us we will fail to control the situation”*

Among non-financial targets, Directors named *“clients satisfaction as we totally depend of them”*. In addition, company tries to encourage its employees and organizes some social events. Staff has opportunities to attend various courses and trainings, external English

classes. There are regular events to tie people together such as trips, celebration of members birthdays, New Year celebration.

Feedback about employee's work is given once a year on annual performance meetings. If managers fail to achieve annual targets, they can lose their bonus at the end of the year and have no salary growth in the nearest future.

### Tensions in short-term planning

Different tensions arise between top-managers intentions how the system should work and how managers interpret it. Top-management of the company uses traditional MCS, that helps to provide control over employee's performance.

Top-management control all the processes in the company giving not much space for creativity and decision-making for other members of the firm. However, employees feel unsatisfied with using budgets that are not flexible enough to capture changes in their business, which is seasonal. In addition, managers can not participate in the budgeting process and have no opportunity for decision-making. Nevertheless, top-management also criticize budgeting as it is hard to forecast expenses and incomes in January as there are always corrections in spring when the "season" starts.

## 2. Long-term planning

This part I will also start describing top-management's intentions how long-term planning should operate in "Bizon-tech 2006".

Long term planning process is presented by Strategic plan 2017-2020 for three years in the view of presentation on the Annual meeting in January. It contains figures relating the present company's place on the market; concerning annual budget achievement; various ratings of Ukrainian agriculture producers and customers, strategic goals with a detailed description how to gain them and a SWOT analysis of "Bizon-tech 2006".

The plan is created by the Owner and translated to all levels of managers. This kind of report is a new thing for a company (they started to do it only two year ago). Owner is not so sure about the format how it should be done and how frequently they need to change it:

*“I think for us it will be unchangeable at least 5-6 years more as there are really big players on the market and we try to overcome some of them each year but it’s a long process”, - he says.*

There is no formal connection between long-term and short-term planning as top-management just divide the desired profit level for three years and check whether there is growth at the end of each year. However, another firm’s objective - to overcome “Adama”, is not assessable with any targets. Owner of the company comments it like this:

*“Each year we are closer to our goals, we compare the targets each year so we can see the progress at the end of the year but there is no formal report, only discussion”.*

Firm has such values such as professionalism and customer orientation, which are translated to all employees. Owner comments it this way:

*“We want to be a number 1 distributor in Ukraine and we will achieve it using our values soon”.*

Director of Kyiv subsidiary also communicates goals to the employees:

*“I think it is our professionalism in everything we do, we care much about our customers also. On every meeting I say to my employees that we are active, ambitious, young and it differ us from others. I think it inspires them”.*

However, there are no written or formal notifications of them, which should inspire staff to work for a long-term perspective and motivate them to make their everyday contribution to firm’s objectives.

Company tries to retain employees providing different incentives that will help to build strong relationships with employees. The Owner comments it like this:

*“We try to empower our employees by giving them a possibility to travel to different countries and meet with producers face to face”.*

Now I will explain manager's interpretation of firm's long-term planning process. Managers of the company feel quite optimistic about implementation of the Strategic Plan:

*“We want to work in this company in the future and want to grow so we would like to have this long-term orientation but now I think no”.*

Managers appreciate the way company motivate them (trips to farms and firms in different countries), also this helps to build long-term relationships with producers and customers and retain them for long-term perspective. Legal and land affair manager comments it like this:

*“I'm motivated by business trips, I like to go tp big firms and visit their field in France for example plus bonus of course”.*

#### Tensions in long-term planning

As for long-term planning, in “Bizon-tech 2006” we can observe lack of connection between annual budgets and Strategic plan 2017-2020. Top-managers give detailed descriptions of financial targets that should be achieved each year but workers try to suit the budget just to obtain bonuses at the end of the year. Nevertheless, employees like the existing reward system but it does not support long-term commitment to strategic goals. Employees are not inspired to look for opportunities and make their propositions to the working process as the Owner controls all the processes.

Nevertheless, managers feel very optimistic about Owner's intention to implement Strategic plan, but for now company's objectives are translated to employees only once a year and there are no other formal notifications of company's strategic plans during the year.



## Summary for the chapter

This chapter presents empirical findings which were gathered during interviews with managers of different levels of “Bizon-tech 2006”. The firm has a hierarchical organizational structure and conducts a planning process that consists of two parts: short-term and long-term planning. The first one is done in the form of annual budgeting, the latter one is a Strategic plan for three years. Tensions arise between a manager’s intention how companies’ long and short-term planning should operate and how managers interpret those. In “Bizon-tech 2006” the Owner plays a central role in these two processes, only resource allocation is done by the Director of each subsidiary. Managers prepare their reports to show top-management that they work within the targets and this way they are monitored. The problem is that managers do not actively participate in any of the planning processes that means that lower-level managers are not motivated to perform in a long-term perspective, but only within the pre-set targets.

## Chapter 6. Analysis

*This chapter is second-order analysis of the empirical data that was explained in the previous chapter. In the first-order analysis, I described how “Bizon-tech 2006” make its short-term and long-term planning using relevant quotes and indicated tensions that arise. The second-order analysis will include three sub-sections. Firstly, I will analyze empirical data applying Simons LOC framework, then I will make a summary how different levels of control are used in the firm. Secondly, I will indicate how they are interrelated and talk about balance between them using different theories. With this type of analysis, I will answer second sub-question: “How are the four levers of control used to balance long and short term planning?” In the third subsection, I will investigate: “What consequences does the balance have on learning and innovation” on the case of “Bizon-tech 2006”.*

### 6.1 How four levels of control are present in “Bizon-tech 2006”

Simons (2013) LOC framework consists of four control levers: boundary, belief, interactive and diagnostic. Each of them has an important role in the design of MCS of the company. Next, I will investigate how each lever functions in “Bizon-tech 2006”:

#### *Interactive Controls*

The interactive control is about communication between managers on different levels in order to discuss the strategic uncertainties for the company; debate the existing strategy and look for new opportunities. In “Bizon-tech 2006”, they have meetings (two times a year it is a big company meeting and every month inside each subsidiary), where the Owner details announce of the Strategic plan.

Interactive control in the company has two dimensions, which are different from each other. On the meetings with a Kyiv subsidiary boss, employees feel free and express their opinion about any issues that are problematic or questioned. However, it is less trustful and opened situation when we talk about annual meeting in January when all members of 14 subsidiaries are present. Only Director of Kyiv subsidiary feel free to communicate with the main office and as soon as allocation of resources is done on the level of each subsidiary, he

has some kind of autonomy to make decisions but he doesn't involve lower level managers to this process.

Nevertheless, this cannot be told about lower level management. They think that the Owner is kind of "assessor" of their annual work and feel uncomfortable to propose their ways of managing business or participate in creation of strategic plans. Managers of the subsidiary have quite trustful relations with the Director of Kyiv subsidiary, but not with the Owner. In addition, managers do not participate in target setting that is not good for a company, as managers know their clients and market better as they inside of it every day.

Due to Simons (2013) interactive system should work together with the boundary system, as managers are permitted to look for opportunities and solutions within the limits, which are set by the top management . In "Bizon-tech 2006" it is encouraged to look for new clients or replace the existing one if it brings profit to the firm, but a manager will be punished if he loose one and have no alternative.

Another thing is that in the process of long-term planning takes part only one person – Owner – that is not rational, as he cannot capture for 100% what is going on markets in all cities and it is logical to add everyone who has thoughts and propositions to this process. Managers cannot debate priorities or discuss the strategy of the firm; this process is a privilege of the Owner.

Overall, interactive lever is "on place" in the company, but it is not functioning as intended. This kind of control is done to stimulate opportunity seeking and learning, allow new strategies to emerge as employees respond to new information and situations. Simons (2013) argues that interactive system should facilitate continuous and opened dialogue inside the company, debating the current action plans. However, in our case managers do not participate in this process but just act according to the decisions from the "top".

### *Belief system*

The idea of beliefs system is to motivate employees to create new opportunities, new ways of value creation. People in the organization should company's strategy and mission, the values, its code of conduct. Top-management should translate this kind of knowledge and to the employees and inspire them to work toward the company's values.

Due to Simons (2013) belief systems should consist of mission/value statements and credos. Mundy (2010) supports this idea adding that this control lever should provoke organizational search and learning. Majority of employees understand firm's values such as professionalism and team-working but top-management replicates them only in a form of discussion on annual meeting without any notifications during the year. This is also one of the reasons why managers may take actions only for a short-term period. Very problematic is absence of written of any clearly written mission/value statements that should "tie" people together and provide guidelines how to behave consistently with firm's values. It shouldn't state: "What to do in every situation?", but help to make decisions and encourage to speak up if there are any difficulties.

Jansen et al (2008) noted that shared values encourage resolving of conflicting interests that helps to take actions toward the desired targets. Company has very formal way of communication between colleagues and managers sometimes feel uncomfortable to show their "weak" sides or propose radical ideas that could be solved by a well-established belief system.

"Bizon-tech 2006" started to introduce their Strategic plan only few years ago and this process seems to be not very developed. At the beginning it was no need for it as firm just wanted survive on the market and gain profit. However, nowadays company is well-known on the market and has many ambitious projects so it is time for a change. In addition, cooperation with Chinese partners pushes them to look in the future, as they need to know that people they are working with are reliable and long oriented. Company's Strategic plan 2017-2020 discusses in details how in 3 years they will overcome main competitor, company "Adama" and increase our profit for 27% and is connected to a an annual budget. It provides guidelines for managers how this goals can be achieved and how they should operate. If we talk about long term and short-term orientation, most of the managers admit that they work to obtain short-term results at the end of the year, but they would like to work for something more than just financial targets.

Due to Simons (2013) belief systems should enhance motivation of employees, long-term thinking and promote creativity. Nevertheless, top-management of "Bizon-tech 2006" noted that it is quite problematic to re-orient managers and inspire managers to work for long-term goals.

Firm doesn't update the strategic plan frequently (only once in 3 years) and the Owner thinks that it is due to the fact for next 5-6 year firm's strategy will be mainly about overcoming leaders of the market.

Overall, belief system is very weak and is on the beginning phase of development and this is a bad situation for company's long-term goals as people act only in the short-term perspective.

### *Diagnostic system*

The purpose of diagnostic system is to decrease manager's need of constant monitoring. Instead of tight control, top-management should receive periodic reports from different employees about their achievements. Diagnostic control is used to motivate, monitor and reward how managers achieve the objectives of the firm (Simons, 2013).

Due to Henri (2006) diagnostic control is seen as a negative control lever as it provides comparison between the realized and intended strategy and focus on errors that are made. Bedford (2015) supports Mundy's (2010) opinion that this control lever is "*not simply a constraining influence on managers' behaviors, because monitoring processes highlight problems and motivate managers to achieve their goals, sometimes through novel means*" (Mundy, 2010, p. 501).

In this company, this lever of control is designed as Simons suggested but only for a short-term perspective. Managers report about results on how things are going with their customers and goods. Each member of the company has his own type of report that contains relevant information, concerning key performance indicators. They are obliged to deliver to the executives such reports on a regular basis about their progress towards goals, monthly results, compare outcomes to expectations, and review key measures.

The long-term diagnostic control of the company is problematic as leaders of each subsidiary provide only once a year and main point of it is to compare what is already done this year towards the strategic goals.

In "Bizon-tech" this type of control is not as tightly connected with interactive controls as it should be. Diagnostic control differs from interactive one focus on exceptions rather than the use of regular meetings (Simons, 2013). Nevertheless, large operating expense budgets lead to major monthly changes that require regular discussion.

### *Boundary system*

Boundary systems indicate set of limits on manager's opportunity-seeking behavior. The operating boundaries should protect firm from financial risks. In "Bizon-tech 2006" boundaries are set in the guidelines and procedures for employees by Owner and sometimes by directors of each subsidiary. All the decisions of managers is under the strict control, they operate due to preset patterns. Owner does not expect from leaders of each subsidiary much creativity, which should be present in Simons LOC (Simons, 2013). In addition, the Owner clearly specifies to employees which risks firm can't afford on meeting in January (governmental risks, amount of product in the storage, etc.)

There are guidelines that are set by the Owner and producers of the goods concerning expenditures for each project or manager (the maximum that can be spent) and timeframe for implementation. Firm is accountable to producers who want to be sure that their products will be sold in time and firm has to plan this beforehand. In addition, company started to use various marketing tools only last year and have not observed the direct effect on sales yet, so they are not so sure how much money should be invested in it.

Tasks are delegated quite formally through email with a copy for every member of the team or on monthly meeting in each subsidiary.

Bedford (2015) pointed that boundary systems has a crucial role in company's strategic renewal. It should facilitate managers to find new opportunities in the established day-to-day tasks. Nevertheless, MCS sometimes restrict experimentation and approve only processes that are sanctioned by the top-management. In "Bizon-tech 2006", managers have a possibility to change a little bit limits on resources use but anyway everything should be within the budget more or less. There is subordination, strict rules among employees that weaken the boundary system, as it is no trust and openness. Boundaries have to be used together with standards of ethical behavior and codes of conduct in companies as sometimes managers can choose to bend the rules. Because of it is important use the beliefs and boundaries systems together. In "Bizon-tech 2006" there is no written code of conduct, which supports trust and openness among employees.

### *Short summary*

Analyzing company's MCS using Simons (2013) LOC framework my findings show:

Interactive controls suffer from too intense control from the side of the Owner over target setting and creating strategic objectives. Managers do not take part in this processes, have no right to question the decisions, which are made. Director of each subsidiary makes reallocation of resources by himself and employees can only participate in if it brings profit to a firm. Firm do not stimulate creative thinking among employees that should stimulate debating and strategic renewal.

Diagnostic control system functions quite effectively but in a very traditional way. Managers prepare reports where they identify progress and review the pre-established targets. Bosses control the way employees perform and evaluate them at the end of the year. However, the way firm use diagnostic lever do not contribute to achievement of long-term goals as all the reports are mainly concerned about annual performance measurement. Diagnostic system should be tightly connected to interactive system to advance its long-term orientation.

As to the boundaries system, in company it does not functioning fully. Due to Simons (2013) this system should set restrictions on employee's behavior, minimizing the risk of "fail" for the company. Nevertheless, this lever of control should not decrease innovative effort among staff but stimulate them to look for opportunities in the right "areas". Owner and directors regularly set boundaries for the team and provide rigid control over the activity. However, there is not much space for employees for decision-making. In addition, there are very formal relationships inside the company and lack of trust and equality. In addition there is no Code of Conduct that is one of the main attributes of the decently designed boundary system.

Ineffective beliefs system is detrimental for the firm's performance. If company do not promote common vision and motivate managers to act for long-term results then it will not achieve any of the desired strategic goals. Simons (2013) argues that values and strategic thinking can create innovative effort that will increase company's productivity and efficiency. The Owner made a very useful step in this direction when he implemented The Strategic plan 2017-2010. However, this kind of strategic planning is not supported by other

useful parts of the belief system like vision/mission statements. All together they will inspire employees to promote common values and increase level of long-term orientation.



## 6.2 Balance of four control levers

*In this part I will explore how company use its MCS to balance all four control levers, how this facilitates creation of dynamic tensions, what difficulties company may face when it wants simultaniously enable and control employees. Here I will use theoretical background of such reseachers as Simons (2013), Mundy (2010), Henri (2006) and apply it to analyze MCS of “Bizon-tech 2006”.*

Simons (2013) states that all four levers of control are interrelated, constituting, but not substituting each other.”Bizon-tech 2006” case shows that three of four levers works improperly while only diagnostic system operates in the short-term how Simons (2013) expected. Henri (2006) states that tensions between different uses of MCS is a competitive advantage for a firm and lack of them that is present in “Bizon-tech 2006” leads to difficulties that company will face in achieving its strategic goals. Figure 4 shows how each lever is presented in company and how are they related.

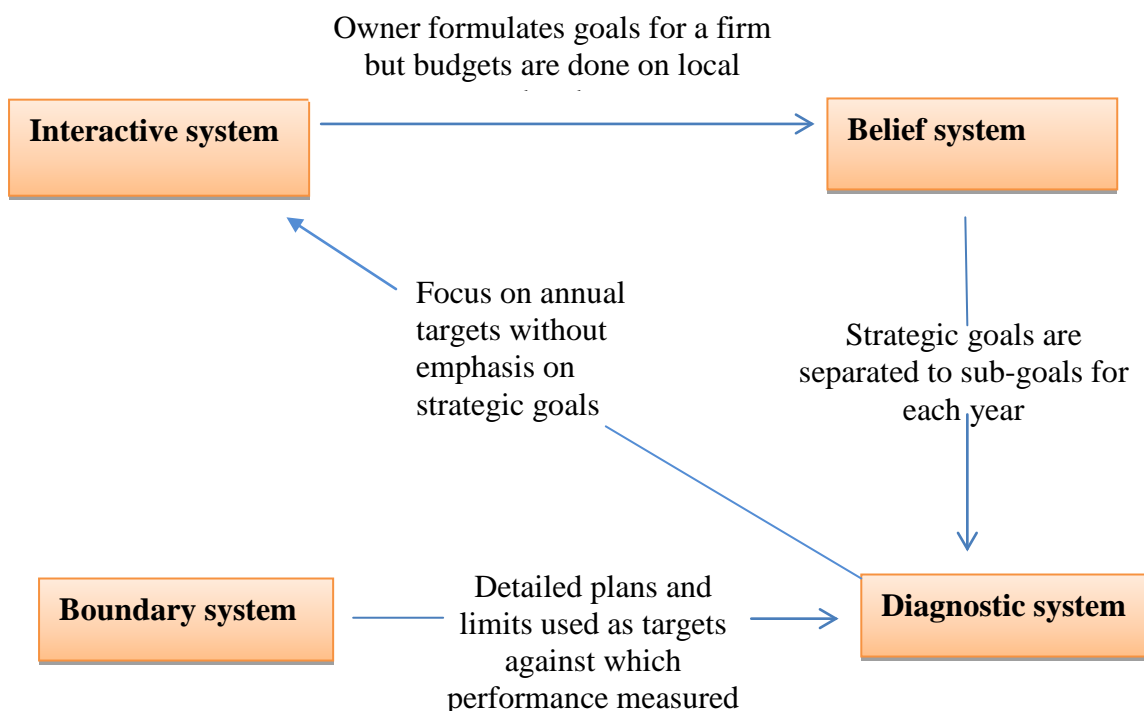


Figure 6. The interrelations between the different levers of control in “Bizon-tech 2006”.

*Source: adapted by author using Mundy (2010)*

Possible productive tensions suffered from the levers of control use by Owner. Coercive control plays a dominative role in this company when enabling controls tools are not presented. Together boundary and beliefs systems should contribute to a dynamic tension between commitment and punishment. They could make a direction for a company, inspire and prevent against opportunistic behavior. In “Bizon-tech 2006” the Owner indicates strict “frames” within managers should operate and risks they should avoid, but do not focus attention on innovation and learning.

To analyze which factors influences on firms ability to balance use of MCS I will use Mundy’s (2010) classification.

*Internal consistency.* “Bizon-tech 2006” MCS shows lack of internal consistency relating short-term goals and long-term objectives. Company’s MCS is mostly consistent in the short-term. As soon as belief system emphasizes mainly on overcoming of main competitor and increasing profit, diagnostic system measure annual achievement of pre-established targets and boundary system controls identify limits for operations. Interactive lever is inactive that leaves not much space for learning and innovation in the future. Top-management of the company is concerned about employee’s orientation to the annual targets but it is possible when team have shared goals and long-term paradigm is consistent with short-term goals.

*Logical progression* is one of the weakest sides of “Bizon-tech 2006” as top-management do not let employees debate and discuss strategic plans. The Owner makes decision solely. Majority of managers agreed that they would like to participate in long-term decision-making but they do not feel free to propose ideas. Dominance of one person directs the whole firm; of course, it can be because ten years ago he created it and executed during the whole lifecycle. However, now firm consist of thousands of people who are professional enough to be good advisers for goal creation. In this case, employees do not take part in any of strategic processes that decreases their motivation to act in a long-term perspective.

*Dominance/historical tendency.* In “Bizon-tech 2006” the dominant system is diagnostic one as it is the most developed one. Top-management establishes various performance measurement indicators and managers prepare reports where they show their achievements and compare to pre-set targets. The same situation is with attainment of

strategic objectives as all subsidiaries prepare report where they show how close they are to the desired subsections of Strategic Plan each year.

*Suppression.* Top-management of experience suppression in use of interactive lever (which is practically inactive) and partly diagnostic (it is focused on annual targets with a small correlation toward strategic objectives). In this case, priority for organization starts to be short-term goals and employees operate in this direction. However, top management understands that in the “Bizon-tech 2006” short-term performance dominates over the long-term and this is problematic for a firm and for further cooperation with Chinese partners who want to work with reliable company that has a strategic orientation.

Overall “Bizon-tech 2006” has problems with balancing four control levers, which can create necessary conditions where dynamic tensions arise. All processes are focused on achieving short-term goals of the firm sometimes at the expense of long-term objectives. Firm does not properly use interactive system and therefore can not fully exploit specific organizational capabilities. MCS is mainly focused on achievement of annual goals, all four control levers used in this perspective and company struggles to change this to more long-term orientation.

### 6.3 Learning and innovation

*In this part, I will investigate how firm balanced uses of MCS to encourage appearance of learning and innovation. I will compare processes, which are present in “Bizon-tech 2006” towards various theoretical approaches (Simons, 2013, Henri, 2006, Speklé et al., 2014, Chenhall, 2015).*

Due to Simons (2013) if company balance use of all four control levers, consequently they all will contribute to appearances of learning and innovation inside the company. Firstly, I will define how researchers suggest this should work in practice and then compare it to the real situation in “Bizon-tech 2006”.

*How it should be:*

Simons (2013) states that in order to facilitate learning and innovation, four levers should function like this: diagnostic control which is seen as a negative force should highlight problems through continuous monitoring and managers should find new creative solutions (Mundi, 2010); interactive control should inspire employees to find new opportunities, debate the existing strategy in order to create new capabilities (Henri, 2006); boundary control should motivate staff to go beyond old routines and find more efficient ways of performance (Simons, 2013); belief control is focused on “tying” team together with common values and goals that encourage them to look for new value-creation projects that will benefit long-term objectives of the company (Simons, 2013).

*How it works in “Bizon-tech 2006”:*

We can see that potentially each of the lever contribute to learning and innovation in Simons (2013) paradigm. Now we can observe how “Bizon-tech 2006” exploits each of the lever and whether it bring the desired outcomes.

Interactive system that should accumulate people in the company together to debate, brainstorm and seek for creative ideas for strategic renewal and emerging opportunities is controlled by one person – the Owner. He generates Strategic plan 2017-2020 and accepts it afterwards. Managers have no right to propose their ideas or debate ones that the Owner proposed; they just receive the last version. The question is whether it is optimal enough if it includes only opinion of one person who do not really interact with clients or daily routines.

Diagnostic system suffers from lack of long-term orientation as this system operates only for monitoring employees performance against the pre-set targets and do not leave much space for them for creation of new ideas. In addition, managers do not see how their work is connected to strategic objectives that motivate them only to achieve short-term results.

Boundary system in a way “Bizon-tech 2006” uses it provides only limits on use of resources and indicates the prohibited limits. Managers are not inspired to seek for optimal (value-creation or cost-reduction) solutions.

Belief system is only on the beginning stage of the development as the Owner created the Strategic plan only last year, not all managers know firms values/mission/vision. This does not facilitate employees to feel that they are an integral part of the team and make innovative efforts for company’s long-term benefit.

Mundy (2010) in her case study also investigated the company where top-management focused on coercive use of levers of control. Top-management of the company wanted managers to work within the prescribed timeframe without interactive processes that provoke debating and communication on all levels. As a consequence, firm had very low financial results.

To sum up, MCS of “Bizon-tech 2006” is unbalanced. Top-management more often uses coercive control that restricts learning and innovation forgetting about enabling that is important for organizations that operate in dynamic environment. Henri (2006) states that this leads to slower decision-making and ineffective manager’s performance.

### Formal controls

What is very obviously present in “Bizon-tech 2006” is the formal style of business conducting. The Owner of the company prefer traditional type of controlling that include budgeting, reward system focused on annual targets achievement, detailed plans for each of the employee and directions for each subsidiary. Chenhall (2015) states that this traditional system have negative impact on manager’s ability for creative thinking.

Simons (2013) notes that companies use formal control differently depending on the environment where it operates. Companies that operate in dynamic, uncertain environment

use formal control interactively, in stable diagnostically. Nevertheless, “Bizon-tech 2006” operates in a very changing environment; but firm tend to use formal control more diagnostically instead of interactively. Each of the employees has fixed targets, has to suit the annual budget figures and not much opportunity to create and innovate. Economic, political instability, war at the east of the country make Ukrainian market very unstable and demanding for continuous monitoring, renewal of the strategy and seeking for new way of conducting business. Due to statistical figures which were announced on the major governmental website, agricultural sector is one of the most prosperous sectors in Ukraine but it makes up only 12% of the counties GDP. However, potentially this figure can be much higher. Many researchers argue that this is because agricultural firms still use “old school” business models that do not suit the needs of dynamic environment.

There can be many reasons why top-management chose centralization and traditional MCS for the “Bizon-tech 2006”. It can be lack of knowledge about alternatives, lack of trust to the employees or just it the most popular way of doing business in Ukraine. From my point of view, all these factors affected top-management’s choice of “Bizon-tech 2006”. Ukrainian economy is developing and now due to Euro integration, there are many positive changes in the country, but still 90% of companies operate using forecasting and budgeting. However, Ukraine was a part of Soviet Union for a long period of time where the command and control management prevailed and this historical background also impacted on how firms operate now. It sad that such new and well known in the developed countries approaches as Balanced Scorecard or rolling forecast still scares average Ukrainian businessman who feels safe only with coercive control and detailed performance targets. The Owner of “Bizon-tech 2006” is a bright example of this kind of man.

The existing system should be changed towards the one where managers are trusted to take part in strategic initiatives and propose their ideas. Simons (2013) notes that top-management should make that type of reward system which will inspire team to learning and innovation. Merchant et al. (2015) argues that in case when incentive system is focused on how to meet the budget, managers think in a short-term perspective, loose opportunities. “Bizon-tech 2006” can add to annual bonuses some benefits for new ideas or projects that will bring profit for a firm/reduce costs/create opportunities for successful development in the future. In addition, resources allocation shouldn’t be done by one person (Director of each subsidiary) who is distanced from the daily routine, but managers should participate as they obtain more relevant information about situation/clients/processes.

One of the most problematic issues in “Bizon-tech 2006” MCS is that managers do not understand how their daily performance is connected to strategy that means that during their routine activity they can fail to make right decisions that will benefit long-term objectives.

Another important issue is change of the mindset of the “Bizon-tech 2006” top-management. The idea is to implement such kind of MCS, which has more decentralization and trust. For example, Beyond Budgeting management model encourages transparency benchmarking, responsibility within the company. Employees will obtain freedom to make decisions but they are accountable for them. Delegation of the tasks and decision-making will create an empowered team of people who are interested in firm’s future. Model indicates that each of the decision and short-term goals should be visibly linked to the long-term strategy of the company (Fraser and Hope, 2001).

In this way, system will be more decentralized but it doesn’t mean absence of control for the Owner but more trustworthy relationships where managers feel empowered and responsible for more issues that will push them to make wise decisions and look for opportunities for company.



“Bizon-tech 2006” MCS

- Detailed report and target setting by top-management
- Prognosis conducted by top-management
- Strict formal control
- Reward system based on annual bonuses
- Top-down relationships (hierarchy)
- Resource allocation is owned by bosses
- Annual budgeting

New MCS

- Managers take part in forecasting and inspired to find optimal solutions by themselves
- Relationships based on trust and transparency
- Relative performance bonuses + rewards for new value-generating ideas
- Coordination, communication, debating
- More flat structure
- Alternative control tools

Figure 7. Changes to the “Bizon-tech 2006” MCS

*Source: made by the author*

MCS of “Bizon-tech 2006” lacks balancing of the control levers, therefore employees are not motivated to go out of limits and search for opportunities. As soon as, due to Henri (2006) only the balanced use of MCS creates dynamic tensions can lead to appearance of learning and innovations in the company, “Bizon-tech 2006” needs to rethink the existing problematic situation. Top management should provide changes in firms MCS and increase flexibility and adaptability using alternative management tools which will inspire managers for creativity that will generate dynamic tensions and innovative capabilities.



## Summary for the chapter

This chapter provides second-order analysis of the empirical data using Simons (2013) LOC framework for “Bizon-tech 2006”. Analysis showed that all four control levers works not how they are supposed to work with more short-term dimension. Interactive lever do not inspire managers for debating and strategic renewal, diagnostic lever is efficient only for short-term period, belief system do not contain vision/mission statement and clearly formulated values, boundary system is used only to determine actions that are off-limits, without any connection to the strategic objectives.

As soon as, levers are working ineffectively they do not generate organizational capabilities and do not create dynamic tensions. Company faces difficulties in balancing control levers, therefore experience lack of learning and innovation among employees. It was investigated number of factors that affects firms ability to balance control levers such as suppression, dominance/historical tendency, logical progression, internal consistency.

“Bizon-tech 2006” uses traditional MCS that is not flexible and adaptable enough to suit the needs of the dynamic environment within company operates. There are number of alternative tools that would increase level of trust and responsibility in the firm that will result in unique source of competitive advantage in the future (Fraser and Hope, 2001).

## Conclusion

This master thesis is aimed to investigate how organizations try to balance short- and long-term planning and in what way it influences learning and innovation. As a case study, it was chosen to investigate MCS of the Ukrainian agriculture company “Bizon-tech 2006”. Looking through relevant literature, the problem statement was defined:

**“How are companies balancing short and long time planning when taking decisions and what consequences does that have for learning and innovation?”**

In order to answer the problem statement it was required to outline more specific research questions:

1. What is known about balancing long and short term decision making in MCS and why it is a challenge for companies?
2. How are the four levers of control used to balance long and short term planning?
3. What consequences does the balance have on learning and innovation.

Concerning the first research question, there is growing number of literature that focuses on balancing of short- and long-term planning. The problem of short-termism becomes more and more popular among researchers as it is a serious drawback of traditional MCS. Marginson et al (2008) noted that firms need to find their own “right” balance taking into account level of autonomy, power distance, and managerial skills. The finding showed that top-management in “Bizon-tech 2006” have difficulties in balancing as all the processes are mainly focused on obtaining short-term results sometimes at the expense of strategic goals.

This study contributes to the increasing stream of literature about use of Simons (2013) LOC framework and interrelations between the levers of control. Using it as a theoretical framework, I analyzed “Bizon-tech 206” MCS and the findings showed that each of four levers is used inappropriately. Firm directs control systems on achieving short-term objectives and company’s MCS works effectively only for short-term surviving without proper long-term policy.

Analysis showed that “Bizon-tech 2006” face difficulties to balance different uses of MCS. It is a challenge for top-management to simultaneously control and enable employees and create necessary unique organizational capabilities. In this study, I used Mundy (2010) list of factors that affects firms capacity to balance and applied it to the case company. Results showed that in the company there is suppression of one of the level – interactive and dominance of another – diagnostic (but only in a short-term dimension). In addition, there is one person who is responsible for all decisions in the company – the Owner and managers do not participate in the MCS design. “Bizon-tech 2006” MCS shows lack of internal consistency relating short-term goals and long-term objectives as almost all of the levers operate for the short-term perspective. All these factors show that system is unbalanced and do not create dynamic tensions.

Third research question emphasizes importance of learning and innovation that will benefit long-term objectives of the company. However, these processes can appear in the organization when all four levers of control are balance that is not the case of “Bizon-tech 2006”. Top-management chose traditional MCS, centralization and formal way of doing business that do not encourage managers for creative thinking. The reasons for such choice of business conducting were named: lack of knowledge about alternatives, lack of trust to the employees and just it the most popular MCS for Ukrainian businesses.

However, management model can be improved to suit the needs of the dynamic environment within operates. Top-management can implement alternative management control tools such as BSC or rolling forecasts and this way make MCS more flexible or decentralized. As another alternative, it can be change of the overall mindset about how the business should operate and implementation of Beyond Budgeting. In this way “Bizon-tech 2006” can build trustful and transparent system where managers have possibility for decision-making and their area of responsibility.

## Proposals for further research

This study can create several possible directions for further research, both theoretical and empirical one. This study indicates that firm have to find their own “right” balance between coercive and enabling controls, which is quite vague concept and researchers can reveal the concept.

This study explains case of one big private Ukrainian company in the agriculture economic sector so further researchers can be done either in another country, or in another sector, or about public organization. All these variables can change the finding comparing to what this study showed. In this research I wanted to show the tensions between short- and long-term planning and the way directors and managers interpret this within one organization. But there were many other ways to conduct this research, for example to compare how planning processes are done in different regions of Ukraine or compare two firms.

In addition, company operates within dynamic environment and this is an important factor why the existing MCS should be changed. But if the environment was stable, the company would maybe not need to shift from traditional MCS to the dynamic system.

I used Simons (2013) as a theoretical framework to analyze empirical findings but other concepts can be applied in further researchers (Malmi and Brown (2008) for example).

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# Appendix

## Appendix 1. Interview guide

### **Background**

1. What are your key responsibilities?
2. How long do you work in the company?
3. What structure do you have?
4. Do you think you get enough autonomy?

### **Short term planning**

#### 1. Budgets

- How do you do short term planning? (possible answers; yearly budget, yearly budgets with revisions during the year, rolling forecast)
- How often does your company update budgets? Annually, every quarter..?
- Who participate in the budget process?
- Do you have any challenges with budgeting? If so, which one you are the most concerned about?
- Are there any incentives related to annual targets achievement?
- If managers fail to achieve the annual targets what are the consequences?

#### 2. Other tools

- Do you use other tools to short term planning? For example KPIs? Are they both financial and non-financial?
- Are there other tools you are using?
- Does your annual bonus connected to the particular parameter? Which one?
- Do you also use KPIs? What is your KPI for this year? Are they connected to long-term goals?
- How do you work with long term planning? How is it connected to short term planning?

### **Simons levers of control**

### *Values*

- Do you have values – what are they? What are they used for?
- How often does your top management communicate strategic goals to employees and through which documents?
- What are the key goals of the company?
- Do they change? If so, how frequently? How much input do you have in changing them?

### *Boundary*

- Do you have specific guidelines in terms of expenditures, key deliverables and timeframe? If so, did you have any difficulties achieving them?
- Which documents informs you about?
- Does your boss indicate you risks that should be avoided? If so, how it is done?

### *Diagnostic*

- How often do you report to your managers about progress in work?
- How often do you report on:
  - Track progress towards goals.
  - Monitor results.
  - Compare outcomes to expectations.
  - Review key measures.
  - Enable discussion in meetings of superiors, subordinates and peers.
  - Tie the organization together.

### *Interactive*

- Are there any meetings with your managers in company? If so, how frequent are they? What are they about? Is it possible to participate or express your opinion?
- How are you deal with red numbers?
- Can you discuss with your bosses problematic issues that happen during the working process?

- Have you ever had any debates with your bosses if you saw a better way of achieving the target?
- Do you take part in the process of creating of financial plans and targets of your department?
- Do you think your company supports opportunity seeking among employees? (maybe If you loose a customer and see that this will influence the budget to a large degree. Do you have the possibility to change the resource allocation and search more for new customers?)
- Have you ever proposed your ideas concerning how to allocate resources between different project or departments to the top-management?
- What has been the outcome of the actions that you took? Was this what you expected?

### **Long term planning**

1. How do you do long term planning?
2. Which long-term targets does your firm have? How do you create stretch in targets?
3. How do you motivate your employees? Which are companies unique values?

### *Values*

1. Do you think employees of your company are long-term oriented?
2. Is there any code of conduct of your company?
3. Do you think that firm's mission statement clearly communicates core values to you?
4. Does Company's strategy inspire you to work better?

### *Boundary*

1. Are the employees aware of the code of conduct?
2. Which are the formal rules that workers should work within?
3. Delegation of tasks is done more through formal procedures or not?
4. Do you have any limits how to use company's resources? Do you struggle to suit them?

*Diagnostic*

1. How do you report on long term targets?

*Interactive*

2. How firm's values are connected to the strategy?
3. Is it possible to reshape the existing strategy due to unexpected circumstances?  
Have you ever done this?
4. Are the changes in the long-term strategy of company discussed with employees? Can they influence?