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## **Management control systems in Self Storage**

-A describing analysis of management control systems in Premiere Self Storage, Canada

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# Abstract

**Title:** Management control systems in Self Storage – A describing analysis of management control systems in Premiere Self Storage, Canada

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**Authors:** Martin Johansson & Matthew Moore

**Key words:** Management accounting and control, results, action, personal controls

**Purpose:** The aim of this thesis is to describe and analyse the strengths and weaknesses of a company's management control system in the self storage business and to discuss actionable recommendations.

**Methodology:** In order to provide an answer to the purpose of this study, the authors have used a qualitative/semi-deductive approach. All the interviews carried out were structured and generally consisted of open-ended questions.

**Theoretical perspectives:** The author's theoretical perspectives were derived from academic literature pertaining to management control systems, the balanced scorecard, and pay-for-performance plans. The author's focus on the theoretical aspect of management controls systems pertained to action, personnel, cultural and results controls.

**Empirical information:** The authors gathered their empirical information from interviews with two self storage firms. In addition, the authors gathered information regarding the self storage industry from annual reports of self storage companies as well as from magazines and articles.

**Conclusions:** The authors identified a number of areas where their primary client firm, Premiere Self Storage, could improve its management controls. While it has good control

over its culture, it is questionable as to whether employees are motivated to act in the best interest of the company due to lax action, personnel controls and absence of results controls. As a result, the author's recommendations focus on tightening controls in these areas to ensure goal congruence between employees and owners.

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Lund, June 2009

Matthew Moore

Martin Johansson

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# 1 Introduction

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*The first chapter of the thesis is presenting the background to the problem that the authors will analyze and go more in depth in. The background is a first step to explain the problem and the topic of the paper. From this background the authors change to a discussion more specific about the problem which leads to the formulation of the problem and the construction of questions which this thesis aim to answer. Before the chapter ends with an outline of the thesis, the purpose is explained.*

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## 1.1 Background

In a time full of environmental changes the need for understandings of the operational work and services, the control of the business and key figures, and flexibility to adapt to different circumstances is crucial in many organizations. In a time where national borders are getting more and more invisible and where the humans are traveling and moving more than ever it is even more important to have a good working control over the businesses.

As the traveling and the moving abroad are increasing so are also the needs for safe and smooth storage. The idea of building self storage businesses was first found in the USA but has now been popular even in Europe and the rest of the world. With a growing market and increasing competition the control systems in these organizations is really important. Components such as budget, maintenance, and investment are depending on the strategy of the organization and are also linked to the management control systems in the organization.

Regarding the complexity in a management control system and all the components within the system it can cause major problems if it is not working in the way it is built for, to achieve goal congruence. Due to the complexity it can also be difficult to find where the problem is located and therefore many companies do have a dysfunctional management control system without knowing it. A company with a dysfunctional management control system risks to loose market shares only due to the redundant information gathered. Not only does a dysfunctional management control system affect external circumstances for an organization, it can also ruin the internal workforces in a slow but steady way.

Anthony & Govindarajan (2007) defines management control as *"the process by which managers at all levels ensure that the people they supervise implement their intended strategies"*(p. 4). In other words without a functional management control system the company cannot achieve goal congruence and this can result in very drastic decreased results and finally cut downs.

## ***1.2 Discussion of problem***

Management control systems involve the collecting of data to serve and coordinate the process of making planning and control easier in the organization. Rotch (1993) describes six components which need to be linked together in a successful way in order to have a functional management control system. These six components are the strategy, the structure, performance measures, the direction, the motivation, and the incentives in the organization.

*"The key to understanding a control system is in understanding the interdependence of the components. None can be effectively managed without considering its impact on other components and how they in turn are needed for support"*

*(Rotch, 1993, pp. 192-193)*

Samuelson (2004) defines the content in a management control system from a different type of angle. These characteristics are based on a more top down approach where the chain from board philosophy down to fulfilment of the organizations goal is explained.

The authors have discovered that, dependent on whom the author is, the components looks different. Regarding this problem, management control system can be very complex and contain of many components which separate do not make any difference but together creates the chance to reach goal congruence. Many companies today already have some, or all, components or tools to be able to build a functional control system but they do not have the knowledge how to use them.

The authors have been chosen two different types of approaches and explanations of the components of a management control system which they will discuss and analyze. The two chosen approaches are from Rotch (1993) and Samuelson (2004) and by discussing and analyzing these components the authors believes they can come up with how a management

control system should be built up dependent on the circumstances and finally how a good implementation of these kinds of system should be like.

### ***1.3 Formulation of problem***

- What kind of business is the storage industry, and what kind of strategies are there?
- What is the current state of the company's management control system and what type of controls are in place?
- What kind of components does a management control system involve and how do these relates to the self storage business?
- Can the written theory about management control systems result in recommendations to the self storage business?

### ***1.4 Purpose***

The aim of this thesis is to describe and analyse the strengths and weaknesses of a company's management control system in the self storage business and to discuss actionable recommendations.

### ***1.5 Outline***

In the opening chapter the authors want to give the reader of this thesis an overall view about the current problem about the Self Storage business linked to management control systems. The authors explain the background of the problem and how the problem should be solved, that is through empirical interviews and theoretical knowledge about management control systems and its components. To make the purpose clear the problem is formulated into questions which the authors aim to answer and by doing that fulfill what the purpose of this thesis is.

In chapter two, the method, the authors describes the scientific approach and the procedures which they have used in the thesis. There are also explanations and a background how the interviews are built up and why they are built up that way. The chapter ends with critics about the method chosen and the sources used.

In the theoretical frame of references the authors describes and explain the theory which they believes is relevant to be able to answer the problem questioned in the opening chapter and finally give the thesis value by reach the purpose of the thesis.

In the empirical frame of references the authors describes the organizations and the individuals in them which they have worked with in form of interviews. The authors will also present the primary –and secondary source which is the basis for the analysis and finally the conclusion.

In the analysis the gathered data which the authors have collected during the thesis is put together. In this chapter the authors presents the analysis of the organization they work with together with the theoretical frame of references, the purpose and the problem. A second case, a reference case, is here described with the purpose to benchmark.

In the ending chapter, the conclusion, the authors bring up the conclusions they have come up with after the analysis. The will also give some advices to the company regarding their management control system.

## 2 Method

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*In the following chapter the authors are going to explain the different methods of gathering data and how the information is analyzed by theoretical means. The authors will describe the usefulness of these methods and reflect about the reliability and the validity of the thesis. Finally the authors will critically check the methods and the sources they used.*

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### 2.1 Choice of method

When it comes to research there is no specific rules whether it is best to work after a quantitative method or a qualitative method. The research is though often valued after the choice of method and how the method fits to the overall purpose of the thesis. On this basis it is important to decide which method of gathering information is most relevant for the thesis and the project (Olsson & Sörenssen, 2007).

To understand the differences between these two approaches the authors will explain them and highlight the cornerstones in each method.

### 2.2 Quantitative method

Quantitative method is about the gathering of numerical data and do basically focus on measureable and quantifiable items which often results in a numerical report (Carlson, 2004). Bryman & Bell (2005) believes that for a notion to be able to be used in a quantitative research it must be measurable. Quantitative method focuses on to explain variations or items and can be divided into describable and explainable researches. Describable researches can for instance be to describe a specific population in one specific moment in time while explainable researches try to find causalities for instance if a certain expose leads to specific disease (Olsson & Sörenssen, 2007).

### 2.3 Qualitative method

*“Qualitative methods are about the procedures of science which can explain the data – the own written or speaking words and observable acts of the human being”*

*(Olsson & Sörenssen, 2007, p. 65)*

*(Translated by the authors)*

This type of method concentrates to supply information about a small amount of entities and is often focused on the uniqueness. Compared to a quantitative method where to seek the

explanation is the core reason, the qualitative method seeks for the understanding of a specific problem or case (Olsson & Sörensen, 2007). Bryman & Bell (2005) agree on this explanation and believes that within qualitative studies the strategy is to concentrate on gathering and analyze data by words and not by quantity. When it comes to gathering data for a qualitative study it can be in forms of interviews, case studies, observations or analyzing documents (Olsson & Sörensen, 2007).

## ***2.4 Case studies method***

*“Case study is the study of the particularity and complexity of a single case, coming to understand its activity within important circumstances”*

*(Stake, 1995, p. xi)*

In a case study the authors identify a phenomenon. The information about the subject should be gathered in a systematic way, the relation between variables should be judged and everything should be planned in a methodical way. The most common ways to do a case study is by interviews and observations (Bell, 2005).

*“The case study is a good alternative for a researcher because it gives possibilities to closely investigate a certain aspect of a problem of phenomenon”*

*(Bell, 2005, p. 22)*

*(Translated by the authors)*

The purpose of a case study is to highlight the specific characteristics and identify different ensembles of processes to show how these impacts the implementation of a change or system. Finally it should highlight the individuals' way of working and act in an organization (Bell, 2005).

Back draws with case studies are how to manage the control of the information gathered and the risk to get results which not are realistic. Another back draw is that it can be hard to generalize the results from a case study (Bell, 2005).

## ***2.5 The realization of the thesis***

The authors have chosen to work in depth with one company located in Canada called Premiere Self Storage (PSS). The head contacts in PSS are Chris Moore, PSS founding

partner and general manager of PSS Chester and Tim Moore, founder and chairman of Premiere Group.

When discussing the analysis the author's idea of benchmark PSS with other self storage companies was born. Although the self storage market is wide spread in the world, the authors have had major problems of getting in contact with other companies except from PSS. Some companies said no with a lack of time as a reason while others had confidentiality issues or competition forces as the reason.

Based on the big amount of companies who rejected the interest from the authors with the confidentiality issue and competition forces as the major reason the authors came up with a questioner with a survey approach with more easy questions which would not take that much time to answer. Still the competition issue was obvious even though the authors had hard to see that problem when it comes to comparisons between different countries.

The authors used internet as the primary source to find new companies and at the beginning the announcement of the thesis to different self storage companies was by e-mail. When it took too long time to hear anything back from the companies, the authors decided to be more aggressive and use the phone straight to ask the companies the questions in the survey. After many rejected phone calls with companies in for instance USA, UK, France, Germany, Australia, and Sweden the authors came in contact with Donald Goldsmith, general manager at City Self Storage AB. City Self Storage AB in Stockholm, Sweden, is owned by a Norwegian company called Selvaag.

Still the purpose for the thesis is to analyze and discuss the management control system at Premiere Self Storage but to make the analysis more reliable the authors use City Self Storage as a reference case. This reference case will be used as a benchmark to the Premiere Self Storage interview. City Self Storage is a good company to use as a reference case due to the similarities with Premiere Self Storage when it comes to size, market, and growth.

### **2.5.1 Method choice for the thesis**

Based on the explanation of what a qualitative method is by Olsson & Sörensen (2007) the authors have choose to work after a qualitative frame when it comes to the gathering of data. The interviews with Chris Moore, Tim Moore and Donald Goldsmith are data explained by speaking words and observable acts. Based on this and that the purpose of the thesis aim to

analyze interviews and to seek understandings for the management control system at Premier Self Storage and use the interview with City Self Storage as a reference case there is only one option, to work with a qualitative method.

The authors have used the interview with Chris Moore and Tim Moore, Premiere Self Storage, as the cornerstone when it comes to the main case of this thesis while the interview with Donald Goldsmith, City Self Storage, is used as the main source for the reference case.

## *2.6 Gathering of data*

There are two kinds of data when it comes to write a thesis, primary data and secondary data. Primary data is to gather new information which not already is written down, for example by doing interviews. While primary data is to gather new unwritten information, secondary data is to use information from other authors or researchers which already have been written down. Within secondary data there can also be different journals of science or magazines (Olsson & Sörensen, 2007).

Reasons to choose to work with either primary data or secondary data are many and in many cases the authors choose to work with both of the options. Bryman & Bell (2005) describes the advantage with secondary data as time saving and that it is often easy to find trustworthy sources. Especially in topics where there already has been much research is the data easy and time saving to find and the quality is high. The secondary data is often used as complementary data to the primary data (Bryman & Bell, 2005).

In this thesis the authors use both primary data in form of interviews and contact by e-mail and as a complementary part the authors use secondary data in form of journals, magazines, and reliable literature about the relevant topics. The secondary data is mostly for the theoretical part of this thesis while the primary data is mostly for the empirical part.

In this thesis the authors have had one in depth interview with Premiere Self Storage, and as a reference case to this information the authors have used a survey look like interview with City Self Storage. All these interviews are seen as the primary data in this thesis. When it comes to the gathering of data for this specific purpose the authors have used Internet as a source to find relevant literature, journals, magazines, companies, and contact persons. There is a lot of information about management control systems and therefore it has not been any problems to find trustworthy sources about the topic. The authors have also been able to compare mostly

of the sources, which will be discussed in the source critics later on in this chapter, just to be sure to write reliable information.

## ***2.7 Interviews***

The authors have chosen to interview two different organizations that operate in the self storage market. One organization is located in Canada and is called Premiere Self Storage and the other organization is called City Self Storage AB and is located in Sweden. The two organizations have two different purposes due to this thesis main purpose. Premiere Self Storage is seen as the main case where the authors try to find, analyze, and discuss the management control system. City Self Storage is seen as a reference case which the authors are going to use as a benchmark to make the analysis more reliable. Due to these different approaches of the two organizations the interviews have been developed in two different ways.

The questionnaire with Donald Goldsmith was not as in depth as with Premiere Self Storage and that is why the authors chose to have the same interview technique with City Self Storage as with PSS. In other words, the authors believe the interview would have been the same even if they would have done it face to face instead of by phone.

Due to the purpose of this thesis the authors believe these interviews is enough to understand and get a knowledge of the situation at Premiere Self Storage while at the same time be able to use City Self Storage as a reference case in a benchmarking purpose in the analysis. In the empirical chapter the authors will further explain the two organizations.

### **2.7.1 Main case**

For this interview the authors have been looking for persons in Premiere Self Storage who has the relevant knowledge due to the purpose of this thesis. Based on this the persons in the interview are Chris Moore, founding partner and general manager of Premiere Self Storage and Tim Moore, founder and chairman of Premiere Group. Due to the distance to Canada the authors have done a phone interview with Premiere Self Storage and also used e-mail as a tool for contact. The questionnaire regarding this interview have been very in depth (appendix 1), and based on experience at the authors from the self storage market there were good opportunities to have continually contact with Premiere Self Storage.

### **2.7.2 Reference case**

As for the main case the authors have been looking for persons in City Self Storage with the relevant knowledge to answer the questions regarding this reference case. The person found was Donald Goldsmith, general manager at City Self Storage. Regarding that this interview is supposed to be a reference case this interview have not been as in depth as it was with Premiere Self Storage (appendix 2).

The authors have chosen City Self Storage as the reference case due to the similarities with Premiere Self Storage when it comes to market, growth opportunities, and size.

### **2.8 Interview technique**

*“The interview is a conversation between an interviewer and an interviewee with purpose to get information which the latter have knowledge about”*

*(Moser & Kalton, 1971, p. 271)*

*(Translated by the authors)*

Bell (2005) believes that authors has a responsibility to describe and inform the interviewee about the research, what types of question there will be, and what will happen to the answers and the information given. An advantage to use interviews instead of a quantitative analysis is the ability to follow up ideas and go more in depth into motives and feelings during the interview. The spoken answer is often more explainable than the written answer and that's why interviews is so often used (Bell, 2005).

An interview should be built on no leading questions, no unspoken conditions, and the questions should be asked one at a time with no personal values involved. The order of the questions is important in order to create a good contact with the interviewee. The interviewer should start with specific themes and under each theme there should be a number of more in depth questions (Bell, 2005).

When it comes to interview one interviewee at a time there is value added to record the interview, especially when there is a qualitative research method. This helps the interviewer to just focus on the interview and can easier make notes on what the interviewee says. A benefit with a recorded interview is the ability to listen on the answer many times and by that make sure to not miss anything (Bell, 2005).

### **2.8.1 Open and controlled interviews**

There are two kinds of interviews, open and controlled. In an open interview there are some areas of questions that should be answered and in each area the interviewee is free to speak at a beginning. If the interviewer do not get the answers needed it will be some relevant follow up questions (Kylén, 2004). An advantage with open interviews is that the interviewee is not being controlled or led to answer in a specific way and this gives the interviewee the chance to answer in detail. The drawback with an open interview is the problems with the interpretations of the answers. These can varied a lot between persons and it can be difficult to compare several open interviews (Andersson, 1985). The controlled interview is built upon a specific amount of developed questions which should be answered in detailed. The difference compared to an open interview is that the interviewee only answer on the question while it in the open interview is abilities to make follow up questions (Kylén, 2004).

The authors have decided to work with open interviews with the faith that this kind of interviews should result in the best result on a master thesis basis. Based on Bell (2005) the authors started with broad questions divided into themes and after that chose to develop the questions furthermore to fit more in depth discussions about the topic. The questions has also been developed with a thought to follow each other in a logic way which the authors believe is value adding to the interview at the same time Bell (2005) believes this creates a better contact with the interviewee.

The first contact with the interviewee has been by e-mail or phone and at this time of the personal contact the authors has just explained the purpose of the thesis and more in depth explained why the person is relevant for the thesis. The persons in the authors interviews are persons who have the correct knowledge about the relevant topic which is value adding to the purpose of this thesis. To decrease the risk of misunderstandings and in the same time increase the trustworthiness of the thesis the authors have recorded the interviews. The recorded interviews and the author's notes make it possible to go back and check complementary data and that the interviews are saved.

## ***2.9 Trustworthiness of the thesis***

### **2.9.1 Reliability**

*“Reliability is the grade of congruence between measurements with the same instruments i.e. to get the same result each time we measure”*

*(Olsson & Sörensen, 2007, p. 75)*

*(Translated by the authors)*

Reliability, or trustworthiness of the thesis as Bell (2005) describes it, is one of the critical parts in a thesis. To be able to understand what kind of items which increase or decrease the reliability of a research is one of the major cornerstones when writing a thesis. It is important for the authors to ask them self if they get the same answer dependent on the instrument used or dependent on the knowledge at the interviewee. This is important questions to answer and analyze after having interviews (Bell 2005).

The authors believe the reliability of this thesis is high due to the choice of interviewees and the position in the companies they have. The interviews have been by phone and that could be one reason to doubt the reliability, but due to this uncertainty the authors have recorded the interviews and also have had contact by e-mail. Also that there have been two interviewees at PSS in forms of the general manager and the premiere founder there is no reason to doubt the reliability of this thesis. The other interview with Donald Goldsmith, general manager at City Self-Storage AB is reliable due to the knowledge managed by him. Based on this the authors do not think it would be a different result with more interviewees and that is the reason why the authors believes the reliability of this thesis is high.

The reliability is not only measured from the interviews, even the literature and the journals used in the thesis are correlated to the reliability. In this case the authors have checked two or more sources before writing anything which is uncertain from a beginning. When it comes to the journals, they are written by researchers which have a big knowledge about the topic.

With all this done, the reliability of the thesis is high and based on the time schedule for the work there would have been hard to make it more reliable than it already is.

## 2.9.2 Validity

*“Validity is the design of a science approach with the purpose to give trustworthy conclusions and that the results and evidence which a research leads to shall be a strong support for the given interpretations”*

*(Sapsford & Judd, 1996, p. 1)*

*(Translated by the authors)*

Bell (2005) describes validity as the level of completeness of a question and if that question measure what it is supposed to measure. Olsson & Sörensen (2007) agree with Bell (2005) and describes validity exactly in the same way.

There is a connection between reliability and validity. A research with low reliability decreases the validity while a research with high reliability does not necessary increase the validity. The reason for this correlation is that trustworthy sources do not have to impact the usefulness of the sources (Kylén, 2004).

When developing the questionnaire the author’s purpose and the aim with the thesis have been very clear. Based on the open interview method the questions have been non leading and more like a discussion type of interviews have occurred. By having this types of interviews the interviewee have been able to answer relative free minded and the follow up questions have involved wonderings which have occurred during the interviews. This has led to open minded interviews with a great satisfactory when it comes to the purpose and the goal with this thesis.

The authors have chosen literature and journals which is in line with the purpose of the thesis and unnecessary information has been deleted after the completion of the thesis. With this as a cornerstone of the thesis the authors believes that they have reach as high validity as possible based on the timeframe given.

## 2.9.3 Method critics

Due to the amount of interviews with Premiere Self Storage, both with the general manager and the premiere founder, the authors believe that is enough due to the purpose of the thesis. The interview with Donald Goldsmith at City Self Storage is though something which can be seen as a little poor but due to the information given on that interview and the available contact by e-mail the authors believes this is one critical point but still it is reliable and has

fulfilled its purpose to this thesis. More interviews with more organizations would have been good for the result but due to the confidentiality issues from several contacted organizations the authors have not been able to get the information needed from them.

The knowledge that words can be understood different dependent on who you ask is something the authors have had in mind during the development of the questionnaire. Due to this problem the questions have been formulated as concrete as possible without losing the meanings, just to decrease the risk for misunderstandings during the interviews.

Premiere Self Storage and City Self Storage are not operating in the same market and the market forces can therefore be different. This can be one parameter why the two organizations are built up on different market values which are hard for the authors to in depth analyze. Also the factor that the interviews have been by phone is something the authors have been aware of can change the understandings and the answers given but due to the distance and the questions asked the authors believes this is not a factor which decrease the reliability neither the purpose and the aim of the thesis.

#### **2.9.4 Source critics**

The sources the authors have used in this thesis are mainly from journals, literatures, and Internet. Due to the complexity of this subject, management control systems, there are numerous of relevant information on this topic. The literature used is a mix of old written books and new, more in depth, books about some specific parts of management control systems. The old books have been written by famous authors and the theories are well known in the topic and therefore the authors of this thesis have not double checked these sources.

When it comes to new sources they are often in form of journals which have been proved before they got printed. Even though they have got proved the authors have double checked them with old literature and if there is similarities the sources have been used in the thesis. If there is no similarities and the information given seems strange the authors have compared it with other new literature and journals and if there is similarities they have got proved by the authors to be used in this thesis.

In some specific cases there have been literature and journals which relates to another book or journals or some older literature which is not able to find in the library. In this case the authors have trust that this source is reliable and correct without double checked it.

Some literature used in the thesis is very old and in some topics there have been more changes in late years than other topics. The cornerstones in management control systems have not been change that much during the last decades and that is why the authors have decided to trust on some old sources without double check them with new ones.

### 3 Theoretical frame of references

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*In this chapter the authors presents the literature which is relevant for the purpose and goal of this thesis. The authors will explain the cornerstones of a management control system and how a functional management control system is built up. This chapter will also go more in depth in control systems and how all the factors within them can work together and finally result in goal congruence.*

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#### 3.1 Management control system

*”The management control process is the process by which managers at all levels ensure that the people they supervise implement their intended strategies”*

*(Anthony & Govindarajan, 2007, p. 4)*

The purpose of management control systems is to help to ensure that employee’s are acting in the best interest of the organization and that their goals and actions are congruent with those of the company and maximize shareholder value (Merchant & Van Der Stede, 2003).

A management control system is considered good if “what is likely” to happen from employees coincides with “what is desired”. As a result, it can be reasonably certain that employees will act in the best interest of the organization and strive to meet its goals.

Perfect control is not really possible because there will always be a chance of employee’s not behaving exactly the way the organization wants. It is also not practical to have perfect control since the costs of implementing such a tight management control system would likely exceed the benefits. The cost associated with behaviour that is imperfect is referred to as control loss. A company should aim for optimal control in which the costs associated with implementing management control systems is less then what the expected control loss would be without management controls (Bouillon et al., 2006).

The failure to achieve good control can have many negative consequences including failure to achieve strategy, profit loss, fraud, and potential failure if the organization fails to achieve the industry’s critical success factors (Merchant & Van Der Stede, 2003).

### *3.2 Different components*

The list of key components of management control can be very long dependent on how in depth the analysis goes. Rotch (1993) has not included the economic environment and if there is a big or a small firm and from those premises he has done a figure over the most important key components of a management control system.<sup>1</sup>

Rotch (1993) found a number of ways that the components of a management control system can be classified and analyzed. The examination revealed six different components which are the most important ones for management to consider during the built up process of management control systems; strategy, structure, measuring performance, direction, motivation, and incentive.

The authors believe there are three of these six components which are the cornerstones of a good management control system; these are strategy, structure, and performance measures.

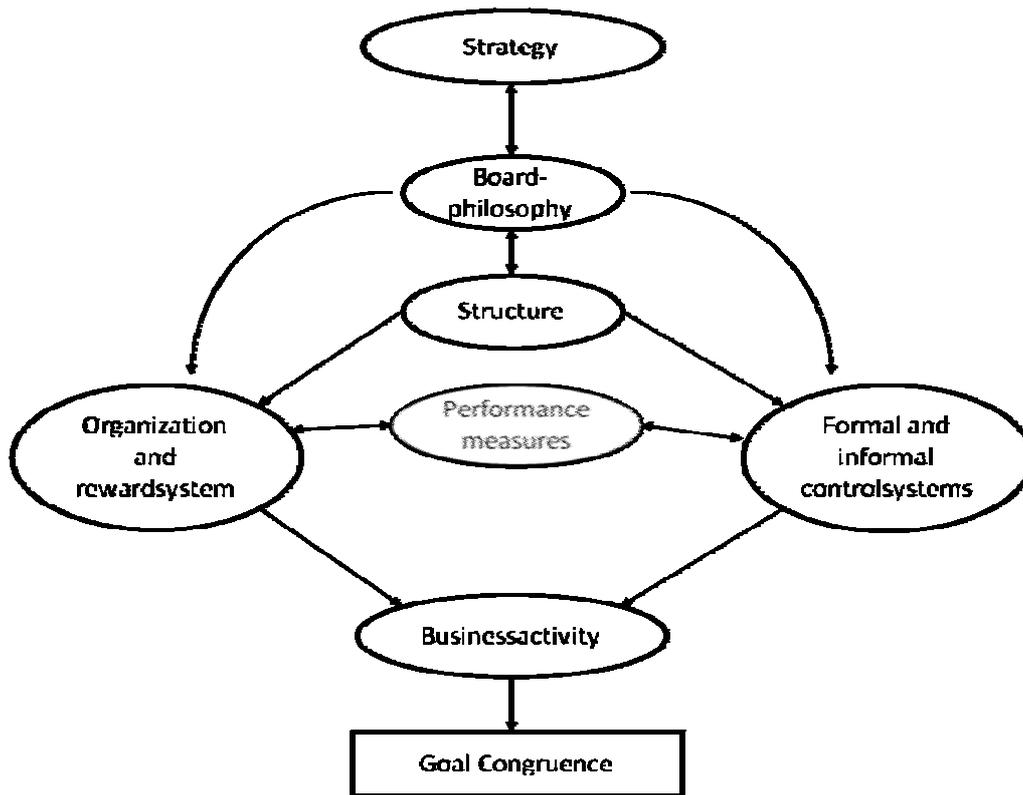
Samuelson (2004) describes the management control system in a different way. Compared to Rotch (1993) Samuelson (2004) has used a more top down overview of the management control system within a company without using the strategy, neither the structure or performance measurement as core components.<sup>2</sup> Despite the lack of the components which Rotch (1993) use, this figure is more concentrated on an organizational structure and is built up in a more understandable way.

The authors believe that both of these two approaches are good when it comes to management control systems. Rotch (1993) though has some components which the authors do not think is necessary for the purpose of the thesis. So also do Samuelson (2004) and therefore the authors has developed a new figure who they believe is more fit able on a thesis basis with the purpose of analyzing a company's management control system.

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<sup>1</sup> See appendix 3 for a closer look at the figure which Rotch (1993) have done.

<sup>2</sup> See appendix 4 for a closer look at the figure which Samuelson (2004) have done.



(Source: Rotch, 1993, pp. 192; Samuelson, 2004, p. 41. Modified by the authors)

This modified figure include the components which the authors believes is necessary for the purpose if the thesis. The strategy is seen as the overall component which is managed based on the philosophy of the board members and vice versa. The philosophy of the board also influences the whole organization and the reward system in it. It also influences how the formal and the informal control system is managed and built up. In the middle the structure is and that is what the company is lie on and dependent on how the structure is it will influence both the board members and the strategy and finally the whole organization.

A management control system is developed for one reason –to create goal congruence. To create goal congruence there is a need for measurements which often is linked to reward systems and formal, informal control systems. Finally there is a need for an activity to create goal congruence.

### 3.2.1 Strategy

*“Strategy is the process by which organizational managers, using a time horizon of three to five years, evaluate external environmental opportunities and also internal strengths and resources to decide on goals, as well as a set of action plans to accomplish these goals”*

*(Hoque, 2003, p. 28)*

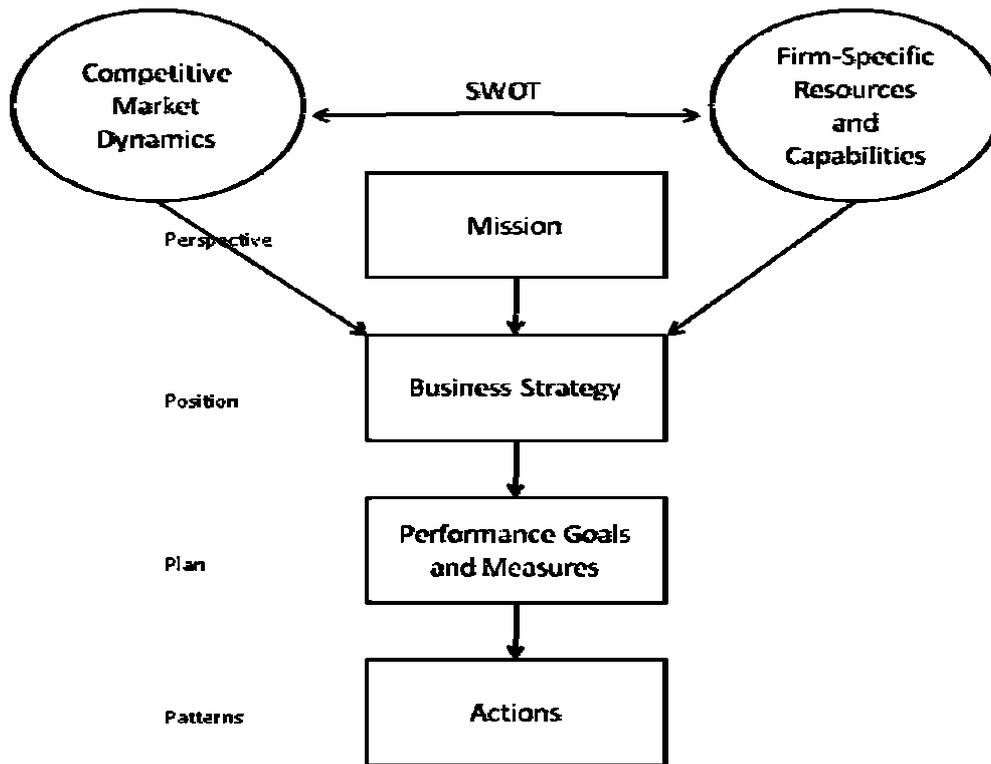
Simons (2000) describes two different questions which the managers should be able to answer with the help from the techniques and systems within a management control system:

- How can we be sure that people understand what we are trying to achieve?
- How can we ensure that we are reaching our strategic goals?

(Source: Simons, 2000, p.16)

There are two different kinds of strategy within an organization, corporate strategy and business strategy. The corporate strategy involves questions such as *“What business should we compete in?”* or *“What level of resources should we invest across our portfolio of business?”* The business strategy is a little bit further down in the organization and handle questions such as *how* to compete, how to differentiate the business, how to create value for the customers etc. (Simons, 2000).

Simons (2000) describes a *“hierarchy of business strategy”* where the needs to analyze and understand the organizations’ *“competitive market dynamics”* and *“the firm-specific resources and capabilities”* is crucial to implement a successful business strategy (Simons, 2000, p. 18). These two components together with the mission of the organization results into business strategies which then evolves into the performance goals and measurement and finally into an action plan (Simons, 2000).



(Simons, 2000, p. 18)

The understanding of the four boxes and their implications is crucial when it comes to implement a strategy effectively. For each one of the boxes there is different views of strategy. For the continuing development of the management control system and specially the performance measurement and control techniques it is important to understand these four strategies. The four Ps as they are called are: strategy as perspective, strategy as position, strategy as plan, and strategy as patterns of action.

As the figure shows the strategy as perspective involves the creation of a mission.

*“Mission refers to the broad purpose, or reason, that a business exists”*

(Simons, 2000, p. 28)

Hoque (2003) describes mission as what the organization is now and the supposed needs of its customers. The mission helps the managers to select strategies to accomplish organizational objectives. The strategy as position involves choosing how to compete. This strategy focus on two questions:

- How do we create value for our customers?
- How do we differentiate our products and services from those of our competitors?

(Source: Simons, 2000, p.29)

Strategy as plan involves setting performance goals. Hoque (2003) define a goal like the “ends or results that management desires to achieve in implementing the business strategy” (Hoque, 2003, p.32). Simons (2000) agree with Hoque (2003) and describes that “goals are chosen to implement the firm’s strategy or to align the firm more closely with its vision and mission” (Simons, 2000, p. 29).

The last step of the implementation is strategy as patterns in action. This strategy involves feedback and adjustment back to the business strategy. This step is important due to the information the organization gets from here and the improvements which can be done regarding that information (Simons, 2000).

### **3.2.2 Board philosophy**

*“A board philosophy is characterized by how the board emphasizes different management control instruments and their direction”*

*(Samuelson, 2004, p. 38)*

*(Translated by the authors)*

Board philosophy is about how the acts of managers influence the workforce. Managers can vary in numerous ways, some emphasize the importance of looking and talking to people while others are more concentrated on written reports (Anthony & Govindarajan, 2007). Samuelson (2004) describes these two different approaches by two notions; “*management by walking around*” and “*management by numbers*”. In “*management by walking around*” the CEO circulates in the company and wants to be informed about the development through personal contacts. In “*management by numbers*” the CEO works more with meetings where there are discussions about plans, forecasts, budgets etc. (Samuelson, 2004).

#### **3.2.2.1 Level of management control**

There are two types of board philosophy; goal- and direct management control. When having the goal as the management control the organizations goal is in focus and the employees can manage to reach this goal in a way they decide by them self. In organizations where the direct management control is applied the managers gives detailed rules how the company should be managed by the employees (Samuelson, 2004).

Management control systems are considered tight if it is reasonably certain that employees will act in the best interest of the organization. On the other hand, they are considered loose if it is questionable as to whether employee goals are congruent with those of the organization. A high level of management control involves creating cultural, personnel, results and action controls that are congruent with the company's objectives and strategy. Management control can be tightened by using multiple control measures to ensure employees are focused on achieving desired actions or results (Merchant & Van Der Stede, 2003).

Management control is considered loose if there are few or no management controls systems in place or if the control systems are not aligned with the objectives or strategy of the organization (Merchant & Van Der Stede, 2003). Anthony & Govindarajan (2007) believes that the higher up in the hierarchy in an organization you are, the higher is the level of looseness. The reason for this is that higher-level managers often pay less attention to details and more attention to the overall results.

### 3.2.3 Structure

*“Structure is the way in which individual parts or elements is arranged or put together to form a whole”*

*(Simons, 2000, p.38)*

Organizations are built up by individuals who are working together in groups, which task is to work in line and support the strategy of the firm. When talking about organizational structure the “*parts*” is the grouping of people into units and the “*whole*” is the network between these groups that collectively comprise a business (Simons, 2000).

Accountability is a common used word in organizations. When it comes to the design of units, the expected produced output and the performance standards that the managers and employees should meet are called accountability. To easier have an overlook of the accountability many organizations use a so called “*organization chart*”. This chart makes it possible to see how the resources and the people are working together and gives a better accountability information i.e. information for performance measurement and control (Simons, 2000)

Work units often work together in a hierarchy from the smallest work unit up to the largest business unit. When the unit is clustered dependent on the work process it is often called a function while a unit based on the market is called a division or business unit. In other words the managers must choose whether to cluster business activities by function, by customer, or by geography. This can sometimes be a hard task to solve hence it is typically embedded in a hierarchy of organization design (Simons, 2000).

### **3.2.3.1 Value chain**

Within an organization there are many activities which can be difficult to highlight and measure. To make it more clear what kind of activity and where in the organization the activity is performed, many organizations use the so called value chain to create a better structure.

The Value Chain is a sequence of activities that are required to deliver a product or service to a customer. The main use of a value chain is that it disaggregates company activities into strategically relevant areas which the company can then assign costs to and identify potential and or existing sources of differentiation. Regardless of whether cost or differentiation strategy, the purpose in each part of the value chain is to ensure that the value provided and the costs which customers are willing to pay for, exceeds the costs incurred. To understand the value created for customers, the need for understandings about customer needs is crucial. Only then, it is possible to determine if value is added or destroyed in each activity (Hoque, 2003).

Hoque (2003) describes Porter's (1985) value chain composed of nine categories of interrelated activities. These activities are, in part, primary activities and, in part, support activities.

Primary activities include:

- Inbound logistics: the receiving and warehousing of raw materials and the distribution to the manufacturing department
- Operations: All processes required to convert inputs into outputs
- Outbound logistics: The warehousing and distribution of finished goods
- Marketing and sales: This involves the identification of customer needs and the company's product, price, place and promotion

- Service: This is the after sales service and support (i.e. customer service)

Support activities include:

- Administrative functions: This includes management, finance and accounting functions, and organizational structure
- Procurement: This includes purchasing raw materials, supplies and equipment
- Human Resources: This includes recruitment, training, and employee compensation
- Technology: This includes research and development and technology to support value increasing activities.

The value chain analysis highlights that costs occur throughout the business and gives a useful understanding about non-manufacturing cost classifications (Hoque, 2003).

### **3.2.4 Organization and reward system**

Organization and reward system aim to prevent the organization against things like employee lack of motivation, lack of ability and lack of direction. In a perfect world there would be no need for reward systems because the employees would know exactly what was required of them, were motivated to achieve the proper actions and goals and had sufficient ability to do so. The reality does not look like that and these problems are common in all types of organizations and reward systems are developed to control these factors (Anthony & Govindarajan, 2007).

#### **3.2.4.1 Lack of motivation**

*“Hardly a competent worker can be found who does not devote a considerable amount of time to studying just how slowly he can work and still convince his employer that he is going at a good pace”*

*(Taylor, 1929, pp.7)*

Employee lack of motivation is primarily due to the inherent tendency for human beings to be self-interested. As a result of this characteristic, employees have a tendency to put their interests and objectives in higher priority in relation to the goals and objectives of the organization. For example, managers may have the tendency to overstate net income if their bonus is linked to a high net income target in order to maximize their personal wealth, even

though such an action would have a negative economic impact on the organization (Merchant & Van Der Stede, 2003).

### **3.2.4.3 Lack of ability**

This behavioural problem occurs even when employees are motivated and knows exactly what is expected of them but is unable to perform their job properly due to do a lack of personal ability. This can be person specific, for example, if an employee is not intelligent enough or does not have the physical ability to perform the job. It may also be because the person does not have the knowledge on how to perform the job properly or that the job simply demands an excessive amount of work of which the individual is incapable of handling (Merchant & Van Der Stede, 2003; Anthony & Govindarajan, 2007)

### **3.2.4.4 Lack of direction**

This behavioural problem occurs because employees do not know what is expected of them. For example, if an employee is hired and simply asked to work in the “*right*” way, the employee’s idea of a proper action may be incongruent with the company’s idea of a proper action. Based on this it is important that the reward system consists of some type communication instrument which can control this lack of direction (Merchant & Van Der Stede, 2003).

## **3.2.5 Formal and informal management control system**

### **3.2.5.1 Planning and budgeting**

The management control system is dependent on the organization because it should act as a mirror for the conditions of responsibility within the company. This is primary done in the budget (Samuelson, 2004).

Accounting, budgeting, and the product calculation is the processes which is most formalized in the economic area. The accounting part work with the rest of the system parts and is therefore central in the economic system and gives a basis for the budget/forecast and the follow up calculation (Samuelson, 2004).

Research indicates that formal planning and budgeting systems, especially in larger firms, improve organizational performance. As a result, it should not be a matter of *if* budgeting is implemented but *how* (Merchant & Van Der Stede, 2003).

The budgeting process starts with a company's vision, strategy and objectives and then translates these into quantitative information in the form of financial statements such as the income statement and balance sheet (Abernethy & Brownell, 1999). The so called control budget is a pre-project budget which often is done as a control just before the project shall start (Anthony & Govindarajan, 2007).

*“A control budget is an important link between planning and the control of performance. It represents both the sponsor's expectations about what the project will cost and also the project manager's commitment to carry out the project at that cost”*

*(Anthony & Govindarajan, 2007, p. 739)*

The benefits of planning and budgeting are that it promotes future thinking, coordination, top management oversight and employee motivation. The first purpose of planning encourages future-thinking which enables managers to be more proactive, rather than reactive, and helps to shape the long-term success of the organization (Anthony & Govindarajan, 2007).

Another benefit of budgeting and planning systems is coordination which involves top-down information flow such as vision, strategy and objectives and bottom-up information flow such as resource needs, constraints and risks. It also allows for better horizontal information flow between different functional departments such as marketing and finance. Ultimately, improved coordination encourages employees to work together towards a common goal (Anthony & Govindarajan, 2007).

Planning and budgeting also improves top management oversight because it requires the review of expenditures and revenue projections and investments before they actually occur. Budgets also provide the opportunity to implement “*management by exception*” whereby unfavorable discrepancies in the budget are determined, which provides the opportunity to identify and solve company problems. Finally, budgets are a very important tool to motivate employees because they are often linked to results controls and to reward systems (Merchant & Van Der Stede, 2003).

### 3.2.5.2 Result controls

Result controls often referred to as pay-for performance, focus on the output of the organization, typically in quantitative terms (Measuring People Power, 2000). They do not require knowledge of proper actions but focus on the results of these actions. As a consequence, results controls are an important part of employee empowerment because they allow for a decentralized organization structure that allows employees to meet organizational objectives the way they see well (Anthony & Govindarajan, 2007).

The stages involved in setting good result controls involve defining performance dimensions, measuring performance, setting performance targets and providing rewards (or punishments). The first stage involves defining performance dimensions, which should typically coincide with the industry's key success factors and with the company strategy. Misalignment with strategy could lead employees in the wrong direction and negatively impact the organization (Merchant & Van Der Stede, 2003).

Secondly, companies must measure performance among these dimensions which can either be financial such as ROI, ROA or non-financial such as customer satisfaction, product quality etc. Most high-level managers are assessed based on financial measures and at some point at a lower level of the organization, a "*hinge*". This is the point where the financial measures are translated into operational ones such as number of defects per hundred units produced (Merchant & Van Der Stede, 2003).

The final component of results controls is providing rewards (or punishments) based on the comparison of actual with planned results. Rewards are anything of value and can be either financial or non-financial. Typical financial rewards are bonuses, stock options, promotions and non-financial rewards can be merchandise, vacations, public recognition, or prestige. If employees fail to meet their targets punishment may result in form of demotion, loss of job, reprimands etc (Anthony & Govindarajan, 2007).

In order for result controls to be effective, the company must know "*what results are desired*", they must have "*control*" over the results and the results must be "*measured effectively*". Knowledge of results is often difficult in lower levels of the organization since decisions often require trade-offs. For example, although a company's strategy may be to be

a low-cost producer and they aim to require low-cost raw materials, at some point, the cheapest raw materials could negatively impact the company's revenue growth (i.e. due to inferior product). As a result the company must give weightings to the various performance dimensions such as cost and quality to ensure shareholder wealth is maximized (Merchant & Van Der Stede, 2003).

The ability to control results is also important. For example, if a manager of a company is rewarded based on net income and this measure is highly contingent upon uncontrollable factors such as the weather, then obviously the motivational impact of this control will be minimal (Weber, 1995).

Finally, it is important that the measurement of results is precise, objective, timely and understandable. First, results which ranges between 100-200 are less precise than a result of 100.1. Secondly, objectivity means freedom from bias which is minimized the more choices are permitted for the measurement i.e. the choices among GAAP for determining revenues and expenses. Thirdly, the more timely the results measure the more of an impact the controls will have. Finally, it is important that employees understand what is required. Having '*customer satisfaction*' without any explanation is vague because employees may not understand what actions to take in order to deliver good customer service (Merchant & Van Der Stede, 2003).

#### **3.2.5.2.1 Targets**

Targets must be set on each performance dimension in order to increase the motivational impact of the result controls. Targets allow employees to receive feedback as to whether their performance was good or bad and are much more motivational than vague statements such as "*do your best*".

Financial targets are typically set via benchmarking via competitors, based on historical performance or negotiation between higher and lower level managers. The most effective targets are those that are challenging but achievable. In order to prevent managers from slacking off after they have reached the target, they should be given an extra bonus based on how much they are able to exceed the targeted performance (Gool & Quinn, 1990).

### **3.2.5.2.2 Non financial results controls and the Balanced Scorecard**

Kaplan and Norton (1996) proposed the balanced scorecard as an alternative for using financial result controls exclusively. The BSC proposed by Kaplan and Norton (1996) measures a company's performance on four dimensions including a customer's learning and growth (or human resources), internal processes (or operations) and financial performance. The non financial measures are all leading indicators of a company's financial performance and directly relates to the company's strategy. The key idea of the BSC is to balance the financial measures with other non-financial measures thereby creating a stronger focus on the company's strategy and long term commercial health. Relying exclusively on financial measures may lead to suboptimal decisions in which managers focus more on short term then long term financial results and may not provide an explicit link to the company's strategy. For example, if a company uses only financial measures, managers may be motivated to delay maintenance or advertising expenditures in order to achieve short to financial targets. This, in turn, may lead to decreased customer satisfaction if the buildings are not satisfactorily maintained (Kaplan and Norton (1996)).

One criticism of the BSC is that it does not account for other stakeholders such as the community and environment. As a result, the BSC is often modified to suit a particular industry or a company's strategy (Kaplan and Norton (1996)).

### **3.2.5.3 Action controls**

Action controls involves ensuring employees are performing the right actions that contribute to the company's success. In order to implement action controls, the company must know what actions are appropriate and it must also ensure that these actions occur. The four main forms of action controls are behavioral constraints, pre-action reviews, action accountability, and redundancy (Merchant & Van Der Stede, 2003).

Behavioral constraints include physical constraints, administrative constraints and separation of duties. Physical constraints make it physically impossible for an employee to perform a certain action such as locks on desks or computer passwords. Administrative constraints place limits on employees actions such as limiting the amount they can spend on purchases i.e. maximum purchase amount of 10,000 kr. Separation of duties involves making it difficult or impossible for an employee to perform a complete task. This constraint is most common in

accounting departments to prevent fraud, in which, the person who makes accounting entries is not the person who writes the cheques (Merchant & Van Der Stede, 2003).

Pre-action reviews are another form of action control which involves approving employee's actions before they are performed. Common types of this control include making it necessary for higher level managers to approve purchases over a certain amount (i.e. 5,000 kr), or approving the budgets prepared by lower level managers.

Action accountability involves defining, communicating and monitoring appropriate actions. Communication can be either verbal or non-verbal. Non-verbal are usually in the form of written manuals such as policies and procedures or codes of conduct. For example, McDonalds details nearly all proper employee actions in manuals, in-store poster guides etc. On the other hand, non verbal action controls can take the form of face-to-face or group meetings. Finally actions are monitored typically continuously (i.e. by supervisors) and or periodically (i.e. via mystery shopping) (Merchant & Van Der Stede, 2003).

The last form of behavioral control is redundancy which requires assigning more employees to a task then is necessary in order to increase the probability that the action is performed in the proper way (Merchant & Van Der Stede, 2003).

#### **3.2.5.4 Personnel controls**

Personnel controls helps to ensure that the right people are hired, that employees know what is expected of them and they have the resources required to perform their job properly. The main forms of personnel controls are hiring, training and job design.

Hiring involves finding the right people for the right job which often involves face-to-face interviews or web based questionnaires. Common criteria for hiring the right people include education, experience, qualifications, past successes etc. Reference checks are also an important part of the hiring process to ensure employees are qualified for the job (Raza & Carpender, 1987).

Training involves teaching employees how to best perform their job. Training can be formal, for example, in the form of classroom lectures, or informal, in the form of employee mentoring in which an inexperienced employee is teamed up with an experienced employee.

Job design and resources help to ensure that the job is designed in a way that helps employees meet the company's goals. This means having the proper equipment, information, amount of workload, decision aids etc. available to help the employee perform their job in the right way (Merchant & Van Der Stede, 2003).

### **3.2.5.5 Cultural controls**

Cultural controls are designed to shape the norms, beliefs and values of the organization. A prominent form of cultural controls is mutual monitoring in which there is pressure on individuals within the organization to conform to the company's culture. The main forms of cultural controls are codes of conduct, group based rewards, inter-organizational transfers, physical and social arrangements and tone at the top.

Codes of conduct are written statements which guide employee behavior. Codes of conduct can have alternative names such as mission and vision statements, and statement of commitment to stakeholders. In order to be influential codes of conduct should be supported by strong tone at the top and communicated regularly to employees (i.e. via meetings, employee newsletters etc).

Group based rewards are designed to encourage mutual monitoring since the results are based on the efforts and actions of the group. Open book management, OBM, can also be used as a component of group based rewards. OBM involves sharing the company's financial information with employees, teaching them how to read financial statements, linking their actions to the financial success of the organization and rewarding them based on the overall profit of the organization (i.e. via a profit sharing plan based on net earnings or ESOP) (Davis, 1997; Merchant & Van Der Stede, 2003).

Physical and social arrangements include dress codes, social events, office layout, internal décor and architecture which help to shape organizational culture. For example, the Home Depot requires its employees to wear uniforms which include badges with the company's

statement of values. This reinforces the importance of employee commitment to Home Depot's stakeholders. Finally, tone at the top is a strong form of management control which requires senior executives to act and communicate in ways which epitomize their commitment to the company's culture. Another way to increase cultural control is by encouraging whistleblowing which means helping employees report improper behavior to senior management (Merchant & Van Der Stede, 2003).

### **3.2.6 Performance measures**

Targets must be set on each performance dimension in order to increase the motivational impact of the result controls. Targets allow employees to receive feedback as to whether their performance was good or bad and are much more motivational than vague statements such as "do your best".

Targets are typically set via benchmarking via competitors, based on historical performance or negotiation between higher and lower level managers. The most effective targets are those that are challenging but achievable. In order to prevent managers from slacking off after they have reached the target, they should be given an extra bonus based on how much they are able to exceed the targeted performance (Goold & Quinn, 1990).

*"Managers of organizations that are capable of processing relevant information quickly can plan for the future, communicate direction efficiently, and capitalize more effectively on emerging problems and opportunities"*  
(Simons, 2000, p.57)

Performance measurement is crucial in order to make the right decisions and move to the right directions. An important feature of a well working performance measurement is when it allows fact based management i.e. the management moves from making decisions based on intuition to base the decisions on hard data and facts (Simons, 2000).

Anthony & Govindarajan (2007) believes that the performance measurement system is a tool to reach and implement an organizations strategy.



(Source: Anthony & Govindarajan, 2007, p. 461)

What the exhibit shows, is what Anthony & Govindarajan (2007) believes is the framework for designing a performance measurement system. If the factors which the strategy defines are measured and rewarded, people are motivated to achieve those (Anthony & Govindarajan 2007).

Rotch (1993) highlights some issues regarding performance measurements; some of them are as following:

- Single measures such as profit, throughput or sales dollars vs. multiple measures like a line item budget or a package of measures such as customer service, quality, cost and revenue.
- Financial vs. non-financial measures.
- Quantitative vs. qualitative measures.

Rotch (1993) also defines some tasks as follows:

- Choosing the most appropriate measure.
- Dealing with fixed and variable costs.
- Identifying which numbers are controllable by managers and which not.

### **3.2.6.1 Incentives and motivation**

The way people are motivated, or not, depend on how the organizations goals are related to the overall need and goals on an individual basis. People are influenced by both positive and negative incentives. When it comes to positive incentives it can be a reward which pleases the personal needs while a negative incentive can be seen as a punishment that decreases satisfaction and needs on a personal level (Anthony & Govindarajan, 2007).

Management control systems tend to be more effective when it is reward oriented due to research done in this topic. The research says that individuals are more strongly motivated by potential earnings compared to the fear for punishment (Anthony & Govindarajan, 2007).

*“Motivation is weakest when the person believes an incentive is either unattainable or too easily attainable. Motivation is strong when it takes some effort to attain the objective and when the individual regards this attainment as important in relation to his or her needs”*

*(Anthony & Govindarajan, 2007, p. 514)*

An incentive is a reward or payment that is expected to motivate performance (Simons, 2000). Anthony & Govindarajan (2007) describes two groups of incentives, some are financial and others are psychological and social. The financial incentives include such things as salary, bonuses, and benefits while psychological and social incentives include things like promotion possibilities and increased responsibilities (Anthony & Govindarajan, 2007).

### **3.2.7 Business activity**

As the figure about the management control systems different components shows, the chain starts with strategy and goes down to a business activity. This is the stage where all vital activities are made i.e. those activities which easy are recognized. All the other stages lead to this one which is seen as a refining stage where the activities finally create value for the organization.

This stage of completion looks different dependent on how the stages before have been developed. In other words all the components before these stages need to collaborate together in a symbiosis type of way. When the chain is fulfilled and the business activity have added value to the organization, first then can goal congruence be reached (The authors knowledge about the figure and the business activity).

### **3.2.8 Goal congruence**

*In a goal congruent process, the actions people are led to take in accordance with their perceived self-interest are also in the best interest of the organization”*

*(Anthony & Govindarajan, 2007, p. 98)*

Members in an organization have their own individual goals and often they do not match with the organizations goals. The central purpose with a management control system is to align the individual goals of the members with those of the organization they operate in (Anthony & Govindarajan, 2007). As Taylor (1929) said that it is hard to find a worker whom do not take advantage when it comes to work as little as possible and earn as much money as possible whether or not it is good for the organization, so has also Anthony & Govindarajan (2007) the same thoughts. Perfect congruence between organizations and individuals does not exist due to the self value maximizing individual and the self value maximizing organization (Anthony & Govindarajan, 2007).

Bouillon et al. (2006) conclude that a management control system which is less costly and more effective is based upon both strategy acceptance and reinforced incentives. However, on a managerial level the goal congruence does not depend exclusively on choosing the right performance measures and incentive structures. This so called stewardship theory is based on that pro-organizational behavior is placed higher for cooperation value than self-interest behavior (Bouillon et al., 2006).

Both formal and informal systems in organizations influence the human behavior and therefore also the degree of goal congruence. The formal systems lie upon the informal system and it is therefore crucial to highlight the processes within the informal system. Informal processes can be work ethic, management style, and culture. There are two types of informal forces, internal and external, which play a key role in achieving goal congruence (Anthony & Govindarajan, 2007).

#### **3.2.8.1 External factors**

Every organization is a part of a society and in each society there are norms of desirable behavior. These norms are often clustered into one group called work ethic which often

includes loyalty, diligence, spirit, and pride in doing a good job. Some attitudes can be local i.e. linked to the city or region where the organization is located. Other attitudes and norms are specific for each industry, for example does railroad industry norms differ compared to the airline industry (Anthony & Govindarajan, 2007).

### **3.2.8.2 Internal factors**

Anthony & Govindarajan (2007) mentions internal factors as culture, management style, the informal organization, and perception and communication as the core items. Culture is one of the most important internal factors and include common beliefs, shared values, and norms of behavior which are accepted throughout the organization. Depending on how the culture is built up in organization, the actual control can vary between two, from the outside, identical organizations (Anthony & Govindarajan, 2007).

The communication within an organization can vary a lot depending on internal relations between the employees. In extreme cases this can evolve into a communication problem which is based on the spreading of information to the wrong people. The realities of the management control process can hardly be understood without recognizing the importance of relationships which represent the informal organization (Anthony & Govindarajan, 2007).

The factor of perception and communication is about giving and getting the right information to be able to achieve the goals and the actions which are built up throughout the organization. Despite the various channels, it is not always clear what senior management wants done.

*“An organization is a complicated entity, and the actions that should be taken by any one part to further the common goals cannot be stated with absolute clarity even in the best of circumstances”*

*(Anthony & Govindarajan, 2007, p. 102)*

## **3.3 Industry overview**

The most mature self storage market is the U.S. which, according to the Self Storage Association of America, includes 52,000 facilities representing total annual sales in excess of 20 billion US dollars. The average US facility had approximately 42,000 square feet of rentable space. Demand for self storage is typically estimated per capita which ranges from an average of 6.5 sq ft. per Capita in the US, 2.5-3.0 Sq ft in Canada (King, 2007) and 0.2 sq.

ft in Europe (Close, 2007). The large discrepancy in demand between North America and Europe is attributed to the lack of awareness of self storage and the fact that people tend to move less. Barriers to entry are also higher in Europe due to the more limited availability of land and difficulty to secure debt financing.

The self-storage business is a low-maintenance segment of the real property industry. Most sites in the US require no more than one to two people operating each facility. As a result of these low operating expenses, self-storage facilities usually have gross margins around 60-70%. Additionally, the industry has a low risk cost structure and facilities are usually able to break even at relatively low occupancies. What is more, when compared to the business cycle's influence on the retail, industrial and residential sectors, the industry has been relatively good at staving off downturns.

A self storage facility's ability to generate business is highly contingent on location. A facility's profit potential may be very different from that of a facility in another area of the very same city. In considering whether to set up a new facility, developers often analyze potential market dynamics (i.e. supply and demand) around a specific area (usually around 3 miles in diameter<sup>3</sup>) surrounding the proposed development. These market dynamics are important because they have significant effects of the company's occupancy levels, rental rates and operating expenses.

The self storage industry is very fragmented in the US, with the largest 10 self-storage companies controlling only 18% of the total industry square footage. This suggests there are fairly low barriers to entry as long as the owner has sufficient capital for start-up. This structure creates opportunities to achieve economies of scale by amalgamating smaller self storage companies and reducing costs by centralizing many of the business functions. It also helps create investment opportunities (i.e. in technology and larger marketing campaigns) which would otherwise be infeasible for independent operators. Consolidation also provides the opportunity to create a stronger brand. The self storage industry in Europe is more consolidated in part due to the difficulty for smaller firms to secure financing.

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<sup>3</sup> In the following report including over 100 self storage developers in the US, the range for market analysis was between 1 and 5 miles with an average of 2.82. Sonne, Christian. "Special Report: National Self Storage Industry". <http://www.selfstorageeconomics.com/pdf/SSE-Korpacz1Q03Rpt.pdf>. February 09, 2006

Many of the facilities are located in highly visible areas (i.e. downtown, close to major highways and shopping areas etc.) which are easily accessible by car and truck. The current supply includes newly developed storage buildings as well as converted buildings (i.e. warehouse to self storage). The units typically range in size from “closet size” to larger units which are able to accommodate the goods of a large house. The supply of self storage also comes in the form of external and internal units. External units typically provide the customer with direct access to the storage from outside whereas the internal units are typically located inside a building with access provided through corridors and elevators.

### **3.3.1 Customer needs & buying patterns**

Demand for self storage is driven by the basic customer need for secure storing of residential and commercial goods. Residential owners use the units due to a lack of storage space at home, or the need to temporarily store their furniture before moving to a new location. Meanwhile, the commercial segment’s primary needs are to store excess furniture, file boxes and even run part or all of their business. The cost of office space per square foot is usually significantly higher than the cost of off-site storage, so companies will often choose to save money by storing their goods in off-site facilities. Both types of customers want clean, secure (alarms, access codes, security cameras), often climate controlled, easily accessible units, favouring external units since they are offer easier to access by car or truck. Residential buyers are generally short term renters who need storage for several months while commercial customers require storage for longer periods of time.

The buyers are generally short term renters, who are looking for a short term lease during relocating, re-modelling or for business needs. They are price conscious and storage space is chosen based on – convenience of location and convenience of access, price, security, ancillary services and cleanliness.

### **3.3.2 Self-Storage compared to moving industry**

The self-storage industry’s natural competitors are the members of the moving industry that have historically provided customers with the use of their storage facilities. However, consumer perception is that these companies have become synonymous with high costs. Furthermore there are a large number of complaints filed against them ([www.mover.net](http://www.mover.net), May 7, 2009). Moving companies’ policies also limit client access to their warehousing facilities. By attracting customers who choose to save by transporting their own goods, sometimes

renting them the trucks to do it, and waving their own legal responsibility, self storage companies have been able to differentiate themselves as a lower cost, yet convenient alternative to full service moving/storage companies. Individuals and businesses are often attracted to the fact that, in contrast to full service or moving company owned warehousing, the units can be accessed on a 24-7 basis.

### **3.3.3 Industry trends**

Some of the major trends in the industry are related to development and technology. Currently there is a widespread trend for concrete tilt-up construction with steel sides and roof. In addition, technology advances are enabling self storage facilities to increase their level of security. For example, some common security elements are security card or keypad controlled gate access, video monitoring, card controlled elevators, and individual alarm units. There is also a trend in the US to develop aesthetically pleasing facilities which give customers the impression of security and quality (Curtis, 2007).

### **3.3.4 Facility managers**

A typical self storage facility is managed by one full-time facility manager and one part or full-time maintenance person. The facility manager is required to wear “*a lot of hats*” which often includes responsibility for the operations (i.e. move-in’s, move-out’s, answering phones etc), sales, marketing, and software of the facility. Since the facility manager is a pivotal employee in self storage companies the author’s analysis of self storage will focus on these personnel. (Interview with Chris Moore, PSS, April 25, 2009)

## ***3.4 Management controls systems in the hotel industry***

Other segments of the real property industry such as hotels provide useful benchmarks on ways management control systems can be applied to the self storage industry. Each segment of the real estate industry has publically traded REITs which typically include pay for performance in their compensation plans. Two of the most popular incentive compensation plans are based on total company size (which is determined by multiplying number shares by market value of shares) and company performance (which includes such measures as earnings per share, Net Income etc) (Scott et.al. 2001).

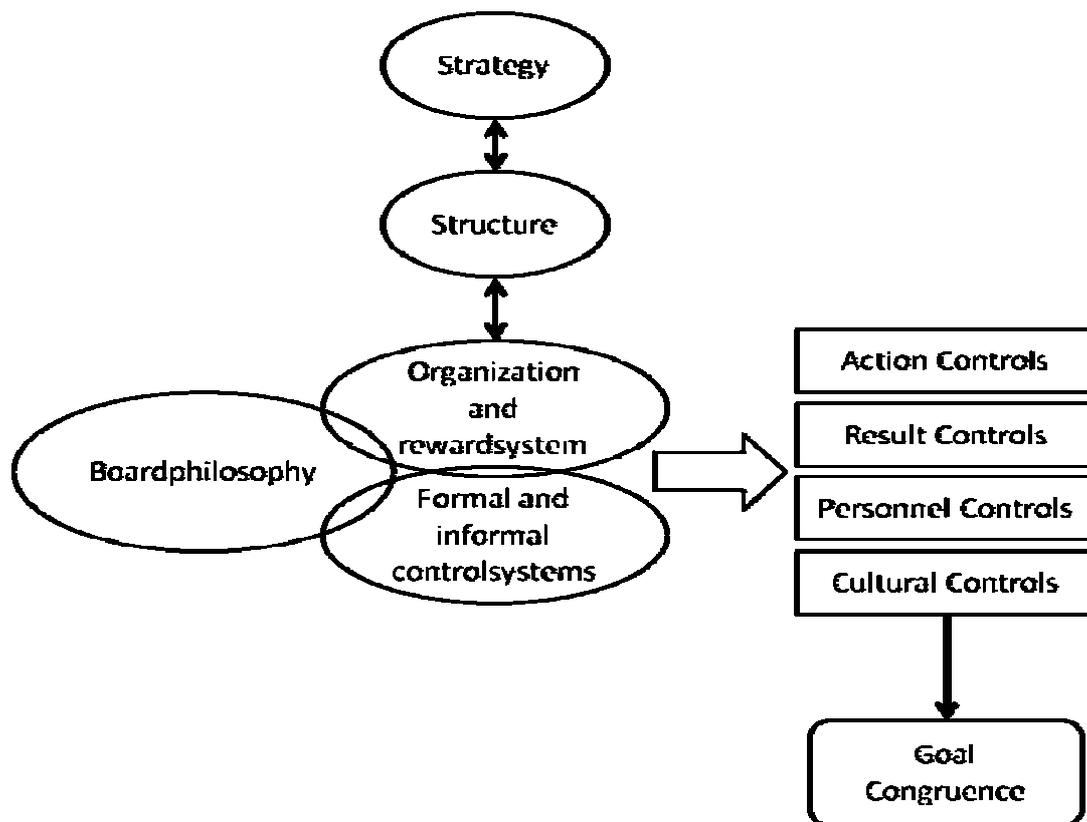
The hotel segment is different from the self storage segment in that it is labor intensive and more strongly influenced by economic cycles (Holstein, 2008). As a result of the labor

intensive nature of the hotel industry, there is a stronger focus on controlling employees. In addition, because the hotel industry is more influenced by economic cycles, results controls (particularly financial) must account for these uncontrollable factors (Lokman & Anoop, 2001). A popular financial measure used by hotels is RevPAR (Revenue per available room) which takes into account a hotel's revenues and occupancy on a unit basis. A drawback of this measure is that it does not focus on profits. In addition to RevPAR, many hotel chains such as STAR, Hilton, Sheraton etc. have successfully implemented balanced scorecards. Based on a study of popular 4 and 5 star hotels in Australia, these scorecards tend to have a somewhat stronger focus on financial and customer measures (Phillips, 2007). This study indicated also ranked most important components of the balance scorecard as follows:

	Ranking of key performance indicators related to general manager's actions
1	Benchmarking against competitors
2	Payroll percentage of revenue
3	Mystery guest shopping in hotel
4	Fair Share analysis
5	Customer Payment time
6	Employee opinion surveys
7	Training and development
8	Guest Satisfaction
9	Sales revenue
10	Gross operating profit %

(Source: Harris, P. & Mongiello, M., 2001, pp. 120-128)

### 3.5 New figure



(Source: Rotch, pp. 192; Samuelson, 2004, p. 41; Merchant & Van Der Stede, p. 25-118. Modified by the authors)

The initial figure is important and shows in depth what types of components a control system should have, but after discussing the figure the authors have had hard to apply that one to the following chapters.

When reading the theory about control systems a thought have occurred by the authors that the initial figure in the beginning of this chapter not is as clear as it could be. When the knowledge about control systems has increased, the authors believe that the initial figure was missing the controls that Merchant & Van Der Stede (2003) are writing about. To go more in depth with the information from the initial figure the authors have come up with that the “*boardphilosophy*”, “*organization and reward system*”, and “*formal and informal controls systems*” works together in a symbiosis with different kinds of controls as a result. These controls are based on Merchant & Van Der Stede (2003) and are now replacing these three components from the initial figure as the figure above shows.

The authors believe the new figure contains the same information as the initial figure but from a reader perspective the authors believe this figure gives a better understanding about the

control system and its components. Based on this, the following chapters will be based on this model and not the initial one just to give the reader a better chance to catch the flow of this thesis. The reason why the authors keep the old figure is that it still gives the reader an in depth look into the components of a management control system but with the back draw that it is difficult to adopt it and formulate the figure in an easy and pedagogical way in the following chapters.

## 4 The empirical frame of references

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*In this chapter the interviews will be presented. To begin the chapter the authors will give explanations about the two organizations which are used in this thesis. The authors will also explain who the interviewed persons are and what kind of position they have in each organization. The interviews are presented in case form i.e. the questions is not included in the text, only the answers. To make it easier to understand the information, the authors have divided the answers into paragraphs with own headers.*

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*A typical self storage facility is typically managed by one full-time facility manager and one part or full-time maintenance person. The facility manager is required to wear “a lot of hats” which often includes responsibility for the operations (i.e. move-in’s, move-out’s, answering phones etc), sales, marketing, and software of the facility. Since the facility managers are the most common employee in self storage companies our analysis of self storage will focus on these personnel*

*(Interview with Chris Moore, PSS, April 25, 2009)*

### **4.1 Main case, Premiere Self Storage (PSS)**

This following information was provided via a phone interview conducted by the authors with Chris Moore, PSS founding partner and general manager of PSS Chester and Tim Moore, Founder and Chairman of Premiere Group.

#### **4.1.2 Background and structure of PSS**

PSS was founded in September 2006 as a start-up self storage company by Tim Moore, a serial entrepreneur who has also founded Canada’s largest moving company AMJ Campbell Van Lines, Premiere Van Lines- another coast to coast moving company and Premiere Executive Suites –the largest coast to coast provider of extended stay accommodations in Canada ([www.choosepremiere.com](http://www.choosepremiere.com), May 5, 2009).

PSS currently consists of three facilities (appendix 5). Its first facility was a conversion project located in a rural town of Chester, Nova Scotia. The second project was a new 2-story development in Truro, Nova Scotia. In the fall of 2007, PSS purchased 50% of Bridgewater Self Storage, an existing site which has been in operation for about 10 years. All locations provide self storage services, packing materials and moving services. All facilities are

conveniently located in highly visible locations, equipped with the video monitoring, individually alarmed units and offer 24-7 access. The Chester location also offers interior and exterior boat/ RV storage and both Bridgewater and Chester include automatic and self serve Car Washes.

The ownership of the Chester and Bridgewater locations is the same and the existing management of Bridgewater location is responsible for the management of both locations. The ownership of Truro is separate and the main owner and operator is also the owner of Premiere Van Lines in Truro. PSS is affiliated with other Premiere companies including Premiere Van Lines, Premiere Mortgage, and Premiere Executive Suites. This relationship provides many cross-marketing opportunities, especially through Premiere Van Lines since many self storage customers are also moving.

#### **4.1.3 Strategy**

The business strategy of the company is differentiation which focuses on the delivering of superior performance when it comes to the industries key success factors. The most important part of this strategy are PSS locations, which are highly visible, with a high traffic count and in convenient proximity to PSS customers. PSS also focuses on delivering a premium product which means that their buildings architecturally designed, including horizontal, vertical and building material variations which give customers the impression that PSS facilities are secure. The buildings are also equipped with the latest security features including video monitoring, individually alarmed units and 24-7 access. In addition, PSS offers its customers the convenience of a “*one-stop shop*” which means they sell packing materials and offer moving services at each facility. Finally, the marketing strategy includes exploiting PSS affiliation with the affiliated Premiere companies, especially Premiere Van Line and Premiere Mortgage since they have often linked to moving.

PSS also differentiates itself from single-store facilities by exploiting economies of scale from its three facilities. For example, PSS has one large yellow page ad which is shared between Chester and Bridgewater locations which can be difficult for single store facilities to afford. They also share marketing (i.e. website and brochures) and accounting functions between its three locations.

PSS does not have centralized purchasing but all facilities order from the same supplier, which is the same supplier as Premiere Van Lines. This scale economy gives PSS some negotiating power.

#### **4.1.4 Marketing strategy**

PSS primary marketing tool are their locations, which are highly visible. They exploit this advantage by using very large building signage which includes their website address, telephone number and logo. They also use yellow page ads, do cross-marketing with realtors and the sister companies such as Premiere Mortgage and Premiere Van Lines. In addition, they have done mass mail-outs to all households within a 3-5 mile radius of the facility. PSS trucks also prominently display their logo, so the idea is, when people see the moving truck they think of PSS. Also, PSS sells packing materials which includes their logo, they have in-store posters which remind customers of the moving and retail products and they have large plasma TV's behind the reception counters which are linked to the video system which gives customers the impression of security.

PSS buildings are architecturally designed and aesthetically pleasing by incorporating vertical and horizontal variations such as peaks and pillars and building material variations such as EFS and glass. They also display PSS colours of blue and yellow.

PSS has competitive rates with other facilities in the Halifax area. They have no system which automatically changes their rates according to occupancy, but they often do this on an informal basis.

#### **4.1.5 Action controls**

##### **4.1.5.1 Behavioural constraints**

PSS facility managers are required to get approval from the area manager for any expenditure over 500 dollars. In addition, the accountant receives checks and puts the payments in the accounts receivable, so there is no separation of duties in this regard. The financial statements, however, are audited once a year to prevent fraud.

#### **4.1.5.2 Pre-action reviews**

The only pre-action reviews PSS are its requirement for approval for expenditures over 500 dollars from senior management. Furthermore, since PSS does not prepare budgets, senior management and board members have limited capability to review planned revenues and expenditures.

#### **4.1.5.3 Action accountability**

PSS has guidelines for operations i.e. for move-in, move-outs; however, these are mostly given by verbal communication. They are communicated to employees in the training process through employee mentoring and are not supported by written documentation.

To track the action of facility managers, the owners visit the facility on a frequent basis, but no formal mystery shopping system is set up where someone comes to investigate certain aspects of facility performance. Furthermore, the performance of these actions is not linked to rewards.

#### **4.1.6 Personnel controls**

##### **4.1.6.1 Selection and training**

PSS does not really advertise for positions within their company. They usually are able to acquire good people by word of mouth or through referrals from PSS sister Premiere companies. In addition, according to the Chairman there is an informal recruitment process in which:

*“Everybody who I come in contact with is potential employee or partner...so have luxury of observing them without having them knowing; and, if feel if they have right characteristics, they I will approach them”*

There is no formal process is in place. All training is done on an informal basis via employee mentoring. New employees are taught how to perform activities properly. For example, a customer move-in requires the employee to show the customer the unit, sign the contract, obtain access codes and receive payment.

## **4.1.7 Cultural controls**

### **4.1.7.1 Codes of conduct**

PSS does not have any written formal codes of conduct but values of integrity, friendship and customer service are often communicated to employee from senior management and owners.

### **4.1.7.2 Physical and social arrangements**

PSS holds seasonal events for employees (i.e. Christmas parties) and participates in national Premiere Group conventions. Its facilities are also architecturally designed which reinforces its commitment to professionalism and security.

### **4.1.7.3 Tone at the top**

Management and board members continually enforce values of integrity, friendship and loyalty in the company. For example, the Chairman regularly communicates to lower level personnel and treats them with respect as he would any other senior executive. Hugs from senior management also reinforce Premiere's culture of friendship and respect.

## **4.1.8 Results controls**

### **4.1.8.1 Financial result controls**

PSS currently does not prepare budgets and there are no financial or non-financial results controls which could impair the motivation and direction of the facility managers to maximize shareholder value. Furthermore, facility managers are paid strictly via base salary and there are no rewards linked to superior performance.

## **4.1.9 Board of directors**

There are 4 main shareholders which make up the board. The board is responsible for reviewing employee compensation, however, there is no formal compensation committee. In addition, although there is no formal audit committee, however, the financial statements are audited on an annual basis to ensure their integrity and to prevent fraud.

## ***4.2 Reference case, City Self-Storage***

### **4.2.1 Company background**

City Self Storage was founded in 1993 in Norway. It has since grown to 45 sites in 7 European countries and is recognized as the 2<sup>nd</sup> largest self-storage company outside the UK. In addition to self storage services, City Self Storage provides packing materials and moving vans. City Self Storage's parent company, The Selvaag Group, is based out of Norway and is a recognized leader in building, operating and investing in real estate. The total assets of Selvaag are 4, 1 billion NOK which is equivalent to approximately 470 million euro or 750 million Canadian dollars.

### **4.2.2 Results controls**

20 percent of the salary can be bonus and is paid monthly. 10 percent is based on the performance of the site and 10 percent is based on the performance of the country. The only financial measure it is based on is net operating income, NOI. In addition, City Self Storage has non-financial measures such as customer service in which the facility managers are evaluated based on managers performance for phone inquiries and in-store customer service.

In terms of setting targets, City Self Storage had a two-fold system last year in which they benchmarked targets with competitors and combined this with an in-house comparison. Financial measures are based on internal budgets which are prepared quarterly. City Self Storage tracks the actions for employees via mystery shopping company which focuses on measuring customer service and sales ability. City Self Storage has found that they were quite high in comparison with the competitors and also in general compared to the service industry. City Self Storage does mystery shopping on a monthly basis when there are calls to the facilities and visits to the sites. Consequently, the company has a small competition where the highest ranked facility gets a small financial reward.

### **4.2.3 Cultural controls**

City Self Storage is owned by a company called Selvaag and they have a code of conduct when it comes to culture, ethics and morality. So they are a subsidiary under that umbrella and use their code of conduct to shape company culture. City Self Storage also have kick-offs

every once a quarter. It is not a regular thing but usually every quarter there is some kind of event.

#### **4.2.4 Action controls**

City Self Storage has a checklist regarding how to ask the right questions and give the right information, and depending on if the customer comes to the office or phones. Not everything is on the checklist but only the most important parts to remember. In addition, the company has an operation manual and a management control folder. They also have manuals which are independent from the site such as brand manuals, marketing manuals and business plan manuals.

#### **4.2.5 Personnel controls**

City Self Storage struggles a little with the recruitment but they do use recruitment agencies. Right now they are using arbetsförmedlingen, stepstone, and monster which are large providers of jobs in Sweden. They advertise on those and then there are normally 2-3 interviews per qualified candidate. The first two interviews are complimented by one backup interview with the CEO to ensure the person is the right fit in the company.

### ***4.3 Public Storage use of management control systems***

Public Storage is the largest self storage operator in the world with over 2000 self storage facilities worldwide. Its facilities are more heavily concentrated in the US and it operates in Europe under the name Shurgard which it bought out several years ago. Although we were unable to get an interview from Public Storage, we were able to obtain some pertinent information regarding their strategy and financial results control systems from their annual report.

Based on the Public Storage 2008 annual report, we were able to determine that it uses RevPAF (Revenue per available Square foot) as their dominant financial measure of facility performance. Similar to RevPAR (as used by hotels), RevPAF takes into account the revenue (in terms of volume and price per Square foot) and occupancy of a facility on a per unit basis. RevPAF is also influenced by other factors such as product quality, competition and customer service. Public Storage compliments RevPAF with gross margin % which focuses on maximizing revenues while controlling costs. Good performance on gross margin % and RevPAF results in increased Net operating income which is closely linked to the value

of a facility which strongly influences shareholder value. An advantage of both RevPAF and Gross Margin % are that they are easily comparable and can be more readily used for benchmarking. In addition to these two main financial measures, facility performance is divided between same store facilities and other facilities. This disaggregation provides a better basis for comparison since other stores are those with lower occupancy rates because they are newer and still being absorbed by the market.

## **5 Analysis**

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*In this chapter the authors are going to compare the empirical frame of references with the theoretical frame of references. The authors will analyze how the theory fits with the empirical information gathered.*

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### **5.1 Key success factors**

An analysis of the Self-storage industry has allowed us to determine the following key success factors. It is important for self storage have core competencies in each of these areas to remain competitive and to ensure the success of their operation.

#### **5.1.1 Good location**

Most customers choose a storage facility based on its location either because it is easily accessible or because it is highly visible. A highly visible location is often the best promotion opportunity. Factors to consider in defining a “good location” include visibility, access, traffic count, site configuration, competition, and demographics.

#### **5.1.2 Excellent product**

Because the industry is becoming increasingly competitive, it is becoming more important for self-storage facilities to differentiate themselves by offering a superior product. A superior product includes quality construction, climate controlled units, quality security system, and unit sizes that are tailored to the needs of the demographics in the area.

#### **5.1.3 Great market**

Great market is indicated by the balance between supply and demand for self storage space in a particular area as indicated by vacancy rates and supply of space per capita. The success is highly contingent upon building in a great market because this will determine how well a new facility will be absorbed and the occupancy rates that the facility will maintain.

### **5.1.4 Efficient operations**

To maximize the revenue of the facility while controlling expenses is the primary objective of operations. Key operating indicators include NOI, REVPAF, percentage occupancy etc. Operations also involve everything from initial customer contact which would be either by phone email or face to face to the final move-out by the customer.

### **5.1.5 Buying right**

Buying right will have a significant impact on the return on investment for shareholders. As a result, it is important to buy land and or existing buildings at or at a discount to market value by assessing recent comparable sales in the area.

## ***5.2 Analysis of PSS strategy***

PSS strategy is to differentiate itself from competitors in order to gain a competitive advantage. It does this by acquiring superior locations<sup>3</sup> and building architecturally designed and aesthetically pleasing facilities equipped with the latest in access and security control. They provide other complimentary services such as packing supplies and moving services. Their alliance with the Premiere Group of companies also provides them instant brand recognition and opportunities for cross-marketing.

## ***5.3 Analysis of PSS management control systems***

### **5.3.1 Automation of management controls**

There is a common trend for self storage facilities to use Kiosks to automate the move-in and payment process. These kiosks increase customer convenience by allowing the customer to rent units after regular office hours and during holidays. It also frees up managers time so that they can focus on more revenue producing actions such as making marketing calls (Norris, 2008). Assuming a cost of 18000 dollars for a new insomniac kiosk<sup>4</sup> and annual salary savings of 8910 associated with reduced office hours the payback for this investment is 2 years.<sup>5</sup> This calculation also does not include the increased revenue resulting from improved customer convenience.

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<sup>3</sup> Criteria for “superior locations” include traffic count, building visibility, accessibility, ability to expand

<sup>4</sup> Based on estimate from Insomniac Group.

<sup>5</sup> Assuming eliminate 6 office hrs on Saturdays (6\*54=324 hrs) office hours and 1 hr for each weekday (270 hrs). Total hrs= 270+324= 594 hrs \* 15 dollars per hr = 8910 annual savings \* 2 yrs = approx. 18000

### **5.3.2 Results controls**

PSS currently does not prepare budgets but analyzes financial performance informally on a monthly basis. If revenues are down or expenses are up in certain areas, management may take notice and may take action (ie. reprimanding the facility manager for overspending). There are no revenue or expense targets in place for facility managers and they are paid on salary only. The area manager is also paid on salary and no pay-for-performance measures have been implemented. The lack of results controls suggests that employee's goals could be incongruent with those of the company, and that there should be room for improvement.

To maximize the wealth of PSS shareholders, PSS facility managers should strive to maximize revenue, minimize expenses and achieve targets for other key financial and operating indicators such as NOI, REVPAF and % occupancy. Setting targets based on gross revenue is insufficient and may lead to lax spending. In addition, facility managers should ensure customers are satisfied by providing clean, ready-to-use units, friendly and helpful service. However, if the facility managers are only paid by salary, they may not be motivated to improve the company's financial performance or deliver excellent customer service if they are not rewarded for doing so. For example, if the managers are not paid a commission based on packing material sales may not ask customers if they need packing materials during the move-in process.

In setting up the results control system, PSS should be aware of the presence of uncontrollable factors such as the economy, competition, acts of nature and the price of materials or expenses. The facility manager should be able to exert some influence, however, over most of these factors. For example, if the price of electricity increases, the manager may be more motivated to save on electricity by making sure lights are turned off when no there are no move in's or move-out's or replacing energy light bulbs with those that are more energy efficient. However, if a new self storage facility is built in close proximity to the facility, this is likely to significantly impact the facilities performance which the manager would likely have very little control over. It is important that PSS ensure that financial targets include the line items that managers have influence over and make changes to the targets to compensate for any uncontrollable factors.

The size of the bonus linked to the results controls is also important to consider. A large bonus and small salary is likely to give facility managers less job security and may increase pressure for behavioral displacement or financial manipulation. On the other hand, a smaller bonus, is likely to have less motivational effect, however, the potential risks associated with behavioral displacement or financial statement manipulation will be mitigated.

Furthermore, the bonus linked to the target should be set in such a way that the higher the financial result is from the budgeted financial result, the more the manager will be paid. Otherwise, the manager will not be motivated to improve the financial performance beyond the target. Likewise, if the manager does not meet the target by a few percent, they could perceive themselves to be a failure which may decrease future performance. To prevent this from occurring the manager should receive a certain percentage amount of their bonus objective if they come reasonably close to meeting the target amount (i.e. if within 5% of target, they receive half of their bonus objective). The target should be challenging yet achievable. Based on statistics, it should have a 25-40% chance of being achieved (Dunbar, 1971). An alternative to this structure is to set a budget target (one that has a 50% probability of being achieved) and an optimal target (one that has a 30-40% chance of being achieved). However, by having one target, it is likely that the managers will be more focused on meeting this target compared to if two targets were used.

### **5.3.3 Action Controls**

Behavioral constraints in PSS are considered strong and include locks on desks, locks on inventory rooms and computer passwords. Employee behavior is also controlled via administrative constraints in which any expenditures over 500 dollars require authorization from senior management.

The accountant working for PSS receives the checks and makes the payment entries in the accounts receivable. Therefore, there is no separation of duties in this regard which could lead to fraud. For example, the employee could redirect the checks and make untrue entries into the accounts (i.e. for return of goods etc.). As the company does not prepare a budget, there are no pre-action reviews of planned expenditures and revenues. This could lead to employees making expenses that are not in the best interest of PSS shareholders.

PSS action accountability is mostly informal. It involves the owners taking random visits to the self storage site to ensure that the premises are clean, well-kept and employees are acting properly.

In terms of the operations of the company, guidelines for acceptable behavior are communicated to employee by employee mentoring. There are however, no written guidelines for proper employee behavior and the actions are not tracked on a sequential basis i.e. by mystery shopping. There are also no activity reports in which employee's are required to detail their actions on a daily basis. The lack of action controls could lead employees to act ways that are incongruent with the goals of the company. For example, if there are no guidelines when there is idle time (i.e. when there are no calls, move-in, and move-outs) the employee may just surf the internet when they could be making calls to potential clients.

To strengthen PSS action controls, PSS should consider detailing proper actions for each operational activity in written form, communicating these actions to employees, tracking the actions on a sequential basis and linking them to rewards. For example, look at the actions or process required when a potential customer calls or walks in. To determine how employees should act for customer move-in's, the following questions should be answered. How should customers be greeted when they walk in or call over the phone? Did they ask the customer if they want to buy packing material to increase ancillary sales? Did they answer all questions (i.e. size of unit) properly)? Also, what do employees do with idle time (i.e. when there are no calls, move-in, move-outs)? By answering these questions, communicating them to employees both verbally and via manuals, setting targets (i.e. % customer satisfaction) and linking these targets to rewards, PSS should be able to improve its customer service, a leading indicator of future financial performance.

#### **5.3.4 Personnel controls**

The personnel controls of PSS are informal, however, their reputation for 'good people' is a testament to their quality personnel controls. According to Tim Moore, Chairman of PSS, "Everybody who I come in contact with is potential employee or partner...so I have luxury of observing them without having them knowing and if feel if they have right characteristics then I take action". This approach can work well in a fairly small company, however, as the company grows and hires a larger number of employees it could become increasingly difficult to use this approach. As a result, a more formal hiring process may need to be considered

such as personality testing questionnaires, in house-computer systems to pre-screen candidates etc.. Interviews are also required in PSS as well as reference checks. This increases the likelihood that the employee is suitable for the job and reinforces other more informal hiring techniques.

The training provided in PSS is done on an informal basis through employee mentoring in which the senior manager instructs the new employee how to perform their job. For example, facility managers are taught the processes for employee move-in's and move-out's. A more formal training process which has a checklist and guidelines of which areas to cover, including operations, marketing and customer service could provide more in-depth training which could help to ensure employees are given proper direction and ability to perform their role properly.

There is a growing trend for companies to use web based questionnaires that are statistically proven to help a company find the right person for the job. For example, Kolbe Rightfit ([www.kolbe.com](http://www.kolbe.com)) is a web based tool that asks the candidate questions and relates ranks the candidate from A-F based on their fit for the job. This is another tool that could be used to strengthen PSS personnel controls.

### **5.3.5 Cultural controls**

PSS strong company culture that includes values of integrity, trust and respect is paramount to Premiere's competitive advantage. This culture is primarily controlled through strong tone at the top in which the senior managers and owners behave and communicate in ways that epitomize the culture they are trying to create. Its common for Premiere managers and employees to hug each other and do large group hugs at Premiere Group conventions. Also senior management often talk to lower level employees and treat them as they would any other senior executive which delivers messages about the importance of employee equality. Group events are also common form of cultural control; for example, there are annual Premiere Group conventions and regular company outings. For example, at Premiere Suites employees gather at the office or nearby restaurant for drinks which is commonly known as "Premiere Happy Hour". The buildings are architecturally designed and reinforce PSS culture of quality and professionalism. The interior décor of PSS buildings are often very high end which deliver messages about the importance of professionalism.

The drawbacks of PSS cultural controls are that they do not have any written codes of conduct or statements of vision, management philosophy or commitment to stakeholders. The lack of written documentation could undermine the culture that PSS is trying to create. There is also no evidence that the company encourages whistle-blowing which could be used as a tool to reinforce the company's commitment to integrity. The whistle-blowing technique could provide employees a means to tell senior management about any employee dishonesty or improper conduct.

### **5.3.6 Budgets**

PSS does not currently do any budgeting which could lead to the company becoming more reactive than proactive in its approach to doing business. This could in turn reduce operational effectiveness as managers become overwhelmed with dealing with day-to-day operational problems and have less time to deal with more important long-term strategic goals. The absence of budgeting could also decrease management oversight since the board and owners of the company are not able to review budget proposals and compare actual performance against budgeted performance. Coordination could also be impaired because there would be less top-bottom and bottom-up information flow that results from creating budgets. Finally, employee motivation is likely to be adversely affected because employees have no revenue and expense targets to strive for, as created in the budget.

## ***5.4 Analysis of City Self Storage management control systems***

The management control systems of City Self Storage can be characterized as tight and, as a result, the shareholders can be reasonably assured that employees are acting in the best interest of the company. City Self Storage has implemented results, actions, cultural and personal controls.

The results controls are based on financial and non-financial performance measures. The financial results are based upon Net Operating Income ("NOI") targets for each facility. If managers reach the targeted NOI for their facility, they are paid a bonus equivalent to 10% of their salary. This encourages facility managers to think like owners and increase revenues while controlling expenses. There is also a target for NOI set for total country performance and if this target is met the facility managers receive an additional bonus equivalent to 10% of

their salary. This motivates facility managers to work as a team with and give referrals to sister stores, rather than trying to compete against each other. This is particularly important in larger cities such as Stockholm where City Self Storage has several facilities located in nearby proximity to one another. This also encourages mutual monitoring which pressures facility managers to ensure that other facility managers are taking proper actions to increase their NOI. In addition, since NOI is closely tied to the value of the facility, this results in control strengthening a culture that values maximizing shareholder wealth. The downside with using NOI as a key financial measure is that it is not expressed on a per unit basis which makes it difficult to compare one facility's performance with another. By making management focus on NOI, they could lose focus on how their performance relates to other City Self Storage facilities or other competing facilities.

Proper actions are communicated to employees via operations, marketing and brand manuals as well as checklists. For example, the operations manual has written guidelines for employee move-ins, move-outs, daily inspections, delinquent collections, customer service etc.. The marketing manual includes telephone and in-store sales (i.e. checklists), showing and renting units, best ways to market a facility i.e. mail outs, newspaper etc. The most important actions that can be observed are then tracked via mystery shopping which is done both in the facility and over the phone. The facility with the best performance is then given a small financial reward. The company's brand manuals specify things such as help provide the company with a consistent message and image which increases brand recognition and loyalty.

In terms of personnel controls, City Self Storage tightens its hiring controls by conducting multiple interviews and pre-action approval by the CEO. This is combined with training via employee mentoring and role-playing in which an experienced manager instructs the new employee (Truitt, 2006).

City Self Storage also has group events and employee uniforms which help to strengthen the company's culture. City Self Storage culture is also guided via their parent company's statement of values which are based on "*high ethical standards, creating value for society and commitment to pioneering and long-term efforts.*" (www.selvaag.no, May 4, 2009)

### ***5.5. Analysis of Public Storage management control systems***

Public Storage's use of RevPAF and gross margin % as financial performance measures allows the company to make internal (with own stores) and external (with competing facilities) comparisons, which are more difficult to make with NOI. These comparisons make it easier to benchmark facilities against one another and to set financial targets. By having two financial measures, with one focused on revenue and the other on cost control, managers have more of a chance to achieve a portion of their bonus and therefore will likely be more motivated by this type of system. The downside of this system is that it is slightly more complicated to calculate, which could result in an increase in accounting fees.

### ***5.6. Analysis of hotel segments management control systems***

The hotel industry's use of management control systems is extensive and it has had success with the balanced scorecard. Because it is labor intensive, employee satisfaction is an important component of their management control systems. Its main financial results controls include RevPAF and gross margin % which coincide with that of Public Storage and reinforce the importance of these measures in the real estate industry. Since customer satisfaction is considered a key success factor in the hotel industry, non-financial results controls based on customer satisfaction are also an important component of their management control systems. Another unique aspect of hotels use of the balanced scorecard is that they are often prepared on one sheet which includes all financial, customer, employee and operation measures. This allows the employees who are being evaluated to get a more balanced picture of their performance.

### ***5.7 Risk assessment***

The authors realize that implementing new management control systems will produce direct and perhaps indirect costs. The direct costs are associated with the out-of-pocket costs (i.e. 100 dollar financial bonus) or time required by employees to implement the management controls system (i.e. to create and review the budget). Indirect costs are associated with potential unfavorable consequences of the management control system. For example, poor design of management control systems may motivate employees to act in ways that are not congruent with the goals of the company. To proactively manage these hazards, the authors have identified the following risks and provided recommendations to mitigate these risks in the conclusion.

First, there is the risk that the pre-action reviews could motivate employees to make smaller expenses that are just below the threshold of their approval limits which could lead to suboptimal spending.

Second, the implementation of financial rewards based on NOI could lead to behavioral displacement in which facility managers are motivated to delay certain expenses (i.e. maintenance) in order to achieve their targeted NOI. The managers may also be motivated to manipulate the financial statements i.e. by recognizing revenue early, incurring excessive expenditures in one period in order to make it more likely to achieve targets set in future periods etc.

Thirdly, creating budgetary slack is a risk inherent in setting budgets in which the manager preparing the budget allocates excessive resources or expenses to the budget, thereby making it easier to obtain their bonus.

Fourthly, there is the possibility that the direct costs associated with the management control system exceed their benefits. As a result, it is important for us to carefully weigh the intended benefits of the management control system with the costs to determine if the system is worth implementing.

Finally, employees may develop negative attitudes towards the management control systems. For example, they may not like the budget system if they perceive the financial targets set within it to be too difficult to achieve.

## **6 Conclusion**

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*In this chapter the authors will describe the conclusions made out from the earlier chapters in this thesis. The authors are going to mirror these conclusions to the formulation of problem and the purpose with this thesis. Finally the authors will explain how this thesis can add value for others and the knowledge learned out from working with this thesis.*

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Based on an assessment of PSS, City Self Storage, Sweden and Public Storage, USA, the authors can conclude that PSS should implement a balanced scorecard to improve the implementation of its differentiation strategy. This scorecard should be based on financial, customer, operational and community measures. In addition, PSS should introduce an operations manual to control the manager's actions and implement a written code of conduct and vision statement to strengthen its culture.

### ***6.1 Purchase kiosks for automation***

Kiosks should be implemented in order to help differentiate PSS from its competition while automating and reducing labor functions. First, kiosks will by increase customer convenience because customers will be able to rent and pay for units 24-7. Second, PSS will be able to cut back on office hours and save on salary expenses (Norris, 2008).

### ***6.2 Measure and reward financial results***

PSS should implement financial measures based on RevPAF and Gross Margin % similar to Public Storage, USA. Combined, these measures influence NOI which is related to facility value and the maximization of shareholder wealth. These targets should be the result of preparing a budget involving facility managers. Involving the facility managers in the target setting process should involve educating managers about these measures and how they are able to influence them. Facility manager participation will also strengthen their commitment to meeting the targets. The RevPAF and Gross Margin percent should be based on

information gathered from historical financial reports as well as from benchmarking with competitors (i.e. via their annual reports). When setting targets, it is important to differentiate between same store and other newly developed stores since the newly developed stores will likely have inferior financial performance due to lower occupancy rates.

If these financial results are rewarded on an annual basis, facility managers may be demotivated if they do not meet the quarterly targets. To rectify this, the authors suggest that PSS set and reward targets on a quarterly basis so that managers will be given the opportunity to still claim a portion of their bonus, even though they may not have met all quarterly targets. Due to the seasonal fluctuations in the self-storage industry (i.e. summer is busiest period) the authors recommend adjusting these targets based on past seasonal fluctuations. The authors also suggest that these targets should be linked to a bonus equivalent to 10% of the employees base salary (5% based on REVPAF and 5% based on Gross Margin %) on an annualized basis and awarded on a quarterly basis. Offering the bonus on a yearly basis would decrease the effectiveness of the reward due to the longer time delay between performance and the reward. The targets should be equal to expected performance, that is, they should have a 25-35% probability of being achieved. In addition, the manager should receive an extra 1 dollar bonus for every 10 dollars of NOI achieved beyond the target. The NOI can be easily calculated by multiplying the gross margin % by RevPAF and gross square feet. If no bonus is awarded for exceeding the target the managers may not be motivated to improve financial performance beyond the target. Furthermore, if they are within 10% of the target, the managers should also be paid a percentage of the bonus objective as set out in the following schedule. Otherwise, if they miss the target by a small amount they may consider themselves to have failed completely which may decrease their future performance.

<b>% of NOI achieved</b>	<b>% of bonus objective earned</b>
90	0
91	10
92	20
93	30
94	40
95	50
96	60
97	70
98	80
99	90
100	100

Following is a sample of our proposed quarterly budget and bonus structure

<b>Annual Base Salary</b>	30000
<b>10% base salary</b>	3000
<b>10% base salary on quarter basis</b>	750
<b>Target RevPAF target first quarter</b>	12.20
<b>Target Gross Margin % first quarter</b>	67%
<b>Gross Square Feet</b>	35000
<b>NOI</b>	286090
<b>Actual Quarterly RevPAF</b>	12.30
<b>Actual Quarterly Gross Margin %</b>	68%
<b>Actual quarterly NOI</b>	292740
<b>Difference in NOI</b>	6650
<b>Bonus</b>	100%*750 + 6650*.1= 14155

Since facility managers are in an ideal position to sell packing supplies i.e. during walk-in customer inquiries, the manager should be paid a commission of 10-15% based on the gross sales of all packing supplies and moving truck rentals. This should boost ancillary income and should be cost effective for packing materials profit margins on packing materials are typically 75-100% (Interview with PSS, April 25, 2009)

### ***6.3 Measure and reward customer satisfaction and community involvement***

We recommend that financial results controls be combined with non-financial measures in order to make facility managers more focused on the long term health and strategy of the company while valuing the interests of other stakeholders. First, we recommend that a customer service measure be introduced which is further explained in the action controls section. Due to the less labor intensive nature of the industry, we recommend forgoing an employee measure and instead implementing a community-environmental measure. Because self storage customers are typically in close proximity to the facility, it's important that PSS get them involved and ensure they feel valued. It should set goals for holding events at the self storage facility (i.e. pumpkin carving contest for Halloween) and participating in community events (i.e. parades) and sponsoring teams. A goal should be set to participate or hold one event each quarter. If the objectives are reached, the managers should be given a small financial reward.

#### ***6.4 Tighter Action controls and introduction of manuals***

PSS should also implement tighter action controls by providing facility managers with an operations and marketing manual. These manuals will give employees better direction and a better understanding of what actions are “right” and help to ensure that they act in the “right” way. They will also allow PSS to provide more consistent service and can be used as a guide for temporary managers when full-time managers are on vacation.

The operations manual should detail all proper actions for various activities such as customer move-in’s, move-out’s, maintenance schedules, inventory management, daily close, delinquency procedures, facility inspection and all other pertinent operational tasks. The marketing manual should detail the features of the facility i.e. security, customer service requirement i.e. how to handle customer calls, showing and renting units, and guidelines for promoting the facility i.e. newspapers, yellow pages, etc. To save on costs, the authors recommend that generic marketing and operations manuals be obtained from a self-storage association such as American Self Storage Association or a mature self storage company (i.e. Public Storage) and modified to suite PSS strategy. If this is not possible, an experienced manager should be able to create a simpler operations manual which could be used when that manager takes time off.

A checklist should also be on hand that is visible to the manager when sitting at the reception desk. This checklist should detail important actions required when a customer calls or walks in (Appendix 6). Answering phone and dealing with customers in the store should then be tracked via mystery shopping which can be done on a quarterly or semi-annual basis. This can be outsourced (i.e. to phone-smart) or done internally by another employee. Outsourcing is preferable because facility managers will be less likely to recognize the voice of the person calling or the person doing the in-store inspection. A small financial reward (i.e. 100 dollars) should then be given to the facility manager who has the best overall performance.

PSS should also create a brand manual to send a consistent message and image to customers which will increase brand recognition and customer loyalty to the brand. The PSS brand manual should identify the requirements of all customer touch-points (Singer, 2006) which influence the customer’s perception of the brand and detail the requirements for these touch-points so that they reinforce the word “premier” in the customers mind. These touch-points

include uniform requirements, how print ads, brochures and logo should appear, the precise colors of the brand, exterior and aesthetic requirements (i.e. horizontal and vertical variations, variation of materials i.e. glass and EFS, blue and yellow painted trim etc), interior aesthetic requirements i.e. materials, spec of reception desk, floor materials, wall paint, furniture etc.

### ***6.5 Improve operations by making managers focus on sales***

Since facility managers may have idle time (i.e. when there are no move-in's, move-outs etc.) they should be directed to make cold calls to potential business and residential customers. Monthly targets should be set for the number of calls and new bookings the manager should make during the month (i.e. 20 calls and 5 bookings per month). If they gain a new customer, they should fill out a new customer transaction sheet (Appendix 7). These activity reports should then be tracked by area managers on a monthly basis and to ensure that the sale was initiated by the manager, the area manager should verify the time of call (i.e. via telephone bill) and also verify with the customer that the sale was initiated by the facility manager. For every new customer the facility manager brings in, a small financial bonus i.e. 50 dollars should be awarded.

### ***6.6 Maintain cultural controls and introduce code of conduct***

PSS has a strong culture that it should aim to maintain by continuing to ensure that senior managers and owners set a tone at the top which encourages values of friendship, integrity and respect. Hugs among employees are a unique way PSS can continue to encourage values of friendship and respect. PSS conventions and group events are another great way to bring employees together and reinforce it's strong culture.

PSS should also introduce a written statement of values which guide employee decision making and reinforce its non-verbal communication. This could include PSS existing values of friendship, integrity, respect, and values related to other stakeholder needs such as commitment to customers and the community. To make this form of code of conduct more effective, these values should be written or painted somewhere on the interior of the office which is visible to employees and customers. A mission and vision statement should also be introduced to give employees a better set of direction and reinforce a stronger culture. The Vision Statement of PSS could be "to be widely recognized as the leading edge self storage provider in Canada". PSS mission statement could be to "To provide our customers with a

clean ready-to-rent unit, to help our customers find the right unit size and assist with packing material requirements and To safeguard customers belongings like they are our own and to strive to exceed our customer's service expectations.”

### ***6.7 Personnel controls***

PSS should complement its current hiring practices with multiple interviews and the approval of the CEO and Chairman. PSS should also ensure they obtain resumes from all applicants and require employee reference checks. Furthermore, PSS should require the candidate to complete a web based questionnaire (i.e. [www.kolbe.com](http://www.kolbe.com)) which will reinforce whether or not this is the right person for the job. These changes to PSS personnel controls should better ensure that the right person is hired for the job while preventing potential fraud.

### ***6.8 Quarterly Report Cards***

At the end of each quarter, managers should be given a report which includes the results of their performance on the financial, customer, community and internal process measures. By having one report card combining all measures will help the manager to obtain a more balanced picture of their performance.

### ***6.9 Risk Mitigation***

The authors aim to proactively manage the aforementioned risks via several actions. First, to mitigate the risk of behavioral displacement in which managers may forgo certain expenses to achieve their target NOI, the authors recommend that facility inspections be done on a quarterly basis in order to ensure that facilities are properly maintained. These inspections could be done in conjunction with the mystery shopping. In addition, a maintenance schedule (i.e. daily, monthly and yearly checklist) should be included in the operations manual for the facility manager to follow.

Secondly, in order to prevent financial statement manipulation, the authors recommend that PSS continue to audit the companies on an annual basis and that the board members take a proactive role in determining the independence of the auditor and ensuring the integrity of the PSS's financial statements.

Thirdly to prevent budgetary slack, the authors recommend that the financial statements to benchmarked against public companies financial statements in order to ensure that the

revenue and expense targets are fair. The authors also recommend trying to employ continuous process improvement in which targets are set to reduce expenses every year. In addition, the budget should be reviewed by the board to ensure it is fair.

Finally, to deter negative attitudes in creation of budgets and other control systems, the authors recommend that facility managers are able to participate the in the budget setting process and in the creation of other management controls systems.

### ***6.10 Contribution***

The primary contribution is to Premiere Self Storage which is the reason why the authors have written this thesis. This analysis and conclusion can help Premiere Self Storage in their way of implementing and form their management control system. The authors believe this thesis also can contribute with positive information to help City Self Storage open their minds about management control systems. While written this thesis the authors have discovered that most of the literature is written for bigger corporations with more employees and clearer hierarchies. When trying to find already written information about this subject for similar markets such as hospitality and renting markets the authors have had very hard to find relevant information. Dependent on this the authors are hoping that this thesis can help more industries besides Premiere Self Storage and the self storage market. The authors believe this thesis can help others which do have the components but does not the knowledge to implement a functional management control system.

Dependent on the lack of similar papers in this industry the authors think this thesis can contribute to more research and a bigger information sharing when it comes to smaller markets and business with not as clear business organizations as bigger corporations has.

### ***6.11 Learning outcome***

By doing this thesis the authors have got a deeper understandings about management control system and its components. From the beginning of this thesis the authors wanted to get a more in depth knowledge about management control systems and the self storage business. Regarding this the authors believe they have reached that knowledge and got a better understanding about the self storage business and the operations made within different organizations to get a competitive advantage.

Regarding the formulation of problem in the opening chapter, the authors feels pleased with founding the answers to those questions and believes that the reader of this thesis find it interesting too. When reading the analysis and the conclusion the authors believes that the purpose of this thesis has been reach. The authors have in other words described and analyzed the strengths and weaknesses of a company's management control system and also discussed actionable recommendations.

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## **Appendix 1**

### **Questionnaire Premiere Self Storage, Canada**

- What is the strategy of the company?
- What makes you unique from other Self Storage company's and what makes customers choose Premiere Self Storage ("PSS") over other competing Self Storage companies?
- Does PSS have a low cost advantage or does it differentiate itself in other ways that add value to customers and which they perceive as unique and are willing to pay a premium for?
- What are the keys to succeeding in the Self Storage industry?
- How does PSS handle its finance and accounting functions?

- What is the capital structure of the company and how does this impact the strategy of the company?
- How does PSS identify new development opportunities to build new self storage centres?
- Does PSS do any competitor cost analysis?
- Is the management of PSS any different from the management of competing self storage companies?
- How does PSS handle its purchasing i.e. packing supplies, construction of new facility? Does each store order materials separately or is the ordering process coordinated among facilities?
- What technology does the facility have i.e. to gain access? Does the company have an information system which allows it to acquire and analyze customer data?
- How does PSS handle its marketing activities?
- Is the architecture of PSS Self Storage Facilities different from competing self storage facilities i.e. in ways that add value to customers?
- Do PSS facilities have price advantage or higher margins? Or lower capital requirements i.e. two story buildings to reduce land cost?
- Does PSS do customer research i.e. customer surveys?"
- Does PSS do any marketing campaigns i.e. TV or radio? Does PSS have a website and if so what are its functions i.e. ability to pay online?
- Does PSS have any customer relationship management software or systems?
- Does PSS have a pricing strategy? Does PSS change rates according to demand or occupancy of facility?
- Does PSS have any administrative constraints that place limits on employee behaviours i.e. spending or signing cheques above a certain amount?

- Does PSS have separation of duties which prevents an employee from doing certain tasks alone i.e. does employee who makes payment entries in accounts receivable ledger different from the employee who receives the checks?
- Does PSS have pre-action reviews of budget i.e. from senior management?
- Does PSS have action guidelines for acceptable and unacceptable behaviour i.e. are there any guidelines for customer move-ins, move-outs, and inquiries by customers via phone or in person that employees are expected to follow? If so, how is this communicated to employees i.e. by checklists, work rules, policies and procedures, codes of conduct, checklists, in meetings or face-to face discussions?
- Are more employees assigned to a task that is required?
- How are these actions tracked? Are employees rewarded for doing good performance, punished for doing poor performance?
- How does PSS hire its employees? Does it have any formal recruitment process?"
- How does PSS hire its employees?
- How does PSS train employees? Does it have any formal systems such as web-based training or more information such as employee mentoring by senior personnel?
- Is there any training provide i.e. move in move outs? How is it done i.e. employee mentoring?
- Does PSS have any Codes of Conduct i.e. any formal written documents which outline its philosophy, vision, mission, commitment to stakeholders, statement of corporate values etc?
- Does PSS have any group based rewards i.e. bonus or profit sharing plans i.e. if company meets profit target all employees receive 2% bonus?
- Does PSS have Open-Book management i.e. share financial results and show how employee's actions contribute to overall company performance?
- Does PSS have any physical arrangements that help shape the company's culture i.e. dress code, social arrangements, office plans, architecture etc?

- Are management's actions and statements consistent with the type of culture they are trying to create?
- Does the organization encourage whistle blowers i.e. employees who draw attention to inappropriate employee behaviour?
- Does PSS have financial performance targets for its employee's i.e. NOI, Gross Margin %, average rent per available/occupied square feet? Are these linked to the key performance indicators or industry key success factors?
- Are the results controls determined through a top-down or bottom-up approach?
- Does PSS have any key operational performance measures? i.e. % occupancy?
- Does PSS have any revenue, cost, profit or investment centres?
- Does PSS prepare budgets? If so, how often, and for how long is the forecasting period? Are they reviewed? If so, how often?
- Does PSS have any customer, employee, community, internal processes, learning and growth results controls (i.e. customer- % customer satisfaction, internal process-revenue per employee?
- Does the company use financial rewards (i.e. bonuses, stock options, ) for its results and action controls? Non-financial (i.e. public recognition, praise vacations, titles, visibility, club memberships, merchandise prizes i.e. uniforms or jackets- signifying status, reserved parking spots, etc)?
- Does PSS use punishment if for inappropriate actions or poor performance? i.e. demotion, chastisement (public or private), loss of job
- Are the financial statements of the company audited?
- Does PSS have a board of directors? Is the compensation of senior personal reviewed and approved by a board or committee of the board?

## **Appendix 2**

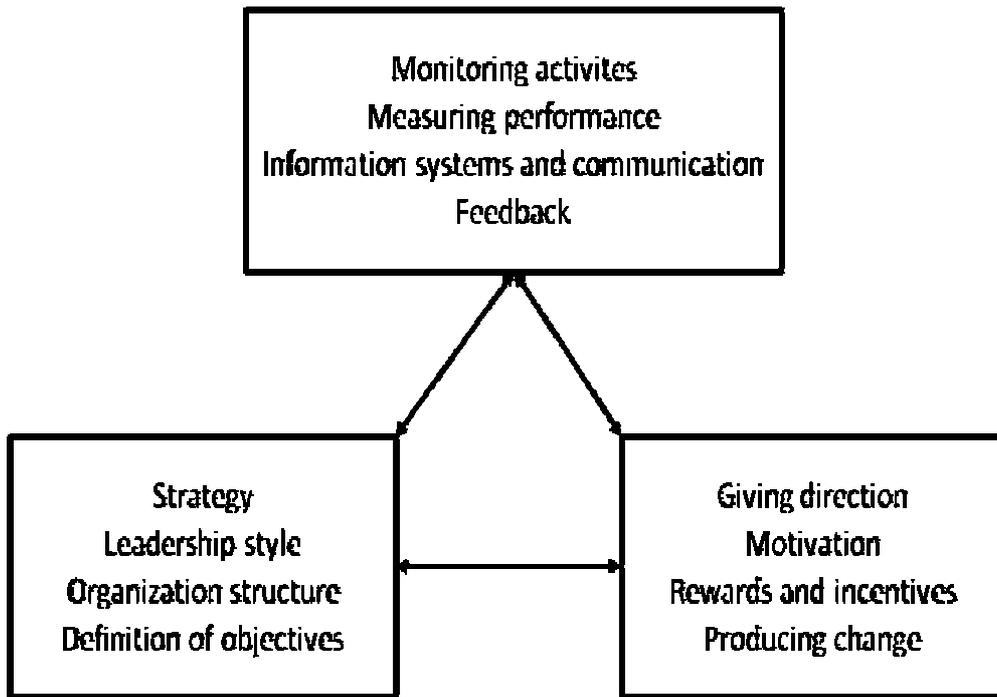
### **Questionnaire City Self Storage, Sweden**

- Do you have any operations manuals in place?
- How do you hire your employees? Is there any formal system?
- In terms of action controls, are there some kind of operations manuals that you have?  
How do you communicate the proper actions to your employees?
- Are there any kinds of group events to strengthen your culture?
- Is there any code of conduct for the company, in terms of creating a culture?
- The financial measures, are they based on benchmarking or just on internal information?
- Do you have rewards linked to that that, if the facility managers do a good work?

- The targets, are they determined by benchmarking against competitors?
- Do you have any non-financial measures, like customer service, mystery shopping?
- Are the facility managers strictly paid on salary or bonuses? Which components?

## **Appendix 3**

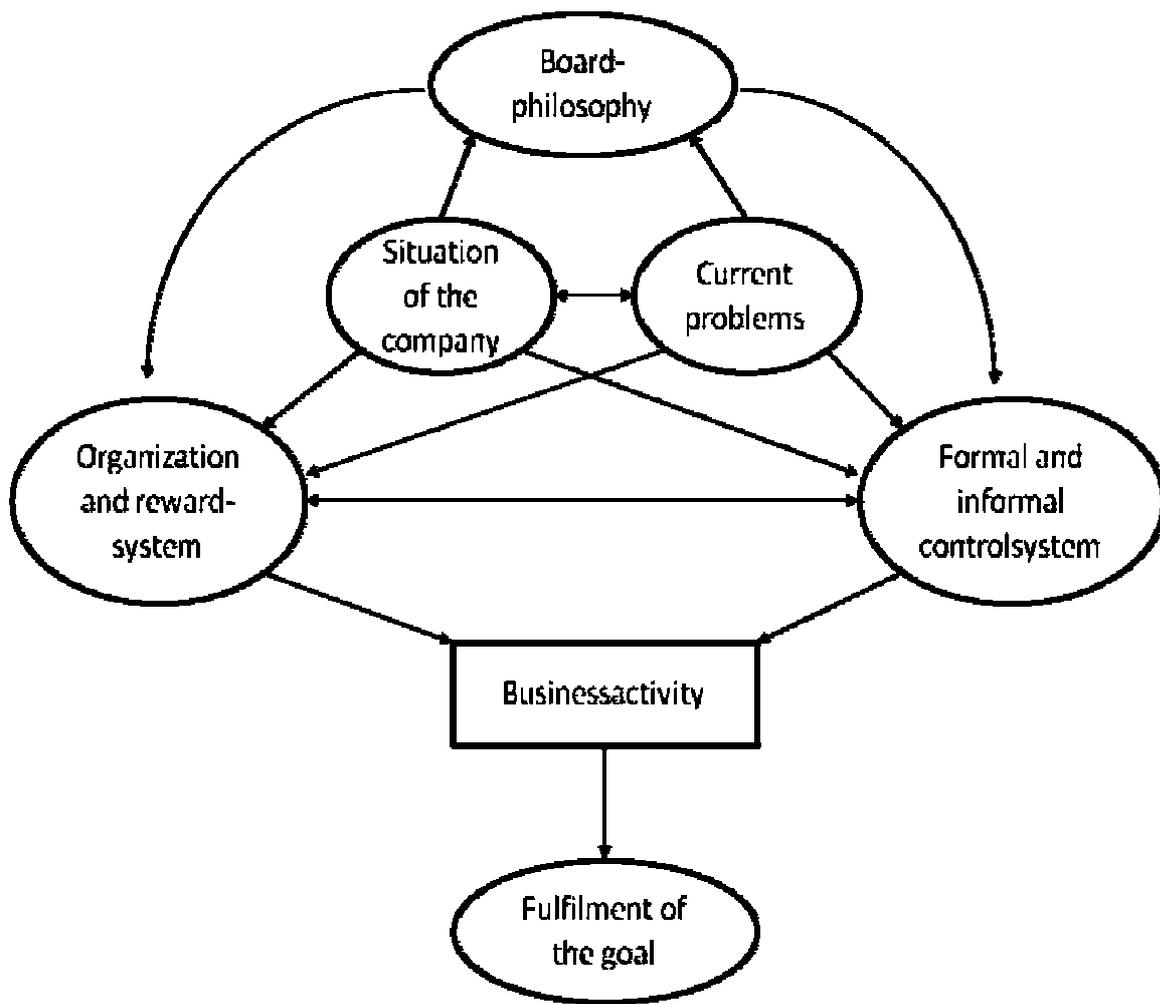
**The components of a management control system by Rotch (1993)**



(Source: Rotch, 1993, pp.192)

## Appendix 4

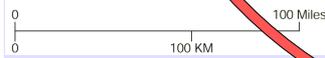
The components of a management control system by Samuelson (2004)



(Source: Samuelson, 2004, p. 41)

## Appendix 5

Sitemap for Premiere Self Storage, Canada



	Property	Gross Sq. Ft.
<b>1</b>	Bridgewater	50,000
<b>2</b>	Chester	40,000
<b>3</b>	Truro	20,000
	<b>Total</b>	<b>110,000</b>

Source: [www.premierstorage.ca](http://www.premierstorage.ca)

## Appendix 6

Store Name **Chester, NS**

Employee Name	2007-08-10	55% Total Score	66 out of	121
Date of Shop	10	100% Greeting	9 out of	9
Duration of call	02:58	26% Qualifying Customer	5 out of	19
Number of rings	2	26% Selling the store	5 out of	19
Track Number	1	53% Closing the sale	19 out of	36
		33% Ending the call	5 out of	15
		General		
		100% Performance	10 out of	10
		100% Customer Service	13 out of	13

<b>Greeting</b>				
Question	Yes	pts	No	
Answer the phone in a professional manner	X		3	
Include the store name	X		2	
Include their name in the greeting	X		2	
Ask how he/she could be of service to the caller	X		2	
		Total points earned	9	
		Total points available	9	100%

<b>Qualifying the customer</b>				
Question	Yes	pts	No	
Ask how soon the caller will need storage	X		5	
Ask if the location is convenient for the caller			5	X
Ask what the caller plans to store or determine an appropriate size			5	X
Determine the caller's needs before giving the price (how soon, location, size)			4	X
		Total points earned	5	
		Total points available	19	26%

<b>Closing the sale</b>				
Question	Yes	pts	no	
Offer two choices and prices (climate control vs. non, upstairs vs., down etc.)	X		3	
Ask the caller's name	X		5	
Ask fo the callers' phone number			5	X
Create a sense of urgency			5	X
Encourage the caller to reserve a unit			5	X
Ask for a credit card or discuss a pre-payment			2	X
Invite the caller to come in for a site visit	X		3	
Ask the caller what day and time will work best for them (make appt)	X		5	
Attempt to overcome any price concerns (price, timeframe, reserving etc.)	X		3	
		Total points earned	19	
		Total points available	36	53%

<b>Ending the call</b>				
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Question	Yes	pts	No	
Confirm that the caller has no other questions before ending the call			5	X
Close in a positive and professional way	X		5	
Include the store name at the end of the call			5	X
		Total points earned	5	
		Total points available	15	33%

<b>General Performance</b>				
Question	Yes	pts	No	
Assertiveness- control the call in a positive manner				
Sales Presentation- Determine needs, build value, and earn the right to ask for the sale	X		5	
	X		5	
		Total points earned	10	
		Total points available	10	100%

<b>Customer Service</b>				
Question	Yes	pts	No	
Use the caller's name at least twice during the call	X		3	
Attitude- Promote a warm and upbeat mood	X		5	
Professionalism- Represent himself/ herself in a positive light	X		5	
		Total points earned	13	
		Total points available	13	100%

Was the caller put on hold?

NO

If yes, was it handled professionally?

## Appendix 7

### Marketing Call Transaction Sheet

**Marketing Call Transaction Sheet**

Goal for # of calls per month 20  
Goal for # new booked customers 5

<b>Date &amp; Time of Call</b>	<b>Customer name</b>	<b>Contact information</b>	<b>Move in Date</b>
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