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The use of management control in diversified privately owned companies

A study of the Swedish welfare sector

by

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Abstract

Purpose

The purpose of the thesis is to generate an understanding of the management control system (MCS) used in diversified privately owned companies within the Swedish welfare sector, by analyzing how MCSs are used to manage diversified businesses.

Theoretical framework

The theoretical framework for the analysis is based on a combination of Performance Measurement System (PMS) and Management Control as a package. However, Simons Levers of control are used to categorize the identified management controls.

Methodology

This study was conducted through a single case study with semi-structured interviews. Four interviews were conducted with one Regional Director and three Unit Managers, and over three hundred pages of internal documents were reviewed.

Empirical foundation

The empirical foundation used in this thesis was collected from four employees in the different levels of management in the case company and over three hundred pages of internal documents were reviewed.

Findings and conclusion

The findings of this thesis suggest that diversified privately owned companies within the Swedish welfare sector use a combination of different management control systems to manage their diversified business. However, the emphasis on individual controls varies at different levels of the organization.

Keywords: Diversification, privatization, the Swedish welfare sector, management control, management control system, performance measurement system.

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1 Introduction

This chapter starts with a background description of the Swedish welfare sector, the characteristics that differentiates it from the private sector, firms within this sector and the problems private companies face as private producers of welfare services. Additionally, limitations with this study is presented and the chapter ends with the disposition of the remaining chapters.

1.1 Background

Until the 1990s, county councils and municipalities (Sveriges Kommuner och Landsting, 2009) in Sweden were primarily responsible for production of welfare services such as healthcare, schools, children and elderly care, and other associated social works. After several decades with increased resources, the welfare sector was forced to reduce costs due to an economic recession, and at the same time deal with expanding demands in many areas. These demands led to radical reforms to manage limited resources to meet the increased demands (Sveriges Kommuner och Landsting, 2009). In the last two decades, efforts to increase effectivity and improve service deliveries have opened doors for more privately-owned companies to enter the welfare sector and has led to more competition. Consequently, Sweden has moved from a publicly-owned and managed welfare sector to becoming a leader for market reforms with extensive privatization (Adenfelt et al. 2015) and adopting the New Public Management (NPM) concept. The NPM concept can briefly be described as the desire to control public operations using market principle, e.g. by achieving efficiency through goal management, competition, requirement precision, tracking and freedom of choice (Almqvist, 2006), whereby measurable results are the most interesting measures (Zaremba, 2013). Therefore, it has become common for municipalities and county councils to contract or buy some of their welfare services from private companies (Ekonomifakta, 2018). The Swedish welfare sector is the highest employer of social workers.

Nevertheless, welfare services are funded by the state, and most of the private companies' revenues and growth depend on public contracts, thus creating dependency position on private companies competing within the Swedish welfare sector. Despite their dependency on public contracts for revenues and growth, the welfare sector has witnessed an increased number of privately owned companies competing in this sector since the free choice reforms (Angelis, Glenngård & Jordahl, 2016). In 2016, private companies within the welfare sector accounted for over 25 percent of the total production of Swedish welfare services and their production is expected to continue to increase (Sveriges Kommuner och Landsting, 2017).

Moreover, most of the large privately-owned companies within the Swedish welfare sector have been observed to be highly diversified with multiple business units. For example, Alpha Care has a broad diversified business portfolio with businesses in areas such as healthcare, elderly care, support and accommodation for unaccompanied children, support and accommodation for adults, treatment and rehabilitation centers, psychiatry, health centers and hospitals (Alpha Care, 2018). Attendo's business areas includes elderly care, treatment and rehabilitation centers, functional impairment centers for children and adults, support and accommodation for unaccompanied children and integration (Attendo, 2018), and Capiro is in business areas such as primary care, specialist rehabilitation care, psychiatry and detoxification care (Capiro, 2018).

Previous research in the private sector suggests that diversification may be motivated by the market-power view, the resource-based view or the agency theory view (Montgomery, 1994). However, diversification is accompanied by coordination and control constraints (Hoskisson & Johnson, 1992; Hoskisson & Turk, 1990 in Wiersema & Beck, 2017). Therefore, diversified companies must adopt appropriate and effective administrative systems including management control systems (Davilla, 2005). Although the design and utilization of management control design in the private sector is well known, little is known about the role of management control in diversified privately owned companies within the Swedish welfare sector. We conducted searches using keywords like "diversified firm" or "company in Swedish welfare sector", "MCS use in the Swedish welfare" and "MCS in Sweden" on search engines such as Google scholar, LUBsearch, LUP, Essays.Se, MUEP and as well as on the general Google search, but found no items concerning diversified privately-owned companies within the Swedish welfare sector.

The Swedish welfare sector has characteristics that differentiate it from the private sector. In addition to normal trade laws, companies operating within the welfare sector have legal

constrains that are directly linked to them, to control their working processes, conditions to run such businesses and certification. For example, companies that operate within Swedish welfare sector in business areas such as support and accommodation for unaccompanied children, support and accommodation for adults, treatment and rehabilitation centers, are obligated to follow the Swedish social law (SOL). SOL demands that directors or unit managers must have formal education in social work, and managers are personally responsible for the operations within their unit (Inspektionen för vård och omsorg, 2018). Furthermore, each business unit's certification approval depends on the unit manager's formal education, and their personal records appropriateness regarding things like criminal convictions, drug abuse and psychological suitability (Inspektionen för vård och omsorg, 2018). Furthermore, through framework contracts between the state and service providers, prices are regulated, employees are demanded to have specific education and continuously update their knowledge to incorporate new methods and new laws concerning their meetings with clients and work.

Additionally, previous research found that social workers within the Swedish welfare sector are intrinsically motivated through their work involvement with clients; more specifically, the feeling that they help their clients and the possibility of self-fulfillment through their work were some of the significant factors for their job satisfaction and well-being (Lovén & Westerlund, 2008; Jönsson & Werner, 2007 and Engström & Karlsson, 2016). This, of course, is not a company's primary goal as for-profit companies exist to create shareholders' value. Therefore, finding a balance between these tensions or a steering mechanism to align these personal goals, demands in the framework contracts and company's goals is a challenge for top managers, especially in the context of diversified or divisionalized companies as proposed by Grant (Grant, 2011).

1.2 Problematization

As previously mentioned, private companies accounted for over 25 percent of the total welfare production in Sweden in 2016, and their production is expected to increase (Sveriges Kommuner och Landsting, 2017). Additionally, the Swedish welfare sector has various characteristics that differentiates it from other industries. For example, it is highly regulated by the Swedish social laws (Inspektionen för vård och omsorg, 2018), revenues are based on public contracts with price regulations and is dominated by highly diversified companies. Moreover,

unit managers turn to have more personal attachments to their units because of the certification systems that directly link to operational responsibility to unit managers. And this sector employs mostly social workers who are intrinsically motivated and more concerned with their interaction with clients as a factor for job satisfaction (Lovén & Westerlund, 2008; Jönsson & Werner, 2007 and Engström & Karlsson, 2016), rather than on value creation for shareholders which is essential to for-profit organizations. Therefore, finding an appropriate management control system (MCS) in such a setting is rather complicated.

Grant suggest that finding an optimal balance between business level initiatives and corporate level guidance and discipline is a difficult task for diversified companies. Never the less, propose that in diversified companies, headquarters (HQ) can exercise control over individual businesses through HQ's micromanaging business units (input control) and must accept the outcomes or HQ's imposes demanding targets on the unit managers (output control), and give unit managers the freedom to make decisions necessary to achieve those targets (Grant, 2011). However, as Van der Stede points out, because of information asymmetry in most diversified companies, top managers commonly rely on budgetary controls and financial results (Van der Stede, 2001). Yet, in an uncertain environment, such as the Swedish welfare sector, where all revenues depend on the state contracts with uncertainty about how many clients or patients a company may get under a specific period, result controls will be ineffective as suggested by Merchant & Van der Stede (Merchant & Van der Stede 2011). Consequently, outcome control has some shortcomings as a steering mechanism for diversified privately owned companies within the Swedish welfare sector.

Previous research, comparing private companies and public companies (state-owned), summarized by Boyne (2002) in a meta-analysis of a large number of individual studies, found that public companies were more bureaucratic with higher focus on regulation and more risk averse. Moreover, managers in state-owned companies were intrinsically motivated and focused more on welfare than on profitability, with lower level of job involvement. Meanwhile private companies had a greater task and goal clarity, and the managers were more extrinsically motivated while focusing highly on payment and profitability (Boyne, 2002).

Furthermore, previous research regarding management control in the Swedish primary care is one of the areas within the Swedish welfare sector that have been studied with has a quantitative perspective with a broad scope. Yet, the conclusions about differences in performance related to the ownership in the Swedish primary care are mixed. Some researchers found differences

in performance between private and public providers, and others did not (Glenngård & Anell, 2012; Anell, Nylinder & Glenngård, 2012; Glenngård, 2013). However, to our knowledge, there is a lack of knowledge or limited research about management control in diversified privately owned companies within the Swedish welfare sector.

Nevertheless, there are numerous studies within the Swedish welfare related to management controls. Examples of such are: differences between management controls in public and private-owned primary care (Runfors & Robertsson Lund, 2017), private companies' difficulties within children and juvenile care (Sallnäs, 2005), theoretical analysis about profit within welfare services (Morin & Edmark, 2013), and consequences of competition within Swedish welfare (Hartman, 2011). Yet, none of these studies have research on how management controls are used in diversified privately owned companies.

As shown above, privately owned companies within the Swedish welfare have been observed to be highly diversified, and their numbers and production are expected to increase (Sveriges Kommuner och Landsting, 2017). Studies have been done regarding management controls as steering mechanisms in both private and public companies within Swedish welfare sector (Glenngård & Anell, 2012; Anell, Nylinder & Glenngård, 2012; Glenngård, 2013), and about MCS use in diversified companies (Grant, 2011). Yet, none of the studies have focused on diversified privately owned companies in the context of the Swedish welfare sector, a sector that has numerous characteristics that distinguish it from its private counterpart. Therefore, there is a knowledge gap, and a call for studies to better understand how these companies are managed and controlled.

1.3 Research Purpose

The purpose of this thesis is to generate an understanding of the management control used in diversified privately owned companies within Swedish welfare sector.

This lead to the research question:

How is management control used in diversified privately owned companies within the Swedish welfare sector?

1.4 Research Limitations

As the purpose of this thesis is to generate an understanding of the management control used in diversified privately owned companies within Swedish welfare sector. Therefore, the focus is placed on the use of MCS in these companies. However, diversification is included in the research question to give the researchers a better understanding of the context since most large companies within Swedish welfare are highly diversified.

1.5 Disposition

The remaining sections of this thesis is presented as followed:



Chapter 2 theoretical review: consists of a theory section that describes the theories which are chosen as the framework for this thesis. The theory contains information from scientific articles, relevant literature and ends with presenting our theoretical framework for analysis.

Chapter 3 methodology: describes the research approach and the design used. Moreover, the chosen method is described and justified. Additionally, limitations are pointed out and the efforts taken to avoid them.

Chapter 4 Empirical findings: contains the responses and the results from the chosen case company. Consisting of the primary data (four interviews), and both internal (intranet), and external documents (annual reports, website and printed documents).

Chapter 5 Analysis and discussion: analyses the collected data in relation to the theoretical framework for analysis, and thereafter discusses the results.

Chapter 6 Conclusion: consists of the conclusions of the thesis. The purpose is to answer the research question through presentation of the main findings. Lastly, part of the chapter presents this thesis's limitations, and provides suggestions for future research.

2 Theoretical Review

This theoretical chapter contains a description of management control by starting with presenting a discussion regarding strategy and management control systems. Furthermore, it describes the concept of performance management systems. Concluding the chapter with our theoretical framework for analysis containing six components; cultural and administrative controls, strategy and planning, measurement, target setting, and evaluation.

2.1 Management Control

2.1.1 Strategy and Management Control

Strategy is how organizations or individuals achieve their goals. The critical actions that make up a strategy include resource allocation, and strategy implies consistency, integration or cohesiveness of decision and actions (Grant, 2011). Another definition of strategy according to Neely, Gregory & Platts (1995) is the plan for reaching a company's goal by satisfying their customers more efficient and effective than their competitors.

Simons (1994) suggests that managers use various formal control tools to implement strategies and align individual actions with the overall organizational strategy. However, Bedford, Malmi & Sandelin (2016) argue that the chosen business strategy and the different strategic contexts of an organization can affect the effectiveness of any management controls used. Moreover, the interdependency between management controls and their particular implementation depends on the strategic context of the company. Therefore, the contextual factors determine the effectiveness of management controls, and the controls depend on both the company's strategy and on the aptness of the controls themselves (Bedford, Malmi & Sandelin, 2016).

Furthermore, management controls are necessary to guard against the possibilities that people will do something that is undesirable to the company (Malmi & Brown, 2008). Therefore, management controls include all the devices and systems managers use to ensure that employees' decisions and behaviors are consistent with the organization's strategies and

objectives (e.g. formal or informal controls). According to Hopper, Northcott & Scapens (2007), formal controls includes performance evaluations and budgeting, whereas informal controls includes shared values, culture, norms, and self-controls.

Moreover, Simons (1994) suggests that top managers use management control systems to formalize beliefs, define and measure performance, as well as motivate discussion regarding strategic uncertainties. According to Simons, depending on how management control systems are designed and used, they can be classified into four categories; *beliefs systems*, *boundary systems*, *diagnostic control systems* and *interactive control systems*. (see Figure 1).

Firstly, *belief system* is a formal system that it is created and communicated (for example, a mission statement). This system is helpful for management to define and reinforce the values, purpose as well as direction for the company. From this follows that core value will affect the belief systems. Secondly, the *boundary system* is established by the codes of business conduct, strategic planning as well as operating directions. Top management use this system to explicitly set up limitations and rules that each employee must respect. The implementation of risk measurements that employees need to adhere to, can be a part of the design of boundary systems. Thirdly, the *diagnostic control system* is a formal feedback system used to monitor companies' performance using selected variables and fix deviations. As a result, the means by which such performance variables are monitored are important for the design of this system. Fourthly, the *interactive control system* is focused on strategic uncertainties, and can be described as the formal information systems used by managers to involve themselves in the decision activities of employees (Simons, 1994).

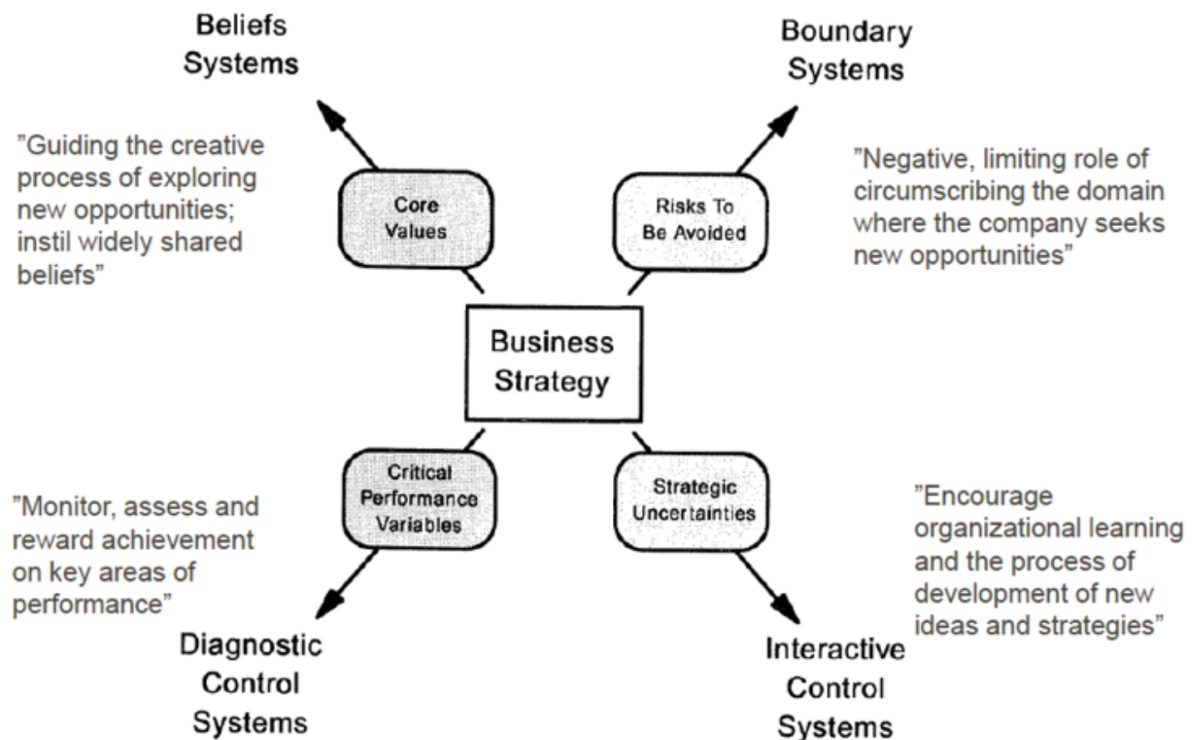


Figure1. Levers of control

Source: Simons (1994)

From strategic management perspective, corporate diversification means that companies enter into a new market or industry that it does not operate at present and produce a new product for that new market at the same time. For instance, a company can expand into new business activities through mergers and acquisitions (M&A), internal business development or strategic partnerships (Nußmann, 2018). Diversification can be divided into the categories of related and unrelated diversification (Van der Stede, 2001). Related diversification is pursued by companies to exploit operational interrelationships between business units (i.e. operational synergies). However, unrelated diversification is based upon financial connections between business and internalizing capital markets transactions are producing the benefits (Hill & Hoskisson, 1987).

Previous research suggests that diversification may be motivated by the market-power view (Montgomery, 1994), i.e. companies diversify to gain advantages of reduced competition. Moreover, diversification enables a reduction in the uncertainty of future earnings and the possibility of financial distress (i.e., bankruptcy risk). Additionally, the resource-based view suggests that the drivers of diversification are excess capacity in resources and capabilities; as

they are transferable across different industries, companies thus attempt to direct this excess capacity to other sectors, as well as in order to generate company-internal synergies (e.g., economies of scope) (Montgomery, 1994). Additionally, the agency theory view argues that there is an inherent conflict of interest between managers (agents) and company's shareholders (principals), and diversification is thus seen as managers' attempting to enforce their own personal interests against the company's shareholders.

According to Van der Stede (2001), corporate diversification and business unit strategy affect the types of management control and incentive systems. It has shown that the design of incentive systems seems to vary primarily with the degree of corporate diversification; although, the design of the budgetary control system seems to be harmonized with business unit strategy. However, if a business portfolio become more diverse and complex, the costs associated with the implementation of more internal control and coordination mechanisms increases (Hoskisson & Johnson, 1992; Hoskisson & Turk, 1990 in Wiersema & Beck, 2017).

2.1.2 Management Control System

Malmi & Brown (2008) suggest that different controls tools are working together as a package to support each other, and together make up a company's management control system. The efficiency of the overarching management control system mainly depends on how well the individual management controls are able to function as a whole, or stated differently, how well each individual component is able to support the others. According to Malmi & Brown (2008), the management control system consists of five types of controls (see Figure 2). The first control is *cultural controls* that includes values, beliefs and social norms which influence employees' behavior. The second control is *planning* which is an ex ante form of control. This control contains three sub-steps: 1. to build up the organizational goals to guide employees' effort and behavior; 2. to achieve the organizational goals by providing standards which are related to the goals; 3. to aim for congruence in terms of aligning organizational goals with control activities in the organization. The third control is *cybernetic controls*, which includes budgets, financial measures, non-financial measures as well as hybrids that contain both financial and non-financial measures. *Reward and compensation* is the fourth control, which purpose is to motivate and increase the individuals and groups' performances in the organizations. The last control is *administrative controls*, that is used to direct employees' behavior through organizing

of individuals and groups; to monitor behavior to make employees accountable to their behavior (Malmi & Brown, 2008).

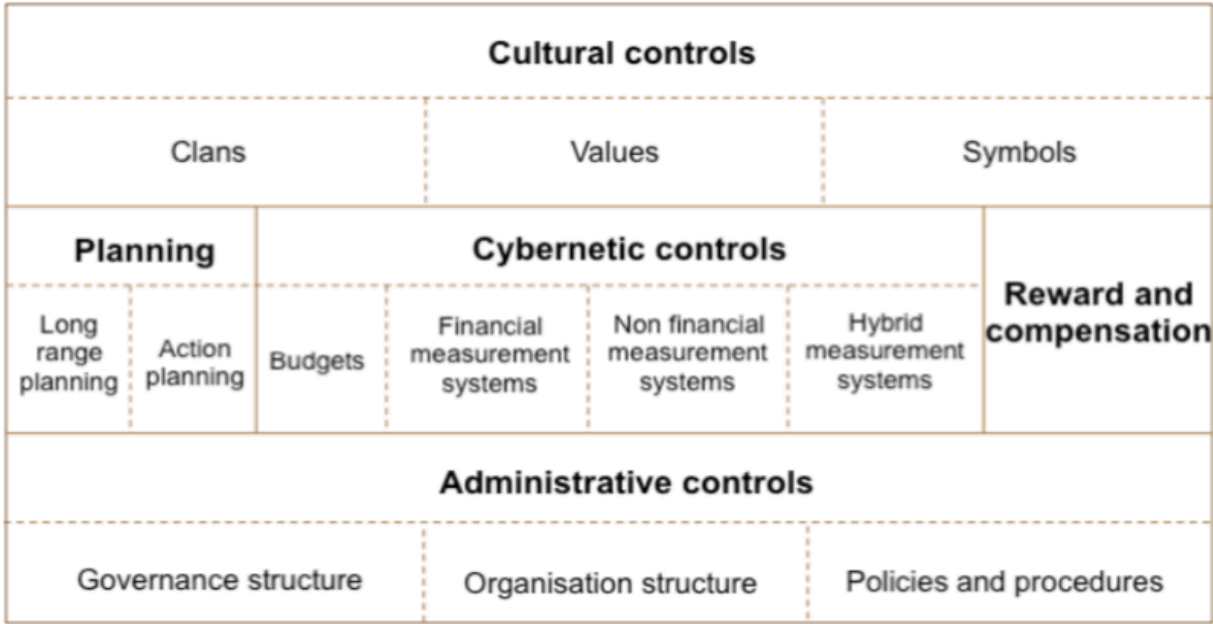


Figure 2. Management control systems package
 Source: Malmi & Brown (2008)

2.2 Measuring Performance

2.2.1 Performance Measurement

According to Ferreira & Otley (2009), issues within management control systems and performance measurement are normally complicated and linked with each other. Performance management starts with purposes (Ferreira & Otley, 2009) and objectives, and it can be defined as the process of quantifying the efficiency and effectiveness of action (Neely, Gregory & Platts, 1995). Performance measurement is crucial for the management of any organization, but will not have any operational or efficiency impact unless action is taken when there is deviation from a performance measurement variable (Hopper, Northcott & Scapens, 2007). Performance measurement is powerful; thus, the optimal measurement should match the business strategy and be consistent with the organization's culture (Neely, Gregory & Platts, 1995). According to Stefano & Luca (2010), measuring performances is not only important to achieve successful

corporate management procedure, but also is crucial for implementation of managerial practices and human resource evaluation.

2.2.2 Performance Measurement System

The concept of performance measurement system (PMS) according to Ferrira & Otley (2009), includes both formal and informal mechanisms, processes and systems utilized by managers to convey the key objectives and goals of an organization, throughout that organization (see Figure 3). The PMS acts as the link between strategic planning and operational control. According to Neely, Gregory & Platts (1995), a performance measurement system can be defined as the set of metrics used to quantify efficiency and effectiveness of actions. According to Hopper, Northcott & Scapens (2007), from the shareholder’s perspective, performance measurements should be linked to corporate strategy and include external and internal measures, financial and non-financial measures. Moreover, from the shareholder’s perspective, performance measurements represent the measuring and rewarding activities that creates shareholders’ value. Thus, the metrics of performance used to monitor corporate strategy will measure both financially and non-financially, whereas a single financial dimension of performance will be used for shareholders’ approach (Hopper, Northcott & Scapens, 2007).

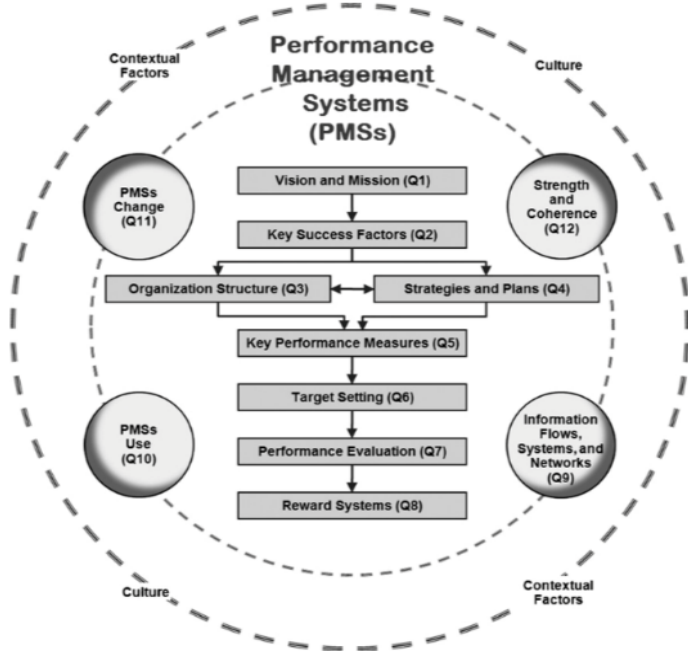


Figure 3. Performance measurement systems (PMSs) framework

Source: Ferreira & Otley (2009, p.268)

2.3 Theoretical Framework for Analysis

The purpose of this thesis is to generate an understanding of the management control used in diversified privately owned companies within the Swedish welfare sector. However, since the Swedish welfare sector has characteristics that differentiate it from the private sector and there is limited research on this topic, there is the need to take a broader or an explorative perspective to gain a better understanding. Consequently, this thesis considers the contextual factors that may affect the use of MCS rather than focusing solely on MCS use. Hence, we are of the view that providing a theoretical framework for analysis comprising both the assessment steps and the contextual factors, is the most suitable approach.

To investigate the aforementioned enquiry, we selected Performance Measurement Systems by Ferreira & Otley (2009) and Management Controls Systems by Malmi & Brown (2008), as the logical starting point to construct our theoretical framework. This is due to that these theoretical frameworks together cover what we believe to be practically all conceivable aspects of MCS, and that they have been used extensively in numerous previous studies. Never the less, both of these frameworks still have some limitations to that make them in their original form somewhat blunt to use for our specific context, the Swedish private health sector. Therefore, parts were picked from both frameworks and combined to complement each other for a better fit.

Ferreira & Otley (2009) provides an all-encompassing theoretical framework to analyse the performance of organization's management control system. This framework has itself been developed from other authors and is kind of a meta-theoretical structure. We believe, however, that Ferreira & Otley's framework is too broad to be applied to our focused analytic scope. Therefore, we have selected the four components (1) strategy and plans, (2) measurements, (3) targets and (4) evaluations, from Ferreira & Oatley (2009) as we believe that these factors are sufficient to yield conclusions to the particular themes we wish to investigate. We believe these components from Ferreira & Otley (2009) are particularly apt to for our framework because we believe the model provides a comprehensive structural basis to analyse the organization's management control system. As the model can be applied to both for-profit and not-for-profit companies, the framework acts as a solid foundation for our analysis of a diversified privately-owned company in the Swedish welfare sector.

Malmi & Brown (2008) looks at management control systems from a different angle, one which is centered around five groups: planning, cybernetic, reward and compensation, administrative and cultural controls. Compared to Ferreira & Otley, this typology is in many ways more abstract as it focuses more on the *culture* and *administrative* that managers foment in order to direct employee behaviour. Malmi & Brown (2008), too, attempts at providing something of a catch-all theoretical framework drawn together based on several decades of prior research. Out of these groups, we believe (1) cultural controls and (2) administrative controls have the most potential significance to our study, as Malmi & Brown (2008) defines cultural controls as “the values, beliefs and social norms which are established influence employees behaviour” (Malmi & Brown, 2008: p. 292), and administrative controls as a three-pronged group, defined as “those that direct employee behaviour through the organizing of individuals (organisation design and structure), the monitoring of behaviour and who employees are made accountable to for their behaviour (governance); and through the process of specifying how tasks or behaviours are to be performed or not performed (policies and procedures)” (Malmi & Brown, 2008: p. 292).

We select cultural controls and administrative controls as underlying conditions to create our analytical framework because we believe that these two groups from Malmi & Brown (2008) complement Ferreira & Otley (2009) will help to generate a good understanding of our research question. We believe creating our own wide-ranging theoretical framework, including both concrete oriented controls taken from Ferreira & Otley and more abstract, culturally oriented controls from Malmi & Brown will help to fulfil the research purpose. These components from both models, we believe are sufficient to show how diversified privately-owned companies within the Swedish welfare sector utilize management controls and to which success, according to managers themselves.

For a graphic depiction of our collected theory, please refer to Figure 4. The two big arrows surrounding the building blocks of the framework illustrates the continual loop of MCS use, and the small arrows represents the inter-connection or relatedness of the building blocks.

2.3.1 Cultural Controls

According to Malmi & Brown (2008), organizational culture is the set of values, beliefs and social norms that is shared by its members and in turn influence their thoughts and actions. Furthermore, Malmi & Brown (2008), argues that culture may exist as a context for an

organization and may at times be beyond the control of managers, yet culture is considered as a control when it is used to regulate behavior. Moreover, Malmi & Brown also suggest that cultural control includes three aspects: value-based controls, symbol-based controls, and clan controls. Values can be a strong tool used by managers through statement of values to steer employees to behave in accordance with the values of the company, deliberately recruit only individuals that match certain criteria, or through socialization personal values are changed to match the company's values (Malmi & Brown, 2008). O'Reilly's (2000) argues that a strong culture is important for employees' commitment to organizational objectives and success. Once a strategy is recognized, for instance, cost leadership, product or service differentiation, it dictates the set of critical objectives that must be accomplished through coordination and management of people, structure and culture (O'Reilly, 2000). Accordingly, if a company's strategy is to compete through product or service differentiation, the management team must put into place norms and social controls that promote innovation, in order to foment a culture that reflects high product quality and service. On the other hand, if a company decides to compete with a low-cost strategy, they will emphasize on strict cost control, a functional organizational structure and a culture that emphasizes on numbers (O'Reilly, 2000).

2.3.2 Administrative Controls

Administrative controls are made up of organization structure, governance structure, policies and procedures (Malmi & Brown, 2008). "Administrative control systems direct employee behavior through the organizing of individuals and groups, the monitoring of behavior and who you make employees accountable to for their behavior, and the process of specifying how tasks or behaviors are to be performed or not performed" (Malmi & Brown, 2008, p. 293). According to Malmi & Brown (2008), organizational structure is considered a form of control that works through functional specialization because it contributes to control through reduction of inconsistencies of behaviors and lead to increased predictability. Furthermore, (Malmi & Brown, 2008) suggests that governance includes the formal line authority and accountability, as well as all systems that are implemented to make sure that various functions representatives meet to coordinate their activities. Moreover, (Malmi & Brown, 2008) argues that policies and procedures is the bureaucratic approach to specify the processes and behavior within a company, through action controls. For example, behavior constraints, pre-action review and accountability. According to Grant (2011), creating a capable organizational structure is important in diversified companies due to the coordination intensity of such companies. Related

products or services can be grouped together so that it will enable individuals who work on the same product to work closely (Grant, 2011). Some motivational factors for organizational units are including to gain economies of scale, resource utilization and possibility for standardized control systems (Grant, 2011). Both Van der Stede (2001) and Grant (2011) suggest that because of information asymmetry that exist in most diversified companies, top managers commonly rely on budgetary controls and financial results.

2.3.3 Strategy and Plans

To get the benefits of the performance management system in an organization, the PMS requires to support and align the overall strategy of the organization. Therefore, to understand and analyze the potential differences in different organizations the researchers need to understand the organization's underlying strategy (Franco-Santos, Lucianetti & Bourne, 2012). Malmi & Brown (2008), suggests that managers use different management control tools to align employees' behavior and actions to achieve the intended strategy and plans of the organization. Through strategy clarification, a company can identify its success factors, and PMS can act as a strategy communication device (Kraus & Lind, 2010). When organizations get more complex to manage the more diverse it becomes, and hence requires more internal controls and coordination mechanisms. (Wiersema and Beck, 2017). One of the most common planning tools for diversified, divisionalized or multi-unit companies is the budget, which is part of the cybernetic controls in Malmi & Brown (2018). Planning controls are divided into long-range and action planning, and they set out goals as well as directing effort and behavior. The long-term plans relate to the implementing of strategy and realization of the organizations' vision, while action plans are short-term and focuses on tactics. Planning in many organizations are associated with budgeting, which often is the main management control tool for planning. But, planning can also be done without financials (Malmi & Brown, 2008), and the budgets will help to put numbers on the strategic and operational planning. Moreover, Grant (2011) suggests that in large and mature companies, strategic planning process becomes systematized and turn to follow an annual cycle with both top-down initiatives (indications of performance expectations and identification of key strategic initiatives) and bottom-up business plans (proposed strategies and financial forecasts for individual divisions and business unites).

2.3.4 Measurement

Key performance measurements are used for assessment of an organization's success in achieving its objectives, strategies and plans (Ferreira & Otley, 2009), and performance measures depend on which strategy company choose. Therefore, measures should be directly linked to the strategy and plans of the organization, included in the strategic implementation process, and align operations with the organization's strategy (Ferreira & Otley, 2009). Yet, many companies fail to identify the correct measures for their strategy and fail to link the measures to the intended strategy (Ittner & Larcker, 2003). Measures can be either objective or subjective, or a mix of both. However, subjective measures have received some criticism because there is too much room for bias. Yet, both objective and subjective measures have limitations. However, Hopper, Northcott & Scapens (2007) argues that companies that are measurement managed outperform those companies that are not measurement managed. Furthermore, Hopper, Northcott & Scapens (2007) suggests that companies should use both external and internal measures, financial and non-financial measures, and make trade-offs between various measures clearly visible. Malmi & Brown (2008) in their management control system as a package divide the measures into financial, non-financial and hybrid measures under the cybernetic controls. According to Ittner and Larcker (2003), focusing on non-financial measures can better show the true value of a company. Yet, it's challenging task to develop non-financial measures which are aspects that are difficult to measure objectively; e.g. quality, service, flexibility (Hopper, Northcott & Scapens, 2007). Nevertheless, non-financial measures are easily manipulated just as financial measures (Ittner & Larcker, 2003). Additionally, Kraus & Lind (2010) suggests that top managers do not believe that non-financial measures are trustworthy at a corporate level.

According to (Ferreira & Otley, 2009), what is measured turn to overshadow what is not measured. Therefore, number of measures are significant factors to consider because increased number of measures reduce the importance of each measure (Ferreira & Otley, 2009). It is rather difficult to find appropriate performance indicators in diversified privately owned companies within the welfare sector because of laws and the high demands from contractors that demand measures that are more subjectively measured.

2.3.5 Setting Targets

Performance measurement system combines different sets of measures to evaluate how well

an organization meet its targets (Franco-Santos, Lucianetti & Bourne, 2012). According to Malmi & Brown (2008), planning controls clarify standards and levels of effort, and cybernetic controls assist in linking behavior to targets. Additionally, (Hopper, Northcott & Scapens, 2007) suggests that managers' behavior usually change when performance measurements are used openly, and targets are linked to rewards. Therefore, target setting is an important aspect of managing performance (Ferreira & Otley, 2009). Yet, the process of setting targets usually contains tensions between what is desired and what is achievable (Franco-Santos, Lucianetti & Bourne, 2012). Therefore, setting appropriate targets is rather difficult.

According to (Ferreira & Otley, 2009), difficult target levels have been proven to have positive effects on group performance and they are desirable if targets are 80 to 90 percent achievable. However, extensive difficult targets may be less desirable when cooperation between units are needed because management may become less willing to compromise (Ferreira & Otley, 2009). Furthermore, Ittner & Larcker (2003) argue that a common mistake for non-financial measures is to set inappropriate performance targets, for example setting targets that may yield short-term financial profits rather than focusing on long-term profits. Moreover, (Ferreira & Otley, 2009) pointed out that the use of benchmarking, mostly to external parties, have appeared to provide legitimacy for targets. For example, it has been shown in the health sector where benchmarking is frequently used (Ferreira & Otley, 2009).

2.3.6 Evaluation

Marginson (2002) suggests that organizations are increasingly dependent on middle-level managers and subordinate employees to survive and therefore top-level management is seeking to control this dependency through management control systems. Therefore, the demand for performance measures is a common aspect of organizational life due to the increased pressure to deliver value (Welsh & Ordóñez, 2014). According to Northcott & Scapens (2007), performance measures need to be part of a feedback system to be effective. Consequently, performance measurement systems are also used to evaluate performance (Franco-Santos, Lucianetti & Bourne, 2012). Performance assessment is essential to control activities and routines. The level of trust between the parties involved plays a major role because subordinates' perceptions of the situation can be more important than the formal situation (Ferreira & Otley, 2009). Moreover, the evaluation should not be limited to financial because

the key benefits lays in understanding the interplay between financial and non-financial indicators (Hopper, Northcott & Scapens, 2007).

Rewards or penalties are basically the outcomes of performance evaluation. Rewards may be expressions from senior managers, through promotions or financially. Furthermore, rewards can be based on individual- or groups performances (Ferreira & Otley, 2009). It is crucial to carefully choose a reward system that will bring out the desired outcomes. The main questions to ask is if a reward system is needed, and how do employees in the company motivated (e.g. intrinsically or extrinsically). According to (Ryan & Deci, 2000), employees that are intrinsically motivated are more suitably rewarded with non-financial incentives since they see an inherent value as the task. Contrarywise, employees with extrinsic motivation should have financial rewards because they have an external drive for performing.

Kerr (1995) identifies one shortcoming that can occur in an organizations' evaluation systems, whereby the organization reward for one behavior even though they hope profoundly for another behavior. Moreover, managers usually use financial measures to base both their evaluation and rewards (Kraus & Lind, 2010), which of course may motivate employees to do just what is needed to get the reward and therefore exclude and crowd out activities that not are rewarding (Kerr, 1995). Furthermore, Ittner and Larcker (2003) suggests that managers instead of focusing on non-financial measures, selected and manipulated measures that made them look good and that could affect their bonuses.

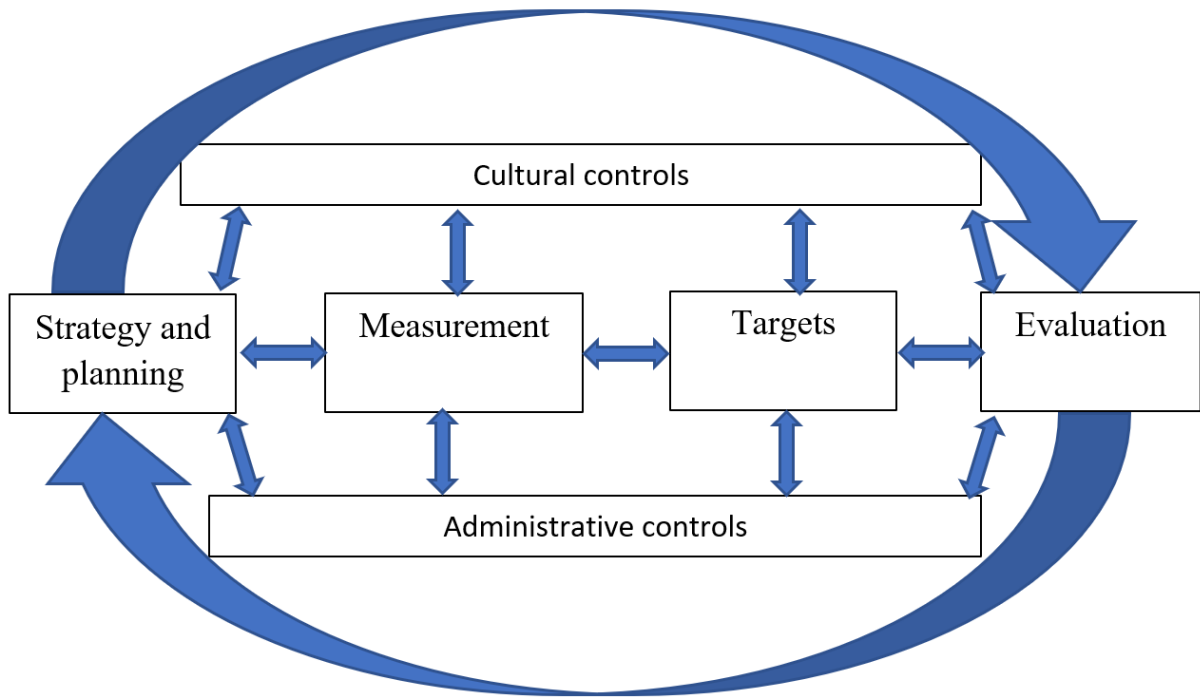


Figure 4: Theoretical framework for analysis

Derived from (Ferreira & Otley, 2009 and Malmi & Brown, 2008)

3 Methodology

This chapter presents a detailed description of the research approach, design, data collection and analysis of the study, the motives and limitations with the method. Moreover, presentation of the study designed as a single case study, which means that the work based on interviews and documents from the one chosen company. Finally, the research criteria of the study are presented.

3.1 Research Approach

The purpose of this thesis is to generate a better understanding of the use of management control systems in private diversified companies within the Swedish welfare sector. The sector is characterized by price constrains, knowledge demands and legal constraints that differentiate this sector from the private sector. Moreover, studies in this area is rather limited. Therefore, to generate deeper knowledge and better understanding of this sector, a qualitative approach through a case study research design was chosen since we evaluated this approach to be the most suitable method to fulfil the purpose of this thesis. According to Bryman & Bell (2015) a qualitative approach is a more appropriate strategy for generating an in-depth understand of a situation or to get a deeper insight in a research area. Additionally, due to the textual nature of the collected data and evaluation, the research design can be classified as a qualitative approach as suggested by (Bryman & Bell, 2015).

Furthermore, Bryman & Bell (2015), argues that taking an inductive or a deductive approach are the two main reasoning methods. It is the nature relationship between theory and research, whether theory guides research (deductive) or whether theory is the result of a research (inductive). Bryman & Bell (2015) argues that an inductive method is used to make a deeper analysis of single case studies, by starting in specific observations of reality and moving to generalizations within a theoretical framework. Moreover, Bryman & Bell (2015) suggests that an inductive method is often used in combination with a qualitative research strategy although not in all cases.

This thesis has followed largely a deductive approach since theories have been used to identify themes for data collection and analysis. However, empirics drawn from the case were collected through a semi-structured interview to guide and enable explorative flexibility in data collection. Therefore, this thesis can't be classified strictly under any of the two approaches since inductive and deductive approach are two ends of the spectrum.

The question of this thesis is focused on how and why management control systems are used in diversified privately owned companies within Swedish welfare sector. According to (Yin, 2017), how and why questions are more explanatory of nature and are likely to lead to the use of case studies as the preferred research method. The reason is because how and why questions deal with operational links rather than frequencies and incidences. Therefore, a case study was preferred.

3.2 Research Design

3.2.1 Case Study

A case study was selected as research strategy to be able to understand the actual reality of the specific case company. According to Bryman & Bell (2015), there are different ways to conduct qualitative studies, but a case study approach was regarded as the most suitable approach. The choice of a case study was based on (Yin, 2017)'s suggestion that a case study enables the researcher in capturing the holistic and meaningful real-life characteristics of organizational and managerial processes. Which is in line with the aim of this thesis to gain in-dept knowledge of the use of management control in diversified privately owned companies within the Swedish welfare sector. Furthermore, Yin (2017) suggests that case study strategy is appropriate when a descriptive research question is used, and where the case serves as a revelatory purpose" (Yin, 2017). Therefore, the case study method is considered more appropriate in the context of this thesis to provide rich information and serve a revelatory purpose.

3.2.2 Case Selection

A purposive sampling was applied which is a non-probability type of sampling (Bryman & Bell, 2015). The purposive sampling was chosen because of the nature of the research question that dictated on the category to be sampled (Bryman & Bell, 2015).

The case company was selected based on its size, its level of diversification and type of ownership. Although the company has operations and business units all over Sweden, we choose to focus on units in the southern region due to accessibility to their business locals and offices. The chosen business units had to be distinct to enable cross comparison of use of management controls. Although the selection is narrowed down to one case company, we believe that the case company represent a typical company within this sector and could provide the needed data to fulfil the purpose of this thesis. However, the narrowed sampling indicates the need for more extensive studies in the future.

Moreover, when choosing an appropriate diversified privately-owned company within the Swedish welfare sector, we began by searching on internet about potential companies. When found, we also check on their scope of diversification to ensure that the company meets our criteria. Choosing a diversified privately-owned company with many employees per business area increased the possibility to interview more employees from different levels of the company. The possibility to interview employees from different levels of the company increased the possibilities to get broad view of the phenomenon, thereby enabling the analysis to go deeper into details. Additional criterion was that the chosen case company should be diversified with at least two or more distinct business areas. Although all stakeholders are important, we focused on the internal MCS and thus, avoided the external focus.

3.2.3 Company Description

Due to the case company's policies for non-disclosure to external parties and the request of some interviewees for anonymity, they were granted anonymity. Therefore, their names are not mentioned in this thesis. Their names are supplemented with their positions in the company and prefix A, B and C when dealing with interviewees of the same positions in the organization. As previously mentioned, the interviews were conducted with one Regional Director and three Unit Mangers. Henceforth, they are referred to as Regional director, Manager A, Manager B and Manager C. Furthermore, to maintain the anonymity we granted the interviewees, the descriptions of the case company will be rather limited, otherwise it will be possible to identify

the case company thus, enabling the identification of the interviewees. Therefore, the company will instead be referred to as Alpha Care.

3.3 Data Collection Method

3.3.1 Primary data

To reach reliable conclusions and thereby fulfilling the purpose of this thesis, extensive amount of primary data was collected through four face-to-face interviews with Regional Director and three Unit Managers as recommended by (Bryman & Bell, 2015). The interviews lasted at an average of 60 minutes each. Furthermore, Bryman & Bell (2015) argues that a face-to-face interview has higher value than a telephone interview. Their claim is that when conducting a face-to-face interview, the research can establish a relationship to the respondent that put them at ease and therefore gaining more insights. Thus, face-to-face interviews were considered more appropriate to gain more insight and comprehend the context. The collected primary data led to an increased level of details that enabled us to target information directly to the real-related research as suggested by (Yin, 2017). Additionally, a semi-structured interview was used instead of structured interviews. The choice increased the flexibility and freedom when asking questions to the respondents, therefore helped to gain a deeper understanding of the use management control within the case company. Semi-structured interviews are commonly used for qualitative studies, and semi-structured interviews enables the researchers to be flexible and intelligent in obtaining information (Bryman & Bell, 2015).

All the interviewed Unit Managers and Regional Director had a profound knowledge about the management controls used in their company. They have been involved in the design process and continuously work with the MCS, e.g. emphasizing on Alpha Care's values, assessing and communication targets with their workgroups through APT (workplace meetings). However, where needed we explained the idea of management control that was investigated in this thesis to the respondents to ensure that their understanding of management control was aligned with our understanding. The respondents from the case company were chosen directly by us since we found them as suitable participants. The interviews were started with the regional director to get a broader perspective and to get an overview of the company, their strategy and the use of management control. Furthermore, similar interviews were conducted with the three unit

managers at each of the chosen diversified business units to cross-check the collected data and broaden our perspective.

These interviewees were contacted through telephone contacts as recommended by one of the interviewed managers in the case organization. This method gave us access to reliable respondent within the case company. However, there is a possible risk that the manager who recommended other managers may influence the result of the interviews. Yet, the recommendations only validated our initial position of selection interviewees from distinct units. Therefore, all respondents were the most suitable to interview regarding the use of management control, thus the selection is considered valid.

Regional director	Manager A	Manager B	Manager C
Interview 1	Interview 2	Interview 3	Interview 4

Because the focus on what to study in this thesis was clear from the beginning, an interview guide derived from the themes to cover was created to support the semi-structured interviews. The role of theory has helped us in identifying the themes applied in the semi-structured interview. For example, the themes in the interview guide were partly derived from Ferreira & Otley's PMS framework and divided into four main areas; strategy and planning, measurement, targets setting, and evaluation of performance. Additional themes covered were from Malmi & Brown (2008); cultural and administrative controls. Furthermore, themes regarding diversification were added to the interview guide to capture the scope and the intention with their diversification, and whether any synergies are created through diversification. The interview guide is presented in appendix A.

The respondents received the interview guide in advance, which enabled them to prepare their answers and to inform them on how the interview will be conducted. This might have increased the comfortability of the respondents. Furthermore, the interview guide was primarily in English, but later translated to Swedish since all respondents were native Swedish speakers. The reason for the translated version was to enable the respondents to feel comfortable and answer freely to capture all the details. According to Bryman & Bell (2015) some nuances in answers may be missed out due to poor communication (Bryman & Bell, 2015). Therefore, translating the interview guide to Swedish and conducting the interviews in Swedish enabled us to capture all the details. Each interview began with an open question regarding the company, the interviewee's background and their current tasks, as suggested by Bryman & Bell (2015). This method was used to enable the respondent to provide a broad view of the company and

their role. Followed by asking the remaining questions in the interview guide. Furthermore, all interviewees permitted us to record, which made it possible to listen through afterwards and validating the answers. For the purpose of this thesis, both the interview guide and collected data are presented in English.

3.3.2 Secondary data

According to (Yin, 2017), multiple source of data is recommended. We collected secondary data to support our primary data. Secondary data is useful and less time consuming compared to primary data (Bryman & Bell, 2015). Secondary data was collected from the case company's website and their intranet, which further deepened our knowledge about the company in general and the context in which the MCS is used. Additional data was obtained through internal documents provided by the chosen interviewees in the case company. We obtained access to Alpha Care's intranet where they have hundreds of documents for internal guiding and communication. For example, we reviewed over three hundred pages of documents including their organizational- and governance structure, their Balance Scorecard system, employment procedures, policies, and protocols from previous APT (workplace meetings). Moreover, we reviewed their public documents on their website (e.g. values, revenues, business lines, scope of diversification).

3.3.3 Literature review

Access to the literature used in this thesis was gained through searches on search engines such as LUB Search and Google Scholar, as well as through Google general search engine. To limit the range of captured literature and focus the relevant articles, keywords such as diversification in public sector, privatization of Swedish welfare sector, management control, management accounting, performance measurement etcetera was used. Extensive relevant scientific articles were found through these search engines and additional articles recommendations from our supervisor were reviewed. The literature used in this thesis has been carefully selected to align with the purpose and problem of this thesis. We began the literature review by investigating the theories of management control, and management control systems. It was followed by the concept of performance management systems, diversification and the role of management control in diversified firms. The theoretical review is mapping out general theories in management control, and the role of management control system in different types of

diversifications. Therefore, appropriate concepts and theories were essential in the selection for the further development of the study. The selected theories served as the foundation to create a theoretical framework that could be used for analyzing the empirical material and findings, and thereby understand the findings from a theoretical point of view. Which in turn helped to fulfil the purpose of the thesis.

3.4 Data Analysis

To be able to draw any conclusions from this study, the data collected was presented and analyzed based on the themes in our interview guide. Additionally, the empirical data collected from the four interviews were summarized in a table according to the chosen themes. The summary enabled us to have a clear view of how management control is perceived from the interviewees' perspective. Moreover, our theoretical framework for analysis was used to relate the findings to literature. Our framework of analysis presented in the previous chapter, where the chosen themes were limited to help refine the characteristics found in diversified privately owned companies within the Swedish welfare sector. Because the interviews were recorded, and notes were taken, we had the possibility to go back and forth between the interview material and the result, creating an iterative process in the analysis. The analysis was done by the both researchers to ensure that we reach a valid conclusion.

3.5 Validity and Reliability

3.5.1 Reliability

According to Bryman & Bell (2015), reliability is fundamentally concerned with issues of consistency of measures and refers to whether the results from a study will be the same if it is repeated or it would probably be influenced by temporal factors. Thus, if a study has been conducted many times with the same results, it would mean that the study has high reliability. Yin (2009) points out that the concept of reliability aims to minimize the errors and bias occurring in doing case study. Since this study is based on interviews, it would be hard to ensure the high reliability since there might be risks that the interviewers and interviewees have their own interpretations of factors. However, the interviewers explained to the interviewees

whenever needed. Furthermore, the interviewers carefully collected information and documented the work in the process of the case study to enable replicability. This has enabled us to go through the material several times to understand and present a fair view of the collected information.

3.5.2 Validity

When constructing the interview guide, the interviewers were consequent and careful attention were paid to maximize the internal validity of the study. Themes used in the interview guide where derived from both Ferreira & Otley and Malmi & Brown frameworks, therefore providing a solid foundation to build on. Additionally, because employees in different hierarchical levels of the case company were interviewed increased the validity of this study. This approach ensures higher level of congruence between observations and concepts that reinforces the research in the interviews (Bryman & Bell, 2015). Moreover, the interview themes were consistent cross interviews with the Regional Director and Unit Managers. Additionally, data was collected with an emphasis on specific themes regarding the use of management control in the company with the aim of not directly targeting the respondents personal position rather the general perceived used.

In addition, internal validity is about whether researchers' observation and the theoretical ideas they build up in the case study have a good match (Bryman & Bell 2015). On the other hand, external validity is concerned with the degree of which findings can be generalized across social settings (Bryman & Bell 2015). Although this thesis is based on multiple data sources, both interviews and secondary data, it is limited to a single case. Therefore, limiting the generalizability of the study. However, the study provides a perspective and a better understanding of how management control is being used in privately-owned diversified companies within the Swedish welfare sector. This study also lays a foundation for further studies on this topic.

4 Empirical Findings

This chapter is presenting the empirical foundation for the case study. In the process of data collection, the primary was collected through internal documents, intranet, and four interviews with one regional director and three unit managers. Moreover, secondary data was collected from the case company's website. The chapter starts with background description of the company, followed by the presentation of data from each of the interviews from the Regional director to the Unit managers, and ends up with a table that summarizes the main findings.

4.1 Background of Alpha Care

According to the Regional director, Alpha Care is a privately-owned company divided into two main business divisions. Each of the divisions have various business service areas. For example, general care includes (elderly care, home assistance, home care or accommodation) and healthcare includes (health centers, hospitals, special surgery center). Alpha Care has over ten thousand employees, over four hundred operating business units. The company's revenues for 2014 was over five billion SEK. Alpha Care is a for-profit organization thus, focuses on profit-making and value creating to its stakeholders. Alpha Care's aims to be the best when choosing healthcare and care service provider. Alpha Care aims to realize its vision through core values that are centered around key concepts such as professionalism and care (some parts are omitted due to anonymity issues). Additionally, Alpha Care's ethical guidelines is used to guide each employees' daily working life. According to the interviewees, Alpha Care's values are incorporated in their working processes to create a strong organizational culture, and everyone who works in the company must follow. In the interviewee's point of view, this can almost be considered as "brain washing" because the culture is really entrenched, and every employee knows what Alpha Care expect from them. Alpha Care has multiple layers of governing structure, and the communication within the company includes both up-down and bottom-up ways directions in the hierarchy. However, according to the Regional Director; the structure is to facilitate coordination, otherwise the organization is a very flat organization with few middle managers and a tight leadership.

4.2 Regional director

The Regional director is responsible for southern Sweden within division A.

4.2.1 Diversification

According to the Regional director, economic growth is one of the motivation for diversification at Alpha Care. Alpha Care want to be presented in different business areas because being present in diverse areas will make Alpha Care more visible and therefore generating more revenues, reducing the cost of marketing and the cost of pursuing new business contracts as their main customer is the state. According to the Regional director, Alpha Care in the past reached their growth targets through acquisition but the strategy today is to grow organically by increasing its output of service deliveries, improve quality of service delivery and enhance sales internally.

According to the Regional director, diverse business units are managed and control through local ownership, whereby unit managers are given autonomy to run their operations and they are supported centrally with support functions such as finance, human resources and legal function. The Regional director emphasized that the support functions primary role is to serve local units and not centralized controls. The Regional director further pointed out that Alpha Care is a flat organization with minimal middle managers, tight leadership and fast decision path with well-organized support functions. Alpha Care continues to search for innovative ways to support and simplify local units' working processes. For example, Alpha care is working on implementing tag systems and mobile application to simplify salary processing activities. According to the Regional director, the CEO believe that local managers are more informed about their businesses and their environments than the headquarters, therefore, they should be granted more autonomy and instead centralize support functions to serve them. According to the Regional director, there is what is called Alpha Care's "SUCCESS" which is there to assure that every employee within the company is aware of the company's values and vision.

Moreover, the Regional director revealed that Alpha Care has a five-year business plan, to focus on organic growth rather than acquisition that has been the dominant growth strategy in the past. Additionally, Alpha Care has annual plans for the short-term targets. Unit goals are derived from the organization's five-year plan with a annual growth rate at 10 percent. The

present growth emphasis is to grow organically through development and improvement of present business units. The Regional director added that it is sometimes beneficial to slowly grow organically without need for investments, but sometimes it is cheaper to acquire already up and running businesses which will lead to financial deficit in the beginning. However, according to the Regional director, one of the reasons they have continual coaching meetings and education from external consultants is to improve their knowledge and find new ways of working.

4.2.2 Measurement

According to the Regional director, Alpha Care has many measures but places more focus on few measures. E.g. financial, quality, environmental, patients and employees' satisfaction and quality targets. Targets are set centrally by the board of directors. The overall set targets are then divided and assigned to each business division. Business divisions in turn divide their targets and assigned to each region, finally each region split its targets and assign to business units. The targets are revised by unit managers and approved. The approved targets are then broken down into executable activities and communicated to all employees within the concerned business units by local unit managers.

4.2.3 Targets

The target settings are initiated by the board of directors who usually come with proposals on which level of performance they expect, and the goals are revised and shared among the divisions and units. The set targets are broken down into activities that will lead to achieving the set targets and communicated to all employees with the business units through weekly APT (workplace meetings). As the Regional director stated, although all targets are important, the easiest to measure and most visible are the financial measures. The challenges here are to set appropriate targets and measure what is important to the company.

According to the Regional director, for example in employees' satisfaction target for instance, Alpha Care may set a target to achieve 90 percent employee satisfaction, but this can be tricky because employees may be satisfied by having high salary and doing less work which will not contribute to the organizational goal. Therefore, this target is revised to instead reflect the level

of employee engagement through Alpha Care ambassadors and representatives to drive further the company's image and engage employees.

Another important target is the financial targets; every unit is expected to achieve its budgeted financial targets. Although the overall companywide target is to grow annually with 10 percent, it might be difficult to expect units to increase their revenues with the expected growth rate when they have limited space to take in more patients. Rather the focus is placed on improving service quality delivery and therefore, improve revenues by increasing price of service delivery or deliver new services.

Environmental goals: for example, may be set to reduce the general level of emissions in daily operations. This target may imply that workers use public transports, reduce their level of driving and procuring environmental friendly cars, implement days of consuming vegetarian food across units. For this target to be achieved, the company must centrally provide help in archiving them locally in the business units. For example, budget for new environmental friendly cars, otherwise it won't be possible for the local units to leave up to the targets.

4.2.4 Evaluation

According to the Regional director, performance evaluation is a continuous process. All business plans and targets are registered in a general management control system called Stratsys. This system enables each user to access their level and area of responsibility. Which gives both an overview and in-depth level of target fulfilment. The accountability is reminded by the system on the set dateline for goal fulfillment and closure of activities. Some performance measures are done monthly while some are quarterly depending on the importance. For example, financial performances are communicated monthly by matching the outcomes with the budgeted targets in Stratsys. Deviations are discussed with employees at different levels of the company and followed up through meetings. Other measures such as compliance are performed by an external consultant and internal audits. Some measures are done through benchmarking index (e.g. employee survey, customer satisfaction, etc.) and most are internally set. According to the Regional director, Alpha Care focuses on both financial and non-financial measures and has no rewards or bonuses for achieved goals; however, if a business unit deviates significantly from its targets, an action plan is put in place to help unit managers in achieving their targets.

4.3 Manager A

Manager A is responsible for multiple business units within the care division

4.3.1 Diversification

According to Manager A, most new business ideas in Alpha Care are market or customer driven; therefore, ideas are usually initiated locally when the needs arise. However, those new ideas must be approved by the higher hierarchy in the company. In certain circumstances, if the investment exceeds the next manager's mandated level of investment frame, the idea will be passed on to the management team. The reason behind the delegation is to analyze the investment cost, including whether the business idea is feasible, and the service demands are high enough to generate profit that will contribute to the corporate goals. Furthermore, the unit manager pointed out that some business ideas that are locally initiated do not have enough demands, thus are instead transferred to be managed centrally to serve the entire region or country.

As Manager A disclosed, diversification strategy is motivated by the market demands and the wish to improve revenues. He pointed out that his business units are business lines with high external uncertainty with demands for flexibility and resources to be able to reap the benefits from arising new market demands through utilization of existing resources from related business lines. However, with much uncertainty, Alpha Care focuses on quality and differentiated businesses to maintain Alpha Care's brand and customer loyalty. If Alpha Care continues to deliver quality service, there will always be more demands. However, one must think about what the market needs and what can be offered (Manager A).

Alpha Care's management control system is built up based upon Swedish laws, regulations and company's internal rules. Manager A emphasized that plans and budgets in the company are determined by the headquarters and followed by each region and unit. However, Alpha Care has also given more autonomy to local units in their operational decision making. Therefore, each unit manager has the right to determine how their units should be managed to reach targets. According to the interviewee, supporting functions in Alpha Care are placed to serve business managers and not the other way around. Each unit manager has a mandate to purchase or invest

for a given amount. If the value is higher than his or her mandate amount, the decision must be taken higher up in the organization's hierarchy.

4.3.2 Measurement

According Manager A, Alpha Care's strategies and business plans are registered and followed up in "Stratsys", which is a control system with multiple KPIs. The interviewee described that plans at the unit level are revised every month at APT meetings with employees. However, some goals are communicated periodically through "the year wheel", which is made up of key themes to be followed under the year, the company chooses key themes that are placed centrally. Each activity can be adjusted locally when needs arises. Based on the information provided by the unit manager, Alpha Care's key goals are set centrally and then broken down into small sub-goals.

According to Manager A, some key performance measurements that are used at Alpha Care are financial measures, employee satisfaction survey, leadership index, number of sick leaves categorized by sex and age, patient satisfaction index, change after treatment results etc. These KPIs are registered in the main control system "Stratsys", which are then communicated and discussed in the entire organization through meetings. Strategy communication starts from the Board of Directors and follow by the management team which is made up of two Business area Managers, three Regional Managers, then to unit Managers. Finally, the strategy communication is passed to the ordinary employees by each business unit manager. According to Manager A, Alpha Care hold several meetings per year in each level of company's hierarchy. In general, Board of directors have meetings every two months (four times per year). Regional Management team have meetings four times each year. APT (workplace meetings) are once a month and even weekly when needed. Goals are not changed under the year, rather the ideas behind the goal measurements is to constantly improve goal achievement by aiming for the best.

4.3.3 Targets

In Alpha Care, setting up goals within existing business is easier to set numbers, but when it comes to growing or changing business lines, it becomes difficult because it is driven by market

and customer needs. Which means that services you can deliver, and development are to some extent based on the industry. In this case, most measures are more subjective than objective (Manager A). Some goals are set centrally but budget starts locally at business units and then adjusted centrally to match the common organizational goals. For example, Alpha Care aims to grow by 10 percent annually, however, it is still depending on business managers who can make sure to contribute to their share of growth goals. A business for instance can easily grow by 10 percent through acquisitions, however, it must be approved by the board, which means that main responsibility for that part must be at the management level to ensure that the goals are met. *“I rather focus on improving service quality and guarantee a better life for my clients than focusing on cost cutting that will suffer my clients”* (Manager A). Moreover, achieved goals are however not directly visible due to many acquisitions and large investments that are charged to all earnings, and are calculated differently depending on whether achieved target belongs to local units or at company level (Manager A).

4.3.4 Evaluation

As Manager A disclosed, some evaluations at Alpha Care are performed by external consultants or through benchmarking index (employee survey, customer satisfaction, etc.). Additionally, some evaluations are conducted through internal audits. Alpha Care focus on both financial and non-financial measurements but has no rewards or bonuses for achieved goals. However, if a business deviates significantly from meeting its goals, an action plan is drawn up where the unit manager signs to act or ask for help to achieve the assigned goals.

4.4 Manager B

Manager B is a unit manager responsible for multiple business units within the care division.

4.4.1 Diversification

According to Manager B, Alpha Care has autonomous local units, where operational decision making depend on local managers with centralized support functions at the headquarters. Each business unit manager decides on how their unit should be managed to achieve their set goals. However, manager's actions are coordinated through internal rules and mandates.

Additionally, Manager B emphasizes that Alpha Care aims to provide a complete range of services within the healthcare and care sector, which can be considered as one of the motivation in having diverse businesses within healthcare and care industry. Moreover, Manager B highlights that Alpha Care aims to be present in different business areas, and when market demands arise, Alpha Care starts up new business areas to explore these advantages especially as they are related to current businesses. Instead of constantly starting new business units to have a complete range of services in healthcare and care, Alpha Care acquires some strategic already up and running businesses as well. However, the strategy now is to grow organically not through acquisitions as it was in the past.

According to Manager B, business units get clear targets from the headquarters and they in turn break them down into activities that reflect their business unit. Unit managers make sure that the targets are communicated to employees on how to work and why they should work in a specific way. The targets are registered in a system Stratsys and every target is followed closely. If any manager misses to register their level of goal achievements and plans on how to achieve targets, they are reminded through the system and in some cases by the headquarters. The system is built in a way that each unit is assigned their targets that contributes to the general targets as set by the board of directors.

4.4.2 Measurement

According to Manager B, some key performance measurements that are used at Alpha Care are financial, employee satisfaction, environmental and patient's satisfaction among others. However, each business chooses every year their focused areas and make plans for following up. KPIs are registered in the main control system "Stratsys" and communicated with

employees through APT (workplace meetings). Goals are not changed under the year, rather performances are constantly improved to achievement goal.

4.4.3 Targets

Most targets are set from the headquarters and are based on the company's expansion targets. However, targets are not always met at the unit level, but units continuously work to achieve set targets.

4.4.4 Evaluation

Performance measures are registered and followed up in Stratsys. Some performances are followed up monthly, while some are quarterly or even annually. Most targets are set directly from the headquarters and they reflect the overall organizational targets. At the business unit level, deviations are handled by making correction plans. However, Alpha Care doesn't have a reward system for targets achievement.

4.5 Manager C

Manager C is a unit manager responsible for multiple business units.

4.5.1 Diversification

According to Manager C, the motivation for high diversification within the company is the aim to be able to provide a complete service package of services. Furthermore, Manager C elaborates on the advantages for the customer and opportunities for the company to be able to provide a complete services package to meet the customer's total needs. For example, one advantage for the customer is having one single trusted service provider who deliver quality and complete service package.

"Whatever their needs may be, they only need to call us, and we find solutions that best suit the individual patient/client" (Manager C, 2018-05-14).

Furthermore, Manager C highlights that advantages for Alpha Care providing a full range of services are for example, sales enhancement, scale economies. Moreover, it improves communication between units since services must be coordinated through meetings between unit managers to offer individualized solutions. Additionally, Manager C informed that their strategies and targets are communicated through various channels. For example, through article on the company's intranet, through workshops, APT (workplace meetings) and through internal documents. Furthermore, all the strategies are broken down and are well documented in each unit's year plans to ensure that the strategies and goals are reflected in employee's daily activities. However, Manager C emphasized that although managers are given autonomy in their operations, they have a given boundaries to work within to contribute to the general organizational goals. *"We can't do whatever we like simply because we have autonomy, we have limits to act within"* (Manager C, 2018-05-14). Furthermore, (Manager C) emphasizes *"all employees are well indoctrinated and should be aware of the values of Alpha Care, therefore, whenever employees face difficulties in their daily activities, they have the company's values that guide them to take decisions that are aligned with the company's goals"* (Manager C).

4.5.2 Measurement

Although Alpha Care has many measures (Manager C), the main targets are finance, employees' satisfaction, customers or patient satisfaction, unplanned patient discharge, and service quality improvement. However, units can set their own targets, but the targets must be aligned to the corporate goals (Manager C). Additionally, Manager C make known that targets are registered in their management control system called "Stratsys" with a time frame. The employees accountable for achievement of each target are reminded by the system when it's due time for the target accomplishment and the target is not signed off in the system. Their registered targets and activities in Stratsys can be accessed by authorized users upper in the hierarchy or headquarters. However, Manager C emphasized on the difficulties they face putting measures on objects that are not quantifiable such as employees' satisfaction, Patients psychological wellness etc. Nevertheless, they must include these measures in their KPIs as they are of importance to their operations and success.

4.5.3 Targets

According to Manager C, Alpha Care strategies, plans and targets are initiated from the headquarters and are based on the company's expansion targets. Targets are broken down through the formal delegation line, and each unit is assigned its own targets to contribute to the overall targets. Further down at the unit level, targets are broken down into activities that reflect the business unit goals. Employees are given the opportunity to suggest about ways to act to achieve the assigned targets. However, Manager C believes that it will be inappropriate for her and her units to set unrealistic targets that cannot be met, and at the same time they must set challenging targets to stimulate employees to work harder. For example, financial targets are derived from budgets and are based on available resources (number of beds, apartments, coaches and phycologist) which can be used to achieve targets. Therefore, we cannot set targets that cannot be achieved with the available resources" (Manager C, 2018-05-14). However, according to Manager C the vision at Alpha Care is continuous improvement in all they do, therefore previous achieved targets sets a new basis for future target setting and performance evaluation.

Nevertheless, Manager C highlighted that it will be absurd for the headquarters to set detailed goals for her units because the headquarters is less informed about the situations they are facing daily. Therefore, she thinks that the headquarters' strategy for only assigning units with general targets and letting each unit manager to put in place measures to achieve the assigned goals is the best solution.

4.5.4 Evaluation

Performance measures are registered and followed up in Stratsys. Some performances are followed up monthly, while some are quarterly or even annually. Most targets are set directly from the headquarters and they reflect the overall organizational targets. At the business unit level, deviations are handled by making correction plans. However, Alpha Care does not award the workers for achieving their targets. Year wheel is a process used under the year to follow up which thematic targets have been met or missed and put in place action plans to reach the targets. According to Manager C, continuous evaluations are necessary as it enable managers to know on time whether their units are performing as anticipated or action plans are needed to achieve targets by the end of the period.

4.6 Summary of Empirical Findings

	Regional Director	Manager A	Manager B	Manager C
Diversification	<p>Motivation for diversification</p> <ul style="list-style-type: none"> - Economic growth - Visibility and market position - Scale economies - Ideas centrally initiated <p>Control systems</p> <ul style="list-style-type: none"> - Belief system/core values - Cybernetics (hybrid) - Long range and action planning <p>Administrative controls</p> <ul style="list-style-type: none"> - Autonomy/ local ownership - Centralized support functions, Financial, HRM, Legal - Internal policies and procedures <p>Interactive systems</p> <ul style="list-style-type: none"> - Work place meetings and bringing up new ideas <p>Hybrid systems</p> <ul style="list-style-type: none"> - Both financial and non-financial 	<p>Motivation for diversification</p> <ul style="list-style-type: none"> - Economic growth - Customer and market driven - Ideas locally initiated - Resources flexibility <p>Control systems</p> <ul style="list-style-type: none"> - Beliefs system/values - Boundary systems - Action planning <p>Administrative controls</p> <ul style="list-style-type: none"> - Autonomy/ local ownership - Centralized support functions, Financial, HRM, Legal - Internal policies and procedures <p>Interactive systems</p> <ul style="list-style-type: none"> - Work place meetings and bringing up new ideas <p>Hybrid systems</p> <ul style="list-style-type: none"> - Both financial and non-financial 	<p>Motivation for diversification</p> <ul style="list-style-type: none"> - Economic growth - Customer and market driven - Aims to deliver full package - Resources flexibility <p>Control systems</p> <ul style="list-style-type: none"> - Beliefs system/values - Boundary systems - Action planning <p>Administrative controls</p> <ul style="list-style-type: none"> - Autonomy/ local ownership - Centralized support functions, Financial, HRM, Legal - Internal policies and procedures <p>Interactive systems</p> <ul style="list-style-type: none"> - Work place meetings and bringing up new ideas <p>Hybrid systems</p> <ul style="list-style-type: none"> - Both financial and non-financial 	<p>Motivation for diversification</p> <ul style="list-style-type: none"> - Sales enhancement - Scale economies - Improves communication between units - Share resources <p>Control systems</p> <ul style="list-style-type: none"> - Beliefs system/values - Boundary systems - Action planning <p>Administrative controls</p> <ul style="list-style-type: none"> - Autonomy/ local ownership - Centralized support functions, Financial, HRM, Legal - Internal policies and procedures <p>Interactive systems</p> <ul style="list-style-type: none"> - Work place meetings and bringing up new ideas <p>Hybrid systems</p> <ul style="list-style-type: none"> - Both financial and non-financial
Measurement	<p>Subjective and objective</p> <ul style="list-style-type: none"> - Financial, Quality, Environmental - Employees and clients Satisfaction <p>Can set local targets</p>	<p>Subjective and objective</p> <ul style="list-style-type: none"> - Financial, Quality, Environmental - Employees and clients Satisfaction <p>Can set local targets</p>	<p>Subjective and objective</p> <ul style="list-style-type: none"> - Financial, Quality, Environmental - Employees and clients Satisfaction <p>Can set local targets</p>	<p>Subjective and objective</p> <ul style="list-style-type: none"> - Financial, Quality, Environmental - Employees and clients Satisfaction <p>Can set local targets</p>
Targets	<p>Targets are set centrally</p> <ul style="list-style-type: none"> - revised and shared amongst BU - targets based of previous results and forecast - Targets includes 10 % yearly growth rate - Emphasis on financials 	<p>Targets are set both centrally and locally</p> <ul style="list-style-type: none"> - Targets includes 10 % growth rate - Emphasis on quality 	<p>Targets are set both centrally and locally</p> <ul style="list-style-type: none"> - Targets includes 10 % growth rate - Emphasis on quality 	<p>Targets are set both centrally</p> <ul style="list-style-type: none"> - Targets includes 10 % growth rate - Emphasis on financial
Evaluation	<ul style="list-style-type: none"> - Continual process - Benchmarking - Accessed both externally and internally: Monthly, quarterly and yearly - Deviations are discussed, and action plans assigned - No bonuses 	<ul style="list-style-type: none"> - Continual process - Benchmarking - Accessed both externally and internally: Monthly, quarterly and yearly - Deviations are discussed, and action plans assigned and No bonuses 	<ul style="list-style-type: none"> - Continual process - Accessed both externally and internally: Monthly, quarterly and yearly - Deviations are discussed, and action plans assigned - No bonuses 	<ul style="list-style-type: none"> - Continual process - Accessed both externally and internally: Monthly, quarterly and yearly - Deviations are discussed, and action plans assigned - No bonuses

5 Analysis and Discussion

This chapter presents a general analysis of the empirical findings based on the use of MCS derived from the empirical data. Furthermore, the findings in relation to theory is presented.

5.1 Analysis of Empirical Results

The purpose of this thesis is to generate an understanding of the management control used in diversified privately owned companies within the Swedish welfare sector, by analyzing how they use MCS to steer employees' behaviors in their diversified businesses. To fulfill the purpose of the study and answer the problem formulation, four interviews were conducted with employees at different levels of the Alpha Care. However, to understand how MCS is used in this sector, the context must be established as MCS design depends on the context in which it is used.

The Swedish welfare sector is highly regulated by laws, and through framework contracts between the state (local councils and municipalities) and service providers, prices are regulated, employees are demanded to have specific education and must continue to update their knowledge to incorporate new working methods and new laws concerning their work and meetings with clients. Furthermore, revenues depend on state contracts which creates a dependency position for companies within this sector. Therefore, companies within this sector must fulfill the demands to gain and retain contracts. Moreover, workers within this sector are dominated by social workers who to a higher degree are altruistically motivated to help clients rather than focusing on value creation for shareholders. Further, large companies within this sector have been observed to be highly diversified. However, demands from contractors, price constrains, legal constrains and tensions between workers motivation and companies' shareholders value creation are the main factors that demarcate the differences between the Swedish welfare sector and the private sectors. Moreover, bearing in mind that the design and utilization of MSC depend on the context in which it is used, the particular Swedish context in which these companies operate in are characterized by the following settings; diversified

companies in private sector, undiversified and diversified privately owned companies within the Swedish welfare sector.

For example, a diversified firm in the private sector with no or few uncertainties, top management can implement *diagnostic control systems* to steer actions towards the desired outcomes. However, output controls are ineffective in uncertainty since desired outcomes are unpredictable. Therefore, *interactive control systems* will be more appropriate. On the other hand, diversified privately owned companies within the Swedish welfare sector have other constraints in addition to the constraints that are faced by diversified firms in the private sector (e.g. legal demands that must be respected, personalized client demands, quality is predefined and the tension between profit maximization and employees' perception of how their profession should be, information asymmetry between HQs and business units). Therefore, multiple controls are required to balance the satisfaction of involved stakeholders. For example, the controls must enable employees to do what they do the best, but at the same time satisfy both shareholders and customer demands. For example, legal constraints demand for *boundary control systems* (e.g. how should we work, what should we avoid doing), whereas quality and personalized clients demands lean more towards *interactive control system* (e.g. how can we improve our activities to meet new demands, how should we tackle contingencies), and also tension between employees and Alpha Care call for *beliefs- and diagnostics control systems* (e.g. how should we think at Alpha Care, which goals should employees meet?). Conversely, undiversified companies within the Swedish welfare sector have the same constraints as diversified companies, but without the diversification constraints. Therefore, they have less control and coordination costs since they can implement the same strategy and MCS controls in all business units. Furthermore, they may reap the synergies of related businesses and economies of scope. However, they don't benefit from the uncertainty reduction in future earnings and the uncertainty of financial distress (i.e., bankruptcy risk) if their single business line deviate from plans. Top management can use the combination as proposed but design the MCS to reflect whether the strategy aimed at is one of cost leadership or differentiation.

However, as perceived from our case study, a tension may rise from the shareholder value creation perspective for profit-maximizing, and workers who are more altruistically motivated in helping their clients. As manager A stated, "*I rather focus on providing clients best service and a dignified life and go home assured that I did a good job than focusing on cost cutting to maximize profits*". This may imply that the employees thinking this way may meet the clients'

needs more than necessary at the cost of shareholders' value creation. Therefore, Alpha Care needs to have a steering mechanism to balance the conflicting interests. This mechanism should encompass policies and working processes that are aligned with the company's goals and values to efficiently guide employees to meet the customers' needs as specified in contracts, while at the same time incorporate organizational targets that are to be achieved.

5.1.1 Cultural Controls

Alpha Care uses multiple tools to control their employees' behavior and operations. As maintained by Malmi & Brown, the organizational culture will influence employees' thoughts and actions, which means that culture is a control system when it is used to regulate behavior (Malmi & Brown, 2008). We find this to ring true for Alpha Care, who's cultural "*values or beliefs system*", as stated by Managers A and C, is highly enrooted in all they do, and every employee is expected to know these values and work according to them. Due to uncertainties in their units, rather than focusing explicitly on outcome controls, they focus more on their *values and beliefs* to guide them think, act and make decisions that are aligned with the company's objectives. This is indeed in line with what Malmi & Brown maintains, i.e. that values can be a strong tool used by managers through statement of values in order to steer employees to behave in accordance with the values of the company (Malmi & Brown, 2008). To quote Manager A: "*Our employees are indoctrinated in the Alpha Care's way. It's almost like brainwashing*" (Manager A, 2018-05-11). Additionally, Manager C emphasized that "*all employees are well indoctrinated and should be aware of the values of Alpha Care, therefore, whenever employees face difficulties in their daily activities, they have the company's values that guide them to take decisions that are aligned with the company's goals*" (Manager C, 2018-05-14). In other words, employees at Alpha Care are socialized to adhere to behaviors aligned with Alpha Care's values and objectives.

This can be contrasted with O'Reilly's (2000) argument that a strong culture is important for employees' commitment to organizational objectives and success. It means that once a strategy is recognized, it dictates the set of critical objectives that must be accomplished through coordination and management of people, structure and culture (O'Reilly, 2000). However, it was observed that Alpha Care is using different strategies at different business unit level. Although Alpha Care has a strong cultural control according to the interviewees, they have meetings on regular basis such as weekly, monthly, quarterly, semi-annually and annually, for

briefings and follow-ups. Their regular meetings can be categorized as a form of an *interactive control system* (Simons, 1994), where managers are personally involved in daily activities which is often the case in businesses operating in uncertain environments. However, from reviewing their meeting protocols, it was noticed that discussions include finding ways to improve working processes and prognoses on future demands with emphasis on financial outcomes and future earnings. This is indicating both of a tight cost control and of demands for service improvements and innovation. In other words, Alpha Care has implemented different control mechanisms to deal with such demands.

Although all interviewees stated that Alpha Care has *culture and values* that guide them in whatever they do, it has been observed that there are conflicts between the combination of MCSs in use. The *beliefs systems* are considered the foundation on how they should act and behave but, when beliefs systems are combined with *diagnostics systems*, it creates other dynamics. For example, at the regional level, the Regional Manager focuses on more financial targets that are visible and assess units easily through *financial measures*, rather than focusing on *cultural controls* that are invisible. As the Regional Manager stated, “*financial measures are more visible and easier to assess*”, which reveals that the higher-levels of Alpha Care, place more weight on *diagnostics control systems* than on their *belief systems*. On the other hand, unit Manager A stated that he would rather focus on offering his clients a dignified and better life than on cost reduction to improve profit margins. In other words, the manager emphasized on the ideals of his profession as a social worker instead of professing his main attention on financial figures. This gives an indication of a clash of culture between lower managers and the top management.

5.1.2 Administrative Controls

Administrative controls, as described by Malmi & Brown, encompass from three components; organizational structure, governance structure, policies and procedures (Malmi & Brown, 2008). Grant argues that in diversified companies, due to the coordination intensity of such companies, creating a capable organizational structure is important. Therefore, related products or services can be grouped together thereby enabling individuals who work on the same product to work closely (Grant 2011). We found this to be the case at Alpha Care where the company from the corporate level is divided into two main service or product divisions with multiple business units grouped under each division, and the divisions are further divided regionally.

According to the Regional managers, related business units share the same results account and have the possibilities in sharing resources such as workforce, hired consultants and training programs. This confirms the argument laid forward by Grant (2011), that some motivational factors for organizational units are to gain economies of scale, resource utilization and possibility for standardized control systems. Moreover, Alpha Care is a multidivisional organization which enables decentralized decision making where unit managers are granted local ownership. This in turn dictates the implementation of specific control mechanisms to control the autonomy that top management has been granted to the unit managers. It is in our view not surprising that despite Alpha Care's strong culture and values as alleged by the interviewees, they place greater weight on their diagnostic controls than on their beliefs systems. This may be explained by the information asymmetry that usually exist between the HQs and local business units. According to Van der Stede (2001) as well as to Grant (2011), the problem of information asymmetry exists in most diversified companies, top management commonly rely on budgetary controls and financial results to administer the organization. Indeed, our findings support the existence of the information asymmetry in Alpha Care.

5.1.3 Strategy and plans

According to the Regional director, some of Alpha Care's motivation for diversification are economic growth, resource flexibility, economies of scales, visibility and market position. Malmi & Brown maintain that managers use different management control tools to align employees' behavior and actions to achieve the intended strategy and plans of the company (Malmi & Brown, 2008). According to the Regional director, diversification ideas are initiated centrally and are often in the form of a strategic action plan. They are carried out either through acquisition of an up and running company or through starting a new unit. On the other hand, although Unit Managers' perceived motivating factors for diversification are partly consistent with the Regional director's diversification factors, they have different perceptions as to on which level of the hierarchy diversification ideas are initiated. Contrary to the Regional director's statement, the managers suggest that most of the diversification ideas are initiated locally because it is from there that the needs of their local markets are best understood, and the most significant motivators are, for example, the aim to offer a full range service package, and to be able to shape those services to meet particular market or customer demands. Manager A phrases it in the following way: *"We have to be flexible with resources and start new service lines as soon as there are market needs"* (Manager A, 2018-05-11), and Manager C says:

“Whatever their needs may be, they only need to call us, and we find solutions that best suit the individual patient/client” (Manager C, 2018-05-14). However, both managers affirm that although their ideas may be vital, they still must be approved higher up in the hierarchy. However, no matter what Alpha Care's diversification is motivated by (e.g. a resource based, market power or risk reduction perspective), and whether it is in related or unrelated fields, the company gets more complex to manage the more diverse it becomes, and hence requires more internal controls and coordination mechanisms, as Wiersema & Beck points out (Wiersema & Beck, 2017). Therefore, top management's approval or disapproval on whether to or not to diversify can be considered as a *boundary control* mechanism for to safeguard that they don't divert into unwanted areas and coordinate employees to work towards the company's goal. Thus, it can be established that diversification at Alpha care is a strategic choice from top management.

Furthermore, Alpha Care has both *long-term plans* and *short-term plans* (with perspectives of five and one year, respectively), according to the interviewees. The long-term plans are carried out higher up at the corporate level while short-term plans are implemented more at the day to day, lower business level. Malmi & Brown state that planning controls can be divided into long-range and action-planning categories, which carry within them individual sets of goals as well as individual ways of directing effort and behavior. This is typical for a multi-unit companies, to facilitate communication of strategies that will help to guide their daily operations and decision-making. Short-term plans become more essential if businesses are in changing or uncertain environment, in order to facilitate communication or interaction between employees (Malmi & Brown, 2008). However, all interviewees revealed that Alpha Care's main long-term growth plan in the past was focused on acquisition of strategic businesses. Nevertheless, their present focus is more on organic growth, even if the strategic thinking is done higher up in the hierarchy, according to the Regional Manager. However, managers stated that they usually have annual business plan proposals that are handed to the headquarters for review and approval. This is also in line with Grant (2011), who suggests that in large and mature companies, strategic planning process becomes systematized and turn to follow an annual cycle with strategic plans for three to five years with both top-down initiatives or bottom-up business.

5.1.4 Measurement and targets

According to all the interviewees, Alpha Care utilizes both financial and non-financial measures and uses both objective and subjective measures. Hopper, Northcott & Scapens (2007) maintain that companies should use both external and internal measures, financial and non-financial measures, and make trade-offs between various measures clearly visible. Alpha Care has many measures at different levels since business units can set up their own local targets. However, common targets used across units are financial, quality, environmental, customer or client- and employee satisfaction. Indeed, we find that Alpha Care uses measurements as for assessment of the company's success in achieving its objectives, strategies and plans, in a way described by Ferreira & Otley (Ferreira & Otley, 2009).

Since business units need to follow up their retained framework contracts with conditions for pricing, revenues and conditions regarding service delivery, they have an *annual budget* and *plans* that help to assess the short-term targets and to align their targets to the corporate targets. However, there exists some inconsistency between how the process of setting targets is perceived by on the one hand the Regional director and the two of the managers, and on the other hand one of the managers. The process according to the Regional director, Managers B and C, follows a top-down process, whereas Manager A suggests bottom-up process although he pointed out that their targets are usually stretched. He further emphasized that it is impractical to set force targets on them when they cannot achieve them; therefore, the success of achieving targets depends highly on top management; that is, it is of key importance that top management is able to articulate achievable goals and provide the proper resources needed to achieve them. We may draw an parallel to what Ferreira & Otley point out, that extensive difficult targets may be less desirable when cooperation between units are needed because management may become less willing to compromise (Ferreira & Otley, 2009).

Differences in their *budgetary and planning* processes depend largely on the uncertainty level and which business line the unit is focusing on. Which is revealing some environmental and strategic differences between the local units A and B and C. For example, Unit A is operating in a highly uncertain environment whereas units B and C are operating in a relatively more stable environment. Consequently, units B and C can pursue the same strategy, budgetary and planning process as they are more related, allowing unit A to pursue its own strategy, budgetary and planning process, that is deemed most suitable for its industry. That Alpha Care incorporates this strategy can be compared to other diversified companies in the private sector that usually have a corporate strategy (to decide on what kind of businesses they should be in)

and unit strategy (of how each unit should aim to compete with other companies, e.g. through cost leadership or through differentiation) to enable each unit to develop a competitive edge in their own field.

5.1.5 Evaluation

According to all the interviewees, target evaluation at Alpha Care is a continuous process although some targets are assessed more frequently than others. For example, financial targets are evaluated monthly and compared against budgets, whereas targets such as employees' and clients' rate of satisfaction are done semi-annually or annually. The evaluation is carried out through utilizing benchmarking and internal target by both external and internal auditors. This is in line with Marginson's (2002) suggestion, where he points out that the organizations are increasingly dependent on middle-level managers and subordinate employees to survive through management control systems. Rewards are basically the outcomes of performance evaluation (Marginson, 2002). However, according to the interviewees, Alpha Care does not reward performances; rather, target deviations are discussed, and action plans are worked out for making improvements. Given the industry in which Alpha Care is operating and the kind of incentives that motivates social workers, it is not surprising that Alpha Care doesn't pay for performance at least at the lower level of the organization, as this level is extensively staffed by social workers. For management, it is crucial to carefully choose a reward system which will bring out the desired outcomes, but of even higher importance is whether a reward system is in fact needed, or if it is unnecessary (Ferreira & Otley, 2009). Introducing extrinsic incentives for performance in the context of the welfare sector where the employees are dedicated social workers, may cause a negative effect as there is a risk that the intrinsic motivation may be wiped out when the extrinsic motivation is no longer effective. Previous research has found that social workers within the Swedish welfare sector are intrinsically motivated through their work involvement with clients; indeed, through the feeling that they are able to provide help for their clients (Lovén & Westerlund, 2008; Jönsson & Werner, 2007 and Engström & Karlsson, 2016).

5.2 Findings in relation to theory

According to the Regional director, some of Alpha Care's motivation for diversification are for example, *economic growth*, *economies of scale*, *visibility* and *market position*, and the ideas are

centrally initiated. Furthermore, he explained that diversification is a strategic move, and they usually acquire strategic up and running units or the starting of a new unit if needed. However, managers suggest that their diversification is motivated by *market driven* and *customer demands*. This is consistent with Montgomery's (1994) suggestion that diversification might be motivated by the market power, the resource view or the aim to reduce risks and uncertainty. Moreover, Van der Stede (2001), suggest that companies diversify to reap operational synergies or benefit from internal financial market transactions.

As Alpha Care diversifies into different business lines, the need to have separate strategies and planning procedures arises. This was revealed in the different point of views on the matter that we found amongst the managers, as well as in how they perceived budget planning process. It is in line with Merchant & Van der Stede (2011) and Grant (2011) who suggest that in diversified companies, they typically adopt both a *corporate strategy* (often called diversification strategy) and a *business strategy* (often called competitive strategy), which allows management of each particular unit to select the way they want to compete in their industry. As Alpha Care is a diversified company, it is not unexpected that we found that different units employed different strategies and different evaluation processes. It is worth to note, however, as a company diversifies, the cost of coordination and management controls increases (Hoskisson & Johnson, 1992; Hoskisson & Turk, 1990 in Wiersema & Beck, 2017).

Alpha Care uses a combination of several management control systems. For example, they use *beliefs system* to enforce their values. This is consistent with what Simons argues (1994), that beliefs systems that are used to guide opportunity seeking behavior and enforce the organizational core values. Furthermore, we find Alpha Care uses *interactive systems* (APT-working meetings, bringing up new ideas, discuss uncertainties) where managers are personally involved, which also is in line with Simons' (1994) suggestions. At Alpha Care, they use budgets, long- and short-term planning at all levels of the company, which are in line with the *diagnostics controls systems* or *cybernetics* as proposed by Malmi & Brown (2008) and Simons (1994). However, *boundaries systems* are only at the unit level to limit the employees' actions, therefore they can be perceived as a means by which top management aim to control the autonomy they have granted to the unit managers. According to Simons (1994), the purpose of such a system is to set the frames or the limits of freedom of creativity within an organization, and risks can be avoided by applying control tools such as rules, laws and codes of business conduct.

Nevertheless, it was easier to classify Alpha Care's use of MCS under Simons (1994)'s typologies to demarcate the different use of MCS combinations since Simons' typologies have extensive classifications. Yet, Malmi & Brown's (2008) management control package and Simon's levers of controls have similarities; for example, cultural controls and beliefs systems, cybernetic controls and diagnostics controls etc.

6 Conclusion, limitation and future studies

This chapter presents the conclusion of the thesis. The chapter begins with presenting the main findings of the research study, which are derived from the theoretical framework and empirical material supporting for analysis. Next, the main contributions and limitation of the research follows. Finally, the chapter ends with suggestions for future studies.

6.1 Findings

The context as previously mention, the scope of this thesis is limited to generating deeper understand of how MCS is used in diversified privately owned companies within the Swedish welfare sector.

The main result of this study reveals that Alpha Care's diversification is motivated by economic growth, economies of scale, visibility and market position, and market driven as well as customer demands. Moreover, the diversification ideas are either initiated locally or centrally, but ideas must be approved by top managers. To manage their diversification strategy, Alpha Care has both corporate (diversification strategy) and unit strategy (competitive strategy) to enable business units to compete differently within their related fields. Furthermore, the management control system used by the managers are affected by the context of the *cultural controls* and *administrative controls* in the analysis framework, rather than being controls themselves. *Cultural controls* are consistently used in the organization, in that Alpha Care's employees are indoctrinated in the values of the company, to the point that one manager described it as something close to brainwashing. From the organizational and governance structure as mentioned in *administrative controls*, Alpha Care has a flat organization with many unit managers, few middle managers and tight top management. Unit managers are given local ownership through autonomy to deal with contingencies in operations, and support functions are centralized at the headquarters to serve unit managers. However, since company success depends on how well business units perform, the autonomy granted to local units are controlled through a combination of several management control systems. For example, at all levels at

Alpha Care, they use both *long-term and short-term plans*, and *beliefs system* to enforce their values, *interactive systems* (APT-meetings, bringing up new ideas, discuss uncertainties etc.) and *diagnostics controls systems* or *cybernetics* are used to monitor and evaluate outcomes and *boundaries control systems* were perceived to be only present at the unit levels, and are used to limit employees' actions to happen within the corporate strategy as they explore the uncertainties.

In summary, how is the general use of MCS at Alpha Care?

Since Alpha Care has both a *corporate strategy and business strategy*, it has enabled individual business units to have their own local strategy to compete within its industry. Therefore, dictating different control mechanisms to realize these strategies at business unit level. Consequently, it was observed that Alpha Care uses a combination of several control systems and their controls have some differences at different levels of the hierarchy. For example, at all levels at Alpha Care, they use both *long-term and short-term plans*, *beliefs system* to enforce their values, *interactive systems* through (work place meetings, bringing up new ideas, discuss uncertainties etc.) and *diagnostics control systems* or *cybernetics control systems* to monitor and evaluate financial and non-financial outcomes and *boundaries control systems* were perceived to be only at the unit level to limit employees' actions to align with the corporate strategy as they explore uncertainties. This can be perceived as a control mechanism by which top management aim to control the autonomy they have granted to the local unit. Although all interviewees suggested that Alpha Care has a strong culture, it was observed that top management places more weight on budgetary controls than on belief systems.

6.2 Contributions

Practical contribution

The overall practical contribution of this case study is that it contributes to the understanding of how MCS is used in diversified privately owned companies within the Swedish welfare sector. Given the constraints arising from this industry, diversification and the contradictory objectives between employees and employers, this study further contributes by finding which kind of MCS are combined to manage and balance different demands from stakeholders in this context. Managers within this industry can gain an understanding for example that relying

solely on *results* or *outcome controls* may not give the desired behavior since it will create conflict between employees' personal objectives or profession and thereby may bring out undesired outcomes. On the other hand, they will also gain an understanding that they can't neither depend solely on their beliefs systems since the employees have autonomy and the distance between top management and unit managers create information asymmetry that needs to be managed through *budgetary controls*, therefore dictating a combination of controls.

Theoretical contribution

In addition to the practical contribution as mentioned above, this study contributes to the theory by confirming that when a company with multiple units diversified they have both a *corporate strategy* (often called diversification strategy) and *business strategy* (often called competitive strategy), which allows each unit to choose the way they want to compete in its industry (Merchant & Van der Stede, 2011). Additionally, this study confirms the suggestion by Malmi & Brown (2008) that *Management control systems* can be used as a package.

6.3 Limitations

Although this study supports previous theories on diversified companies having both corporate and unit strategy (Merchant & Van der Stede, 2011) and MCS combination use as a package (Malmi & Brown, 2008), using a single case study approach limits the possibility to generalize this study. Additionally, the small sample size further affects the findings where each respondent has a high possibility to impact the result of this study.

However, since the purpose of this thesis was to generate a deeper understanding on how MCS is used in diversified privately own companies within the Swedish welfare sector and because there are none or limited research on this topic, the research approach was dictated to rather take an explorative approach to uncover the way MCS is used. Therefore, the findings can instead inspire future research on management controls in diversified privately owned companies within the Swedish welfare sector. Additionally, themes used for data collection and model used for analyzing the empirical data might have some inherent limitations. Therefore, might have limited view of all the factors regarding management control use in Alpha Care. However, the combination of previous theory by Ferreira & Otley, and Malmi & Brown helped to strengthen the relevance and reliability of our model. Yet, there are possibilities for potential

inherent limitations from previous theories transferred to our model, which therefore would be reflected in this research.

6.4 Future research

Since the findings of this thesis cannot be generalized, we believe that the results can be used as an indication on how management control is used in privately owned companies within the Swedish welfare sector and thus serve as an inspiration for future extensive studies. For example, by increasing the number of cases or including employees from the lower level. Moreover, the method used in this thesis can serve as a basis for hypotheses whose general validity can be tested to either falsify or strengthen akin research questions when applied to many cases with a quantitative method. Furthermore, another approach can for example be to have a more longitudinal case study based on observations of the operations rather than interviews.

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Appendix A

Interview guide

Derived from Otley and Malmi & Brown.

1. How is the culture at Alpha Care?

- What is Alpha Care' vision and mission?
- What is the organizational and governance structure of Alpha Care?

2. Diversification

As we have noticed, Alpha Care has different business/service lines. Why so many different business/service lines. How do you control and manage them? What are the challenges.

- How are strategies and plans communicated to unit managers and employees?
- How do you work to make sure that they are followed?
- Do different business/service lines improve performances? If yes, how?

3. Measurement

How do Alpha Care design performance measurements and how are they implemented?

- From business plans, what do Alpha Care measure?
- How are the measures communicated throughout the company?
- What is measured that is not useful and what is not measured that should be measured?
- What level of performance do the company need to achieve for each of the measures?

4. Targets

How do Alpha Care set appropriate performance targets for the measures?

- How challenging are those performance targets?
- Do Alpha Care reach their targets every year?

5. Evaluation

How do Alpha Care evaluate financial and non-financial performances?

- What are the procedures for performance evaluation and follow-up at Alpha Care?
- What role do previous measures and targets play in the evaluation stage, and for future business planning?
- Are performance evaluations at Alpha Care objective or subjective?
- What rewards or penalties do managers or employees get for failing or achieving performance targets?

General

Is there anything that we have missed that you will like to enlighten us about?