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The Innovation Journey

A case study about management control and innovation
in a fast-moving industry

by

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Abstract

Title: The Innovation Journey – A case study about management control and innovation in a fast-moving industry

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Purpose: The purpose of this thesis is to develop a theoretical integrated framework that conceptualize the relationship between ambidexterity, innovation strategy and management control. Further, using the integrated framework, this thesis aims to study how management controls can support innovation within the fast-moving industry of e-commerce.

Methodology: This thesis is approached through a qualitative single case study. From the literature of theories, an integrated framework is developed as a consequence to fit the purpose of this thesis in the best way.

Theoretical framework: The developed integrated framework is build upon relevant theories regarding ambidexterity, innovation strategy and management control system package.

Empirical findings: The empirical findings are divided into one external and one internal section. The external section set the scene through analyzing secondary data such as articles and reports and primary data conducted from an E-commerce Expert. The internal section is based on primary data from interviews and secondary data such as annual reports and internal documents.

Discussion and conclusion: By applying the integrated framework we find that, as of now, the case company does not have a MCS that support the adopted innovation strategy. This is a consequence of a historical lack of innovation strategy and a current MCS that is not aligned, which in extension mean that the company is not ambidextrous. To succeed with their current strategic change and the adopted innovation strategy, the company has to enhance mainly cultural controls, administrative controls and planning.

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1. Introduction

The first chapter provides the reader with the subject that will be further introduced and analyzed throughout this thesis: ambidexterity, innovation strategy and management control. Firstly, the background and why the subject of this thesis is interesting to study is presented. The background discharge in a problematization, which include the reasons for the chosen purpose and research questions. The chapter ends with the disposition of the thesis.

1.1 Background

Rapid development and innovation constantly re-shapes the landscape of industries. Four hundred years ago, Niccolo Machiavelli noted:

“There is no more delicate matter to take in hand, not more dangerous to conduct, not more doubtful in its success, than to be a leader in the introduction of changes. For he who innovates will have for enemies all those who are well off under the old order of things, and only lukewarm supporters in those who might be better off under the new” (cited in Sherman, 1993, p. 58)

How companies accomplish to manage, measure and execute innovation effectively is, however, still unanswered and varies across industries and the definition of innovation is ambiguous. Thompson (1965) describes innovation as the generation, acceptance and implementation of new ideas, processes, products or services. The history of retailing indicates that the retail industry regularly undergoes transformation due to external effects (Satell, 2017). Urbanization led to the rise of modern department stores, mass-production of automobiles launched the emergence of suburban shopping malls, which in turn paved the way for discount chains and, later, the big-box category killers. The landscape of the retail industry has now changed again with digitalization and the emergence of electronic commerce (e-commerce). E-commerce is referred to a type of business model, which enables the consumer to conduct business over Internet. The industries where e-commerce has gained most market share is within retail and financial services (Gunasekaran et al., 2002). Today, online channels are enjoying a growth rate 7 percent higher than the retail sector growth as a whole (PWC, 2018b). The rapid adoption of digital technologies and the ever-changing shopping behavior of consumers put high

demands on retailers' organizational structure. The need to invest in new technologies, refresh core systems and develop smarter, more personalized offers is becoming increasingly more important in order for retailers to stay competitive (Deloitte, 2018). Each transformation does not completely eliminate its predecessor, but it reshapes the landscape and redefines customer expectations (Satell, 2017).

There is no doubt that retail is experiencing an unprecedented change all through the value chain in order to meet the rapid shift of customer expectation (Forbes, 2018a). This change is referred to as the “retail apocalypse” or “digital transformation” and the explanation is digitalization and technology. In 2017, a survey made by PWC (2018b) found that 59% of the respondents shopped at the big e-commerce sites Amazon or Alibaba's Tmall. The transition from brick and mortar to online channels is well under way and retailers have the choice to adopt a strategic change towards digitalization, or to be pulled down by the retail apocalypse (Forbes 2018a; PWC 2018b). In order for retailers to embrace the opportunity to pioneer a new landscape they have to transform their business model (Deloitte, 2018). In a report from 2017, EY urges that the only way for retailers to do this is to view innovation holistically. If they do not adopt digitalization as a part of the overall strategy and permeate all levers across the organization there is no way they can reach their fullest potential.

To redefine the business model enables retailers to focus their resources right and improve their competitive position. This does not only apply for retailers that undergo a digital transformation, but also for online retailers with outdated business models. Technology is by far the one thing that defines and constantly re-shapes the landscape of retailing, including e-commerce. Where the wind of technology blows, the way of shopping will sweep in the same direction. Therefore, also e-commerce companies have to meet the expectations of tomorrow and explore emerging models. (EY, 2017; PWC, 2018a). With brick and mortar adopting digitalization the competition of e-commerce is rising rapidly. The Retail Evolution Report and the Global Consumer Insights Survey, both published by PWC in 2018, suggests new tech-enabled and customer-experience focused approaches for retailers to take on in order to be competitive. None of these approaches includes having the lowest margin or the highest volume as the business models and strategies for e-commerce and retail has been characterized by historically, leading to price wars and bankruptcies. In other words, there are new approaches, business models and strategies for companies to stay competitive and to be profitable. Future business opportunities are predicted to be found on capitalizing on support ser-

VICES around e-commerce (PWC 2018a; EY, 2017). For example, logistical solutions, data analytics and tracking, secure payments and payment infrastructure, insurance and shipping. In the future, there will be no limit on what you can buy online. The matter will be how to package and transport it. The main capabilities needed for companies to succeed in the future is to be flexible, remain relevant and the ability to be agile. (PostNord, 2017)

Innovation can therefore be considered as one of the key factors for company success. However, investments in innovation are risky and can be very expensive. This implies high demand on managers to create a business environment and corporate structure that can balance an appropriate tradeoff between controlling current assets and core competencies, i.e. exploit, and investing in new business opportunities, i.e. explore. This balance is referred to as ambidexterity (Duncan, 1976). To be able to respond to changes in markets and customers behaviors', organizations need to be agile and to create competitive advantage. For an organization to be able to succeed in creating a competitive advantage, the formulation of the strategy as well as the implementation of the strategy need to be conceptualized. Management Control Systems (MCS) is a tool to ensure the formulation and implementation. (Simons, 1990) Malmi and Brown (2008) defines it:

“Management controls include all the devices and systems managers use to ensure that the behaviors and decisions of their employees are consistent with the organization’s objectives and strategies, but exclude pure decision-support systems” (p. 290 f.).

1.2 Problematization

The apprehension that organizations need to change its structure in order to survive over time was first proposed by Robert Duncan (1976) and is now well recognized. The proposition on *how* to do accomplish such change, however, is not general and depends on the organizational form and business environment (Tushman & O’Reilly, 2013). Several retail companies have during the past years been forced to file for bankruptcy as a consequence of the high competitive market, low margins and failure to adapt to a new business models. (Olsson, 2012; Satell, 2017). The landscape of the retail industry is changing and, as of today, 10% of the total retail sales is performed online. This percentage is expected to grow to 20 % within the upcoming five years. (Forbes, 2018a). Companies that want to survive in the fast-moving industry of

retail need to adapt to the demand of the customers and explore emerging models and prepare for the business models of tomorrow.

Innovation is crucial in order for companies to be on the front edge of adapting to the market and its customers. However, being innovative is not the only factor that determines success. Firstly, companies need to consider how to manage the balance of being able to explore new capabilities and still exploit the existing core competences, i.e. to be ambidextrous. Secondly, the link between the developed innovation and other mainstream capabilities, such as operations process and management need to be implemented (Lawson and Samson, 2001). Davila (2005) claims that management control systems have a positive effect on innovation that enhance learning, communication and experimentation. However, the research on how organizations operate in uncertain environments should develop their control framework in order to support innovation whilst simultaneously managing the core activities is limited. What is known is that in order to be a successful participant in a complex, uncertain and fast-moving industry such as e-commerce, the organizational control systems cannot be static and formal (Tushman & O'Reilly, 1996). Further, the studies that do exist is lacking in how to apply management control systems in e-commerce. Therefore, a case study of how a company with great success in the e-commerce industry manages ambidexterity and innovation with the help of management control systems is of academic interest.

1.3 Purpose

The purpose of this thesis is to develop a theoretical integrated framework that conceptualize the relationship between ambidexterity, innovation strategy and management control. Further, using the integrated framework, this thesis aims to study how management controls can support innovation within the fast-moving industry of e-commerce.

1.4 Research Question

How can e-commerce companies work with MCS to support innovation?

1.5 Disposition of Thesis

Previous chapter has given an introduction into the subject of the retail industry and e-commerce and the use of management control to enhance innovation. Further, the outline of this thesis is divided into four additional chapters. Firstly, the methodological approach is presented and explained. This part is followed by a theoretical review, providing the reader with the current state of research within the area and relevant theories that will set the ground for the analysis, and a developed integrated framework consisting of those theories. The fourth chapter presents the empirical findings, findings about the challenges and future of e-commerce and retail, as well as findings from a case company and from interviews from an expert within the industry. This chapter is followed by an analysis of the empirical findings, investigating the purpose of the thesis. This is emphasized by approaching the empirical findings with the integrated framework consisting of ambidexterity, innovation and the management control system package. The last chapter concludes the study as well as provides the reader with limitations of the study and further interesting areas to study within the subject.

2. Methodology

The purpose of this chapter is to describe the research method and design, as well as to provide the reader with motivation for the case study and the entailing limitations. Section 2.1 presents the chosen research method and approach. Section 2.2 describes what role theory has in qualitative case studies and the chosen literature for this thesis. Section 2.3 motivates the selection of case company, the collection of data and the process of data. Section 2.4 brings up the limitations of the research method.

2.1 Research Approach

The purpose of this research was to study how an e-commerce company works with MCS to support innovation. To answer the research question required a holistic view with a contextual understanding of the company, which cannot be explained with numerical data. Therefore, a qualitative scientific research method was chosen. (Bryman & Bell, 2015; Weick, 1996). Quantitative method, on the other hand, allows for greater objectivity and reliability since it is based on numerical data, which leads to making the results comparable and generalizable to a greater extent.

Agostini et al. (2016) applies a quantitative approach in their research on how organizations should balance exploration and exploitation. Their conclusion state that there is a need for qualitative research within this field, though it is still not clear how this is managed in practice. Through applying a qualitative approach instead, companies can be studied in different context to find synergies within the innovation. The intention was to study how MCS is used in regards of achieving strategic change and innovations within the industry of e-commerce. It was therefore of great importance to study both how the MCS is applied within the e-commerce organization and how the MCS is implemented by the individuals, as it is the individuals that are the resource of innovations and manage allocation of resources. These arguments further support the use of a qualitative approach.

Further, a single case study was chosen. A case study enable to understand necessary contextual conditions that is important to be able to fulfill the purpose. (Yin, 2018) In this case, contextual conditions were crucial to understand the management control system and how it

works in practice. To decrease the subjectivity that is a risk in qualitative studies, being at the physical workplace of the case company helped the authors to get a sense of the internal environment at the office. The authors of this thesis also chose to bring in an Expert to get a further holistic view of the environment the case company is active within. Further, a single case study enables a more in-depth analysis. Another risk that was emphasized was the risk of generalization studying one case (Bryman & Bell, 2015; Yin, 2018). However, the objective was not to draw general conclusions from the case study, rather to expand and generalize theories through analytical generalization. Further, an explanatory approach was used to answer *how* and *why*, with the goal of dealing with operational links and not in to the same extent of frequencies or incidences. (Yin, 2018) According to these arguments, the research design in this thesis is based on a qualitative single case study, to be able to answer the research question in the most appropriate way.

2.2 Literature Review and the Role of Theory

The previous scientific research on ambidexterity, innovation strategy and management control is substantial. Therefore, the relevance of the theories as well as its usability in regards to the chosen neighborhood of this case study was carefully evaluated. Relevant and credible theories were shortlisted by reviewing literature on selected keywords for this thesis, and the chosen literature included in the integrated framework were selected with the problematization in mind. The concepts of ambidexterity, innovation strategy and MCS have been widely studied but in solitary. Ambidexterity lays a good foundation for the research and presents the reader with the problem to balance exploration and exploitation in organizations (March, 1991; O'Reilly & Tushman, 1996; Gibson and Birkinshaw, 2004). To further explain the specific role of MCS to foster innovation within organizations, the framework for innovation strategy by Davila (2005) was used. Davila (2005) use Simon's (1995) levers of control to explain how managers use management controls to implement strategies. However, Simon's (1995) framework is not very substantial in its propositions (Tessier & Otley, 2012) and, therefore, this thesis instead used the management control system package (MCSP) proposed by Malmi and Brown (2008).

2.3 Selection of Case

The first criteria when selecting a case company was that the company was operating in the e-commerce industry. Nowadays, rather many companies have established online stores and therefore the range was wide. To narrow the assortment and ensure that the focus was on e-commerce, the authors decided to search for pure e-commerce companies, i.e. companies that from the start have been e-commerce only. In this way, it was possible to make sure that the innovation strategy and vision of the company is in regards of e-commerce and not of other retail channels.

Further, a medium sized company with approximately 1-5 billion SEK in revenue was to prefer for several reasons. It ensures to a greater extent that there are more secondary data available such as public documents. Larger companies are usually more complex, has higher turnover and more stakeholders and therefore the management control system is expectantly more thorough considered and policies and routines should be in place. Also, larger companies usually have more resources to allocate on innovation. The option of study start-ups was also considered since these companies focus a lot on exploration. However, the general opinion is that management control system is not as important within these companies. Further, face-to-face interviews are important within case studies to get a sense of the culture of the company as well as of the company environment. Therefore, there was a preference for geographical proximity. The company is part of a bigger group but not listed itself, which allows for easy access to secondary data, without having the tight monitoring of listed companies.

The authors approached one company that was perceived to be appropriate in regards to the criteria. Contact was first made via a phone call and after that email correspondence was made to clarifying the purpose of the study. The company responded positively and the authors were allowed interviews with business representatives from different departments in order to get a comprehensive view of the organization and insights on the MCS from different perspectives. The case company is active within the retail sector and has never been an brick-and-mortar store, only pure e-commerce and is active in the business to customer-market. Important to mention is that the company on grounds of secrecy wants to remain anonymous in this thesis and will therefore be referred to as Company X.

2.3.1 Data Collection

The data collected in this thesis is conducted from primary and secondary sources and is divided into an external and internal section in the empirical findings. Using both primary and secondary data sources, ensure credibility in a case study, which is emphasized by Yin (2018) as preferable. The primary data is gathered through interviews with the case company as well as through an e-commerce expert with the focus of management control. The questions are written ahead of the interviews, structured to be able to answer the research question. The secondary data is collected from a third party.

2.3.1.1 Primary Data

The primary data is collected in two ways: from an expert and from the case company. The data from the case company is collected through interviews face-to-face, as well as telephone calls and email correspondence. The individuals that were interviewed have key positions with insight in the structure and strategy of the organization. The company and the individuals has chosen to be anonymous in this thesis due information sensibility for the company and its stakeholders, and therefore the interviewees is called by their title when necessary. According to Yin (2018) when collecting primary data, interviews are one of the most critical sources. Further, it is possible for the interviewer to approach a qualitative research from an unstructured and semi-structured approach. When adapting an unstructured approach, the interviewer decides beforehand which topic the interview should be around. This approach can almost be seen as a conversation rather than an interview. On the other hand, using the semi-structured interview approach, the interviewer uses a list of questions with topics to cover. This list is further referred to as an interview guide. Using this approach, it is possible for the interviewer to pick up things along the interview, which is not in the interview guide and which can be further developed or discussed. (Bryman & Bell, 2013) Semi-structured interviews are the most commonly used approach within qualitative researches. (Alvesson and Deetz, 2000 cited in Qu & Dumay, 2011). The aim of the interviews are to gain rich and detailed answers to answer the purpose of this thesis, and therefore semi-structured interviews are the most useful approach in this thesis as well. The interview guides are presented in the Appendix 1 and 2.

By interviewing individuals with different roles and from different business units in the organization, the authors have gained an understanding from different perspectives, which make

the data richer. As a consequence, not all individuals have knowledge within the field of management control. When needed, the authors have explained the concepts, which are of importance beforehand. The purpose is to ensure that different use of terminologies will not affect the data collected and further not affect the result (Yin, 2018). Further, this help the interviewees to ask open questions that are not leading. The interviewees work within three main areas: projects, finance and R&D. The reason why these three areas was chosen is because the Project Manager Office (PMO) has an overall knowledge about all the project happening in the organization as well as the company's procedures and processes. The business controller is the person that knows the preset targets and performance the best, which is essential for the success of the company. The Chief Technology Officer (CTO) and a developer work within R&D, which is the department that is currently working the most with innovation. All the interviews have been recorded to ensure validity (Bryman & Bell, 2018)

The problematization that lay the ground for this thesis is the lack of research about how MCS should be designed and implemented to enhance innovation within e-commerce. Since there is a research gap in this area and the employees of Company X's opinion might be subjective, an external part was approached to provide more in-depth knowledge. An e-commerce expert that work daily with innovation strategies and management control system was interviewed to take part of his experiences. The outline of the conducted interviews is presented in the table below.

Interviewee	Form	Structure	Date	Duration
Company X - Project Manager Office	Face to Face	Semi-structured	24th of April 2018	60 min
Company X - Business Controller	Face to Face	Semi-structured	24th of April 2018	30 min
Company X- CTO	Face to Face	Semi-structured	24th of April 2018	30 min
Company X- Developer	Telephone	Semi-structured	7th of May 2018	20 min
Company X- Project Manager Office	Telephone	Unstructured	15th of May 2018	50 min
E-commerce Expert	Face to Face	Semi-structured	4th of May 2018	60 min

Figure 1: Interviews

2.3.1.2 Secondary Data

The secondary data in this thesis is collected to get a deeper and non-subjective view of the case. Firstly, secondary data such as internal documents from Company X is studied and evaluated. These documents are for example document of vision and mission, organizational structure and scorecards. There are approximately twenty documents and these are complemented by information from the company's website and annual reports. Further, secondary data is collected from reports, surveys and articles by well-respected consulting firms. This secondary data help the authors analyze which environment and market the e-commerce Company X is situated in and the future in such market.

2.3.2 Process of Data

In order to perform a qualitative data analysis there are several methods for identifying and organizing the gathered data. In this case, this refers primarily to the primary data, i.e. the interviews, and to some extent the internal documents. Content analysis is a way of describing and quantifying phenomena in a conceptual form (Elo & Kyngäs, 2007). The characteristics

of the content are described by coding and categorizing the information into smaller units. Thematic analysis is another approach to the process of data. By focusing on themes across a data set, thematic analysis allows the researcher to see patterns (Braun & Clarke, 2012). The two approaches overlap each other in many aspects and the boundary between can be hard to distinguish. According to Vaismoradi et al. (2013), the main difference between content and thematic analysis is the possibility of quantification in content analysis by measuring the frequency of different categories and themes, which may stand as a proxy for significance. Based on the context of this thesis, a content analysis is therefore the chosen approach to process the gathered data. When the primary data was processed, the authors looked for recurring experiences, thoughts, apprehensions and trends among the interviewees.

2.3.3 Process of Analysis

The analysis of the processed data is performed using the developed integrated framework on the past, present and future of the company. This division explains to the reader why the company is where it is today, how the current state is and what challenges the company is facing, and the future state is a vision or long-term plan of where the company is striving. First, theories about ambidexterity and innovation gives the reader an understanding of the company's ability to balance exploration and exploitation, and what approach the company has adopted to achieve ambidexterity. Second, with this information it is possible to analyze the characteristics of the different innovation strategies and strategic changes proposed by Davila (2005) and determine what strategy the case company has, is and will use. Lastly, we analyze if and how the proposed strategy is supported by the proper management controls from the management control system package by Malmi and Brown (2008).

The methodology structure of this thesis is illustrated in the flowchart below. From the literature of theories, an integrated framework is developed as a consequence to fit the purpose of this thesis in the best way. Further, as a consequence of lacking literature of management control system on e-commerce, the literature of e-commerce is complemented with an Expert interview. The Expert provides the reader with a authentic and holistic picture the successfactors for innovation strategy and management control in e-commerce. After that, the empirical findings of the case company, Company X, is presented. By combining the integrated framework, the critical success factors for management control to enhance innovation and empirical

findings of Company X, it is possible for the authors to analyze, discuss and conclude the case study in a valid way.

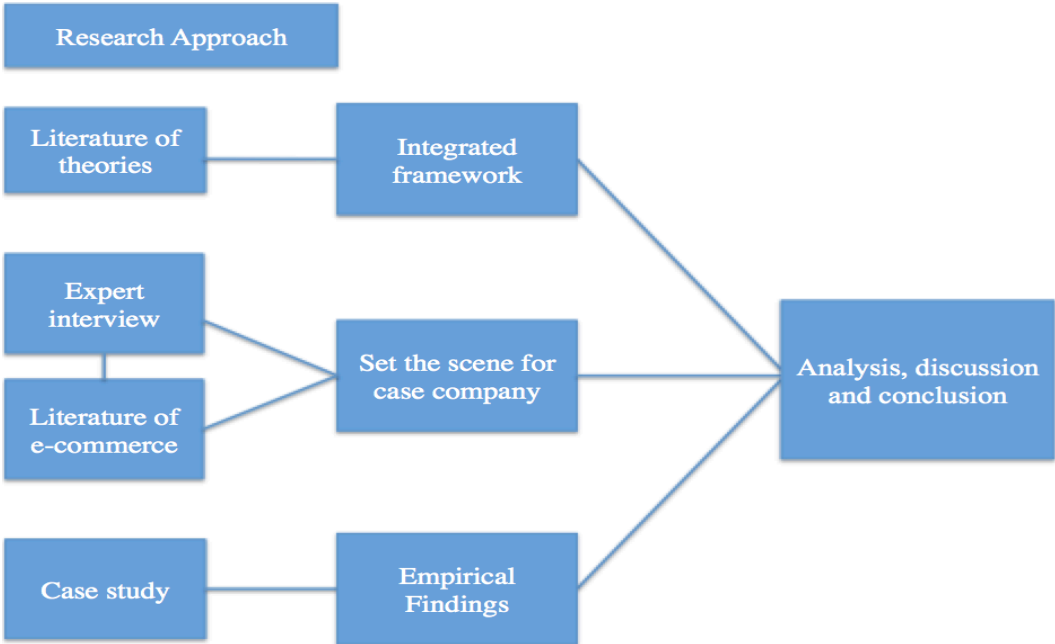


Figure 2: Methodology structure

2.4 Limitations of Research Method

For the purpose of this thesis, a case study is deemed to be the most suitable research method. However, case studies have some limitations. The most common critique is the difficulty to generalize the findings in a scientific manner (Yin, 2018). To duplicate the research method on another organization may not generate the same findings due to the in-depth examination of the subject of this study. The objective is rather to present the experience of an e-commerce company than to present an all-covering description of the industry. Hence, the findings from this case study can contribute to the general knowledge of ambidexterity, innovation strategy and MCS in different contexts, especially for the e-commerce industry. It can therefore be of academic interest and fruitful for peer companies, stakeholder and other organizations in general that are becoming more digital.

The collected secondary data consist of reports retrieved from some of the biggest consultancy firms. These firms have interest in the development of the industry as such changes have impact on the service they offer. However, they also have incentive to present facts favorable for the demand of their services (Bryman & Bell, 2013). In order to present an objective em-

pirical background, the secondary data have been retrieved from various aspects of the state of the industry and its future development. Foremost, an e-commerce Expert was interviewed in order to provide a picture of the current trends, historical events and success factors for e-commerce companies.

2.4.1 Validity and Reliability

According to Yin (2018) there are four tests, which are commonly used to establish the quality of any empirical study; construct validity, internal validity, external validity and reliability. As this is a qualitative case study based on interviews, it also means that the data collected is based on individuals' opinions and is therefore exposed to the risk to be subjective. Consequently, validity and reliability need to be considered carefully to ensure a good quality of the thesis (Scapens,1990).

To increase the validity of this thesis, the data that is collected are complemented by other data. This means that the primary data from Company X is complemented by secondary data about the company, such as internal documents and information from other sources. This lead to multiple sources of evidence, which decreases the subjectivity (Yin, 2018). Further, to get a better understanding of the industry Company X is operating in information from articles, reports and surveys published by big and well-respected consulting firms was gathered. Lastly, an interview with an Expert in the area of e-commerce was held. This helped both to strengthen arguments for empirical findings, as well as to exclude irrelevant or subjective information. Internal validity is not a concern in this thesis as it is not a causal case study.

The external validity refers to the problem of being able to generalize the findings beyond the immediate case study (Yin, 2018). Single case studies are typically argued to offer a poor basis for generalizing. This research is conducted on a Swedish e-commerce company and, to the authors knowledge, there has been no previous research on this neighborhood. E-commerce has some characteristics that are unique for the industry, such as the very dynamic environment and data analysis. Consequently, this could have negative impact for generalization outside the e-commerce industry.

Reliability of the research method means that if another author were to conduct the exact same study as this thesis, with the same research design and same case company, he or she

would arrive at the same results and conclusions. Therefore, to assure reliability of this thesis all interviews were recorded. When uncertainty or further follow-up questions arose during the process of data, additional communication was held with full documentation.

3. Literature Review and Development of Integrated Framework

The purpose of this chapter is to present the theoretical basis of this thesis. Theories on ambidexterity, strategic change, innovation and management controls will be developed into an integrated framework designed for the research purpose. Section 3.1 will present the concept of ambidexterity, the tension between explorative and exploitative activities, and approaches to achieve ambidextrous organizations. Section 3.2 presents theory on the role of management control systems to manage innovation strategies. Section 3.3 presents an overview of the management control package. Lastly, section 3.4 and 3.5 presents the developed integrated framework and previous research on the key topics.

3.1 Ambidextrous Organizations

A central concern for organizations when developing corporate strategies is to create and maintain a capacity to exploit current resources while simultaneously exploring new activities. March (1991) examines the relationship between exploration and exploitation in the context of organizational learning. He argues that organizations that tend to execute exploitative activities over explorative often end up isolated in a static equilibrium, while organizations that overemphasize explorative activities are likely to suffer from the costs of investments without realizing many of its benefits. To balance the tension between these two activities is therefore a key factor for company success. (March, 1991)

An organization's ability to manage these tensions is referred to as organizational ambidexterity (Duncan, 1976). However, to simultaneously explore and exploit is somewhat paradox and involves conflicting requirements on organizations (Agostini et al., 2016). It means to compete for scarce resources and calls for completely different structures, processes, strategies, capabilities and cultures. Explorative activities such as search, discovery, experimentation, risk taking and innovation is associated with organic structures, loose systems, radical changes and a reactive approach to events. On the other hand, typical exploitative activities as refinement, implementation, efficiency, production and selection are perceived to require mech-

anistic structures, aligned systems, planning, routines, tight control and bureaucracy. (He & Wong, 2004)

While exploitative and explorative activities compete for scarce resources and requires completely different organizational structures, the question on how an organization actually achieves ambidexterity remains. Duncan (1976) suggests that ambidexterity is achieved by shifting structures *sequentially* over time. However, sequential ambidexterity is widely perceived to be ineffective and organization should instead explore and exploit *simultaneously* (O'Reilly & Tushman, 1996). Simultaneous ambidexterity is what one commonly refers to when discussing organizational ambidexterity - including this paper.

3.2 Innovation and Strategic Change

There are different roles for management to take on to manage innovation within an organization. Davila (2005) propose a framework for the formal management control system (MCS) to play different roles in managing different innovation strategies. Historically, MCS was synonymous with standardization and cybernetic models (Anthony, 1965). As a consequence, innovation was not prioritized nor cherished. The framework of Davila (2005) aims for organizations to view MCS as a complementary that have a positive effect on innovation that enhance learning, communication and experimentation required for innovation in strategy formation and is a tool for adapting to changing environments. The research also emphasizes the impact innovation has on strategy and strategic change. (Davila, 2005)

Divided into two dimensions, locus of innovation and type on innovation, Davila (2005) suggest four types of processes to capture innovation on strategic change from different perspective. The first dimension, locus of innovation, is regarding whether the innovation happens throughout the organization in the day-to-day operation or at the top management. The other dimension, type of innovation, clarify whether the innovation modifies the current strategy (incremental innovation) or whether it redefines the future strategy (radical innovation). (Davila, 2005)

Table 1 Strategic concepts for MCS

	Type of innovation defining strategic change	
	Incremental	Radical
Locus of innovation		
Top management formulation	Deliberate strategy	Strategic innovation
Day-to-day actions	Emergent strategy / intended strategic actions	Emergent strategy / autonomous strategic actions

Table 1. Source: Davila, 2005 p.42

Figure 3: Strategic concepts for MCS

Strategic change depends on how the innovation shapes the strategic change. Within an organization, strategic changes should not be seen in isolation, rather as an internal evolutionary process, where formulation and implementation of strategy is equally important and happens simultaneously. This process can be seen as a combination of deliberate (formulated by day-to-day actions) and emergent (formulated by top management) strategies. Where the first is used to adapt to contingencies and the other with the purpose of redefining the strategy. The strategy that ends up happening is the realized strategy, which is a combination of the deliberate and emergent strategies. (Davila, 2005) Chesbrough (2000) claim that the implementation of innovation is the main part of a strategic change, which include how the organizational structure should be designed to enhance innovation. To enable this, the culture of the organization needs to support this (Tushman & O'Reilly, 1997).

As mentioned, there are two types of strategic changes: incremental and radical innovations. Incremental change is built upon competences that already exist within the organization, which can be acquired or developed. These changes is seen in a structural context which indicate that the strategic change is modifying the current strategy, and do not redefine it. It is fairly easy to predict the outcomes of an incremental change since it is within the current strategy. Incremental changes are also characterized with lower risk, and in turn lower expected return than a radical change hope to bring. The deliberate strategy and induced strategy are two types of strategies that are incremental. (Davila, 2005)

In contrast to incremental changes, radical changes are strategic changes that redefine the future strategy. The aim of redefining the strategy is high-expected returns, but it is also synonymous with high risk. Radical changes can be upsetting though it can lead to structural changes. Examples are the redesigning of competitive strategy, redefining core competencies and changes of the industry structure. The two dimensions of radical changes according to Davila (2005) are strategic innovation and emergent strategy.

3.2.1 Model of MCS for Innovation Strategy

Davila (2005) emphasize the MCS role as part of succeeding with the strategic approach of innovations. As a consequence, the model of MCS for innovation strategy was created. The model considers the components of strategy in regards of organizational context and the MCS as ways for innovation to emerge and get embedded into the strategy.

Table 2 A model of MCS for innovation strategy

Components of strategy	Organizational context	MCS role
Current strategy		
Deliberate strategy	Structural context	Support the execution of the deliberate strategy and translate it into value
Induced strategic actions	Structural context	Provide the framework for incremental innovations that refine the current strategy throughout the organization
Future strategy		
Autonomous strategic actions	Strategic context	Provide the context for the creation and growth of radical innovations that fundamentally redefine the strategy
Strategic innovation	Strategic context	Support the building of new competencies that radically redefine the strategy

Table 2: Davila 2005 p.47

Figure 4: A model of MCS for innovation strategy

3.2.2.1 Execution of Deliberate strategy

The deliberate strategy is incremental as well as provided by the top-management and it is therefore important for the top management to support the translation of the strategy into actions of value within the organization. The role of MCS is to enhance efficiency and to miti-

gate risk. On the other hand, by executing a deliberate strategy, it is possible that it limits the organization's ability to innovate. Whether this is a disadvantage of the organization depends on the following factors. In organizations where procedures are standardized, innovation might be unwanted, the role of MCS is to mitigate the risk of deviations and to constantly deliver reliability and consistency as well as how to carry out procedures. In these types of organizations, efficiency is also important and therefore delegation is facilitated (Merchant, 1985).

To ensure a deliberate strategy is fulfilled through the MCS, current strategy is transformed in a set of actions to meet pre-set targets. Hence, efficiency of current resources is critical, as well as speed. These two characteristics are often preferred at the expense of innovation. As a consequence, companies that imply a deliberate strategy is only effective in stable, mechanistic environments. The MCS can become dysfunctional and coercive in other environments due to the fact of ensuring short-term value of efficiency and speed. However, the limitations of innovation can be avoided when the innovation is translated into value. (Davila, 2005)

3.2.2.2 Guiding Induced Strategic Actions

As a consequence of the dynamic environment, the need for organization to adapt to changes is crucial. This requires innovative solutions that are not within the existing codified knowledge of the organization. The induced strategic actions do this through incorporating day-to-day activities within the process of incremental strategic change. Therefore, the MCS need to facilitate the day-to-day interaction across the organization, between the employees and the management. When inducing strategic actions within strategic change, deviations from expectations is seen as opportunities that capture learning to bring about improvements for the current processes. In such systems, the structure is intended to structure the interactions involved, to support searching and translate it to knowledge and into a product or service. (Nonaka, 1994) Hence, the MCS used must support knowledge to stimulate innovation. Since the induced strategic actions are perceived within the day-to-day actions, top management can only guide these actions. This is perceived by focusing on designing guidelines that shape the emergent strategy and provide clear goals, whereby communication is crucial. One way of doing this is creating quality circles, which consists of a team with the purpose of improving existing processes. By using quality circles to improve existing processes, organizations hope to gain competitive advantages. MCS is to be used to establish an infrastructure

that facilitates feedback mechanisms. The aim is to get the opinions of customers of the product developments. For managers to involve themselves within the decision activities of subordinates, the interactive systems should be in place. Hence, discussion should stay close to the current strategy rather than radical change, and top management should guide discussions around strategic uncertainties. In this way, interactive system helps to stimulate incremental innovation.

3.2.2.3 Crafting Autonomous Strategic Actions

Autonomous strategic actions are radical strategic changes that comes from anywhere within the organization, at any point of time. These changes are unpredictable, but will have a great impact on the organization and are managed through the strategic context. Due to this, autonomous strategic actions do not happen often. For an organization to succeed under these preferences, appropriate settings need to be created to be able to generate variation through this aggressive innovation strategy. One of the settings discussed is culture, where motivation and evaluation of people is included. That is how to monitor and allocate resources as well as how to capture learning are settings that need to be discussed. To define the strategic context, MCS can be used proactively and these characteristics are used in an almost opposite way than within traditional systems. MCS should be used in the way to embrace experimentation, discovery and exceptions, with the aim to be broad and search within unknown areas. To encourage motivation and still be able to measure performance, stable goals should be set to motivate the employees through without lacking in being innovative.

Further, the funding of radical innovations differs from incremental, though the benefits from being innovative and having a longer time horizons equals to more risks. As a consequence, innovations might appear less attractive. However, the funding processes of radical innovations rely mostly on qualitative valuation from Experts. When sledding from an idea into a business proposition, it is important that the MCS is supporting this step. Autonomous strategic actions should not be put into a structural context though it will limit significant deviations, but at the same time it is important with access to organizational resources and develop complementary assets to support the innovation. The key stage within the autonomous strategic actions is the retention stage, the stage where the innovation is incorporated within the strategy of the organization as well as the structural context (Van de Ven et al. 1999; Leifer et al. 2000; Burgelman 2002). As a consequence of a radical innovation, it can redefine the en-

tire organization. This integration is essential for the innovation and MSC helps guideline it through planning, incentives and training.

3.2.2.4 Building Strategic Innovation

Strategic innovations are radical strategic changes that are perceived from the top-management (Davila, 2005). In some organizations, the managers are the entrepreneurs of the organization that formulate a strategy from the need of the radical change. Strategic innovation has two dimensions: the first one is the same as in crafting autonomous strategic actions, i.e. the stimulation of creations that evolves within radical innovations throughout the organization. The other dimension helps the top-management to examine the need and opportunities of redefining strategies. For both, the aim is to incorporate the innovation so it will redefine the strategy and structural context. Simons (1995) defined the interactive systems as a tool for strategic uncertainties. Further, balanced scorecard can be used as a tool to identify opportunities for both radical and incremental changes within an organization's strategy.

Organizations that are building strategic innovation will benefit from an MCS that carefully monitor the environment (Lorange et al., 1986). The top-management need to be aware of what is going on externally and internally, which includes new customer trends, potential acquisitions, new technologies, opening of new markets or other changes in regulations. The MCS is also of importance when analyzing involving local experiments though leveraging learning is of crucial part being innovative. Further, economic models that are built need to rely on control systems. The MCS of that support strategic innovation in an organization need to proactively manage the learning process. This learning process is different from the structural context in the sense that the planning process does not outline specific reference points. It is the motivation for developing new competences, allocate resources for the new competences and lastly to create measurement systems that is able to adapt to the new business model that comes from strategic innovation. Therefore, the vision and action of the MCS structure is of constant back-and-forth with periodic deadlines for the management to be able to exchange information with each other. This process can be seen as a board meeting in start-ups, where people with different backgrounds discuss tactics and strategy to create new perspectives.

3.3 The Management Control System Package (MCSP)

In 1980, Otley first started to study management control system as a package. The reason was that if the different controls were studied separately, the controls would be in isolation from its wider context and potential. Malmi and Brown (2008) develop Otley’s theory and claim that the best way to study management control system is as a package. The main reason is that MCS do not operate in isolation and therefore the different control systems within the organization should support each other. If the systems are studied individually, conclusions can be drawn that do not relate to the existing MCSP. The package is conceptualized from previous researched within the area of MCS and are thereafter put together into the framework of management control system as a package, consisting of controls for cultural, planning, cybernetic, administrative and reward and compensation. (Malmi & Brown, 2008)

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Cultural Controls						
Clans		Values			Symbols	
Planning		Cybernetic Controls				Reward and Compensation
Long range planning	Action planning	Budgets	Financial Measurement Systems	Non Financial Measurement Systems	Hybrid Measurement Systems	
Administrative Controls						
Governance Structure		Organisation Structure			Policies and Procedures	

Figure 5: The Management Control System Package

3.3.1 Administrative

Malmi and Brown (2008) recognize organization design and structure, governance structure within the firm, and the procedures and policies as administrative controls in their framework. The organizational design and structure direct employee behavior by organizing individuals and groups. By doing so, organizations can encourage desired types of contact and relationships. The governance structure is a control that help monitor the behavior and who can be accountable for the behavior in the organizational structure, i.e. the formal lines of authority

and accountability, and a control to coordinate activities both vertically and horizontally. Policies and procedures are controls to specify how, or how not, tasks or behaviors should be performed.

3.3.2 Planning

In the management control system as a package, planning is defined in line with Flamholtz et al. (1985) as a type of control set out on beforehand. Malmi and Brown (2008) mean that planning, in the context of their framework, can be done without a clear link to finance and accounting. In other words, planning can serve as a tool to direct employee behavior. It is rather a element to set out goals, provide standards and align goals in order to control activities and individuals in the organization. The authors separate between action planning, which is tactical actions within a shorter period of time (usually a maximum of 12 months), and long-range planning, which have a more strategic focus on the company's overall strategy and vision.

3.3.3 Cybernetic

A cybernetic control is defined by Green and Welsh (1988) as “a process in which a feedback loop is presented by using standard of performance, measuring system performance, comparing that performance to standards, feeding back information about unwanted variances in the systems, and modifying the system's contingent upon how it is used”. Malmi and Brown (2008) recognize four cybernetic controls in their framework: budgets, financial measures, non-financial measures and hybrids, whereby hybrid are a mixture between financial and non-financial measures such as the Balanced Scorecard (BSC).

3.3.4 Culture

To explain cultural controls Malmi and Brown (2008) define organizational culture in line with Flamholtz et al. formulation as “the set of values, beliefs and social norms that tend to be shared by its members and, in turn, influence their thoughts and actions” (p. 158). Culture controls are the established values, beliefs and social norms that influence employee behavior, and value-based controls work on three levels: when organizations recruit congenial individuals which match with the organizational values, when individuals through socialization change their values changed to match with the organizational values, and when individuals

behave in accordance to the organizational values even if they do not personally adhere to them. Besides value-based controls cultural controls also include symbol-based controls, such as dress codes and open plan office, and clans, which is subcultures within the organization.

3.3.5 Reward and Compensation

By linking goals and activities of individuals and groups to those of the organization, companies can motivate and increase the performance of their employees. Rewards and compensations can be provided for other reasons than those connected to cybernetic controls and are therefore considered a separate element in Malmi and Brown's (2008) framework. Organizations can control individuals or groups effort to the task in three ways: effort direction, which is the tasks individuals focus on; effort duration, which is the devoted time to the task; and effort intensity, which is how much attention individuals devote to the task.

3.4 Previous Research

Bedford (2015) studies MCS impact on innovation and the implication for firm performance. He reach the conclusion that whether the control enhance performance differ depending on the mode of innovation, in other words, whether the firm is specializing on exploration or exploitation. The study also finds that in ambidextrous organizations, diagnostic and interactive controls is working dependent on each other. (Bedford, 2015) Transformational leadership by top management is emphasized by Chow et al. (2003) as having a positive impact on organizational innovation. Further, organizational innovation also has a positive effect on creating organizational culture, whereby ideas is exchanged and innovations are encouraged and developed. Innovation in connection to retail in general has also been covered, but the focus is often on value creation to the customers and not so much on how innovation can benefit the organization as a whole. Bridges et al. (2011) conceptualize a retail business model of how retailers can create value for its customers and how it appropriates value from the markets. Mahadevan (2000) study business models for e-commerce. He find that due to unprecedented growth of internet and internet shopping, organizations had a hard time adapting to the new kind of business model. A substantial amount of the literature on e-commerce studies customer loyalty in an online context, a concept referred to as e-loyalty (Gefen, 2000; Srivivasan et al., 2002; Choudhury et al., 2002). However, as mentioned before, there is a research

gap on how management controls can enhance innovation strategies within the fast-moving industry of e-commerce.

3.5 Developed Integrated Framework

Several researches claim that exploitation and exploration are closely related to incremental and radical innovation, and that exploitation and exploration requires different organizational structures (Abernathy and Clark, 1985; Davila et al., 2009; Tushman and O'Reilly, 1996). Tushman and O'Reilly (1996) emphasize that for an organization to survive over long periods they need to be ambidextrous as well as be able to implement both revolutionary and incremental changes. Examples of companies that have succeeded in being ambidextrous and master evolutionary and revolutionary changes are presented in their study. What all of these have in common is that they succeed in keeping the units small and autonomous, which lead to a sense of ownership and responsibility for the employees. In turn, this leads to a strong corporate culture, striving towards the same goal. (Tushman and O'Reilly, 1996) In Davila et al. (2009) they call for the field of accounting and control to adapt to the changing and dynamic environment and the need to view this elements from a new perspective. As a consequence, the authors of this thesis believe that these concepts, i.e. exploration and exploitation, should be studied together to understand how e-commerce companies are working with innovation and how MSC can enhance the innovation process.

Previous research has studied the MCS from the perspective that Davila (2005) describe in his research: Simon's (1995) Levers of Control. However, the authors of this thesis believe that the MCS' role to enhance innovation can be further emphasized by using the framework of Malmi and Brown (2008). The reasons for this are that Simons (1995) is outdated and only takes four controls into consideration. For example, reward and compensation as a tool to motivate individuals in other means than financial, is not part of Simons Levers of Control, however, it is a part of the MCS package of Malmi and Brown. Within the section of research opportunities in Malmi and Brown (2008), they propose the following question for further research:

“As the environments within which organizations exist are in a state of constant change, which of all the elements in the MCS package are the ones which have

to fit best, and which are less essential for maintaining control and gaining superior performance?” (p. 297)

As part of the purpose of this thesis is to study an industry which is constantly changing. Hence, it would also be a contribution to the further research opportunities suggested by Malmi and Brown (2008), as well as to provide an integrated framework that considers strategic changes and MCSP.

Further, there has been other criticism towards Simon's (1995) framework, for example that it focuses too much on top-management. Hence, the employees' contribution, organizational learning and organizational structure is not considered in his framework. (Tessier & Otley, 2012) These tensions are considered more thoroughly within the framework of Malmi and Brown (2008) and therefore motivate the substitution of Simon's (1995) framework for the management control system package (MCSP). The belief is that the MCSP can contribute to a more aligned MCS for companies that operate in changing environments. As the purpose of this thesis is that, by using the integrated framework, analyze how the MCS can support innovation in e-commerce companies, the authors believe that an aligned MCS is crucial for being successful in the fast-moving industry. By emphasizing aligned MCS it is easier to be agile when needed.

To make it possible to analyze Company X on the basis of MCSP, the crucial factors of MCS role described in Davila (2005) have been emphasized. Further, the different parts of the MSCP was reviewed to distinguish which parts that were of most importance to succeed with the different strategies: Deliberate, Induced, Autonomous and Strategic.

Innovation in terms of explorative and exploitative activities	Innovation Strategy	Characteristics of strategy	Parts of MCSP
	<i>Deliberate</i> -Incremental strategic change - Formulated by top management	<ul style="list-style-type: none"> • Mitigating risk of deviation • Deliver reliability and consistency • Planning systems • Analyze critical performance variables • Preset target • Business plans and budgets • Speed and efficiency 	<ul style="list-style-type: none"> • Planning • Cybernetic • Administrative
	<i>Induced</i> -Incremental strategic change - Day-to-day actions	<ul style="list-style-type: none"> • Facilitate interaction across organization • MSC must support knowledge to stimulate innovation • Designing guidelines and goals • Communication crucial • Quality circles • Feedback mechanism 	<ul style="list-style-type: none"> • Culture • Planning • Administrative
	<i>Autonomous</i> -Radical strategic change - Day-to-day actions	<ul style="list-style-type: none"> • MCS proactively • Variation encouraged • Stable goals • Retention stage is key stage 	<ul style="list-style-type: none"> • Culture • Long range planning • Reward and compensation
	<i>Strategic</i> -Radical strategic change - Formulated by top management	<ul style="list-style-type: none"> • Examination of need and opportunities of redefining strategies • Monitoring of the environment • Proactively manage the learning process • Back and forth communication • Measurement systems that adapt to new business models 	<ul style="list-style-type: none"> • Planning • Administrative



Figure 6: The integrated framework

4. Empirical findings

The purpose of this chapter is to present the empirical findings from the primary and secondary data. It is divided into two parts: one external and one internal section. The external section, 4.1, shortly summarize the current state of e-commerce and the current trends reported by consulting firms in 4.1.1, and an interview with an e-commerce Expert in 4.1.2. The internal section 4.2 presents the processed data gathered from Company X, consisting of information from the interviews and from the internal documents. This section is further divided into the key concepts of this thesis: ambidexterity, innovation strategy and the MCSP.

4.1 External empirical findings

4.1.1 Current state of e-commerce

The current state, existing challenges and future landscape of the retail industry and e-commerce have been covered by researchers, journalists, Experts and other stakeholders from all over the globe. Such range of coverage indicates an importance of tackling this topic. As previously stated in the introduction chapter, e-commerce is characterized by innovation, technology and rapid change in customer demand (Deloitte, 2018). With consumers going online to shop and retailers developing online channels in a rapid pace, consultants are promoting new approaches, business models and strategies for e-commerce companies to stay competitive and to be profitable (EY, 2017; PWC, 2018a). According to literature, such strategic changes require the formulation of innovation strategy and of MCS as a tool to ensure the formulation and implementation (Simons, 1990). However, the particular topic of retail and e-commerce in connection to ambidexterity, innovation strategy and management control do not seem to have drawn any previous academic attention. In addition, the previous research on e-commerce that do exist is considered to be irrelevant or outdated for the purpose of this thesis. Therefore, an interview with an e-commerce Expert is presented below to provide the reader with a authentic and holistic picture the success factors for innovation strategy and management control in e-commerce, and to further strengthen arguments in the analysis in Chapter 5.

4.1.2 Expert Interview

The e-commerce Expert has been active in the marketing and communication industry for over 25 years. He is an entrepreneur and co-founded one of Sweden's largest media consultancy firms. The company has advised their brand-name clients for almost two decades in performance and strategy, but the Expert has in recent years seen a dramatic increase in demand for consulting in digital transformation, innovation and strategic change. The industry is experiencing an extremely high growth in many aspects. He describes this change in demand as very slow moving and quite predictable for a long time up until ten years ago, and especially until the past 4-5 years, when the technological transition gained momentum.

“It is hard for companies in extremely changing environments such as e-commerce to have their MCS completely aligned at all times. In my experience, some controls are at times more important than others, depending on factors such as the state of the industry, the organizational structure, the strategy and technological development”.

When the Expert started his career the controls were more static, and now, the controls need to adapt to the changing environment. For example, the timespan for planning, forecasting and budgeting is shorter and revised several times a year instead of just once, which puts certain requirements to be flexible from a planning perspective. A big challenge lies in finding the right KPI:s and to interpret them in the right way.

“It is difficult to trace internal activities and efforts to company performance. How do you really know if a reorganization, new process, strategy or marketing campaign is truthfully reflected in the revenue or profit? And that those figures are not in fact affected by other external factors such as weather or social media? The challenge is the tracking of innovation”.

Previously, companies did not have to exert themselves notably in order to follow the industry development. This is no longer the case. Today, they have to be in the absolute forefront to gain market shares. The Expert suggests that there are two ways for digital companies to be profitable: to be fast moving or technologically innovative. The first option enables the company to gain a shorter period of monopoly or oligopoly, while the latter has the advantage of

free pricing that comes with new techniques. What they do have in common, however, is the importance of innovation and of a well-established MCS. He means that some parts of an organization naturally have to be innovative because the entire company's survival depends on it, while other business units such as accounting and administration perform almost no innovative activities at all. A proper organizational structure has to be in place to enhance innovation in those parts of the company that are desired to be innovative. Furthermore, he explains that balancing the exploration of new business opportunities and managing the current resources simultaneously is a very complex equation. He describes it as an ever-on-going process where the equilibrium is constantly shifting due to both internal and external impacts. However, his experience suggests that people in general are quite reluctant towards innovative activities and strategic change.

“People talk about the risks associated with innovation in terms of financial risk, but I would say that 90% of the time, the reason companies do not engage in innovation is because they do not have the energy or the will to change. No one would ever admit that though, but to not make a decision is a decision itself too. Also, people are afraid to lose their jobs”.

The Expert stress the importance of organizational culture and employee motivation in order for companies to succeed with innovational efforts. Individuals will not be open to change if the culture do not encourage change. Apart from that, he suggests that all innovation processes should be evaluated on beforehand to investigate which people that could be negatively affected by the change. These should be assigned KPI:s and allocated a watching eye in order for managers to detect resentment or discourage. The most important factor in innovation processes is, according to the Expert, to have a clear and flowing internal communication. The reason for executing innovation processes is to stay competitive. His apprehension of the current biggest challenges in e-commerce is to attract the right customers, generate traffic, capture quality leads and to convert online shoppers into paying customers. To press the margin is, in his opinion, a strategy that is eradicating. Instead, he predicts the future of e-commerce to focus on support services for the actual retailing such as logistical solutions, shipping, insurance and secure payment methods.

Key concept	Take-away
MCS	Organizational culture sets the scene for innovation possibilities Controls need to adapt to the changing environment Organizational structure decides which parts of the organization that can be innovative Planning, policies and procedures has to be clear in order to steer innovation in the right direction
Strategic change	People are in general reluctant to change
Innovation	Companies has to be in the forefront of change or technological innovative New types of business models There is a challenge to track innovation activities to company performance

Figure 7: Key takeaways from Expert interview

4.2 Company X

Company X is a medium sized company with approximately 2 billion SEK in revenue and 150 employees and is part of a bigger European group focused on retailing. Both the group and the company is pure e-commerce and has been since its very start. At first, the focus for Company X was to sell generic media products online and explore the benefits of not having any premises costs, i.e. to move the traditional retail business model online. As the industry grew, so did the business opportunities and, today, Company X is an online marketplace for thousands of products and numerous product categories. As a consequence of that the company is a marketplace, it do not develop any products in house. The innovation within Company X is therefore considered new services, improved processes and new business opportunities etc. Due to that company is part of a bigger group the company is not fully autonomous. For example, the budget cannot be revised without the group is aware of it and bonuses cannot be distributed however Company X desire. However, Company X's revenue contributes to almost half of the revenue of the group, which makes it the biggest one in the group. Company X has had an increase in sales of 10-15 % in the past years and the number of visitors on the website has a growth rate of approximately 5-10% per year. The marketplace business model allows the company to grow without having to build own inventory, which significantly reduces capital requirements and boosts growth. However, Company X is confronting several

challenges such as new business models, new technology and new actors on the market. In other words, Company X operates in a dynamic and ever-changing environment with constant shifts in customer demand. With Amazon entering the Swedish market, the increase in competition applies to all e-commerce companies, regardless of size and focus.

As the company is going through a strategic change, the empirical findings of the company will be presented in a perspective of three time frames: The past, the current state and challenges, and the future. The past describes the transition Company X made from being a retailer online to become a marketplace. The second period is the current state and challenges that lay the ground for the starting point of the strategic change. The third part discusses the future and where Company X is aiming.

4.2.1 The Past

Company X entered the e-commerce business in its earliest phase in the beginning of the 21st century. At the time, the platform that was designed was very simple, most due to limited knowledge and verdant technology. The interviewed developer describes this phase in the industry as much slower moving. The competition was not as fierce and the pressure to be in the forefront of innovation and technology was not as hard. The company has since then been adjusting the system, trying to achieve improvements and adapting to increasing internal and external demands. However, the result has been that the structure of the platform can rather be seen as patchwork quilt system where no one knows where to begin to restructure it. There have been failed attempts to remove and isolate separate modules from the database to understand its structure.

Company X has initiated several technological innovations formulated by top management in the past few years, but with little success of realizing the benefits of the investments. For example, the company has experimented with both the back-end and front-end technology to the website and tried to redesign the system from scratch. Company X has also put a lot of effort on reacting to the changing technological environment. Interviewees from Company X describes their daily operations to more or less circle around reacting to these technological changes and deficiencies, which has resulted in a reactive approach where both explorative and exploitative activities have been deprioritized.

“Even if someone would try to understand the patchwork quilt, one would not be able to as its complexity can only be understood by an expert, i.e. a developer. And even the developer can’t understand it because the turnover on the position as CTO has been so high”. (Developer interview, 2018).

If a deficiency, bug or failure is detected in the system there is no flag alarming on beforehand. Often, a quick fix is made to keep the site and the system running, and there are no resources or implemented activities to go back and fix it properly. This mismatch has resulted in a lack of trust for the R&D department. Further, the Chief Technology Officer (CTO) at Company X has been replaced several times. With no proper policies and procedures in place this has led to a hard time understanding the system’s structure and to keep up with changes. As every new CTO has tried to change and improve processes and structures within their business unit, a consequence is that employees repeatedly have had to change their way of working, leading to less autonomy and decrease in motivation. The risks with investments related to innovation in Company X have rather been connected to employee reluctance to change rather than financial losses. The explanation is the bad experience from previous initiatives. Interviewees express this reactive approach and reluctance to change as a characteristic of the culture in the organization. The business controller states that the MCS in the past has had little connection to the firm’s strategy. The organizational structure and the MCS have had a design more appropriate for one of the classic retailing models where focus is on high volume and extremely low margins. Cybernetic controls have consisted of almost exclusively financial measures and the organizational structure has been hierarchical with many middle managers. However, when the new CEO quite recently was appointed a decision to reorganize the company was made. The objective is to create space for innovation in order to be in the absolute forefront and gain market shares. In extension, to reorganize aims to create a better balance between innovation and managing current resources.

4.2.2 The current state and challenges

“Previously, we have had our daily operation pretty much circling around putting out fires. The mindset has truly been reactive. But we are in a transition phase right now where we seek to restructure the entire organization” (CTO interview, 2018).

4.2.2.1 Ambidexterity and Innovation Strategy

The fierce competition and ever-changing market is demanding for companies to be innovative and flexible. As a consequence of these external factors in combination with an internal demand for controls and structure, Company X is currently undergoing a strategic change. The company is shifting towards a new business model where the bulk of revenue comes from generating traffic on the website, capitalizing on that traffic and to offer supportive services for both customers and merchants. The latter may be executed by collaboration with external actors. Interviewees describe the ultimate goal with the new business model as to be more than just a marketplace online. Further, the company is currently undergoing reorganization with the objective to enhance synergies between organizational groups and business units to create space for shared knowledge and individual incentives. Hence, the strategic change entails two strategic parts: a new business model and reorganization. To realize the strategic change, Company X has formulated four main strategies for the organization to focus on and strive for: to improve the platform, operational improvements, brand repositioning and new categories of merchants.

The innovation strategy in Company X is currently formulated almost exclusively by the top management. However, some departments are working with innovation. The degree of innovational capability varies substantially between the different business units. The investments in innovation in the R&D department is approximately 3% of revenue, but there is no such number on how much the other departments work with innovation. In the R&D department, the innovational thinking is expected to be a part of the daily work and individual initiatives are highly encouraged. The focus of the R&D is divided into three parts: innovation and new business opportunities, short-term investment with quick fixes and managing the current system. The current distribution is 45%-45%-10%. However, the CTO implies that through being a marketplace for hundreds of merchandisers, selling to thousands of customers every day, the company is in that aspects in the absolute forefront when it comes to technological development. In other aspects, such as internal communication and data mining, the company is lagging behind. Too much is handled manually and requires support from the R&D department.

“Some employees spend their days putting out fires and that is not a very encouraging environment to foster new ideas. People will not be innovative when the work is monotonous and the organizational structure is strict. I believe that

with more individual responsibility comes more exciting ideas. However, everyone is not innovative in their nature and enjoy structure, and all departments cannot be as casual". (CTO interview, 2018).

4.2.2.2 MCSP

4.2.2.2.1 Administrative

The reorganization has led to a different organizational structure. Before, the organizational structure was more hierarchical with many middle managers, few interactions between business units and poor communication. As a part of the strategic change, Company X has recently reorganized the Marketing and Sales division as well as the R&D division. The new and old organizational structure of the Marketing and Sales division is illustrated Appendix 3 and 4. In the Marketing and Sales division, all products provided on the website are divided into categorical groups and each product group has its own Product Manager. Previously, every Product Manager had a team of Product Assistants. All teams practically performed the same work but parallel and completely separated from each other, which was highly inefficient. In the new organizational structure the Product Assistants are divided into cross-functional teams called Product Life Cycle that studies how a product "lives" on the website from the moment it enters to when it is sold. The R&D division has been reorganized in a similar way with cross-functional teams. Instead of working in separate groups depending on its supportive function for the organization, which resulted in a lot of duplication of effort, the cross-functional teams now work completely project-based depending on the organizational need, which is communicated by the management forum and the board. However, Company X has not implemented a measurement system to evaluate the outcome of the cross-functional teams. Further, once a month the R&D division has an "Innovation Day". During this day, the employees are allowed to work on any innovative project they find interesting. Such projects often tend to be related to artificial intelligence (AI).

"No one has been responsible for adapting from being a retail company that start selling products online, to become a fully feather e-commerce marketplace" (Business Controller interview, 2018).

Further, before the reorganization, no person was responsible for translating innovations and improvements to actions. In January 2018, Company X employed a Project Manager Office

(PMO) to structure these operations and make policies and procedures of how employees should, or should not, be operating to achieve the structure, efficiency and synergies. She claims that employees are aware of the misfit culture and the lacking organizational structure.

“Can you believe that we have a growth rate of approximately 10% of year despite the poor organizational circumstances, and can you imagine what that number could look like if we had the culture and the structure in place?” (PMO interview, 2018)

The top management group consists of the CEO, COO, interim CFO, interim HR manager, Head of Marketplace, Technical Officer and Chief Lawyer. However, the HR manager is employed by the group Company X is part of and do no work at the same location as the rest of top management. With new people on management positions, Company X has gained energy to improve the operations, the business model and to see new opportunities for the company. To further enhance organizational learning, synergies and a more proactive approach, Company X has created a so-called management forum. This is a group consisting of managers from the different business units, gathering every week to discuss and communicate the more short-term needs from their respective department. On beforehand, every manager has listened to the opinions of its own division. During the meetings, a prioritization list is created in order for the employees in every business unit to have a better understanding of what is required to meet the short-term needs. The management forum was not only created to benefit the employees, but also for the board to get a grip of how they can create an organizational structure suitable for the uncertain environment Company X is operating in.

4.2.2.2.2 Planning

The planning controls in Company X vary across the different business units. Each unit has their own short-term action plans as well as long range planning, whilst top management have formulated the overall goals and visions for the organization as a whole. These have typically been linked to finance and accounting and with little emphasis on other non-financial aspects of the organization. The Business Controller describes a shift in the planning controls regarding the role of the control per se and the timespan. Before technology changed the industry so swiftly, the planning controls in Company X were quite static and usually ranged over quarterly to yearly action plans and 3-5 years for the long-term plans. This applied to all business units in order to keep the organization focused on working towards the same financial goals

set by top management. As the industry grew and unforeseeable technological development started to occur, this structure was no longer feasible. Today, planning controls are more customized depending on each business units' demand. For example, R&D works project-based and therefore plans accordingly, whilst Marketing and Sales as well as Finance and Accounting have a clearer link to performance, but in different ways and with different measures. However, interviewees express an urge to customize the planning controls even further. The explanation is that for the departments that do not have a clear link to the business financial performance, for example exploration projects within R&D, it is hard to know the contribution to the business performance.

4.2.2.2.3 Cybernetic

Company X has moved from measuring company performance in a "traditional" e-commerce way, such as customer conversion costs, to instead emphasize cohort analysis and customer lifetime value, to better reflect the environment the company operates in. This is a subset of behavioral analytics that allows the company to observe patterns across the lifecycle of customer groups with the same characteristics. However, the Business Controller express a difficulty in measuring how certain investments affect the company performance. Further, he emphasizes that as a consequence of the fast moving market and new technology, it is sometimes hard to compare performance between periods because what is importance differs and sometimes even the measurements themselves change. Further, the company is using several financial measures as well, some that are followed up daily or weekly, for example the purchase amount per customer.

All employees at all departments in Company X has its own scorecard consisting of personal KPI:s and milestones. Each department manager's scorecard is a compilation of its employees. Naturally, the scorecards deviate a lot from each other. Some consist exclusively of financial measurements connected to forecasts and budgets, while others include no such measurements. The scorecards are followed up and, if needed, modified every two weeks. The intention of the scorecards is not to monitor the employees, but to serve as personal guidelines.

The budget of Company X is revised every fourth month, if the Business Controller together with the management team believe that the targets will not be met or whether the sales have increased more than expected. However, the potential for innovation in the Finance depart-

ment is limited. Even though the reorganization and transition aims to stimulate innovation and create space for an innovative culture, interviewees mean that there are certain key persons on management positions with extensive experience that lead innovation in Company X forward.

4.2.2.2.4 Culture

None of the interviewees describe the culture in Company to be in place and when asking about the core values only one person could answer. Official documents such as the annual report communicate a set of core values externally, but top management has undoubtedly failed to communicate them internally. The company is permeated by a reluctant approach to change. Interviewees describe this as a consequence of previous failed attempts to innovation, change and unfulfilled promises by top management. Even though the company just recently moved the office to a new and open facility, there are no inherent meeting places for employees from different units in the organization to interact. The organizational structure is expressed to be rather hierarchical and the culture is, if anything, commonly perceived as bureaucratic. However, there is an initiated process to produce feasible values that are applicable on the entire organization, and the reorganization aims to enhance interactions between groups and business units.

“The objective with the reorganization is to enhance value creation, synergies and innovation by creating space for shared knowledge and individual initiatives. Both within the company borders and externally to the customers”. (PMO interview, 2018).

4.2.2.2.5 Reward and Compensation

The scorecard of the employees is described by some of the interviewees as a source of motivation together with several other factors that varies across the organization. For example, Business Controllers are motivated by managing and improving the performance measurements, Project Managers by personal responsibility, R&D by technical innovation and Marketing and Sales by increasing number of customer and sales. Every sixth months, all employees have a wage negotiation. The salary rise depend on how well the manager think the employee has performed and is also based on the scorecard. Some of the employees get a bonus depending on how they have performed. However, which people that do get rewarded are not clear for everybody and there are no collective reward that the whole organization is striv-

ing for. Nor are there any rewards connected to other performances than financial, which is expressed by interviewees from departments without a clear link to company performance as de-motivating.

4.3 The future

“The landscape of e-commerce is changing and our reorganization is an effort to adapt to the dynamic environment” (PMO interview, 2018).

Company X have such a large customer basis that their future objective is to capitalize on generating traffic and supportive services. Potentially by collaborating with external parties. For example, to create a good and seamless customer service experience that Company X can let their merchandisers take part of in exchange for commission, or to handle the logistic around storage, inventory, delivery etc. The PMO describe the objective of the internal reorganization is to create a culture that foster innovation and value creation. There is an ongoing process to create department-oriented motivational programs and employee incentive plans.

“I think that the old way of doing e-commerce is dying. That business model is eroded because the margins can not be pushed any further if you want to be profitable. For us, it is everything around the actual retailing that will be interesting in the future. We have a unique opportunity compared to many others.” (PMO interview, 2018).

The reorganization aims to balance the tensions between explorative and exploitative activities. For instance, the goals are for R&D to have a 70% focus on innovation and new business opportunities, 20% on short-term investments and quick wins, and 10% on managing the current system. The marketplace will transform from boost in sales and low margins towards focusing on merchants and supportive services. The new phase will focus on optimizing sales and drive traffic, which in turn will require investments in technology, logistics and branding facilitate increased efficiency.

5. Analysis

In this chapter, the empirical findings are analyzed through the integrated framework. It is divided into two sections. In section 5.1 the past is analyzed through the lens of ambidexterity, innovation strategy and the historical MCS. In Section 5.2 the current state and challenges are analyzed on the basis of the key words ambidexterity, innovation strategy and MCSP, where all the controls are separately and more thoroughly analyzed.

5.1 Introduction to Analysis

The analysis is divided into the past and the current state and challenges of Company X. The reason for this distribution is because the authors want to provide the reader with an explanation of *why* the company is currently going through a phase of transition, and to more clearly separate historical experiences with current strategic changes. The process of the analysis is described in section 2.3.3. Furthermore, it is of relevance to mention that the interviewees and the internal documents could only provide limited information about the company's past, as many employees are relatively newly employed and as there have been a lack of formal procedures for internal documentation.

5.2 The Past

5.2.1 Ambidexterity

While innovation has to some extent had explorative characteristics in the past as defined by March (1991), e.g. technology investments and efforts to redesign the data system, the general technical development in Company X have been purely reactive. Interviewees from Company X describe their daily operations to more or less circle around reacting to the technological changes in the environment. The few historical innovation efforts have had a structural approach as efforts have come from the R&D department by instructions from the top management (O'Reilly & Tushman, 1996). In other words, the employees have rather been putting out fires than putting efforts on finding the balance between exploration and exploitation as suggested by Duncan (1976). Even if the previous hierarchical organizational structure can be

perceived as suitable for exploitation rather than exploration as described by He & Wong (2004), the empirical data suggests no implemented exploitative activities in the past such as refinement, efficiency and implementation, which require an aligned and tight MCS. This strongly indicates that Company X historically has not been an ambidextrous organization. The tension has rather been between having to react and prioritize different demands in order to stay alive, than to manage the tensions between explorative and exploitative activities. This has also resulted in a lack of an established innovation strategy.

5.2.2 Innovation Strategy

In a deliberate strategy, the top management formulates the innovation strategy. Further, the planning system, preset targets and efficiency is crucial to succeed with such strategy. (Davila, 2005) Within company X, top management has formulated the scarce innovation in the past and planning has, to some extent, been important to the organization as a whole and to the employees as guidance. Similarly, budgets and forecasts have been relatively central. These have been supported by a rather hierarchical structure and bureaucratic culture, which can be exemplified by the illustrated old and new organizational structure for the Marketing and Sales department (Appendix 1 and 2). However, the deliberate strategy is characterized by incremental innovation that constantly modifies the organization (Davila, 2005). The empirical data do not imply such type of innovation in Company X in the past. Rather, the transition from being an online retailer to a marketplace for hundreds of merchants can be argued to have been a radical change that redefined the future strategy, which is a characteristic of the autonomous strategy. However, in a autonomous strategy, MCS is handle proactively, variation is encouraged, the organization has stable goals and the retention stage is key stage (Davila, 2005). From the empirical findings, it is shown that none of these characters have been the emphasized in the past of Company X.

Strategy	Characteristics of strategy	Parts of MCSP
<p><i>Deliberate</i></p> <ul style="list-style-type: none"> - Incremental strategic change ✓ Formulated by top management 	<ul style="list-style-type: none"> - Mitigating risk of deviation - Deliver reliability and consistency ○ Planning systems ○ Analyze critical performance variables ○ Preset target ○ Business plans and budgets ○ Speed and efficiency 	<ul style="list-style-type: none"> • Planning • Cybernetic • Administrative

Figure 8: Illustration of characteristics of Company X

- ✓ = Current characteristic of Company X
- = Characteristics almost applied by Company X
- = Characteristics not allied by Company X

Strategy	Characteristics of strategy	Parts of MCSP
<p><i>Autonomous</i></p> <ul style="list-style-type: none"> ✓ Radical strategic change - Day-to-day actions 	<ul style="list-style-type: none"> - MCS proactively - Variation encouraged - Stable goals - Retention stage is key stage 	<ul style="list-style-type: none"> • Culture • Long range planning • Reward and compensation

Figure 9: Illustration of characteristics of Company X

- ✓ = Current characteristic of Company X
- = Characteristics almost applied by Company X
- = Characteristics not allied by Company X

In other words, when using the integrated framework, the historical strategy in Company X is analyzed to have features of both deliberate and autonomous strategies. However, these characteristics are limited and therefore, the deliberate and autonomous strategy is not the innovation strategy of company X. It is clear that Company X has had no innovation strategy at all in the past and has performed innovational activities ad hoc. With no established innovation strategy, there has been a mismatch between the strategy and the MCS in place.

5.2.3 MCSP

Company X has made a transition from an early adopter of online retailing to a marketplace with hundreds of merchants and thousands of customers and, now, to a transition towards capitalizing on traffic and supportive services. It is clear that when Company X made this transition the organization and the controls was not adapted to the new business model. The empirical data from interviews, reports and the theoretical background shows that there has been a mismatch between the organization, the MCS and the environment the company is and has been operating in.

Company X adopted a bureaucratic structure when initially starting the firm but seem to have lacked in putting the appropriate controls in place. Some controls typically associated with bureaucracy such as planning, cybernetic and governance were emphasized, though not wholehearted. The Expert claims that MCS used to be more static in the outset of the e-commerce industry. As the environment has developed to be more dynamic and changing, so has the MCS. Today, it is difficult for companies to have their MCS aligned and instead the focus should primarily be on emphasizing controls that support the innovation strategy. However, with an ad hoc strategy come ad hoc controls. While the culture and structure has been bureaucratic, there have been no policies and procedures in place to support such behavior. The R&D department has worked reactively to support the organization but have had a reward and compensation system linked to company performance. Top management has formulated innovation efforts, such as technology investments and efforts to redesign the data system, but have had employees that in general are reluctant to change. In other words, the MCS has not been aligned and not supported by the organization. The explanation could be that as Company X entered the industry in its early phase, it did not have the experience or knowledge to adopt innovation as part of their overall strategy. By not doing so, and whilst operating in an environment completely dependent on innovation, the company has not been able to reach its fullest potential.

5.3 Current State and Challenges

5.3.1 Ambidexterity

To explore new business opportunities whilst simultaneously exploit current resources are two activities that compete for scarce resources (March, 1991; Agostini et al., 2016). In other words, to simultaneously explore and exploit is somewhat paradox, but to find that balance is a key factor for company success according to March (1991). The formulation and implementation of a new business model can undoubtedly be seen as an explorative activity. Simultaneously, the reorganization can be argued to be a exploitative activity as the objective is to implement the new business model and create efficiency. However, the balance between the two activities is not perceived to have been found. The resources allocated in the R&D department are not yet distributed as desired in order to work proactively against the environment the company is operating in. Further, the reorganization process is still ongoing and the long-term plans and goals have not yet been formulated. Hence, there are still tensions between exploration and exploitation and Company X can therefore not be perceived as an ambidextrous organization. However, the innovation strategy indicates that this balance might be found in the future. This will be further discussed below.

5.3.2 Innovation Strategy

The developed integrated framework is specifying which controls that are crucial for the four different strategies. The empirical findings indicate that the current strategy of Company X have features of mainly the induced strategic actions and the building of strategic innovation. As of now, the strategy is building strategic innovation. However, from the information gathered from the interviews, the authors perceive that the aim of the reorganization is to strive for induced strategic actions.

5.3.2.1 Strategic

In the strategic innovation strategy, the locus of innovation comes from top management level and the focus is structural. In other words, it is a radical type of change that redefine the current strategy. (Davila, 2005). The decision to pioneer on a new business opportunity, to radically change the business model and to reorganize the company, i.e. the initiated strategic

change, was made at top level. These are characteristics of strategic innovation with the objective to support the building of new competencies that radically redefine the strategy.

As part of building strategic innovation, top-management should examine the need and opportunities of redefining strategies, which is done by internal and external scanning environment and opportunities (Davila, 2005; Lorange et al.,1986). From an internal point of view, the management of Company X feels that the controls of the company are not supporting the strategy and vision the company is aiming for. As a consequence of this internal scanning, top-management decided to do the reorganization. The recent established management forum further enables the management to get an internal overview of what is happening in the organization and what tasks and improvements that should be prioritized. The Expert proposes that many business opportunities can be found in supportive services around e-commerce. Accordingly, top-management in Company X has by external scanning created a new business model that redefines the strategy. The top management believe there are opportunities in adapting to a new business model which capitalize on the traffic generated on the website as well as the supply chain. Above discussion indicate that both the internal and external environment have been analyzed by the top management to examine how the company can be innovative in redefining their strategy to adapt to the changing environment.

Back and forth communication is also important within the strategic strategy, as well as proactively manage the learning process of the employees (Davila, 2005). The management forum and the cross-functional teams can be seen as controls towards achieving communication within the organization. The management forum enables top-management to communicate with the organization and build a perception of what has to be improved. However, the decisions are still at top-management level, which indicates on a strategic approach. The cross-functional teams indicate on both enhancing back and forth communication as well as organizational learning. As a consequence, employees from different departments and with various knowledge can together come up with new ideas and innovation. Further, such interaction enables cooperation that can lead to a stronger corporate culture through working together to reach common goals. This is further emphasized by the Expert that describes the importance of organizational culture as well as motivation to succeed with innovational efforts.

Davila (2005) describe the importance of measurement systems that are adapted to the business model in strategic innovation, which is further stressed by the Expert. As of now, Com-

pany X is using different measurement than many other e-commerce companies in order to control and evaluate the operation, such as cohort analysis and customer life-time value instead of mainly volume and margin. The focus is on keeping the customers, to make revenue on every customer several times for several years. The Expert suggest that all innovations processes should be evaluated on beforehand and should be assigned KPIs as well to be able to follow-up innovations and enable comparison between projects. However, this is not something that Company X is doing as of today. For example, the innovations that are created during the Innovation Days are not followed up. As a consequence, Company X cannot benefit efficiency from the Innovation Days. However, according to the interviewees, the Innovation Days is a source of motivation for the developers.

5.3.2.2 Induced

Characteristics of induced strategic action are that the strategic change is incremental and innovation is established in the day-to-day business (Davila, 2005). Before the reorganization, the innovation was almost exclusively formulated at top management level. However, the empirical data also suggests that the reorganization aims to redesign the company structure to better respond to changes in the dynamic environment, i.e. to enhance incremental change. This is done through induced strategic actions that incorporate day-to-day activities within the process of incremental change. The Expert claim that employee motivation and organizational culture can lead to innovational efforts. Examples of these are the project-based teams in the R&D department and the cross-functional teams that enables value creation and organizational learning, which further lead to innovation. Further, one of the objectives with the reorganization is to distribute more responsibility throughout the organization. The hope is to increase the motivation through a sense of being able to affect and contribute.

Communication and feedback mechanisms are crucial when adopting induced strategic actions (Davila, 2005). The reorganization in Company X will create space for communication by the building of project-based teams as well as the cross-functional teams. These structures will encourage employees within the teams and units, as well as between the teams and units, to communicate, interact and share knowledge. This will help to develop competencies and cooperation to be more efficient. In extension, the new structure aims to incrementally improve existing processes to gain competitive advantages. In line with Davila (2005), the management forum can be perceived as a quality circle and feedback mechanism. It can serve as a

means for which management can guide and communicate strategic actions and to keep the discussion close to current strategy, i.e. to align the organization to work towards the same goals. This is considerably more important when implementing a new business model. The output is also material for how policies and procedures can be designed to make projects and processes more efficient. The Expert argue that flexibility and ability to be agile are important capabilities for the future. By reorganizing the company, the intention is that through communication, feedback and quality circle, to incorporate innovation as a natural part within the day-to-day operations. This type of innovation that Company X strives to achieve can be defined as incremental rather than radical. Hence, these arguments strongly indicate a strive towards guiding induced strategic actions.

Guidelines formulated by top-management are the core of induced strategic actions as the company move the organization forward within the frame of the established business model (Davila, 2005). Guidelines can be concretized in many ways, whereof one is through various measurements. From the empirical findings, we have found that external measurements that are focused on company performance has been adapted to the environment in the form of e.g. cohort analysis. However internal measurement systems for the employees has not been adapted in the same way. These are rather standardized and link employee performance to company performance, even when not appropriate. Further, the strategy and vision do not permeate the whole organization and there are no clear guidelines on how to reach certain goals. Within an induced strategy where the guidelines are defective, the innovational thinking will be defective as well.

As induced strategic actions are realized within the established guidelines in the day-to-day actions, it is crucial that the MCS support knowledge to stimulate innovation (Davila, 2005; Nonaka, 1994). Above it is argued that through the reorganization, knowledge is shared to a greater extent than before. However, to what extent the MSC further can support knowledge can be discussed. Policies and procedures are emerging as a result of the newly employed PMO, but they are not fully in place and still in a elaboration phase. When employees with great competence leave the company, the knowledge is leaving the company as well as there are no policies for formal documentation. This further indicates that the MSC is not supporting the knowledge to its full potential. Thus, as the locus of innovation is shifting from top management to day-to-day, and as the reorganized structure will enhance incremental innova-

tion rather than radical, it is reasonable to argue that Company X is moving from some sort of strategic innovation strategy to building more induced strategic actions.

Strategy	Characteristics of strategy	Parts of MCSP
<p><i>Induced</i></p> <ul style="list-style-type: none"> ○ Incremental strategic change ○ Day-to-day actions 	<ul style="list-style-type: none"> ○ Facilitate interaction across organization ○ MSC must support knowledge to stimulate innovation ○ Designing guidelines and goals ○ Communication crucial ✓ Quality circles ✓ Feedback mechanism 	<ul style="list-style-type: none"> • Culture • Planning • Administrative

Figure 10: Illustration of characteristics of Company X

- ✓ = Current characteristic of Company X
- = Characteristics that Company X is aiming for
- = Characteristics not allied by Company X

Strategy	Characteristics of strategy	Parts of MCSP
<p><i>Strategic</i></p> <ul style="list-style-type: none"> ○ Radical strategic change ✓ Formulated by top management 	<ul style="list-style-type: none"> ✓ Examination of need and opportunities of redefining strategies ✓ Monitoring of the environment ✓ Measurement systems that adapt to new business models ○ Proactively manage the learning process ○ Back and forth communication 	<ul style="list-style-type: none"> • Planning • Administrative

Figure 11: Illustration of characteristics of Company X

- ✓ = Current characteristic of Company X
- = Characteristics that Company X is aiming for
- = Characteristics not allied by Company X

Above analysis indicate that the innovational strategy mainly has characteristics of induced and strategic strategy. Within the developed integrated framework, the most important controls in the strategic strategy are planning and administrative. Further, in the induced strategy also culture controls are crucial to successfully adopt the strategy. Above analysis further implicates that Company X is currently adopting a strategic strategy, however many of the characteristics show that the company is aiming for a more induced strategy that incorporates day-to-day actions to enhance innovation.

5.3.3 MCS

5.3.3.1 Administrative

The administrative controls are divided into governance structure, organizational structure and policies and procedures. (Malmi & Brown, 2008) The authors believe that the new governance and organizational structure are supportive controls to enhance innovation within Company X and for the organization to be more agile. The need to be able to adapt to the fast changing market demand organizations to be agile is emphasized by the Expert. Davila (2009) call for the field of accounting and control to adapt to the changing and dynamic environment and the need to view these elements from a new perspective. This is also emphasized by the Expert that stress that the MSC also need to be dynamic to be able to respond to changes. As the organizational structure has changed, the way of reporting between managers and employees has also changed. Hence, the governance structure of Company X also changed and as a consequence of decreasing the number of middle managers, more employees are reporting to the same manager. The decreased number of managers can indicate on a more simple and comprehensible governance structure. The reason is that through a lower number of managers, the communication can flow more frequent and enable faster decision when needed. Further, one of the aims with the reorganization is to enhance individual initiative and innovation in the day-to-day operations. This requires more autonomy and less governance and controls by the managers. According to the authors, above discussion indicate that through enabling communication between managers and through giving more responsibility further down the organization, the MCS support the organization to enhance innovation and gain organizational value.

The lack of policies and procedures is the reason behind the newly hired PMO. The PMO has started to restructure processes and policies of how the organization should act in different situation and how to benefit from the innovation that happens throughout the organization, through for example the Innovation Days. However, there are still potential to further develop the policies and procedures to enhance innovation. The knowledge of the employees is not documented, and as a consequence, when someone leaves the company, the knowledge leaves too. By doing mistakes, take risks and learn by them, innovation and improvements can be achieved. Hence, by not documenting this knowledge, the controls to enhance innovation are not fully exploited.

Both induced strategic actions and strategic actions strongly require administrative controls. The empirical findings and analysis show proof of that one of the reasons for the reorganization is the lack of a governance and organizational structure that was supporting organizational learning and value. Through further implementing policies and procedures of how to keep the knowledge within the company and always strive towards improvement innovation can be enhanced.

5.3.3.2 Planning

Through emphasizing planning as a control, the aim is to direct employees behaviour, set out goals, provide standards and align goals. Further the planning is divided in short- and long-term planning. (Malmi & Brown, 2008) As discussed, the aim of the reorganization is to enhance synergies, learning and innovation. However, whether this will succeed will depend on the long-term planning and how well the top-management will be able to communicate the guidelines throughout the organization. Therefore, the planning process for Company X is crucial. From the empirical findings gathered, it seems that the top management is executing the planning within Company X. However, how well it is communicated can be discussed. Some interviewees describe an urge for the planning controls to be further developed and entail other than financial targets, as departments that do not have a clear link to the financial performance do not have any guideline or KPIs to strive for. Also, numbers only do not motivate all employees. As a consequence, the goals can be ambiguous, which can lead to demotivation among employees. The communication of the guidelines is lacking behind and should be further emphasized to be able to benefit from the reorganization and enhance innovation. This is also stressed by the Expert to be a crucial factor for employees to be receptive to change. Further, the Expert suggests that organizations should set KPIs on innovational projects to enable comparison between projects. However, the company can be seen as lacking a long-term plan of how it will benefit from the reorganization.

As discussed above in section about administrative controls, one task of the PMO is to develop policies and structures. What has not been emphasized yet in the organization is a implementation plan of how to this should be executed for the organization as a whole. There is no long-term implementation plan and goals for the project teams and cross-functional teams. Planning controls are an important part of the induced and strategic strategy. Therefore, these

controls need to be in place and both the short-and long-term planning should be further communicated throughout the organization. Otherwise, the guidelines and goals will not be clear and it will not be possible to proactively manage the learning process nor support the knowledge within the company.

5.3.3.3 Cybernetic

Cybernetic controls are used to ensure that performance is measured and followed up, this include budgets, financial and non-financial measures as well as hybrids (Malmi & Brown, 2008). Company X is an actor in a competitive market with low margins and as a consequence the company is result-oriented, focusing on lowering costs and be profitable. During the previous years, more focus has been put towards utilizing several non-financial measures to a greater extent, such as cohort analysis and customer lifetime value. This could indicate a more innovative mindset, focusing on making value for the customer rather than just profit. The reason is that lifetime value has a long-term focus and a focus on the service rather than the price. However, as discussed in the above section about planning controls, Company X could put more emphasis on non-financial measurements for the departments that are not as closely linked to the financial performance. Furthermore, the budgets in Company X are revised every fourth month, which makes it possible for the organization to have reachable goals, even when the market is changing. To what extend the budgets are flexible to enhance innovation or to react to new demands from the market can be discussed. The above discussion therefore indicates that cybernetic controls that ensure and follow-up performance are not in place.

5.3.3.4 Culture

Culture controls are the established values, beliefs and social norms that influence employee behavior (Malmi & Brown, 2008). Within the Malmi and Brown (2008) framework, the culture controls are divided into values, symbols and clans. As described by interviewees in the empirical findings, the culture controls are currently not supporting Company X to enhance innovation. To be able to realize the synergies and innovation that is the aim with the reorganization, the implementation is only one important step in the right direction. To succeed with innovational efforts, the organizational culture of the company needs to support the goals (Tushman & O'Reilly, 1997). This is further stressed by the Expert, which also emphasizes the importance of the internal communication flow. Even if Company X has core values

communicated outside the organization, the fact that only one employee knew what they were is a good example of the immensely lacking a proper company culture. However, this is something that the company is currently working on to develop. Whether this will enhance innovation will depend on how the values will be implemented and permeate the organization. According to the developed integrated framework, culture control is important in both the induced and strategic strategy. Since Company X is suggested to have characteristic of both, and aiming for a more induced strategy, it is crucial for Company X to further develop a culture that enhance and encourage innovation.

As a consequence of the fact that the HR manager is operating from another city, she is the person in top management team that do not work as closely as the rest of the top management team and is not as incorporated in the daily activities. It can be argued that this as one possible reason to the lack of corporate culture. The HR manager is the link between the new and current employees and the management team. If this person is not working closely between the different links, the communication between them can be incorrect or misinterpreted. Further, the HR-questions and corporate culture might not be the most frequently discussed areas as others.

It can be discussed to which extent there are clans within the organization. The R&D department can be identified as some sort of clan as they work autonomously, separated from the rest of the organization and in project-based teams. However, the way of working in project teams could be further tested throughout the organization in a chance to find out whether project teams are enhancing culture clans that has a positive effect on the corporate culture. The cross-functional teams can be one way of doing this. How well this works should in such case be evaluated to see whether it can be used as an efficient control across all departments. The Expert further emphasizes the importance of evaluating all activities to find out what activities that brings value to the organization as a whole.

Culture controls are important within the induced strategy to enable innovation in the day-to-day activities. The culture control is seen as the control that is lacking the most within Company X. Whether the reorganization will be beneficial is dependent on the execution of the corporate culture.

5.3.3.5 Reward and Compensation

Rewards and compensation is seen as a control to provide motivation to employees with the aim to increase performance (Malmi & Brown, 2008). Whether the controls for reward and compensation of Company X enhance innovation can be discussed. The reason is that there is no implemented system or any incentives for the employees to find more efficient or improved working-methods, services or products. It is only some employees that get bonuses and these are mainly tied to financial performances. However, as it is described to be hard to link innovation efforts to financial performance, reward and compensation systems can be hard to develop and motivate.

6. Future Implications and Discussion of Findings

The purpose of this thesis was to investigate how e-commerce companies can work with MCS to enhance innovation. Several findings ought to be lifted and discussed following the analysis of ambidexterity, innovation strategy and MCS in Company X using the integrated framework. Firstly, it is clear that the historical bureaucratic structure that the organization adopted when it was first established was not appropriate for the industry it was entering. This mismatch resulted in the absence of a clear strategy and no support of the MCS. Neither when the company changed from being an online retailer to an online marketplace was there any serious efforts to create a MCS that was adapted to the changing environment. Ultimately, Company X had such a de-functioning operation and such poor innovation strategy that the organization itself cried out for change. The focus was not on balancing the tension between exploration and exploitation to be ambidextrous, but rather to react to the constantly changing environment. The integrated framework shows that the radical change from retail to marketplace can be analyzed to have features of both deliberate and autonomous strategy, but we would confidentially propose that the change was not part of an innovation strategy at all and was solely just another reaction to a change in the environment. Further, we do not believe that the incorrect suggestion by the framework is due to the framework per se, but rather because of the lack of innovation strategy that Company X have previously had and that can be interpreted in various ways. An explanation could also be the limited historical data that could be provided by Company X. Many of the employees and the chosen interviewees are relatively newly employed and there have not been any formal procedures for internal documentation in the past.

Secondly, the integrated framework shows that Company X is currently building strategic innovation according to Davila (2005), but the final destination is to adopt an induced strategy. As of now, the organization has not achieved organizational ambidexterity. The transition from strategic to induced cannot be guided by the framework and, here, we would like to highlight a detected weak point. The integrated framework does not illustrate the relationship between the strategies, nor does it propose any guidelines for how companies can carry out a transition from one strategy to another. This makes it difficult to confidently suggest practical actions for Company X to carry out a transition. The framework is limited to guide the adoption of a strategy, not a transition from one to another. One can also discuss the possibility of

adopting different strategies simultaneously or in different business units. This case study find that company X is currently having several characteristics of both guiding induced strategic actions and building strategic innovation. However, the impression from the empirical findings and the analysis is that the company, by the reorganization, is trying to achieve innovation in the day-to-day actions. For example, the idea of a new business model and its required reorganization comes from top-management, but the execution of the business model will be carried out by the individuals and the objective with the reorganization is to enhance day-to-day innovation. As a consequence, the controls for the induced strategy are crucial to succeed and to guide the day-to-day actions to enhance such innovation. Davila (2005) claim that the realized strategy is often a combination of day-to-day actions and top-management strategies. This thesis could to some extent substantiate this claim with the arguments in above discussion.

Lastly, the empirical data, the Expert and the framework all promote a holistic approach to innovation for a company operating in a dynamic environment as the context of this thesis, which can be achieved by incremental strategic change in the day-to-day actions. In other words, by induced strategic actions. The integrated framework states that such strategic concept requires greater emphasis on certain parts of the MCSP. These are cultural controls, administrative controls and planning. Innovational efforts need to be supported by an organizational culture that, to some extent, enhances day-to-day innovation. If individuals are to be responsible for carrying out the induced strategy, the company needs to be encouraged by values, beliefs and social norms. To begin with, Company X could be more selective when employing new people. The turnover on the CTO position shows that this has not been the case before. Also, the fact the HR manager works at a geographical different location do not imply that she has practical knowledge about which people that culturally are suitable to employ. Company X do also lack a set of core values that are clearly communicated throughout the entire organization and that are in line with the environment the company is operating in to unite individuals. The reorganization will create space for interactions and shared knowledge, which hopefully will result in value creation. With the reorganization, Company X has already begun to enhance administrative controls. It can be further considered whether to reorganize business units that are not naturally innovative as well, such as the finance department, to search for unexplored innovation opportunities. However, the Expert does not suggest this, as he does not believe that some parts of the organization are naturally innovative and should not be either. What is crucial for an induced strategy is clear plans, policies

and procedures in order for individuals to create incremental innovation in line with the organizational goals. This applies to short-term actions, long-range plans, and policies for approaches to innovation and procedures for innovation processes. Such guidelines are crucial to have in place when adopting an induced strategy, as it is the only way for top management to control that the day-to-day innovation develop in line with the company goals. Thus, the future implication for Company X to succeed with induced strategic actions is to focus on cultural controls, administrative controls and planning. By doing so, we believe that the company can better manage the tension between exploration and exploitation.

The result of Bedford's (2015) research, find that within ambidextrous organizations, diagnostic and interactive controls is crucial. However, from our research we would like to argue that in a fast-moving industry that need to be innovative, culture controls are further important to succeed with managing ambidexterity. Chow et. al (2003) emphasize that innovation in itself can lead to positive effects on the corporate culture. In addition, we have learned from this thesis, that the control that Company X is lacking the most is culture. As a consequence, the company has had a hard time to motivate employees, striving towards the same goals and enhance organizational learning, which all are important to succeed in the daily business as well as to enhance innovation. As a consequence of the lack of culture, it is found that innovation has not been prioritized or cherished by the employees. Therefore, we would like to express culture controls as an important factor to succeed with innovation strategies in Company X specifically, but also, according to the Expert, in the e-commerce industry generally.

As of today, the MCS do not fully support the innovation strategy and, hence, we do not consider Company X to be an ambidextrous organization. Although our integrated framework does not allow us to clearly evaluate the innovation strategies and MCs and their impact on the organization's ambidexterity, we consider the concept of ambidexterity to be important due to its relation to MCS. Partly because of previous research and findings that imply that an aligned MCS would lead to ambidexterity, but also because of the context of e-commerce that this thesis is exploring. It is clear that a company operating in a dynamic environment as e-commerce has had, and still is having, a hard time to align their MCS and manage the exquisite balance between exploration and exploitation. Apparently, such alignment or balance does currently not exist in Company X.

7. Conclusion

7.1 Key findings

In order to link our findings to the purpose of this thesis, we would like to reiterate our research question:

How can e-commerce companies work with MCS to enhance innovation?

Firstly, we found that to answer the research question there was no previous research applicable to the context of this thesis and, hence, we developed a new. By applying the integrated framework, we could then find that, as of now, Company X does not have a MCS that support the adopted innovation strategy. This is a consequence of a historical lack of innovation strategy, proper management controls, and a current MCS that is not aligned, which in extension means that the company is not ambidextrous.

To succeed with the current strategic change and the adopted innovation strategy, the integrated framework suggests that Company X has to enhance mainly cultural controls, administrative controls and planning. We also find that cultural controls seem to be of particular importance to succeed with the innovation strategy and to balance the tension between exploration and exploitation.

It can be argued that the reason that Company X is not ambidextrous is because the lack of controls that support the innovation strategy. The company aim is to put 70 % of the resources on exploration, however this number is currently only 45%. The explained reason is that the employees have been working reactively to changes in the environment and have not been able to focus on explorative activities. By incorporate management controls to a greater extent, the organization has a chance to align the controls and in extension, might be able to become an ambidextrous organization.

7.2 Contribution

The contribution of this thesis to the current state of research is on ambidexterity, strategic change, innovation and management control that is constituted to the developed integrated framework. The typology addresses how companies in fast moving industries can build a MCS that supports its innovation strategy. Also, it provides practical example of the role of MCS for innovation strategies. This thesis further contributes to the knowledge of the aforementioned research areas through analysis in a new context, in this case the e-commerce industry.

In Anthony's (1965) research, MCS is synonymous with standardization and cybernetic models. However, this is rejected by Davila (2005) that emphasize how MCS can have a positive effect on learning, communication and innovation. This research contributes to the research on a fairly new industry, e-commerce, and provide consent to the Davila (2005) and rejection to the stale way of MCS as suggested by Anthony (1965).

Malmi and Brown (2008) emphasize the need to apply their framework in an industry with constant changes to analyze which elements in the MCS that have the best fit for superior performance. The industry that Company X operates in is fast moving and the company needs to constantly develop and meet the demand of the market and the environment. This research contributes to this area and mainly emphasizes the importance of cultural controls. Further, planning and administrative controls are emphasized as important parts within organizations with strategic and induced innovation strategies.

The result of Bedford's (2015) research, find that within ambidextrous organizations, diagnostic and interactive controls is crucial. However, from our research we would like to argue that in a fast-moving industry that need to be innovative, culture controls are further important to succeed with managing ambidexterity. When culture controls are lacking, other controls are lacking as well, which lead to a non-aligned MCS that is not enhancing innovation.

7.3 Limitations and Further Research

There are some limitations that need to be considered in regards of the significance of this thesis. The first limitation is concerning the fact that the case is applied on only one company and that this company wants to remain anonymous, which might question the validity of the research. Hence, anonymity was expressed by the company as requirement because of the sensitive information. The fact that the thesis is only studying one company makes it hard to generalize the findings. Another limitation is the lack of historical information on the case company, which lead to a narrower empirical findings and analysis in this part. Further, this thesis is limited to study how Company X is using MCS and whether it enhance innovation. However, it would be interesting with a more extensive study to find how the strategic changes of Company X and adaption of the controls, lead to further success of enhancing innovation.

Secondly, a suggestion for further research is to study the effect on company performance, using a quantitative approach. This can contribute to another perspective of the integrated framework and how innovation affect company performance.

Further, this thesis is a starting point of how the MCS could be used to enhance innovation in fast-moving industries. Hence, to test the significance the integrated framework should also be tested on other cases. It is also possible that the MCSP might not be the most applicable framework for other industries where the controls need to adapt to the changing environment to such great extent.

Lastly, from this thesis the importance of culture as a control has been highlighted. Therefore, it would be interesting to add theories about other more human factors such as motivation, engagement and satisfaction to the discussion.

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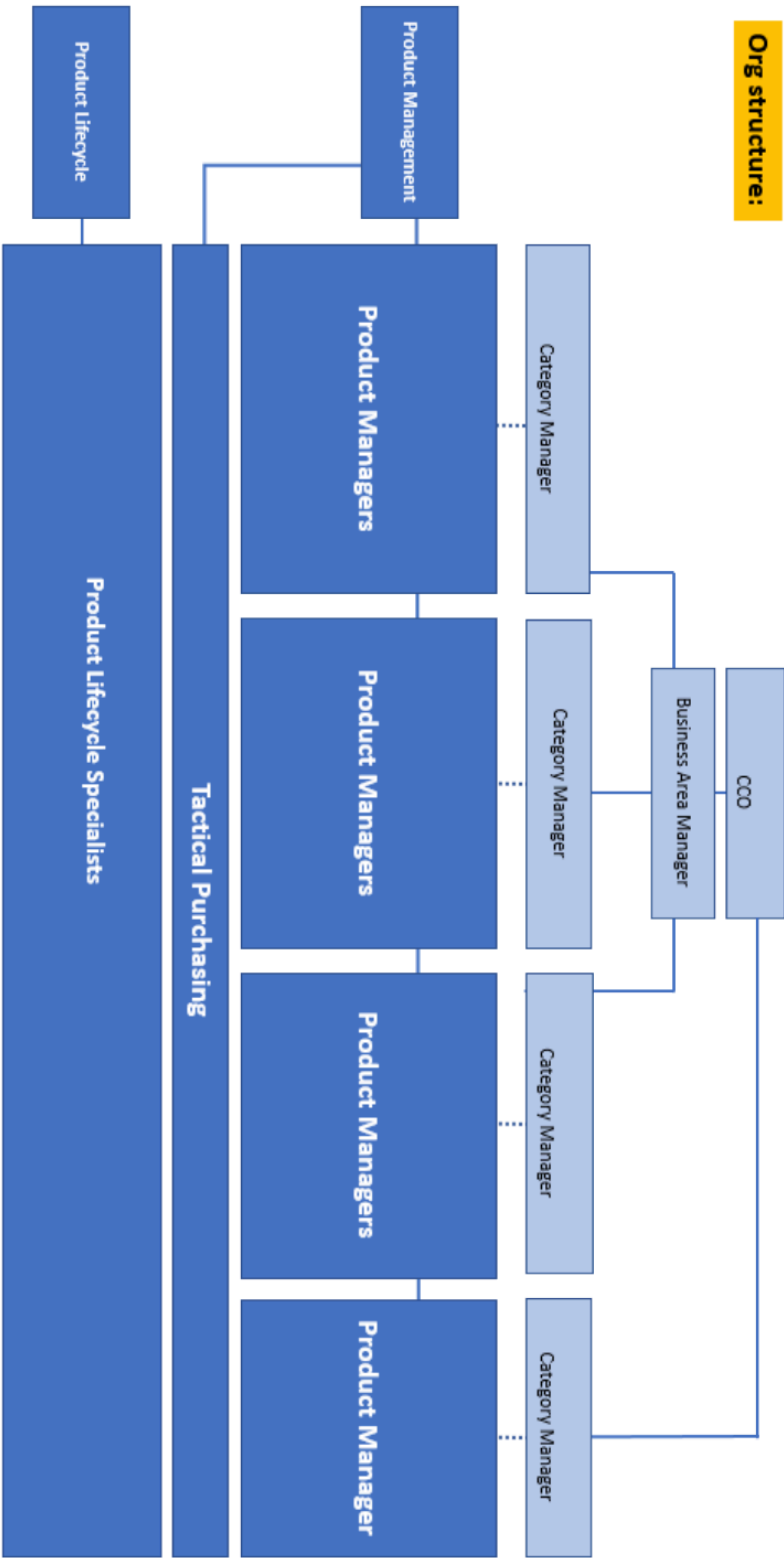
Appendix 1 - Expert Interview Questions

- How would you describe the current state of e-commerce? What are the biggest challenges?
- According to research, MCS look different depending on industry and company specifics. How would you describe the characteristics of e-commerce?
- From your experience in the industry, have you seen any changes in the MCS with the objective to enhance innovation?
- To our understanding, there are processes that gain from innovation and there are some processes where innovation is an unwanted risk because of the risks they are associated with. How do you believe that companies should design their organizational structure and MCS to balance both processes?
- How should managers motivate their employees?
- What is your forecast on the future of e-commerce?

Appendix 2 - Company X

- Do you believe that your organization as of today is lagging behind or on the right track in terms of innovation, and if so, why?
- According to research, MCS look different depending on industry and company specifics. From your point of view as [role], how would you describe the characteristics of your company?
- To our understanding, there are processes that gain from innovation and there are some processes where innovation is an unwanted risk, how does your organization design their MCs and organizational structures to manage both types of processes?
- Which people in the organization are working with development of new product and services? Is this considered to be a core part of the business?
- How do you experience that the organization is motivating you?
- What challenges do you see in the industry of retail and in e-commerce in the future? Are you adapting your MCS for these changes?

Appendix 3 – Marketing & Sales department structure (old)



Appendix 4 – Marketing & Sales department structure (new)

