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Evolution of Management Control Systems
and increased importance of the controller
role in a multinational company

A Case Study of Amorim Revestimentos

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Abstract

This project has the intention of analysing how international-focus shaped and impacted the systems and processes of Management Control and the role of the controller itself in the company Amorim Revestimentos.

With the collaboration of company, it was created a case study to analyse different strategies and changes that took place inside the business. It is aimed to access how these changes and vicissitudes affected the role of the controller inside the business and the outcomes to the Management Control Department of those changes.

Currently, different studies exist analysing some of the impacts of an international-driven company on its Management Control, but there is a lack of studies relating this relationship with the increased responsibility of the role of the controller.

Based on this project we can suggest that the role of the controller has changed inside the company throughout the latest events. The focus on international markets and international subsidiaries has increasingly influenced the Management Control Department with different routine processes and systems and individual controllers have now a more important role inside the business.

Keywords: Management Control Systems, internationalisation, controller, management control

Jel Codes: M10, M40, F23, L22

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Biographic Reference

José Pedro Machado Moreira de Andrade was born in Vila Nova de Famalicão in 1992.

Entered FEP - School of Economics and Management – University of Porto, where he enrolled on the Bachelor Degree in Management in 2010 and concluded those studies in 2014.

In 2014 enrolled on the Master in Management in the same school with a partnership with the QTEM program for a double degree in HEC Lausanne, Switzerland. This project is aimed to complete the master studies.

Since March 2016 he is the business controller of Amorim Revestimentos' subsidiary in Switzerland, where he is responsible for all the financial and accounting aspects of the company.

Table of Contents

1.0 Introduction.....	7
1.1 Research Background.....	7
1.2 Research Context	7
1.3 Structure	8
2.0 Literature review	9
2.1 Internationalisation.....	9
2.2 Management Control System (MCS).....	9
2.3 Control of the subsidiary	11
2.4 Internationalisation and importance of MCS	11
2.5 Simons Control Framework	11
2.6 Defining Controller	14
2.7 Controller Role and responsibilities.....	14
3.0 Research Methodology	18
3.1 Purpose of research	18
3.2 Introduction and Advantage of Case studies.....	18
3.3 Reliability and validity of Case study for this study	19
3.4 Motivation and Data Collection - Amorim Revestimentos (AR)	19
4.0 Case study: How internationalization impacted MCS at Amorim Revestimentos	20
4.1 Amorim Revestimentos – Company profile and relevance for case study	20
4.2 Evolution of Management Control Systems and the increased responsibility of controller role	22
4.2.1 2003 and first waves of change	22
4.2.2 Increased importance of the controller.....	22
4.2.3 Impact of the 2009 global financial crisis	23
4.2.4 MCS and restructuring of 2009	24
4.2.5 Contribution of the controller.....	25
4.2.6 Conflicts and controller increased responsibility	26
4.2.7 Evolution of the management control and controllers	27
5.0 Conclusion	29
6.0 References.....	31

List of Figures

Figure 1: Simons Control Framework	12
Figure 2: Controller Role and Responsibilities	16
Figure 3: Organigram of Corticeira Amorim.....	20
Figure 4: Cork Oak Forest distribution.....	21

1.0 Introduction

1.1 Research Background

Globalisation has changed the business environment and, today, organisations are facing a global socio-economic context through increased competition and constant change. The complex and dynamic operating environment have influenced management control systems because of changes in structure, size and processes in the organisation (Chetty, Johanson and Martin, 2014). Moreover, Fletcher, Harris and Richey (2013) added that company administrative complexities increase with the internationalisation of its operations and the new geographical scope demands new-sophisticated control systems. Internationalisation prompts the need to expand the scope of financial and human resources control system at home as well as in the subsidiary.

Hitt, Ireland and Hoskisson (2012) stated that the internationalization of a company affects its management control systems (MCS). In a globalised context, organisation's operating challenges and complexities increases and thus, new systems are required to deal with the new scope of business. To achieve the objectives of the company and success in the foreign market, it is imperative for the international company to manage control systems and respond to a global strategy. The effect of internationalisation makes it difficult for an organisation to forecast the future accurately and therefore, the role of MCS is to evaluate the outcome of alternatives and develop the capacity to manage the consequences of changes (Hitt, Ireland, & Hoskisson, 2012).

1.2 Research Context

The goal of this research is to explore the impact of internationalisation on Management control systems and the contribution of the controller in the design and implementation of MCS in an organisation. This project is based on the company Amorim Revestimentos (AR) which is the world leader in cork flooring products' manufacturing and is part of the holding company 'Corticeira Amorim' which is the world's largest producer of cork solutions. In Section 4.1 we explore in more detail the company profile. The motivation of this study relies in my position in the company as the business controller in AR's sale unit in Switzerland and thus, wanted to explore (1) changes in the MCS due to the focus on international markets and (2) analyse the increased responsibility of the role of the controller in the design and

implementation of MCS. Furthermore, the research is aimed to address the gap between the controller role at the parent and subsidiary company, as well as their contribution towards the evolution of MCS and the business itself.

As it was mentioned before, I am currently working as a business controller for one of Amorim Revestimentos' subsidiaries. I am the only person in the finance department which means I deal with all financial aspects of the company. I started my job in March, and right away I was overwhelmed with tasks that left little to no time to work on this project. I managed to keep working every change I had, either through observation and taking notes or talking to people inside the company. With hard work I manage to complete the project without seriously affecting my performance in the company.

1.3 Structure

This project is based on five chapters. The first chapter of study includes the research purpose and context. The second chapter of this study encompasses a simple and focused literature review about MCS and the role of the controller. The third chapter of study encompasses the research methodology selection. The fourth chapter of the study presents the case study for Amorim Revestimentos and the fifth chapter of the study draws the conclusion.

2.0 Literature review

This chapter of study encloses the literature review to explore the Impact of internationalisation on Management Control Systems (MCS) and the evolution of the controller.

2.1 Internationalisation

Casillas, Barbero and Sapienza (2015) stated that Internationalisation is a process through which a company increases influence and awareness of international activities to conduct transactions across borders. Organisation adaptation in international markets is managed through small incremental steps. Internationalisation is a continuous process and companies increase its influence across borders by going beyond traditional exporting and organize production, marketing and selling in the foreign market through a whole value chain. Kretschmer (2011) elaborated that internationalization was associated with exploitation of the ownership advantage for adaptation of existing product and processes to foreign market conditions. However, this paradigm has shifted towards creating investments through the acquisition of new skills and competencies. The role of subsidiary has shifted from adaptation and technology transfer to value creation and development of knowledge competencies. The autonomy of subsidiary is an important influencing factor and information-processing theory elaborates that organisation processes occur because of intermediation. The role of the parent company is to enforce control and integration across all units through hierarchical control of the geographically dispersed units (Mahlendorf, Rehring, Schaffer, & Wyszomirski, 2012).

2.2 Management Control System (MCS)

According to Fayol (1949), control is the fundamental task of managers, and management control system (MCS) is useful for “*controlling and administrating activities and processes in the organisation*”. Managers need a framework to determine, analyse and control performance. Management control system (MCS) is a process through which controllers ensure that organisational resources are deployed in the effective and efficient manner to achieve the objectives of the organisation (Grabner & Moers, 2013). It can be state that MCS gathers and analyses information to evaluate the performance of organisational financial and human resources to influence behaviours and implement strategies.

Strauss and Zecher (2013) stated that traditionally, MCS was associated with achieving operational efficiency through evaluating the performance of employees. However, in today's competitive world, managerial control systems enable managers to implement practices, which deliver competitive advantage so it is understandable to treat management control as a combination of process and tools, which influence the behaviours within the organisation to achieve its goals. Management control system consists of system and devices that can be used by managers to ensure that the decisions and behaviours of the employees are consistent with objectives of the organisation (King & Clarkson, 2015).

Organisational culture, policies and procedures, structure and governance system are a component of control environment and these elements classify responsibilities and flow of information in organisation (Harrison and McKinnon, 1999; Herath, 2007). However, organisation control will not function proper without the appropriate control environment as it was mentioned by many authors. (Herath, 2007; Zimmerman, 2009).

According to Merchant and Van der Stede (2003) MCS can be defined as the “*collection of control mechanisms*” which can be used by an institution if the problems that are being controlled couldn't be avoided in the first place. To have a better understanding of what do organizations need to control, (Strauss & Zecher, 2013) proposed the objectives of the control framework. Those objectives are results, actions and personnel controls. The idea of results control can be summarized as the control on the behaviours of the employees, where those behaviours are either rewarded or penalised given the results they generate. The idea of action control is to limit or prevent harmful behaviours inside the organizations as well as encourage behaviours that are beneficial to them. Although Merchant and Van der Stede (2003) argued that this type of control is used almost exclusively as a way to find out what employees are doing wrong and stress punishments, rather than rewarding the good behaviours. Personnel control is a mechanism that aims to make the employees control themselves. Merchant and Van der Stede (2003) defend that a person has to be fit for the job at hand, and only if that is the case, he employee will have a natural tendency to control himself on the job. These controls are basically aimed at insuring the employee is happy with the job at hand and properly motivated, as well as knowing and clarifying the employee's expectations. With a strong selection process, training and job design, it is aimed to promote self-monitoring and hinder harmful behaviours.

2.3 Control of the subsidiary

Regarding the control of the subsidiary, the existing literature focus on the relationship between the subsidiary and the holding company as the main indicator for the level of control. Perlmutter (1969) analysed different degrees of orientation either towards the home and the host country, and towards the world. The latest degree (towards the world) was found to have the most informal type of control, meaning that the level of control is more informal as the degree of multinationality increases. Fang et al (2013) added that organisation adds value through effective resource allocation and well-designed MCS are critical for long-term win-win strategies between the parent and subsidiary. The parent companies make efforts to enhance the performance of subsidiary. The synergies in the group generated through information symmetry and control systems are used to control the actions of subsidiary managers (Drogendijk & Holm, 2012). In such diverse environments, the flow of information influences the degree of control exercised by the parent company. (Hoque & Chia, 2012).

2.4 Internationalisation and importance of MCS

According to Malmi (2013), the control system in international companies is similar to home companies but they are designed in the global context. In the global context, cultural differences have influenced the way information is generated and used. The strategy adopted by the organisation enables to manage international operations and thus, allows achieving the objective through determining success factors, which are relevant to its strategy. The determination of these factors decides the degree of autonomy and management system to design control system for the operations. Casillas, Barbero and Sapienza (2015) added that management processes adaptation in the global environment is slow and complex. The multinational companies are influenced by local government and global competitors, which forces to integrate management systems at both local and global level. The global business environment complexity and multidimensional changes the organisational structure and processes for decision-making.

2.5 Simons Control Framework

Simons (1995, 2000) suggested four levels of control framework, which are interactive control systems, diagnostic control systems, boundary systems and belief systems as seen on figure 1. The control system is developed and implemented through integrating these levels of control. Organisational changes affect the relationship between department and employees.

The control perspectives encourage desired behaviours and outcomes. The purpose of control system is to regulate the activities and operation of an organisation to achieve outcomes in accordance with the objectives and expectation of the controller (Simons R. , 2013).

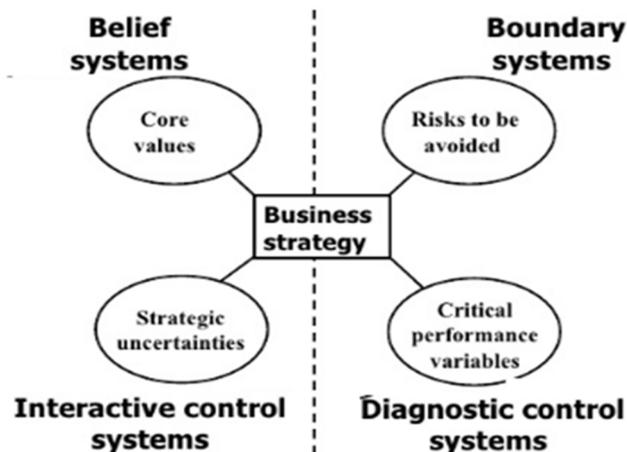


Figure 1: Simons Control Framework

Simons is considered to be the number one guru in Management Control literature and he proposed MCS typology integrating organisational economic and social aspects and elaborated the control concept through beliefs, boundary and interactive and diagnostic control system for strategic control. Interactive and diagnostic control systems interact and work together to implement the strategy as well as position itself for changing business environment. In addition, diagnosis systems are internal controls but do not align organisation and strategy. Therefore, it is important to set the strategy first and then implement the control actions and initiatives to accomplish the goals of the organisation

First of all, it is worth mentioning that Simons himself is recognises that each these systems are not enough if used individually. There has to be a relationship between the different systems and used altogether to achieve better results. Diagnostic Control Systems (DCS) are defined by Simons (2000) as the “*formal information systems managers use to monitor organizational outcomes and correct deviations from present standards of performance*”. As we saw before with Merchant & Van der Stede (2003), results control possess similar characteristics as DCS. The main criticism to these systems are by Tessier & Otley (2012) that argue that DCS are not systems but just descriptions of how managers exercise control.

DCS can be seen by Simons as to eliminate the constant need of monitoring by the managers, with these systems only corrective actions are needed when significant deviations are alerted. According to (Chapman, Hopwood, & Shields, 2011), diagnostic control systems (DCS) enclose the formal system of information for the managers to monitor the outcome and take corrective actions against pre-defined performance standards. DCS focuses on the efficiency and control systems where controllers can report variance in information by evaluating critical performance variables. The important goal of implementation of DCS is strategic implementation and reviews the critical performance variables for strategy, which may result in the success of the business. Interactive Control Systems (ICS) can be defined by Simons (2000) as the “*formal information systems that managers use to personally involve themselves in the decision activities of subordinates*”. Rather than focusing on performance variables, Simons sees the ICS as being focused on emerging threats that could go against what is posed as the business strategy of the organization. Simons basically addresses ICS as a face-to-face (more personal) type of control. Top-management needs to understand what type of information they rely on as valuable to meet the vision and strategy of the company, and promote debates with employees to better understand if corrective matters need to take place. Davila, Epstein and Manzoni (2014) stated that “*interactive control system facilitates the managers to involve themselves in personal and regular decisions of subordinates*”. This face-to-face approach can be important to have a better sense of reality and track new ideas or organizational learning that can be catalyst for information management with strategic feedback that can be used for the development of action plans. Belief Systems (BS) can be defined by Simons (2000) as the “*explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose and direction for the organization*”. Employees in an organisation may adapt different behaviours that go against what the company objectives are, and this belief systems define the values and direction the employees need to embrace to follow the direction imposed by the company. Simons (1995) states that the value of Belief Systems rely on clarifying the place of the employees inside the organization providing them with meaning for their work. This meaning is set to contribute to enforce the direction of the company and avoid deviations. Simons also states that by giving employees a sense of purpose in their actions it will diminish their intentions to adopt harmful behaviours. Boundary Systems (BDS) can be defined by Simons as the “*rules, limits and proscriptions tied to defined sanctions and credible threat of punishment*”. In the modern organisation, (BDS) are embedded standards, with enclosed codes of conduct and ethical behaviour. Managers are

faced with new challenges and opportunities to create value and overcome the obstacles and sometimes, human nature and employee autonomy fuelled with performance reward might result in dysfunctional behaviour. The BDS can be seen as codes of conduct that are not rewarded but simply something that has to be followed to protect the best interests of the organization. One clear idea of a BDS given by Simons is the designated “*structural safeguard*”, by defining clear structure of authorization and segregation of duties, diminishes the possibilities of harmful behaviour compared to a situation where a lot of power and authorization was focused in different employees, or even worst, if those levels of authorization were not clearly defined.

2.6 Defining Controller

To finalize our literature review we will take a glance at the controller role inside an organization and how it evolved into an important position in our days.

Different authors have pondered about the evolution of the controller. Since the late 1980's literature has deepened the changes in MCD and the controllers themselves. (Esmley, 2005). According to (Nurdin, 2011) the controller is responsible for the flow of information, financial and non-financial elements, which supports planning and control system within an organisation. The role of the controller is to support the competitive decision of business through information gathering and evaluation and influence business operations and strategy. Controller has become a strategic business partner by providing information to management, which influence and shape the business decision and thus, has become an integral part of the management process.

2.7 Controller Role and responsibilities

Weibenberger et al (2012) added that controller provides simple support to the organisation for both strategic and operational management. The role of the controller has become one of a business partner and has a direct contribution towards supporting management in the decision-making process. In modern management, controllers create value for the business through the application of tools and techniques to analyse and evaluate business performance (Weber, 2011).

Lambert and Sponem (2012) identify four types of controllers that can be found inside organizations. We can find controllers that are focused more exclusively on mechanical tasks

and others that assume an integral part on the business, with important input for the decision-making process. The analysis of those four types of controllers can give us a clear overview on the evolution of the role. First of all, the Discrete Controllers tend to perceive themselves as being the local service teams with limited authority. This is mainly the case when managers with whom they contact and pass information, do not realize the usefulness of their analysis, so they are reluctant in allowing these controllers to interfere with strategic issues. Discrete controllers divide their time, mainly, between reporting activities and budget monitoring, having the general image of bureaucratic dimensions not involved in the business itself. Secondly, the Safeguard Controllers or Back-up Controllers tasks tend to be similar to the ones of the discrete controllers and include reporting, preparation and monitoring of budgets and meeting the regulations of the market. The position of a safeguard controller is conceived as a turning point in the careers of future directors where they can start to get sensible to financial aspects they will have to deal with in the future. Despite the familiarization with the financial dimensions, this controller also has little influence on the business itself, he just promotes the creative thinking of managers without having a voice on strategic matters. Thirdly, Omnipotent Controllers are seen as the controllers that provide essential information and financial data to take strategic decisions. Their inputs already carry a sensible degree of responsibility so they are usually called-in for regular assessments with the financial managers, as the managers rely immensely and continuously on their inputs. Even though they still handle important routine report, budgeting and performance analysis, these controllers already have a prominent role on the decision-making process. Finally we have the Controller as a business partner. This is the closest to the up-to-date role of the controller, with a high degree of authority and serving the local management. Their time is mainly dedicated to operational questions, questions that are compared to the ones of the higher-ranking figures which make these controllers the right arms to the managers to base their decisions. Up to now this type of controller is the most involved in the business and management of the company, leaving routine and mechanic tasks to second plan.

The existing literature, associated to the recent developments of MC and the role of the controller, can be seen as an emergence of this role to broadening its functions, tasks and involvement in the business process of an organization (Burns and Baldvinsdottir, 2005).

With the objective of characterizing the contemporary roles of the controllers with a deeper understanding of the nature of these roles, Bryne and Pierce (2007) investigated the

characteristics associated with the tasks performed by these professionals. The authors identify the skills a controller must hold, which are business knowledge, interpersonal and communication skills, computer skills, technical knowledge, flexibility, personal qualities, monitoring control and organizational influence. These skills are seen as crucial when referring to the controller that aims to advise managers on the direction of the organization. The technical skills are seen as important to work with softwares and integrated information systems, while the psychological skills are seen as important to strengthen the relationship with the managers as well as to include values of efficiency and accessibility. (Byrne and Pierce, 2007)



Figure 2: Controller Role and responsibilities

Figure 2 gives us a clear notion of the controller role and responsibilities within a company. Byrne e Pierce (2007) show that, depending on individual attitudes and personality, controllers can have a high influence on the design of their own roles that justify the growing orientation as their role of business influencers. The management controllers ceased to be involved only on more routine tasks of preparing standardized reports and analysis and interpretation of information, to become truly involved in the analysis of operations. Controllers need to be acquainted with all important issues and need to have the ability to comment on the viability of the business, assisting and engaging with managers and directors in the decision-making processes.

Currently, the management controllers assume a role of great responsibility in relation to various departments of an organization. Their benefit for organizations evolved in the sense that it adds

value to their functions, when developing strategic partnerships with operational managers, keeping a relationship that goes beyond providing numbers, results and indicators. (Vicente et al., 2009). In this sense, a controller in an organization today, must be involved in an integral way in the decision process, providing essential inputs for proper deliberation of strategic decisions.

3.0 Research Methodology

Creswell (2013) explains that research is a systematic process of investigating and inquiring a problem. Research theories and methodologies are not wrong or right but research method selection is dependent upon the need of researchers and the objective of the research. The researcher can select an appropriate method to achieve the outcome of the research and its design defines its success. The research design is condition and arrangement used for data collection and analysis to achieve the objective of the research.

3.1 Purpose of research

Gliner, Morgan and Leech (2011) stated that the research purpose is explanatory or descriptive and these categories are not mutually exclusive. Exploratory research is used to explore a social phenomenon or setting and beginning with exploration. It is useful to provide background information for further research either descriptive or explanatory. The usefulness of exploratory research is that it helps to develop a better understanding of the problem and thus, the focus of research is broad. The exploratory research aims to identify variables and issues to provide ground for «what» and «how» scenarios. (Neelankavil, 2015).

3.2 Introduction and Advantage of Case studies

According to Yin (2013), case study approach to research enables the researcher to explore the phenomenon from a context of multiple data sources. Exploring a situation through multiple lenses increases the validity of results and also ensures that multiple dimensions are being taken into consideration. Case study design is useful to answer the research question based on 'how' and 'what' context and, moreover, it is useful in situations where boundaries are unclear between the context and phenomenon (Woodside, 2010).

Case study offers flexibility to understand the scenario in a social context that allows the development of a holistic perspective of a real-life event. Case study is based on constructivist paradigm, which claims that truth is relative, but the subjective human nature gives it meaning. The notion of objectivity is not rejected and it presents a premise of social construction of reality. Therefore, case studies are able to explore and evaluate the real-life contemporary phenomenon and provide a real description of situations and scenarios. Another advantage of case study approach is that it can focus on specific cases and

collaborations between participants and researchers that enable a better understanding of the actions and facts (Farquhar, 2012).

3.3 Reliability and validity of Case study for this study

According to Yin (2013), case study is useful for in-depth analysis of a particular scenario and narrow down the border perspective to present a holistic view. Case studies are a reliable tool to explore the relationship among the key variables and it is useful to present gathered information of events, observation and quotes to explore, in this case, the evolution in the Management Control of AR and the increased responsibility on the controller role. Moreover, qualitative approach best fits with the case study and allows validating the results through exploring multiple sources of information and develop the holistic perspective for multiple variables. A case study is useful to validate the result through exploring and examining models and theories in social context and for this study, the framework of Simon (1995, 2000) is used to examine the variables and control the context of AR.

3.4 Motivation and Data Collection - Amorim Revestimentos (AR)

In the next chapter we will introduce the company profile and have a better understanding of how the controller dynamics work inside the company. AR global presence, market leader position and my position inside the company provides motivation to examine our variable.

The information collected for this report was gathered through my job experience within Amorim Revestimentos in their Swiss subsidiary and also with discussions in the Portuguese headquarters with the head of management control department, the head of the finance department, two members of the control department and the head of the accounting department. Through this experience, I was able to analyse firstly how the management and control department works in Portugal and secondly how the sale units adapted to the management and control systems and processes. The data was also collected through observation and personal analysis of facts and events. Due to competitive nature and privacy issues no personal or confidential company information was collected or presented in this report as well as sensible issues that the company preferred not to be published.

4.0 Case study: How internationalization impacted MCS at Amorim Revestimentos

This case of study investigates the changes in structure, processes and functions of Amorim Revestimentos' Management Control Department (MCD) and evaluates how controllers contributed towards the evolution of Management Control Systems (MCS).

4.1 Amorim Revestimentos – Company profile and relevance for case study

Corticeira Amorim is the holding company of Amorim Revestimentos and it is the world's largest producer of cork solutions and the most international of Portuguese companies, leading the whole sector. The figure below illustrates the different companies that are part the group.

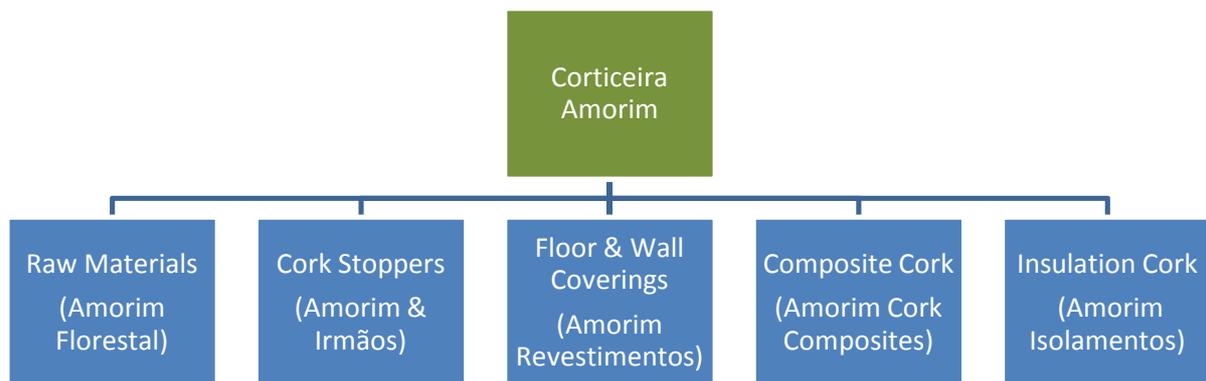


Figure 3: Organigram of Corticeira Amorim

The company had annual turnover of 605M € and invested 7,5M € in R&D and innovation in 2015. It sells 4,2 billion cork stoppers annually and possesses 84 companies and 29 industrial units. The next figure presents the company's geographical as cork oak forests in Europe and northern Africa. The forests extend to 7 different countries: Portugal, Spain, France, Italy, Morocco, Algeria and Tunisia.



Figure 4: Cork Oak Forest distribution

As mentioned before, this case study is based on the Management Control Department of Amorim Revestimentos (AR), a company responsible for the production of flooring and wall covering in cork. The company is based in Aveiro (Portugal) with two production units in S. Paio de Oleiros and Lourosa with a total area of 120.000 m². The finance department is constituted by 22 people and is based in Oleiros, where I had my first contact with the company. The company has a worldwide presence in 71 countries with distribution units in Germany, Netherlands, Switzerland and USA. AR also has joint ventures and representative offices in Denmark, Poland, China, Russian and Japan.

AR gains its advantage in the flooring market by using the multilayer CORKTECH structure, which combines state of the art technology with the exclusive natural properties of cork. With this, a higher standard in flooring and wall covering was achieved. As seen in AR corporate presentation, The CORKTECH structure adopted in all flooring articles combines five important drivers. First more silence, as cork is a natural sound absorber. Secondly, natural thermal insulation, as cork unique features provide optimal floor temperature all year round. Thirdly, walking comfort, as cork offers a natural flexibility that provides a unique comfort in movement, contributing to a reduced sense of fatigue. Fourthly, body wellness as the flooring softness eases the heel impact, relieving strain on feet, joints, legs and back. Finally the last

component of CORKTECH is the impact resistance. Cork's elasticity and compressibility allows it to adapt to pressure, consequently, absorbing shocks and reducing the risk of objects breaking on impact.

The Management Control Department is located in S. Paio de Oleiros, in the head office of the company in Portugal. It is currently constituted by 3 controllers, one of which is the head of the department. They work closely with both the accounting department, the finance manager and the individual controllers in each of the subsidiaries. Each subsidiary has one controller that is responsible for all financial and accounting aspects of the company. I decided to build this case study as I am currently the business controller in the Swiss subsidiary and have constant contact with the MCD in Portugal as well as with the financial manager. It was a great opportunity to understand what changes took place in the MCD of company as well as understand the increased responsibility of the controller role.

4.2 Evolution of Management Control Systems and the increased responsibility of controller role

4.2.1 2003 and first waves of change

Prior to 2003, MCS in AR were managed through budgeting and variance analysis almost exclusively. This traditional MCS approach was based on the perspective involving output control and measuring these results against expectation for corrective actions. However, functional changes took place in the AR in 2003, through implementation of 'Balance Scorecard' (BSC). The goal was to achieve strategic alignment between the departments and functions of the international business units. As it was said by the head of the Management Control Department (MCD) in Portugal: *"AR was becoming too dispersed, lacking the collective focus on the same objective by all departments, it was important to organize our ideas and resources for a common goal, the BSC was very important to organize our ideas in a more clear way"*.

4.2.2 Increased importance of the controller

From my contact in the company I could see the importance of the BSC, as this strategic review process in AR was extended to a large number of departments and stakeholders. After the implementation of the BSC in all subsidiaries, the controllers facilitated the

implementation of strategic maps in an analytical way across all subsidiaries. BSC was designed through the integration of different objectives to achieve the range of strategic initiatives in all business units. Stating the head of MCD: *“The controllers integrated the information flow to support decision-making and enable the achievement of a strategic alignment between Amorim Revestimentos and its sale units”*. This highlights, most importantly, the need of a controller as a business partner, a controller that provides invaluable information to decision-makers which is something I deal with on a weekly basis in Switzerland, where my input is valuable to make decisions not only for the management director in Switzerland but also to the financial manager in Portugal. Consequently it highlights the increased responsibility attributed to the individual controllers in each sale unit. Stating the financial manager of AR: *“The analysis conducted by the controllers are of the utmost importance for executives to base their decisions therefore we could say they were important to achieve the strategy proposed in the first place”*.

4.2.3 Impact of the 2009 global financial crisis

The global financial crisis of 2009 affected severely many European companies and AR was no exception, and an evident decline in its financial performance took place. The BSC was an excellent tool for AR in its time, but a different approach had to take place at the moment. As said by a member of the control department: *“BSC was essential for AR to organize our ideas and better manage our resources for the long-run, but in 2009 we had to implement more of a prompt cultural change in our department and in the whole company.”* We can understand that actions had to be taken that would have an almost immediate impact on the company. In this situation controllers had to draw a map to identify all the areas of the business where resources could be better allocated without affecting the core business of the company. As the head of MCD stated: *“at the time we asked every controller in each business unit, as well as the controllers in Portugal (...) to come up with at least 10 different ideas where resources could be better allocated (...) their ideas and actions were paramount to better our results”*. Despite not wanting to share which ideas were given and which were adopted by the company, we can clearly see the importance and high consideration given the controllers inside the business that helped create a responsible mentality within its employees and transformed into great results for the company. Despite the informal matter of the conversation, the head of the accounting department stated that *“if a deep crisis were ever to hit Portugal, AR would be one of the few survivors. (...) And that’s due to the mentality that*

exists here”. With my experience inside the company, I can clear state that AR is a very responsible and solid company (a matter to discuss in a different study), and this cultural behavior was cemented after the financial crisis of 2009, an event that required controllers to have a direct impact in decision-making.

4.2.4 MCS and restructuring of 2009

We saw, beforehand, that after the financial crisis there was an increase in importance and reliability that controllers have inside the company. Now we can take a look at other important impacts on MCD and the role of the controller. For example changes in priorities and customers took place at the time. A simple customer profitability analysis gave the clear idea that some of AR clients at the time were given too much importance just because they had high sales amounts. In reality, these customers were not as profitable as the «smaller» customers that gave AR higher margins. The head of the MCD stated: *“At the time we were too worried about the big names and big clients, that we forgot that the small clients put together were giving us much better net results. We analysed who are the clients that really matter and that we should focus on (...) we encouraged all the controllers of the business units to do the same”*. The controllers on the MCD advised executive directors for this situation which resulted in a shift in the customers’ portfolio of the company. Stating the head of the financial department: *“our mission was now to attract and retain high value customers”*. This situation, consequently, cemented the vision of the company *“AR wants to have (...) higher profitability than the market average”*. This resulted in higher sales margins and consequently higher profitability in the following years. We can also clearly notice here the evolution of the controller from traditional accountant to someone who provides internal analysis for effective important decision-making. Also at this time, administrative control changes occurred in AR which re-shaped the structure and governance in the company. The MCD wanted to be more focused on the performance of the subsidiaries and have efficient ways of controlling them. As the head of MCD stated: *“ At the time (...) we wanted the subsidiaries to have less autonomy and for us to able to easily and rapidly understand what was going on the companies (...) we didn’t want to be surprised by deep analysis done only every few years, we wanted to have constant control and information in our hands (...) the monthly videoconferences as well as the quarter visits are nowadays paramount to achieve that”*. This videoconferences, that I’ve been a part of many times, are a splendid way to exchange information, concerns and discussions not only from Portugal but also from

employees on the sale units. We discuss general matters like challenges for the future, what is going well and what could be improved, but also specific details that are important for the well being of the company, for example delays or difficulty in scheduling production of items in Portugal, concerns about a low margin of a specific client, information about stock provisions and evaluating client credit.

4.2.5 Contribution of the controller

At the turnaround of 2014, AR defined a new program called “Ambition 2020”. This program was introduced to clearly define where the company and, more importantly, its subsidiaries, want to position themselves in market and what it needs to be done to get there by 2020. As said by the head of the MCD: *“Ambition 2020 was something that we created to keep our subsidiaries with concentration and ambition to reach our planned objectives”*. The MCD is responsible for monitoring the yearly development of the program and realize if the objectives are being met or not. I was present at a meeting where the 2016 goal was being discussed, with a controller from Portugal and the management director in Switzerland. We went to an extensive analysis compromising for example client satisfaction, growth strategies, sales analysis and product offering, all of which was prepared beforehand by the said controller from Portugal. We can clearly understand the proximity of the controllers to the business and how well it is necessary to understand it.

With this program it was also defined very clearly a priority system inside the MCD. As said by the head of MCD: *“In our department we would find ourselves swamped with work sometimes (...) it was necessary to give responses faster and more accurately to urgent matters and issues and not treat every situation as equal importance”* The new vision was to incorporate a system inside the MCD that could respond faster to more urgent matters and also act faster when alerts sounded. For example, with the financial closing of the month, there is usually a lot of requests for the MCD either with doubts, concerns or questions. And during this time, while I was still in Portugal I witnessed the controllers prioritizing e-mails in a list of immediate action, urgent and normal. Also in the same way, they prioritized tasks in the beginning of the day to take care of the more urgent matters first. Quoting the head of MCD: *“At first glance this priority management might seem basic and unimportant but it made a big change in the organization of tasks and problem-solving inside the MCD”*

The Ambition 2020 program and the restructuring at the company represented operational and strategic changes for AR, always with an international-focus. As always every new norm that is created in a multinational company needs to be promptly put into action by all the subsidiaries otherwise it could pose a problem of lack of efficient implementation. The restructuring that took place in the company posed new norms to be adopted. Controllers in the sale units, myself included, have now more often to justify their actions with the MCD in Portugal. For example, every invoice payment that I make has to be signed and supervised by the financial manager in Portugal. This example highlights the fact that the new dynamic in the company where more control is exercised on the subsidiaries.

Also, before diminishing the autonomy of the subsidiary companies, AR faced a big problem of product offering. AR wants their subsidiaries to mainly sell the articles produced by AR in Portugal, but since the subsidiaries were at the time very autonomous and only concerned with profit maximization, they were offering a wide range and variety of products, sometimes even from direct competitors of AR. Regarding this situation the management control department had to make an analysis of what is the minimum threshold of products that have to be sold that are produced in the factories in Portugal. Only if that quota is guaranteed, the sale unit can consider offering other lines of products. The head of financial department stated: *“Even though our subsidiaries run as independent companies, me and you can’t forget they are our sale units (...) we need to control the product offering very close and pay close attention to deviations from the thresholds”*.

One situation where I contributed directly to decision-making happened a few months after I started working in Switzerland. Some of our products don’t include in their margins the transport costs. And I noticed a specific article which was giving us positive margins when in reality it was negative after adding the transport costs. The discovery of this situation was very important, because we found out other sale units had similar occurrences. After this episode, it was required to all the controllers in all business units to add on the ERP the transport cost of every item sold so to affect our individual product margins so MCD at the head office can make a more truthful analysis.

4.2.6 Conflicts and controller increased responsibility

The existing challenges for AR are mainly the conflicts between the sales units and the business in Portugal. The differences in priorities and capacity constraints hinder the

performance of the company. For example, I was faced with a situation where the head office in Portugal required us to increase sales in a determined article (which I am not allowed to mention) but our management director and salesman claimed the product can't be successful in Switzerland. We can understand that sometimes there is a distance between the needs in the head office and the needs in the subsidiaries. In this particular situation I was the intermediary between our director and Portugal and although the head office has the power to claim higher sales of a pre-determined product, the local knowledge of the market sometimes supersedes that.

To highlight controller contribution I will describe another situation I was faced with in my experience in Switzerland, concerning logistic costs. Since we are a small company in Switzerland we don't own a warehouse to stock our products, we use a stock hotel company. This means we pay a company to stock our products and handle the shipping to the customers. Obviously this has huge costs, and the MCD in Portugal enquired me and our director of ways we could decrease these costs as it was having a big impact on our balance sheets. Given this situation and after debating with our director we realized the only viable option to decrease costs would be to negotiate a 10-day, 2-percent payment discount. This is an ongoing negotiation that at the time of writing this report is not yet finalized, but if we manage to arrange this discount it could have a positive impact of close to 10% in our monthly net result. Besides the stock hotel supplier, we already negotiated the same terms of payments with other suppliers that also impacted positively our net result.

4.2.7 Evolution of the management control and controllers

Through observation I can state that there are a number of management controlling tools and techniques used for information analysis which allows real-time tracking and monitoring of data. For example, our ERP system enables the real-time evolution of sales by producing daily, weekly and monthly reports by, for example, product, salesman and family of products. Quoting the head of the MCD: *"Before we only knew the sales amounts after the month was closed (...) and it would be difficult to gather the amounts by products or country (...) nowadays with a simple click on the refresh button we can see our sales until the previous day (...) the time we used to spend gathering information we now spend analysing it"* Again, we can see how the role of the controller evolved for simple routine tasks like extracting information, to spending that time making valuable analysis to help managers make decisions. Moreover, the information allows monitoring, for example, stock availability and

cost control. Also, by forecasting resource needs, evaluate employee performance, making budgeting and variance analysis basically shapes the controllers and the head of the MCD the right arms of the CEO and financial director of the head office in Portugal. Quoting the head of the financial department: *“You (business controllers in the sale units) are our eyes and brains in the sale units (...) you need to understand and help define everything that’s going inside the company and be able to explain it if a reservation insurges”*

5.0 Conclusion

The data analysis shows that the company has experienced a number of changes in structure, processes and functions over the years and controller has contributed to MCS evolution through information sharing for timely decision-making and updated routine ‘checklists’ homogenized in both Portugal and international subsidiaries.

AR implemented the balance scorecard in 2003 to achieve strategic alignment between the departments and functions of business units and enabled controllers in Portugal and all subsidiaries to manage the functional changes and implement the BSC to increase the business efficiency and productivity in AR. The controllers have now to integrate financial and non-financial information flow to support the structure and function for timely decision-making and achieve strategic alignment not only in Portugal but also in all the subsidiaries.

The global financial crisis prompted the need to manage the decline financial performance. A corporate restructuring took place where the ‘Management Control Department’ and the controllers in the subsidiaries played an important role by providing thorough analysis and information that helped AR reaching better results. Also, we saw that with the restructuring in 2009, MCD provided less autonomy to the subsidiaries abroad by preparing an interactive control system and a results control mechanism, as seen by Simons (1995, 2000), with monthly video conferences where they question the management director and controller of the subsidiary. With client profitability analysis, MCD advised executives to shift the focus from big, but low margin, clients and focus on the smaller, more profitable ones. This shift resulted in a change in customer portfolio and helped cement the company vision by attracting and retaining high value customers. With this implementation and remembering Lambert and Sponem (2012) we can see that controllers are seen as business partners, providing valuable analysis and judgement to help managers making operational and structural decisions.

Another change that took place on the MCD was the priorities program. A new vision that enable the controllers to respond faster to more urgent matters and act faster when alerts sounded. This is an increased important tool by the time of the closing of the month, when requests from every sale unit usually pile up in the MCD and could hinder their performance. Also, the reduced autonomy given to the subsidiaries is an important change in MCD and the company itself. Now the head office has a stronger position inside the business units where

they control more closely the product offering of the companies. Also, with the payment authorization process from Portugal, we can clearly see an action control, as seen by Simons (1995, 2000), that tries to prevent harmful behaviours towards the company.

Finally through my observation, I can clearly see the responsibility addressed to me and the other individual controllers of the business units. We need to provide timely information and analysis every time it is prompted by the MCD. Also, I could already contribute to a more truthful sales margin analysis by MCD in Portugal as well as to a better net result by negotiating payment conditions with different suppliers in Switzerland.

6.0 References

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