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The role of Management Control Systems in Turnaround Strategy Implementation: The case of Jotun Ibérica

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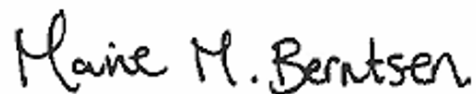**Linn Christin Haugen**

Problem Definition

This study explores how the use of management control systems (MCS) can enable the implementation of turnaround strategies. This is done by analyzing the successful turnaround of Jotun Ibérica from 2008-2015. The company experienced a severe decline following the financial crisis in 2007/2008, and implemented several retrenchment and repositioning strategies in order to turn around the company. The implementation process of these turnaround strategies is analyzed by applying Simons' four levers of control framework consisting of beliefs systems, boundary systems, diagnostic control systems and interactive control system.

Preface

This thesis is written as part of a master's degree in Industrial Economics and Technology Management at The Norwegian University of Science and Technology (NTNU). The study has taken course over the spring semester 2016 (January 2016 - June 2016). One of the authors has a technical background from Energy and Environmental Engineering, while the other author has a technical background from Computer Science. Both of the authors specialize in Strategic Change Management.

The authors would like to thank several people for what has been an exciting and interesting semester. First, we want to thank our academic supervisor Torbjørn Netland for guidance, inspiring discussions, and constructive criticism. We are grateful for your efforts in connecting us to Jotun Ibérica, thus making it possible for us to work with a real-life case from an interesting company. We also appreciate that we got the opportunity to develop a teaching case in addition to this thesis. Second, we would like to thank Jotun for inspiring this master thesis and for all your availability, support and hospitality. Especially, we want to thank Christian Johnson, Fernando Guerra and Kjell Gundersen for spending so much of their valuable time to feed us with insight and information. We also want to thank all the interviewees in Jotun Ibérica for taking the time to provide us with your honest opinions. Last, we want to thank Professor Bård Tronvoll at Hedmark University College for giving us advice and guidance during the semester.
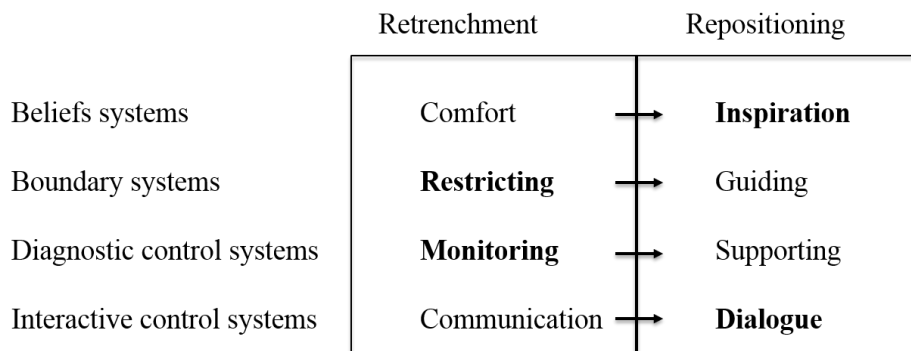
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Abstract

To succeed in today's competitive business environment, companies must have the ability to change fast and outpace the environment that threatens their viability. One form of change that has received a lot of attention in recent literature is the *company turnaround*. A company turnaround is a response to a continuous decline in performance, and entails the company addressing the causes of its decline and adopting *turnaround strategies* that reverse the course beyond survival and ultimately lead to sustained profitability. Previous research on company turnarounds have primarily focused on the content of effective turnaround strategies, but few have looked at the strategic processes managers can employ to implement these strategies.

The pattern of performance for a successful company turnaround can typically be characterized by a decline stage, a turning point and a recovery stage. The turning point of the company turnaround can be reached if the company takes action to halt the decline and manages to stabilize the company through implementing *retrenchment strategies*. In the recovery stage, objectives shifts towards growth and innovation and the company starts implementing *repositioning strategies*. Formulating turnaround strategies is a difficult task for any management team. However, making the strategies work by implementing them throughout the company is even more difficult because the implementation requires the intricate and dynamic interplay of people, resources and market forces. Consequently, it becomes necessary for managers to control the implementation of retrenchment and repositioning strategies to ensure that the strategies lead to the desired outcomes. This can be achieved by using *management control systems* (MCS).

MCS is a generic term for a wide range of formal and informal mechanisms that aim to regulate the behavior of employees. This study applies Robert Simons' four levers of control framework (LOC-framework), consisting of *beliefs systems* (formal value and mission statements)*, boundary systems* (rules, regulations and code of conduct)*, diagnostic control systems* (performance variables, goals and objectives) and *interactive control systems* (formal communication channels), in order to investigate how the use of MCS can enable the implementation of turnaround strategies. In addition, the study investigates how the use of MCS changes when a company goes from implementing retrenchment to repositioning strategies. To achieve this, *a single case study* of Jotun Ibérica, the Barcelona subsidiary of the Jotun Group, is conducted. The company has experienced several declines and recoveries since its founding in 1962, but this study focuses on the period from 2008 to 2016. By combining theory on turnaround strategies with Simons' framework, eight propositions are developed in order to guide the data gathering and analysis. Six out of eight propositions find support in the empirical findings.

The empirical analysis reveals that Jotun Ibérica utilized all four levers of control during the company turnaround. We find that the beliefs systems helped create a culture for change by focusing on formal value statements describing the core values and the company culture. The boundary systems enabled the implementation of turnaround strategies by clarifying rules of allowed behavior through job descriptions, guidelines and standards. The diagnostic control systems were used to measure several financial and non-financial KPIs. This enabled the implementation of turnaround strategies by giving the company the opportunity to monitor progress and quickly react to deviations. The interactive control systems gave the managers in Jotun Ibérica insight into changes in the internal and external environment through formal two-way communication channels and scheduled face-to-face meetings. These systems were used to foster discussion and organizational learning.

We find that Jotun Ibérica used MCS in different ways in the implementation of retrenchment and repositioning strategies. As the company went from implementing retrenchment strategies to repositioning strategies, the use of the four levers of control went from a focus on the negative forces, i.e. the boundary systems and diagnostic control systems, to a focus on the positive forces, i.e. the beliefs systems and interactive control systems. Through the analysis, we also find that the use of each lever of control changes during the turnaround. The beliefs systems changed from being used to *comfort* distressed employees to *inspire* them, while the boundary systems changed from *restricting* employee behavior to *guiding* innovation initiatives. The diagnostic control systems went from being used to *monitor* progress in critical areas to be used as *support* and foundation for decision-making. Lastly, the interactive control systems changed from being used to *communicate* actions to encourage *dialogue*. This changing use of MCS is illustrated below.

	Retrenchment		Repositioning
Beliefs systems	Comfort	→	**Inspiration**
Boundary systems	**Restricting**	→	Guiding
Diagnostic control systems	**Monitoring**	→	Supporting
Interactive control systems	Communication	→	**Dialogue**

The changing use of MCS in different stages of a company turnaround is an important contribution to the existing literature. The findings sheds light on a seeming research gap within MCS theory, while also providing concrete suggestions for managers in a turnaround situation. The findings imply that managers should put resources into the boundary systems and the diagnostic control systems when implementing retrenchment strategies. When the performance stabilizes and the company starts implementing repositioning strategies, managers should put resources into the beliefs systems and the interactive control systems.

Investigating the turnaround of Jotun Ibérica has enabled us to do a thorough analysis of several aspects related to turnaround strategy implementation and MCS, but the single case study design makes generalization difficult. Future research is therefore encouraged to conduct similar research where data and cases from several companies and industries are evaluated, this way testing the robustness and generalizability of the conclusions. In addition, this study applies the LOC-framework by Simons to represent MCS. Future research should therefore also look into how other perspectives on MCS can enable the implementation of turnaround strategies.
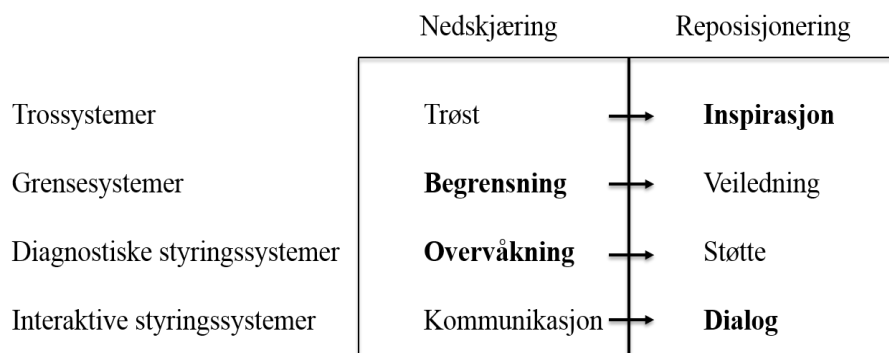
Sammendrag

For å lykkes i dagens konkurranseutsatte forretningsmiljø må bedrifter ha evnen til å endre seg raskt og utkonkurrere omgivelsene som truer deres levedyktighet. Én form for endring som har fått mye oppmerksomhet i nyere litteratur er *bedrifters snuoperasjoner*. En bedrifts snuoperasjon er et svar på en kontinuerlig nedgang i resultater, og innebærer at bedriften adresserer årsakene til nedgangen, og implementerer *snuoperasjonsstrategier* som reverserer resultatene og til slutt fører til vedvarende lønnsomhet. Tidligere forskning på snuoperasjonsstrategier har primært fokusert på innholdet av effektive strategier, men få har sett på de strategiske prosessene ledere kan benytte for å implementere disse strategiene.

En vellykket snuoperasjon er typisk preget av en nedgangsperiode, et vendepunkt og en oppgangsperiode. Vendepunktet i snuoperasjonen kan nås dersom selskapet tar grep for å stanse nedgangen og klarer å stabilisere resultatene. Dette kan oppnås ved å implementere *nedskjæringsstrategier*. I oppgangsperioden av en snuoperasjon skifter fokuset mot vekst og utvikling, og selskapet begynner å implementere *reposisjoneringsstrategier*. Å lage nedskjærings- og reposisjoneringsstrategier er en vanskelig oppgave for ledere, men å implementere strategiene i bedriften er enda vanskeligere, fordi implementasjonen krever et intrikat og dynamisk samspill mellom mennesker, ressurser og markedskrefter. På grunn av dette er det nødvendig for ledere å kontrollere implementasjonsprosessen for å sikre at strategiene fører til de ønskede resultatene. Dette kan oppnås ved hjelp av *styringssystemer*.

Styringssystemer er en fellesbetegnelse for en rekke formelle og uformelle mekanismer som tar sikte på å regulere atferden til de ansatte. Denne studien tar for seg Robert Simons' fire kontrollspak-rammeverk, som består av *trossystemer* (formelle verdi- og formåls- dokumenter)*, grensesystemer* (regler, forskrifter og etiske retningslinjer)*, diagnostiske styringssystemer* (prestasjonsvariabler og mål) og *interaktive styringssystemer* (formelle kommunikasjonskanaler), for å undersøke hvordan bruken av styringssystemer kan muliggjøre implementasjon av snuoperasjonsstrategier. I tillegg undersøker studien hvordan bruken av styringssystemer endres når et selskap går fra å implementere nedskjæringsstrategier til reposisjoneringsstrategier. For å oppnå dette gjennomføres det et enkelt case-studie av Jotun Ibérica, Jotun sitt datterselskap i Barcelona. Selskapet har opplevd flere nedgangs- og oppgangsperioder siden det ble grunnlagt i 1962, men denne studien fokuserer på perioden fra 2008 til 2016. Ved å kombinere teori om snuoperasjonsstrategier med Simons' rammeverk, utvikles åtte påstander for å veilede datainnsamlingen og analysen. Seks av åtte påstander finner støtte i de empiriske funnene og forventes å kunne generaliseres til andre selskap.

Den empiriske analysen viser at Jotun Ibérica bruker alle de fire kontrollspakene under snuoperasjonen. Vi finner at trossystemene bidro til å utvikle en kultur for endring ved å fokusere på formelle verdidokumenter som beskriver kjerneverdier og selskapets kultur. Grensesystemene muliggjorde implementasjonen av snuoperasjonsstrategier ved å tydeliggjøre reglene for tillatt atferd gjennom jobbeskrivelser, retningslinjer og standarder. De diagnostiske styringssystemene ble brukt til å overvåke flere finansielle og ikke-finansielle måltall. Dette muliggjorde implementasjonen av snuoperasjonsstrategier ved å gi selskapet mulighet til å måle effekten av strategiene og raskt reagere på avvik. De interaktive styringssystemene sørget for at de riktige strategiene gav lederne innsikt i endringer som oppstod i det indre og ytre miljøet gjennom formelle toveiskommunikasjonkanaler, og planlagte ansikt-til-ansikt møter. Disse systemene tilrettela for diskusjon og organisasjonslæring.

Vi finner også at Jotun Ibérica brukte styringssystemer på ulike måter under implementasjonen av nedskjæringstrategier og reposisjoneringsstrategier. Når selskapet gikk fra å implementere nedskjæringsstrategier til reposisjoneringsstrategier, gikk bruken av de fire kontrollspakene fra et fokus på de negative kreftene, dvs. grensesystemer og diagnostiske styringssystemer, til et fokus på de positive kreftene, altså trossystemer og interaktive kontrollsystemer. Gjennom analysen finner vi også at bruken av hver kontrollspak ble endret under snuoperasjonen. Trossystemene endret seg fra å bli brukt til å *trøste* nedbrutte ansatte til å *inspirere* dem, mens grensesystemene endret seg fra å *begrense* ansattes oppførsel til å *veilede* beslutninger. De diagnostiske styringssystemene gikk fra å bli brukt til å *overvåke* fremgangen til å bli brukt som *støtte* og grunnlag for beslutninger. De interaktive styringssystemene endret seg fra å bli brukt til å *kommunisere* tiltak til å oppmuntre til *dialog*. Disse resultatene er illustrert i figuren under.

	Nedskjæring	Reposisjonering
Trossystemer	Trøst →	**Inspirasjon**
Grensesystemer	**Begrensning** →	Veiledning
Diagnostiske styringssystemer	**Overvåkning** →	Støtte
Interaktive styringssystemer	Kommunikasjon →	**Dialog**

Den endrede bruken av styringssystemer i ulike stadier av en bedrifts snuoperasjon er et viktig bidrag til den eksisterende litteraturen. Funnene belyser et tilsynelatende forskningsgap innenfor styringssystem-teori, samtidig som funnene gir konkrete forslag til ledere som står overfor en snuoperasjon. Våre funn antyder at ledere bør fokusere på grensesystemer og diagnostiske styringssystemer når de skal implementere nedskjæringsstrategier. Når resultatene stabiliserer seg, og selskapet begynner å implementere reposisjoneringsstrategier, bør ledere fokusere på trossystemer og interaktive kontrollsystemer.

Gjennom å undersøke Jotun Ibérica's suksessfulle snuoperasjon har vi fått mulighet til å utføre en grundig analyse av flere aspekter knyttet til implementasjonen av snuoperasjonsstrategier, men fordi dette er et enkelt case-studie er generalisering vanskelig. Fremtidig forskning er derfor oppfordret til å gjennomføre lignende undersøkelser der data og case-studier fra flere selskaper og bransjer vurderes, for å på denne måten teste robustheten og generaliserbarheten til konklusjonene. I tillegg har denne studien benyttet Simons sitt fire kontrollspak-rammeverk for å representere styringssystemer. Fremtidig forskning bør derfor også se på hvordan andre perspektiver på styringssystemer kan muliggjøre implementasjonen av snuoperasjonsstrategier.

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Abbreviations

BSC   -   Balanced Scorecard
EBIT   -   Earnings Before Interests and Tax
ERP   -   Enterprise Risk Planning
HRM   -   Human Resource Management
HSE   -   Health, Safety and Environment
KIT   -   Key Issue Talk
KPI   -   Key Performance Indicator
LOC   -   Levers of Control
MCS   -   Management Control Systems
yPOD -   yearly Performance Objectives Development

Chapter 1: Introduction

To succeed in today's competitive business environment, companies must have the ability to change fast and outpace the environment that threatens their viability. The ability to drive change, such as moving from good to great performance, cutting costs, or turning around a crisis, is a key source of competitive advantage for companies, and thus an increasingly important managerial skill (By, 2005; McKinsey & Company, 2015). However, despite the importance of managing change and generating results, the knowledge on how to make the results sustainable and assure that they are efficiently implemented is still not fully understood (Forbes, 2012).

One form of change that has received a lot of attention in recent literature is the *company turnaround* (e.g. Bibeault, 1998; Chen & Hambrick, 2012; Lohrke et al., 2012). A company turnaround is a response to a continuous decline in performance, and entails the company addressing the causes of its decline and adopting turnaround strategies that reverse the course beyond survival and ultimately lead to sustained profitability (Barker & Duhaime, 1997; Pearce & Robbins, 1992). Turnaround strategies are defined as the key set of activities employed to halt decline, known as *retrenchment strategies*, and stimulate recovery, known as *repositioning strategies* (Boyne & Walker, 2004; Hofer, 1980; Pearce & Robbins, 1992). A turnaround process represents an abnormal situation for a company (Bibeault, 1998). Even though recent studies show that turnaround cases are increasing in frequency, they still constitute a marginal part of a company's life compared to normal operations. As a result, few companies have the necessary experience or knowledge on how to manage a turnaround process.

Previous research on company turnarounds have primarily focused on the *content* of effective turnaround strategies (e.g. Bibeault, 1998; Dikshit et al., 2014; Hofer, 1980), but few have looked at the strategic *processes* managers can employ to implement these strategies (Balgobin & Pandit, 2001; Lohrke et al., 2012). There exist several approaches to investigate the implementation of turnaround strategies, such as analyzing the impact of management style (Harker & Sharma, 2000), how employees react to change (Schein, 1996) or how drivers of change influence the implementation process (Van de Ven & Poole, 1995). The approach taken in this study is the use of *management control systems* (MCS) as an enabler of strategy implementation (Anthony, 1965; Merchant & Van der Stede, 2007; Simons, 2000). MCS can ensure that employees in a company carry out organizational objectives and strategies, while encouraging and enabling the employees to act in the company's best interest (Merchant & Van der Stede, 2007).

Simons (1995, 2000) suggests that control of strategy implementation can be achieved by using "four levers of control": *beliefs systems, boundary systems, diagnostic control systems* and *interactive control systems*. Beliefs systems are formal value and mission statements that aim to inspire and promote commitment to the company's values and direction, while boundary systems identify the company rules, regulations and desired actions. Diagnostic control systems monitor results, profitability and progress through measuring performance variables. Lastly, interactive control systems are formal information systems that managers use to involve themselves regularly and personally in the decision activities of subordinates. Together, these four levers of control create a complete MCS that combines a focus on strategy with a wider view of the control mechanisms that can be utilized to implement strategy. Although several authors agree that MCS, such as Simons' (1995, 2000) levers of control framework, is an important tool that fosters and supports strategy implementation during normal operations (e.g. Fullerton et al., 2013; Liker, 2004), there exist few examples of the use of MCS in company turnarounds. Simons (1987) further suggests that companies following different strategies employ control systems in different ways. However, few authors have investigated if the use of MCS differs when companies implement retrenchment strategies compared to repositioning strategies.

In light of the recent fluctuations in the global economy, company turnarounds are likely to remain a highly relevant concern to managers worldwide. Several studies support this by revealing that company turnarounds are growing in frequency, and that nine out of 10 companies suffering significant and/or sustained declining performance proceed to fail rather than recover (Balgobin & Pandit, 2001; Reiss, 2011). Barker and Duhaime (1997) argue that in order to recover from declining performance, companies need to address the causes of decline and develop an appropriate strategy. However, without implementation, even the most superior strategy is useless (Aaltonen & Ikävalko, 2002).

1.1 Objective and Research Questions

The aim of this study is to identify how MCS can enable the implementation of retrenchment and repositioning strategies. To achieve this, the study will apply Simons' (1995, 2000) four levers of control framework on a successful turnaround case. In addition, the study will investigate how the use of MCS change when a company goes from implementing retrenchment to repositioning strategies. Based on this aim, the following research questions are proposed:

RQ1: How can the use of MCS enable the implementation of retrenchment and repositioning strategies in a company turnaround?
RQ2: How does the use of MCS change when a company goes from implementing retrenchment to repositioning strategies?

The study is carried out through a single case study of the multinational paint producer Jotun. Jotun has since its founding in 1920 expanded from its Norwegian origins into a multinational company with production facilities in Europe, North and South America, Africa and Asia, as well as an extensive network of sales offices and distributors worldwide. This study will examine Jotun Ibérica located in Barcelona, Spain. The company has experienced several declines and recoveries since its founding in 1964, but this study will focus on the severe decline in performance that followed the financial crisis in 2007/2008, the turning point reached in 2012/2013 and the current recovery.

RQ1 will be answered by developing several propositions that will be tested on the case in this study. The propositions will draw on literature on turnaround strategies and MCS. RQ1 is motivated by the fact that companies need to prioritize the use of scarce resources in a turnaround. By providing propositions for how managers can ensure a successful turnaround strategy implementation through using MCS, the managers are more likely to be able to prioritize the resources.

RQ2 will be addressed by using the empirical findings from Jotun Ibérica. We provide concrete examples of how MCS has been used as the company went from implementing retrenchment to repositioning strategies. RQ2 is motivated by the fact that few authors have investigated if the use of MCS varies when the company is implementing different turnaround strategies. By answering RQ2, this study aims to contribute to the existing literature and provide guidance for companies implementing turnaround strategies.

1.2 Structure of the Study

The study starts with a literature review analyzing current theories within the field of turnaround strategies and MCS. The literature review in Chapter 2 is used as a foundation for developing several propositions that act as a guide when collecting and analyzing empirical data. In Chapter 3, the case methodology is presented, followed by a discussion of limitations of the chosen research design. Chapter 4 provides a description of the case company, including a brief introduction to the units of analysis. A presentation of the empirical findings from each unit of analysis is given in Chapter 5. Chapter 6 provides an analysis of the empirical findings using the propositions from Chapter 2, followed by a discussion of the empirical findings in Chapter 7. Finally, the study's conclusion is given in Chapter 8.

Chapter 2: Theoretical Background

This chapter will present the theoretical background for the study. Section 2.1 starts with describing general theories on change and company turnarounds. Section 2.2 describes turnaround strategies, while Section 2.3 presents theory on management control systems. Based on the findings in Section 2.2 and Section 2.3, several propositions are developed in Section 2.4. The propositions will be used to guide the empirical data gathering and analysis.

2.1 Change and Company Turnarounds

In order to understand how management control systems (MCS) can enable the implementation of turnaround strategies, it is important to understand the underlying principles of *change*. Change can be defined as *"an empirical observation of difference in form, quality, or state over time in an organizational entity"* (Van de Ven & Poole, 1995, p. 510). Change is an ever-present feature of companies' life, both at an operational and strategic level (Burnes, 2004). By (2005) argues that it is necessary to distinguish between different types of change because companies constantly face change, but the nature of it is not always the same, as change comes in a variety of shapes and sizes and can be proactive or reactive depending on contextual factors. Two main approaches to change that are treated in the literature is company transformation either as *revolutionary*, dramatic change or as *evolutionary*, incremental change (de Wit & Meyer, 2014). Revolutionary change aims to redefine fundamental aspects of the company, such as strategic direction, structure, cultural assumptions or identity, while evolutionary change is small-scale discrete change that aims to provide improvements.

One form of change that has received a lot of attention in recent literature is the *company turnaround* (Bibeault, 1998; Chen & Hambrick, 2012; Lohrke et al., 2012). A company turnaround can be defined financially as the recovery of a company's economic performance following an existence-threatening decline (Balgobin & Pandit, 2001). Pandit (2000) adds that a turnaround can simply be defined as the actions taken to bring about a recovery in performance in a failing company. A turnaround process requires major operational and strategic actions and therefore corresponds to a revolutionary approach to change. In practice, the process usually consists of a collection of concerted or coordinated activities, which may include actions such as the replacement of key individuals in the company's management or immediate attention to major operational problems. In times of organizational crises, such as a turnaround, most companies will tighten control to effect change and place a greater degree of constraint on the individuals involved (Kavanagh & Ashkanasy, 2006). The use of *management control* ensures that employees in the company carry out company objectives and strategies, while encouraging

and enabling them to act in the company's best interest throughout the turnaround process (Merchant & Van der Stede, 2007).

Several authors have described how companies can turn around an existence-threatening decline through radical changes, redesign or re-profiling of the company and its business (Pandit, 2000). The pattern of performance for a successful company turnaround can typically be characterized by a *decline stage, a turning point* and *a recovery stage* (Bibeault, 1998; Pearce & Robbins, 1992; Smith & Graves, 2005). This is illustrated in Figure 2.1.
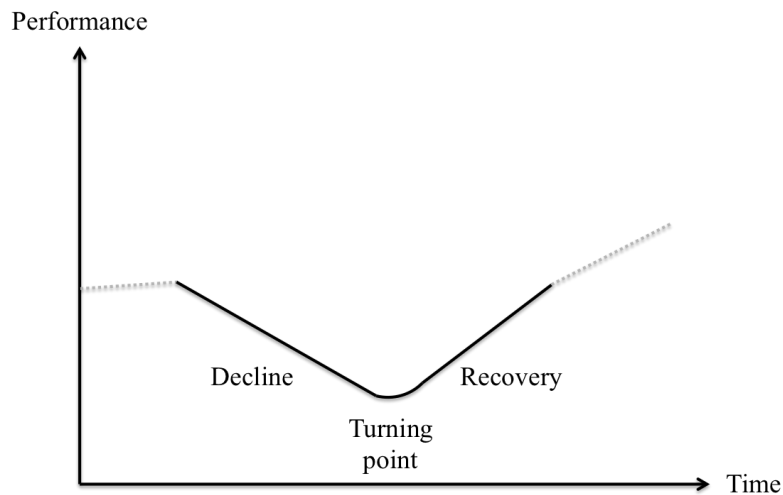
Figure 2.1: Pattern of performance in a company turnaround

Decline occurs when a company's performance or resource base deteriorates over a sustained period of time (Burbank, 2005). A decline can be triggered by *external forces*, which are usually beyond the control of the company, or by *internal forces* in the company. On a macro scale, external forces can be divided into political, economic, social, legal, technological and environmental factors. Within each of these areas, it is possible to identify several key factors, such as shifts in global power, climate change and resource scarcity, demographic change, technological breakthroughs, new ideologies and legislation. On a micro scale, external forces include key factors such as regulators, competitors, customers and technology. Drivers of change emanating from inside of the company are often the result of people wanting to improve what they do (Scott & Jaffe, 2006). Examples include developing new and better ways of working to solve problems with current practices, improving operational efficiency, reducing costs and improving the quality of products and services as well as processes. Internal forces can also emanate from obsolete services and products, new market opportunities, new strategic directions, and an increasingly diverse workforce. Unlike external forces, internal forces are usually under the control of the company.

Turning around a company experiencing an existence-threatening decline requires more than a one-point procedure that can be achieved by making a few minor changes (Anastasia, 2015). Gopinath (1991) argues that the first step towards the turning point is admitting the problems and situation the company is in. Then, when the company realizes that there is external and/or internal forces that lead to a decline in performance, there is a need to establish whether it is possible to reverse the negative development and ultimately save the company (Anastasia, 2015). The turning point can be reached if the company takes action to halt the decline and manages to stabilize the company. This can be done through the implementation of different *turnaround strategies*, as presented in Section 2.2. The turning point in a successful turnaround represents the end of the decline stage and the beginning of the recovery stage, where the company begins to look beyond the day-to-day problems and the requirements of survival (Bibeault, 1998). Recovery is said to have been achieved when economic measures indicate that the company has regained its pre-downturn levels of performance (Pearce & Robbins, 1993) or shown a sustaining good performance (Harker & Sharma, 2000).

2.2 Turnaround Strategies

Turnaround strategies are defined as the key set of activities employed to halt decline and stimulate recovery (Hoffman, 1989). According to Castrogiovanni and Bruton (2000), a turnaround strategy should be made for a specific turnaround situation, addressing the causes of decline. Several authors make a distinction between *operating* and *strategic turnaround strategies* (Bibeault, 1998; Hoffman, 1989; Pearce & Robbins, 1992). Operating turnaround strategies focus on improving the way the company currently conducts business, while strategic turnaround strategies focus on changing or adjusting the type of business conducted by the company (Pearce & Robbins, 1992). Most of the reviewed literature agrees that a combination of both operating and strategic turnaround strategies is necessary to achieve a successful turnaround. Bibeault (1998) supports this by arguing that the primary objectives for a company in decline are survival and achievement of a positive cash flow, while the objectives shifts towards growth and development in the recovery stage of a turnaround. This shift in objectives from an operational focus towards a strategic focus requires different turnaround strategies. Pearce and Robbins (1992) suggest that a company in decline should focus on *retrenchment strategies* to halt the decline, while a company in recovery should focus on *repositioning strategies* in order to achieve growth. As can be seen from Figure 2.2, it is believed that both retrenchment and repositioning strategies are likely to be implemented to a certain degree regardless of whether the company is in decline or recovery, but that the majority of implemented strategies in the decline stage are retrenchment strategies and repositioning strategies in the recovery stage. Figure 2.2 illustrates this shift in strategy focus, but does not imply that there is a linear relationship between the implementation of retrenchment and repositioning strategies.
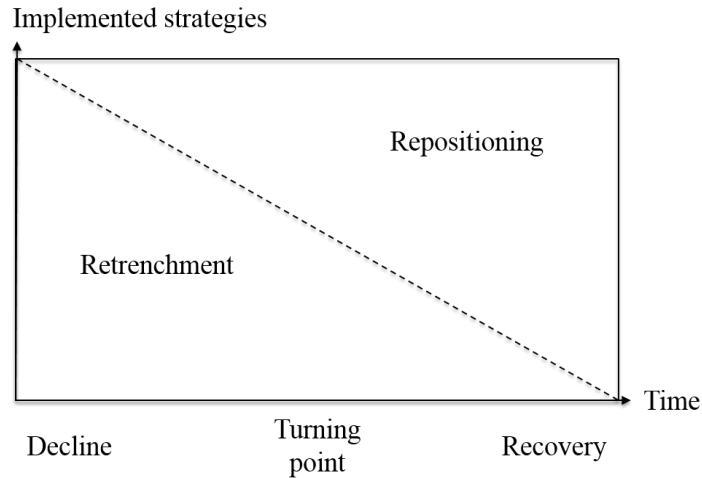
Figure 2.2: Retrenchment and repositioning strategies in a company turnaround

Several authors agree that the division between retrenchment strategies in the decline stage and repositioning strategies in the recovery stage is necessary (e.g. Boyne & Walker, 2004; Hofer, 1980; Pearce & Robbins, 1992). Boyne and Walker (2004) add that there does not exist a universally accepted approach to company recovery, but that companies employing a combination of retrenchment and repositioning strategies are more likely to recover from an existence-threatening decline. Retrenchment and repositioning strategies represent generic terms for a wide set of actions associated with a successful company turnaround (Hofer, 1980), and has been described by several authors (e.g. Hambrick & Schecter, 1983; Li et al., 2008; Schoenberg et al., 2013). The strategies and examples of related actions are presented in Table 2.1.

Table 2.1: Retrenchment and repositioning strategies

Strategy	Description	Examples of actions	Authors
Retrenchment	Strategy that consists of reductions in the scope or size of a company. Also viewed as an "efficiency strategy" or "short-term strategy".	Cutting costs	Beeri (2009); Boyne & Walker (2004); Hambrick & Schecter (1983); Hofer (1980); Hoffman (1989); Schoenberg et al. (2013); Simons (1987); Sudarsanam & Lai (2001); Walshe et al. (2004).
		Sell assets	Boyne & Walker (2004); Hambrick & Schecter (1983); Hofer (1980); Hoffman (1989); Schoenberg et al. (2013); Sudarsanam & Lai (2001).
		Shut down or reallocate units	Hoffman (1989).
		Reorganization	Dolan & Garcia (2002); Hoffman (1989); Li et al. (2008); Schoenberg et al. (2013).
		Downsizing	Beeri (2009); Boyne & Walker (2004); Hoffman (1989); Pearce & Robbins (1992); Smith & Graves (2005); Walshe et al. (2004).
		Change of management	Hoffman (1989); Schoenberg et al. (2013); Sudarsanam & Lai (2001); Walshe et al. (2004).
Repositioning	Strategy that emphasizes growth and innovation. Also viewed as an "entrepreneurial strategy" or "long-term strategy".	Diversifying into new markets and products	Beeri (2009); Boyne & Walker (2004); Hambrick & Schecter (1983); Hoffman (1989); Pearce & Robbins (1992); Porter & Millar (1985); Sudarsanam & Lai (2001); Walshe et al. (2004).
		Decrease or increase marketing efforts	Beeri (2009); Hambrick & Schecter (1983); Hoffman (1989); Schoenberg et al. (2013).
		Divest products or exit markets	Boyne & Walker (2004); Hoffman (1989); Pearce & Robbins (1992); Sudarsanam & Lai (2001).
		Increase or lower prices	Beeri (2009); Hambrick & Schecter (1983); Hoffman (1989); Walshe et al. (2004).
		Improve quality or service	Beeri (2009); Corstjens & Doyle (1989); Hoffman (1989).
		Redefining or refocusing on core mission and activities	Beeri (2009); Boyne & Walker (2004); Corstjens & Doyle (1989); Schoenberg et al. (2013); Turner (2003).

2.2.1 Retrenchment strategies

Several authors argue that retrenchment strategies are the key to a successful turnaround (e.g. Hoffman, 1989; Pearce & Robbins, 1992; Smith & Graves, 2005). Pearce and Robbins (1992) further argue that it is rarely possible to achieve a turnaround without an initial period of planned retrenchment, and that retrenchment strategies therefore are a natural part of any turnaround process. Retrenchment strategies often include short-term actions to reduce financial losses, stabilize the company and work against the problems that caused the poor performance (Walshe et al., 2004).

Retrenchment strategies are frequently highlighted as the first step in many turnaround theories as they can be implemented quickly, may have an almost immediate effect and generally require little capital or resource outlay (Hofer, 1980; Pearce & Robbins, 1992). In addition, retrenchment strategies have the possibility to act as "fire-fighting" and can produce "quick wins" (Schoenberg et al., 2013). Retrenchment actions can also play an important political role in winning back stakeholder support and help raise external resources to fund other strategies (Smith & Graves, 2005). Generally, retrenchment strategies consist of reductions in the scope or size of a company. The emphasis is on making cuts in parts of the business that are unproductive and unprofitable, that in turn can release resources for investment in areas that seem likely to deliver higher performance (Boyne & Walker, 2004). Retrenchment strategies focus on increasing efficiency through a reallocation of resources. Companies that implement retrenchment strategies will therefore emphasize cost control, trend monitoring and efficiency rather than scanning the environment for new opportunities (Simons, 1987). Selling assets, shutting down or reallocating units and downsizing are also highlighted as necessary retrenchment actions by several authors (e.g. Beeri, 2009; Hoffman, 1989; Smith & Graves, 2005).

Retrenchment strategies often include changes in the internal organization of the company. Examples include changes in planning systems, the extent of decentralization and styles of human resource management (Dolan & Garcia, 2002). In addition, it is often necessary to alter the structure of a company through reorganization. Changing the company structure or management in a turnaround is argued to be necessary because an inappropriate internal company structure can prevent or impede the development and implementation of strategies, causing the enterprise to perform at less than full potential (Li et al., 2008; Walshe et al., 2004).

2.2.2 Repositioning strategies

Repositioning strategies are aimed at ensuring that the turnaround is permanent by repositioning the company, either in its current markets or in new markets, to ensure future growth and profits (Hoffman, 1989). Strategic repositioning is a conscious act undertaken by companies as they adapt to a changing environment, and is essentially driven by a growing gap between the needs of the market and the capabilities of the company (Corstjens & Doyle, 1989). Accordingly, repositioning decisions are based upon a company reconciling internal and external environments by finding a match between market requirements and the company's ability to serve them (Turner, 2003). Repositioning strategies are focused on generating revenue through better alignment between the company and surrounding environment. Companies that implement repositioning strategies will therefore emphasize comprehensive planning and measure performance more subjectively, rather than cost control, trend monitoring and efficiency (Simons, 1987). Actions such as changing marketing efforts, changing prices and improving quality of service are highlighted as necessary repositioning actions by several authors (e.g. Beeri, 2009; Hambrick & Schecter, 1983; Sudarsanam & Lai, 2001).

Stopford and Baden-Fuller (1990, p. 410) conclude that turnaround success *"come from constant experimentation with new product offerings and new ways of making existing products"*. Diversifying into new markets and customer segments through innovation and experimentation can help the company achieve growth (Porter & Millar, 1985). On the other hand, Collins and Porras (1996) argue that companies can stimulate growth through focusing on their core businesses rather than through experimentation. This entails determining the markets, products and customers that have the potential to generate the greatest profits and refocusing the company's activities into these areas. Successful turnarounds have been associated with a focus on product lines and areas where the company has distinct competitive strength and on profitable customer segments (Hambrick & Schecter, 1983; Sudarsanam & Lai, 2001). Companies in recovery may also return to activities for which it was well known in the past (Hambrick & Schecter, 1983; Hofer, 1980). Consequently, it may be necessary for the company to undertake internal changes to align itself more effectively with its core purpose.

Formulating retrenchment and repositioning strategies is a difficult task for any management team. However, making the strategies work by implementing them throughout the company is even more difficult (Hrebiniak, 2006) because the implementation requires the intricate and dynamic interplay of people, resources, and market forces (Allio, 2005). Consequently, it becomes necessary for managers to control the implementation of retrenchment and repositioning strategies to ensure that the strategy leads to the desired outcomes. This can be achieved by using MCS.

2.3 Management Control Systems

There exist a number of definitions and descriptions of MCS (e.g. Anthony, 1965; Chenhall, 2003; Merchant & Van der Stede, 2007; Otley, 1987; Ouchi, 1979; Simons, 1995). However, on a general level it can be agreed that MCS is a generic term for a wide range of formal and informal mechanisms that aim to regulate the behavior of employees. *Formal management control mechanisms* include organizational structure, reward systems, budgeting, standard operating rules and procedures, strategic planning systems and operational controls, while *informal management control mechanisms* comprise leadership, culture, values and norms (Chenhall, 2003). Several authors argue that MCS is an important tool that foster and support strategy implementation during normal operations (e.g. Fullerton et al., 2013; Liker, 2004). Kavanagh and Ashkanasy (2006) add that in times of organizational crises most companies will tighten control in order to achieve company objectives, thus arguing that the use of MCS is especially important during a company turnaround.

For the purposes of this study, MCS is defined broadly as a system conveying useful information to assist managers in their jobs and decision-making to efficiently and effectively achieve desired company goals (Simons, 1987). The definition of MCS in this study embraces both formal and informal information-based routines and procedures to be able to investigate the "control package" in its entirety (Otley, 1987). As a result, MCS involves both personal (Merchant, 1985) and performance measurement systems (Merchant & Van der Stede, 2007) in general, combining both financial and non-financial information. In this study, MCS is not defined by its technical design features. Instead, it is defined by how managers use the system for decision-making in the process of company performance management. Based on this definition, we have chosen to study management control from Simons' (1995, 2000) four levers of control framework (LOC-framework) point of view.

Simons (1995, p. 5) defines MCS as the *"formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities"*. His understanding of MCS starts with putting strategy at the core of analysis. At the next level, there are four key constructs that must be analyzed and understood for the successful implementation of strategy: *core values, risks to be avoided, critical performance variables* and *strategic uncertainties*. Each construct is controlled by different systems, known as the four levers of control: *beliefs systems, boundary systems, diagnostic control systems* and *interactive control systems.* Figure 2.3 illustrates the relationship between the elements in the LOC-framework (Simons, 1995).
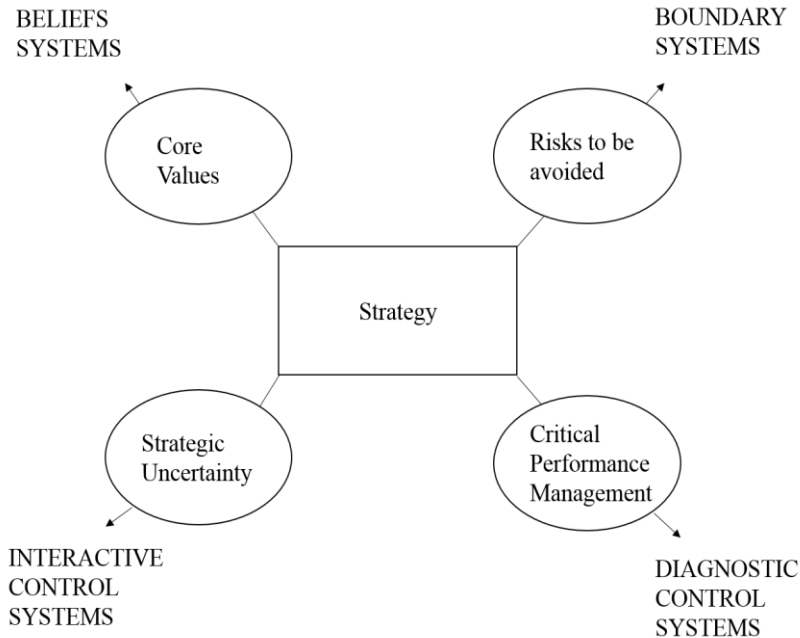
Figure 2.3: The LOC-framework (Simons, 1995, p. 7)

The four levers create the opposing forces of strategy implementation. Beliefs systems and interactive control systems represent the *positive forces* guiding the strategy implementation. They are based on culture and values and are used to support innovation, learning and creativity. Boundary systems and diagnostic control systems represent the *negative forces* that create constraints and ensure compliance with orders. The aim of the MCS is to make these levers of control act together in balance (Siska, 2015). Table 2.2 describes the characteristics of each lever of control (Simons, 1994).

Table 2.2: Characteristics of the four levers of control (Simons, 1995)

	Beliefs systems	Boundary systems	Diagnostic control systems	Interactive control systems
Description	Explicit set of shared beliefs that define basic values, purpose and direction.	Formally stated limits and rules that must be respected.	Feedback systems used to monitor organizational outcomes and correct deviations from preset standards of performance.	Control system that managers use to regularly and personally involve themselves in the decision activities of subordinates.
Purpose	Provide momentum and guidance to opportunity seeking behavior.	Allow individual creativity within defined limits of freedom.	Provide motivation, resources and information to ensure that important organizational goals and strategies will be achieved.	Focus organizational attention on strategic uncertainties and thereby provoke the emergence of new initiatives and strategies.
Key design variables	Core values	Risks to be avoided	Critical performance variables	Strategic uncertainties
Examples	- Mission statements - Vision statements - Credos - Statement of purpose	Clear rules, limits and proscriptions in: - Codes of conduct - Strategic planning systems - Capital budgeting systems	- Profit plans and budgets - Goals and objectives systems - Project monitoring systems - Brand revenue monitoring systems	Managers can make any control system interactive by: - ensuring that the system is an important and recurring agenda to discuss with subordinates - ensuring that the system is a regular focus of attention by operating managers throughout the company - participating in face-to-face meetings with subordinates - continually challenge and debating data, assumptions and action plans

2.4 Development of Propositions

To identify how the use of the four levers of control can enable the implementation of retrenchment and repositioning strategies, the theories presented in the previous and following sections are combined and used as a foundation to develop eight propositions. The propositions will be used to guide the empirical data gathering and analysis.

2.4.1 Beliefs Systems

Simons (1995, p. 34) defines beliefs as *"the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide values, purpose, and direction for the company"*. Beliefs systems are formal value and mission statements that aim to inspire and promote commitment to the company's values and direction. The management creates and communicates the company's values through these systems to provide momentum and direct individual opportunity seeking (Simons, 1995). According to Simons' (1995, 2000) definition, the ways of communicating beliefs may be considered as a system when they are (1) formal, (2) information-based, and (3) used by managers to maintain or alter patterns in company activities. Although Simons (1995, 2000) focuses his beliefs systems on formal procedures, he also recognizes the importance of informal values and beliefs in MCS.

Since the future of a company facing a turnaround is uncertain, this is likely to affect the motivation of employees. Many researchers have confirmed that a change process involving radical actions can create job insecurity and threats to individual self-esteem and wellbeing (e.g. Dent & Goldberg, 1999; Kreitner, 1992), increasing the likelihood of resistance to change. Resistance to change from employees is therefore an obvious challenge for managers in a turnaround process. Simons (1995) argues that in order to reduce the likelihood of resistance among employees, managers must inspire the employees through beliefs systems by actively communicating values, purpose and direction of the company. Without a strong beliefs system, employees in large, decentralized companies do not have a clear and consistent understanding of the core values and the direction of the company and their place within the company (Simons, 2000). Employees are therefore often forced to make assumptions about what constitutes acceptable behavior in different, unpredictable circumstances they encounter. When facing a crisis, a strong beliefs system can provide guidance regarding the types of solutions to search for (Kreitner, 1992).

When building a strong beliefs system, formulating and formalizing a *new vision* is an efficient tool. A new vision can help to attract and unite employees (Simons, 1995). Uniting employees is considered an especially important task during a turnaround as it can help reduce uncertainty and inspire employees to believe that the company is able to recover. A turnaround requires changes,

and Collins and Porras (1996) argue that truly great companies understand the difference between what should never change and what should be open for change. A vision provides guidance about what core to preserve and what future to stimulate progress toward (Collins & Porras, 1996). The new vision can therefore help the employees to understand why certain actions are necessary, such as downsizing or restructuring, or guide decision related to new product and market approaches. According to Lucas (1998) a vision is needed for a number of critical reasons, including to guide, to remind, to inspire, to control and to free employees, but that it must be used in strategy and planning activities in order to fulfill its purpose. Creating a new vision and implementing it in strategic decision-making is therefore argued to have a positive influence on the outcome of retrenchment and repositioning strategy implementation.

Beliefs systems can be deployed to engineer organizational change and overcome organizational inertia (Trice & Beyer, 1991). Björkman et al. (2004) argue that managers should focus on establishing a set of shared values and beliefs across units, and provide the employees with a sense of shared mission and a unitary company culture. This should be done in order to create a robust company culture that can survive restructuring and change. A culture for change can also reduce uncertainty and the potential for resistance among employees. The underlying rationale is that the more different units in the company share long-term visions and goals, the more likely they are to recover from an existence-threatening decline. Schoenberg et al. (2013) state that it may be necessary to alter the company culture through introducing *formal value statements and symbols* to challenge past beliefs and assumptions that may no longer be relevant to the changed environment the company is facing. The authors argue that only then can historic operating routines be abandoned and new employee behavior be adopted. Others have found that the use of symbols facilitates a change in the cognition and behaviors of employees, which is important for the turnaround to progress swiftly and achieve quick results (Armenakis & Fredenberger, 1995). Implementing formal value statements and symbols is therefore argued to contribute to create a culture for change and therefore enable the implementation of turnaround strategies.

The above discussion leads to the following propositions:

Proposition 1) The use of beliefs systems will enable the implementation of retrenchment and repositioning strategies

1a)	*A new vision that guides employees and decision-making will have a positive influence on the implementation of retrenchment and repositioning strategies*
1b)	*Formal value statements and symbols that create a culture for change will have a positive influence on the implementation of retrenchment and repositioning strategies*

2.4.2 Boundary Systems

Boundary systems *"delineate the acceptable domain of activity for company participants"* (Simons, 1995, p. 39). Boundary systems identify the company rules, regulations and desired actions. The communication of boundaries is often conducted through codes of conduct (Simons, 1995; Widener, 2007). By imposing such codes of conduct with incentives of punitive nature, managers try to ensure that subordinates are not engaging in activities that could jeopardize the integrity of the company, or that the employees are not dissipating resources through projects or actions that are not in line with the strategy (Simons, 1995). Boundary systems represent negative forces in the four levers of control, and set limits on the search for opportunities. Boundary systems and beliefs systems result in a dynamic tension between commitment and punishment. Together these systems will establish direction, motivate and inspire employees, while protecting the company against potentially damaging opportunistic behavior, and stimulate the creativity of individual participants within predefined boundaries (Tekavčič et al., 2008). Boundary systems are especially critical in those companies where reputation is based on trust and is a key competitive advantage, or when excessive opportunity-seeking behavior endangers a company's resources (Simons, 1995).

A turnaround is characterized as an abnormal situation for the company where resources are scarce, and the window of opportunity might be limited (Bibeault, 1998). Clarifying rules, regulations and desired actions through a well-functioning boundary system is therefore necessary because this can ensure that employees act in accordance with the company's expectations and needs during the crisis. Boundary systems that clearly specify what is allowed, and not allowed, could also provide assurance for employees during a company turnaround because it removes uncertainty. A study conducted by BCG (2011) supports this by adding that when reorganizing the company during a turnaround, one of the key success factors is to clarify roles and responsibility among involved employees. This can be achieved by using *specific job descriptions* that help avoid ambiguities and foster mutual understanding. Employees' job descriptions and positions in the hierarchy set limits on their responsibilities, and operating outside these boundaries is discouraged (Strebel, 1996). Implementing clear job descriptions can therefore be argued to contribute to a successful implementation of turnaround strategies because it removes uncertainty and ensures that the employees understand their role.

Boundary systems ensure that the company purpose is embedded into the decisions and actions of every employee in the company. This can be achieved by using *behavioral standards*, comprising basic principles that all employees are expected to follow. These standards should point at company values, as well as represent simple rules of "allowed" behavior (Tekavčič et al., 2008). The behavioral standards employed by companies are often based on formal rules and norms.

Formal rules are determined by authority figures like top management, while norms are an unwritten agreement among the employees about how they will treat one another. In addition to behavioral standards, companies can use *strategic guidelines* as a boundary system to guide decisions. The use of strategic guidelines can ensure that employees comply with the direction that the top management envisions the company to take, while at the same time allowing for creativity and innovation within set boundaries (Simons, 2000). Tekavčič et al. (2008) argue that the process of choosing new products to be developed and produced corresponds to boundary systems, as it directs, motivates and inspires appropriate innovative behavior of employees with regard to the company's strategic guidelines. Implementing behavior standards and strategic guidelines is therefore argued to enable a successful implementation of turnaround strategies.

The above discussion leads to the following propositions:

Proposition 2) The use of boundary systems will enable the implementation of retrenchment and repositioning strategies

| 2a) | *Clear job descriptions that specify roles and responsibilities will have a positive influence on the implementation of retrenchment and repositioning strategies* |
| 2b) | *Behavioral standards and strategic guidelines that determine acceptable behavior and guides decisions will have a positive influence on the implementation of retrenchment and repositioning strategies* |

2.4.3 Diagnostic Control Systems

Diagnostic control systems are *"formal information systems that managers use to monitor company outcomes and correct deviation from present standards of performance"* (Simons, 1995, p. 59). Managers use such systems to monitor results, profitability and progress through measuring performance variables, and to ensure that important objectives are achieved effectively. Diagnostic control systems are designed to ensure predictable goal achievement and, thus, the implementation of intended strategies (Simons, 1995, 2000). Together with boundary systems, diagnostic control systems intend to constrain employees' behavior and allocate scarce resources (Simons, 2000). Preconditions for the use of diagnostic control systems are the possibility to set standards and measure performance variables as well as the possibility to use feedback information to take corrective actions (Simons, 1995).

Managing a turnaround process requires a balance between short-term and long-term goals (Boyne & Walker, 2004; Pearce & Robbins, 1993). Progress towards achieving short-term and long-term goals can be measured by using diagnostic control systems that monitor critical performance outcomes. To ensure a successful implementation, managers must identify and

deploy a set of financial key performance indicators (KPIs) that encourage the kind of focus and behavior the company seeks, while rewarding employees for meeting or exceeding strategic targets (Allio, 2005). By monitoring KPIs, the company can take immediate corrective actions in all the processes where there are negative deviations from preset plans. This is especially important during a turnaround where managers face scarce resources and need to react fast to deviations from plans (Bibeault, 1998). Diagnostic control systems can also be used to generate reports that contain non-financial performance measures, for example customer satisfaction and different quality measures (Tekavčič et al., 2008). This can be especially helpful during the implementation of repositioning strategies where managers have to focus on how actions are received by the external environment. However, non-financial performance measures require a great deal of management evaluation, so measures become more subjective. Tekavčič et al. (2008) argue that companies that operate in very uncertain and complex environments, require a balanced monitoring of both financial and non-financial performance measures because this allows for a holistic approach to potential threats. Implementing systems that measures both *non-financial* and *financial KPIs* can therefore be argued to enable a successful implementation of turnaround strategies.

Diagnostic control systems also represent a good basis for employee incentives and motivation through setting clear targets the employees can meet. The use of such employee financial rewards to motivate change is widely regarded as a fundamental control practice (Merchant & Van der Stede, 2007). However, the focus should not solely be on financial rewards. As an example, Merchant (1985) suggests that when performance outcomes are difficult to measure and there is limited knowledge of how to implement the change, such as for new strategies, control practices that emphasize "softer" people-centric control systems over "harder" pay-for-performance systems might be preferred. Since a company facing a turnaround is most likely to have limited knowledge on how to implement turnaround strategies, focusing on the employees and a "softer" reward system is therefore argued to be preferable. As a result, *non-financial rewards* can be argued to contribute to successful turnaround strategy implementation.

The above discussion leads to the following propositions:

Proposition 3) The use of diagnostic control systems will enable the implementation of retrenchment and repositioning strategies

3a)   *Financial and non-financial KPIs that measure progress and deviations from plans will have a positive influence on the implementation of retrenchment and repositioning strategies*

3b)   *Non-financial rewards that elicit and reinforce wanted behavior will have a positive influence on the implementation of retrenchment and repositioning strategies*

2.4.4 Interactive Control Systems

Interactive control systems are *"formal information systems that managers use to involve themselves regularly and personally in the decision activities of subordinates"* (Simons, 1995, p. 95). These systems are used to strategically monitor and learn from the changing environment. Simons (2000) argues that it is nearly impossible to control informal information, and that the focus therefore should be on developing interactive control systems that allow for formal control of information between management and employees. Contrary to diagnostic control systems, managers pay frequent and regular attention to interactive control systems and, hence, are personally involved in them. This attention signals the need for all employees to focus on the issues addressed by interactive systems, i.e. issues that are of strategic importance (Siska, 2015). Siska (2015) also argues that interactive control systems can foster active and frequent dialogue and debate on strategic uncertainties. Therefore, interactive control systems activate organizational learning and, eventually, the emergence of new strategies (Simons, 1995, 2000). Precondition for using an interactive control system is regular discussion of the data generated by the systems to ensure attention is paid constantly to strategic uncertainties. Examples of systems that can be used interactively are project and profit planning systems (Simons, 2000).

Raps (2004) recommends that managers seeking to implement strategies should focus on *formal two-way communication* because it solicits questions from employees. Dent and Goldberg (1999, p.36) state that companies should *"not expect people to change until you have established two-way communication"*. Allio (2005) supports this by arguing that strategy implementation plans are destined to change, due to technological advances and customer and competitor responses. Using interactive control systems to pay attention to changes in the environment can therefore help shaping the strategies to better fit with the environment, and foster organizational learning. Frequent dialogue between employees and their managers through a formal channel is important in order to discover changes in the external and in the internal environment. Implementing a formal two-way communication channel that allows employees to ask questions and fosters

discussions about the current situation can therefore be argued to support and enable the implementation of retrenchment and repositioning strategies.

A strong interactive control system will involve employees in the change process and give them ownership of implemented actions. At the same time, a well-developed interactive control system gives managers the opportunity to learn about how the employees respond to implemented actions and their perspective on the feasibility of the actions. Managers can use interactive control systems to explain how the company performed the previous week and what conditions lie ahead for the upcoming weeks. This will provide employees with direction. Simons (1995) argues that the data gathered from an interactive control system are best interpreted and discussed in *face-to-face meetings* of supervisors, subordinates and peers. This allows the managers to give the employees feedback on their performance, and provide them with useful information regarding potential improvements. Regularly scheduled meetings to discuss changes are therefore argued to have a positive influence on the implementation of turnaround strategies.

The above discussion leads to the following propositions:

Proposition 4) The use of interactive control systems will enable the implementation of retrenchment and repositioning strategies

4a)	*A formal two-way communication channel between peers that foster discussion and organizational learning will have a positive influence on the implementation of retrenchment and repositioning strategies*
4b)	*Regularly scheduled face-to-face meetings between managers and subordinates to discuss changes will have a positive influence on the implementation of retrenchment and repositioning strategies*

The theoretical topics that have been covered in this chapter have resulted in the development of eight propositions concerning how MCS can enable the implementation of turnaround strategies. The propositions will be addressed in the following analysis in Chapter 6.

Chapter 3: Methodology

This chapter will describe the methodology that is used in this study to answer the research questions. The chapter begins with an overview of the chosen research design in Section 3.1. Then, in Section 3.2, the research methods are presented. Lastly, the methodology is discussed in Section 3.3.

3.1 Research Design

The research design provides a set of guidelines for the collection and analysis of data, and can be regarded as a framework for how the study will be conducted. It is the reasoning that connects the research questions, the empirical data, and the conclusions (Yin, 2013). The most important purpose of the research design is to ensure that the empirical findings address the research questions (Bryman, 2012). Traditionally, qualitative research is done in an inductive way. However, multiple authors (e.g. Hyde, 2000; Yin, 2013) argue that deductive procedures in qualitative research represent an important step towards assuring conviction in qualitative research findings. This study is therefore done *deductively*.

This study uses a *single case study* research design to test whether the developed propositions make sense. According to Eisenhardt (1989), case studies are particularly well suited to new research areas or research areas for which existing theory seems inadequate. When conducting the literature review, the authors found that few have looked at how MCS can enable the implementation of turnaround strategies. In addition, Yin (2013) argues that case study is an appropriate design if the research questions posed are formulated as "how" or "why" type of question. The research questions in this study are: "How can the use of MCS enable the implementation of retrenchment and repositioning strategies in a company turnaround?" and "How does the use of MCS change when a company goes from implementing retrenchment to repositioning strategies?".

3.1.2 Theory in the Case Study

The theoretical background is indented to support the single case study by providing guidance in determining what data to collect (Yin, 2013). The theory also helps finding the strategies that should be employed to analyze the data. When gathering the theoretical background for the case study, the literature collection was done by searching relevant topics and concepts. Because of the single case study design, it was necessary to find literature that could form groundwork for analytical generalization of the findings from the case study. The literature collection therefore started with searching for broad topics within turnaround literature and MCS, and topics that are

more specific were studied throughout the process. The theory development of this case study was thus an iterative process. Based on the theories, eight propositions were developed. The propositions were essential when collecting the data; by having formulated a set of propositions, it became clear what factors to look for.

3.1.3 Choice of Case

The choice of case company was based on our desire to work with a company that had managed to complete a successful turnaround process, and was made possible through a research project between the case company, the Norwegian University of Science and Technology (NTNU) and SINTEF. The case company was therefore chosen through *convenience sampling* (Stake, 1994). The case company is Jotun Ibérica, and the units of analysis are the four levers of control: beliefs systems, boundary systems, diagnostic control systems and interactive control systems, and how they have been present in the company during the turnaround.

3.2 Research Methods

This study is utilizing a case study research method, with particular emphasis on *interviews, documentation* and *observations*. According to Yin (2013), researchers are recommended to develop a case study protocol to guide the data collection. The case study protocol for this study can be found in Appendix A.

3.2.1 Interviews

This study uses *semi-structured interviews*. Notes were taken during the interviews, this way providing a natural setting for the interviewees (Yin, 2013). The interviews were recorded to ensure that critical information was not overlooked, and were transcribed within two days of the interview being performed. The interviews at Jotun Ibérica were held in English, while the interviews with Jotun Sandefjord were held in Norwegian. The reason for this was to avoid that the language became a barrier. The interviews held at Jotun Sandefjord were transcribed in Norwegian, and only the parts being used as direct quotations were translated at a later point in time. An interview guide was used to guide the interviews. This guide can be found in the case study protocol in Appendix A. The same interview guide was used in all interviews to increase the comparability of the findings from the case (Bryman, 2012). The interviews lasted approximately one hour. A total number of 21 interviews were performed in this case study. The interviews were performed with the managers in all business areas in Jotun Ibérica. Table 3.1 provides an overview of the interviewees in the case study.

Table 3.1: Overview of the interviewees in the case study

Company	Role of interviewee	Location	Number of interviews
Jotun Ibérica	Managing Director (2006-2010) Managing Director (2010-2015)	Sandefjord, Norway	3
	Business Development Manager (2009-) Finance Manager (2004-) HR Manager (2008-) HSEQ Manager (1991-) Managing Director (2015-) Marketing Manager (2006-2015) National Sales Field Manager (2009-) Sales Director (2010-2015) Supply Chain Manager (2008-)	Barcelona, Spain	11
Jotun Sandefjord	Anticorrosive Support Manager, Jotun Marine and Protective coatings (2015-) Group Vice President - Bus.Dev. & Strategy (2010-) Regional Director West Europe (2013-)	Sandefjord, Norway	7

The transcribed material were analyzed by categorizing the findings into key aspects that were repeatedly mentioned by the interviewees. These categorizes were then merged into themes, such as "core values" or "information sharing". Based on this, the general concepts emerged. These were further analyzed and compared with the theoretical propositions.

3.2.2 Observations

In this study, only *direct observation* is used. The direct observations have been conducted through factory visits where the main purpose of using observation was to gain invaluable insight in the actual situation in the investigated case. We visited the Jotun headquarters in Sandefjord, Norway, and Jotun Ibérica located in Barcelona, Spain. The factory visits made it possible for us to direct questions to both the guide as well as other employees. During the factory visits, pictures were taken of observed matters of interest, and the authors got the opportunity to eat lunch with the employees. This helped us to collect more information on the internal processes. By using direct observations, the authors were also able to cover actions in real time and in a broader context. This is considered strengths of the observation method according to Yin (2013).

3.2.3 Documentation

The most important use of documents is to corroborate and augment evidence from other sources (Yin, 2013). During this study, the collected documentary information are based on *reports, PowerPoint presentations, e-mails* and *internal notes*. The documentation have primarily been given to the authors during meetings, through emails and factory visits.

3.3 Discussion of Methodology

Rudestam and Newton (2007) suggest that there are three tests for assessing the quality of empirical social research. These are internal validity, external validity and reliability. Yin (2013) adds construct validity as a fourth test.

3.3.1 Validity

Validity consists of construct-, external- and internal validity. According to Yin (2013), construct validity involves identifying the right operational set of measures for the concepts being measured. In this study, there are two authors contributing to the study, thereby enhancing what is referred to as investigator triangulation (Yin, 2013). In addition, we cite sources that are used to arrive at a certain conclusion, and develop a case study protocol (see Appendix A) to manage the process of documentation and establish a chain of evidence. Lastly, the drafts of this study are reviewed and commented on by our academic supervisor at the Norwegian University of Science and Technology (NTNU) as well as by key informants at the Jotun headquarters and Jotun Ibérica, thereby further enhancing the construct validity.

External validity describes to what degree the research can be replicated or generalized beyond proximate research case studies (Yin, 2013). The theoretical background in this study provides groundwork for analytical generalization of the findings. However, it is important to note that the sample size is not of a statistical significance that enables a direct generalization to all similar cases.

Internal validity in case study research refers to the degree of how correct the inferences done by the authors are. A case study makes an inference every time an event cannot be observed directly (Yin, 2013). The inferences done in this case study are based on interviews, collected documentation and observations. The authors have tried to separate what has been said in interviews and what interpretations we have made. We have also tried to increase the internal validity by using theoretical propositions to categorize the findings.

3.3.2 Reliability

According to Yin (2013), *reliability* is the degree of which the operations of the study can be repeated using the same procedure and obtain the same findings and conclusions. The reason to include reliability is to ensure unbiased research and eliminate errors. The reliability of this research is enhanced through documentation and the use of a case study protocol. The protocol contains the procedures for data collection, the name of the interviewees, and the case study questions. This would allow a different researcher to follow the same data collection procedure.

The lack of description on how to perform theory testing through case studies deductively could pose a threat to the validity and reliability in this study. Yin (2013) argues that a case study is suitable for both building and testing existing theory. However, Barrat et al. (2011) point out that there are few authors that offer insights on how to actually undertake a deductive use of qualitative case studies. They show that the paramount approach has been that of confirmation or to check the appropriateness through the application of some main principles ensuring the validity of the contextual data used to confirm or falsify a theory. To address this possible threat, the authors have selected a systematic research design (Barrat et al., 2011): by including a careful selection of the units of analysis (Eisenhardt & Graebner, 2007), careful selection of appropriate cases (Johnson & Onwuegbuzie, 2004) and triangulation of data sources driven by the nature of the specific research questions (Yin, 2013).

3.3.3 Methodological limitations

The main limitation of this study is that the empirical findings are based on a single case study. An advantage of working with a single company is that it facilitates the collection of detailed information. These conditions would be difficult to match in a multiple-case study. However, even though the case company appears to represent a successful turnaround, the sample is too small to constitute a larger population. A stronger generalizability could be claimed if more cases were included in the study.

In addition, this study have been conducted with limited time and resources. The time limitation makes it difficult to review additional literature and apply it in this case study. This limitation has been diminished through careful selection of literature and advice from our supervisor. The time limitation also limits the empirical data that is possible to gather. The lack of resources further adds to this limitation. Several of the interviews have been conducted over Skype or by phone to try to minimize the travel expenses. This could have contributed to the possibility of information having been lost or misinterpreted by the authors. Due to the resource and time limitations, the authors only had the opportunity to interview a few selected managers and employees. To get a more holistic picture of the case company, several people with different positions within the company should have been interviewed.

Another possible weakness of this study is the subjectivity of the authors. To try to compensate for this weakness, the authors have tried to develop propositions to guide the empirical data collection. The propositions are built on existing theory. We have also used our supervisor to closely monitor the work and provide guidance where needed.

Chapter 4: Case Presentation

This chapter will give a brief presentation of the case company. The chapter begins with a short introduction to the Jotun Group in Section 4.1, before introducing Jotun Ibérica SA and the historical development of the company in Section 4.2. In the last section, the turnaround from 2008-2016 is elaborated on.

4.1 Jotun Group

Jotun is a family owned company originating from Sandefjord, Norway and is headquartered at the same location. Since the foundation in 1920, the company has evolved into the Jotun that can be seen today through expansions and mergers. Jotun operated domestically until 1962 when the internationalization began with the establishment of a factory in Libya. The group, including joint ventures and associates, has 37 production facilities and 63 companies on all continents and is represented in more than 100 countries worldwide (Jotun, 2016).

The 37 Jotun production facilities operate principally independent from each other. Historically, Jotun has approached emerging markets and succeeded through a first mover advantage. When deciding on location, Jotun regards proximity to attractive markets to be the most important factor concerning a site's location, but factors such as access to low cost production, access to skills and knowledge and socio-political factors are also taken into consideration (Jotun, 2016). Jotun distinguishes the company from its competitors by offering customers the opportunity to blend the color they want with a multicolor machine. The multicolor concept has been important for Jotun's strategy since it was launched in 1976. By removing the need for many different containers of colored paint and replacing them with a small number of white or clear bases, total units in stock is reduced.

The total number of employees in Jotun is approximately 9800 (Jotun, 2016). The employees are organized into four divisions with specific product, segment and geographical responsibilities. Jotun Decorative covers the Scandinavian markets, while Jotun Paints has segment responsibility for decorative paints outside Scandinavia and protective coatings in selected markets in the Middle East and Southeast Asia. Jotun Coatings has global segment responsibility for marine and protective coatings while Jotun Powder Coatings has global responsibility for powder coatings, and cater to the architectural, functional and industrial market segments. The Group's total operating revenue was NOK 16.3 billion in 2015 (Jotun, 2016).

4.2 Jotun Ibérica SA

In 1962, Jotun expanded to Spain through acquisition and founded Jotun Ibérica SA. Originally, the company only operated in the marine market, but expanded into the decorative segment through acquisition of Torné in 1992. Today, Jotun Ibérica is located in Barcelona, Cadiz and Las Palmas. In Barcelona, the company has a factory, sales offices and stock, and in Cadiz and Las Palmas, the company has sales offices. Jotun Ibérica supplies paint and powder coatings worldwide. The company retails decorative paint and performance coatings (marine, protective, and powder coatings) for various industries including offshore, energy, infrastructure, shipowners, appliances, furniture, pipelines and building components sector, as well as to consumers and professionals (Bloomberg, 2016). As of 2016, the company has 141 employees (Jotun, 2016).

4.2.1 The historical development of Jotun Ibérica

The historical development of Jotun Ibérica is illustrated in Figure 4.1.
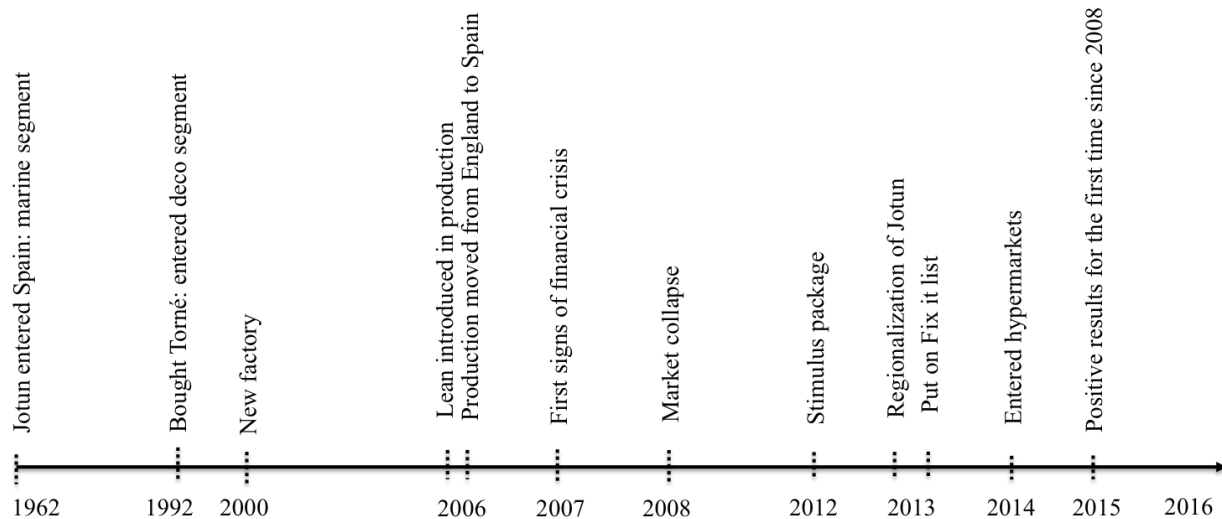
Figure 4.1: The historical development of Jotun Ibérica

From 1962 to 2003, Jotun Ibérica was under Spanish management. The company operated relatively autonomous from the Jotun headquarters and experienced relatively high sales volumes, but with varying financial results. Internally, the company was characterized by a strong hierarchical structure with low focus on Jotun's company culture. During this period, the company expanded into the decorative segment and bought a new factory in the year 2000. The new factory was more expensive than originally intended and as a result, the company had to keep several of the old machines that made production costly.

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In the mid-1990s, Spain experienced a recession. The country was confronted with extremely high unemployment, made worse by its rigid labor market and the return of large numbers of Spanish workers from recession hit countries such as France, Switzerland and Germany. Jotun Ibérica experienced the effects of this recession, but still managed to deliver high sales volumes. By the late 1990s, the economic growth in Spain was strong; employment grew strongly and confidence in the economy returned. The last years of the 1990s saw property values begin to increase. In this period, interest rates in Spain dropped and the property boom accelerated.

In 2003, Jotun Ibérica started extensive restructuring of the company to align the production strategy more with the rest of Jotun. As part of the restructuring, most of the management team was replaced with people that could speak English. In this period, the company invested heavily in IT and tried to change the company structure from hierarchy towards a more flat structure with both vertical and horizontal communication. In addition to changing the strategy and structure, the company started introducing Lean philosophy in the production.

In 2006, Spain experienced that property prices had doubled from a decade earlier. Internally, the company had severe problems with complexity because of the introduction of IT-systems and solutions that did not communicate with each other. In addition, the organizational structure appeared to be flat with a focus on communication, but revealed itself to be much more divided with employees that were not fully involved in everyday operations. By late 2006, the company saw the first signs of the financial crisis, and in 2007/2008, the market collapsed. To diversify, the company tried entering the protective segment, but quickly shut down the project. Jotun Ibérica also tried entering hardware stores and other markets, but eventually shut down those projects too.

4.2.2 The turnaround process (2008-2016)

In this section, the turnaround process from 2008-2016 for Jotun Ibérica will be presented. The decline and recovery stage is further described. Figure 4.2 illustrates a simplified timeline of the turnaround process as well as the development in EBIT from 2008-2016. The underlying financial numbers have been anonymized.
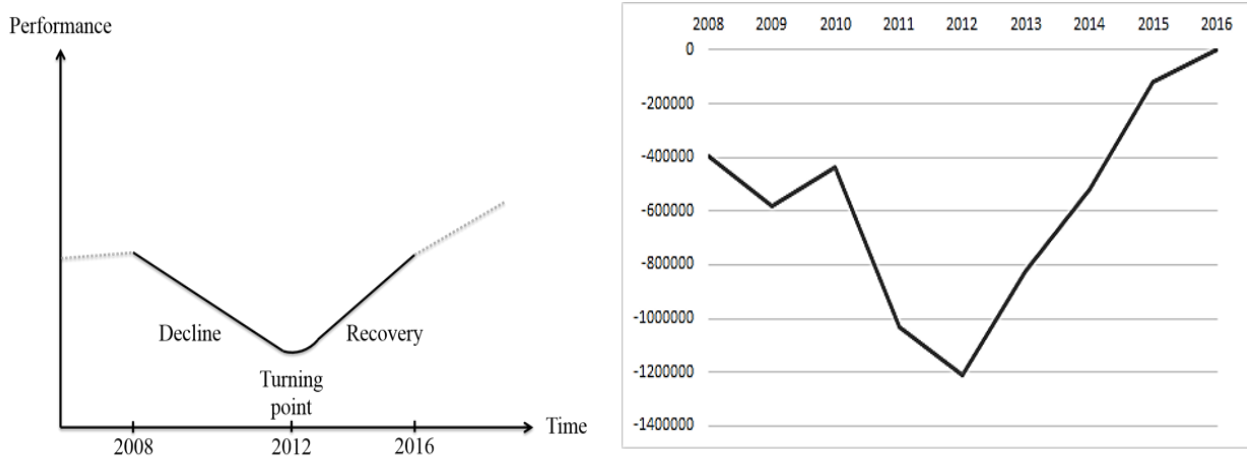
Figure 4.2: The turnaround process in Jotun Ibérica

Stage 1: Decline (2008-2012)

In 2008, the shockwaves of the global financial crisis punctured the Spanish property bubble, causing a property crash (Roman & Neumann, 2015). Construction collapsed and unemployment began to rise. The property crash led to a collapse of credit as banks hit by debts cut back lending, causing a recession. As the economy shrank, government revenue collapsed and government debt began to climb rapidly. By 2010, the country faced severe financial problems and was caught up in the European sovereign debt crisis (OECD, 2010). The Spanish paint market had previously experienced several years with frequent investments and a high demand, but in the period from 2008-2012 the market changed. The willingness to invest became low and the market experienced high uncertainty. The paint sales for Jotun Ibérica dropped with over 50% over a short time period. At the same time, the price of raw materials increased around 2% a month because of thriving markets in Asia. Jotun Ibérica had always offered the same products as its approximately 600 competitors, and had never performed well compared to other Jotun subsidiaries. The paint market in Spain is generally characterized as a highly competitive market where the different market players have a relative small market share. In this period, Jotun Ibérica had a market share of approximately 2% within the decorative segment, with the market leader having 11%. Jotun Ibérica had previously had stable results in the marine segment, but as the market changed, Spain stopped building new ships. Because of the bad market conditions in both segments, the company struggled to gain new customers. The motivation among the employees was low due to previous varying financial results and the uncertainty in the market. This uncertainty resulted in less efficient employees compared to the rest of Jotun (Jotun, 2013).

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A new managing director from Norway was hired in 2010 with the mandate to turn around the company. In 2011, Jotun's headquarter introduced rolling EBIT monitoring to keep track of the results from Jotun Ibérica. If the EBIT sunk below a trigger line of minus € 600 000, the company would have to launch a stimulus package with several retrenchment actions to get the EBIT up. When the EBIT sunk below the trigger line in 2011, the managing director started to implement the stimulus package in five main areas:

1. Assortment - keep quality, but lower price
2. Procurement - negotiate better conditions
3. Organization - downsizing and reorganizing
4. Costs - cut in travel expenses and training of employees
5. Supply Chain - focus on efficiency and Lean production

To streamline the assortment and increase sales, Jotun Ibérica lowered prices to become more competitive. In procurement, the managing director negotiated better conditions with the suppliers. The company also downsized and reorganized in order to cut costs. In addition, all travel expenses and disbursements had to be approved by the managing director to ensure that everything was accounted for. Finally, in the supply chain the company continued to focus on efficiency and Lean production.

Stage 2: Recovery (2012-2016)
In 2012, Jotun Ibérica continued to focus on the stimulus package and a positive trend started to appear in the financial statements. January 1st 2013, a new regional manager for Jotun West Europe was appointed because of a worldwide restructuring of Jotun. Jotun Ibérica was also put on a fix it-list due to long-term varying results. This involved that some drastic changes had to be done in order for the company to continue operating. Since the results had shown a positive trend already in 2012, the management in Jotun decided to continue reducing costs and focusing on Lean in all Jotun Ibérica's business units. The internal processes were optimized and the Lean philosophy was introduced for all employees. Scientific problem solving tools, such as A3, were also introduced.

The company also aligned their strategy more with Jotun's overall strategy through a strict focus on the use of multicolor machines in the decorative segment and a focus on core customers. In the rest of the world, Jotun uses a multicolor machine to mix colors, thereby differentiating the company from its competitors. The market approach and product portfolio employed by the other paint producers in Spain is largely uniform with ready-made paint in a large variety of colors. The multicolor concept has been wildly successful elsewhere, but was not used by Jotun Ibérica due to a general understanding in the market that this was not the solution that the customers wanted. However, the management team in Jotun Ibérica has been strict and focused on this strategy since 2013.

The company also launched the vision "The best paint experience" in 2013. The focus on innovation increased, especially in the decorative segment. In 2014, the company diversified into new markets by selling their products in large building material shops and "El Corte Ingles" instead of just through small distributors. In Spain, paint is usually sold in stand-alone retail stores, and the stores choose one or two paint producers, resulting in paint producers having different territories throughout the country. By entering hypermarkets, a new market was available to Jotun Ibérica. Jotun Ibérica won "Product of the year" in 2013 for the new product Majestic Resist and won the prize again in 2015 for Oxypro (Jotun Ibérica, 2016). In 2015, the financial results showed positive numbers for the first time since 2008. The managing director returned to Norway and the Spanish sales director was promoted to new managing director.

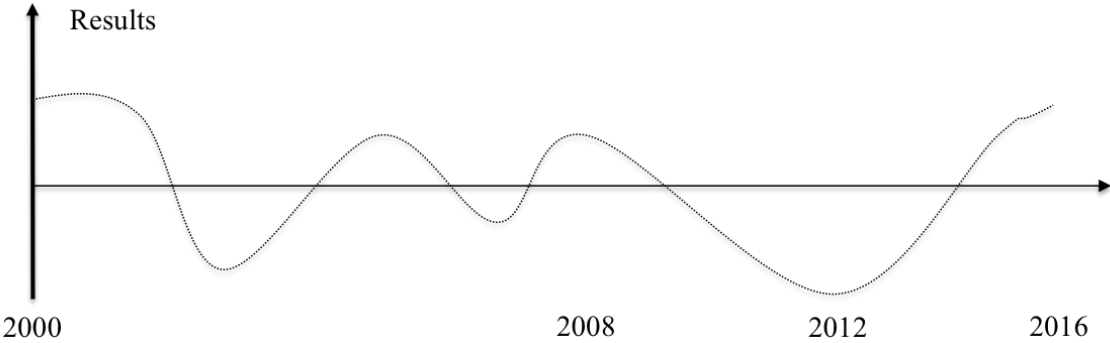The financial results of Jotun Ibérica from 2000 until today is illustrated in Figure 4.3.

Figure 4.3: Development in the financial results of Jotun Ibérica

Chapter 5: Empirical Findings

This chapter will present the empirical findings from the case study by using the four levers of control presented in Chapter 2. Some of the interviews were conducted in Norwegian. The English translations are therefore done by the authors. An overview of the employees quoted in this chapter can be found in the case study protocol in Appendix A.

5.1 Beliefs Systems

Simons (1995, p. 34) defines beliefs systems as "*the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide values, purpose, and direction for the company*". Beliefs systems are formal value and mission statements that aim to inspire and promote commitment to the company's values and direction. Examples of beliefs systems in Jotun Ibérica include *vision, company culture* and *core values*.

5.1.1 Vision

When the financial crisis hit the paint market in Spain, Jotun Ibérica did not have a well-defined vision except from the overall vision of Jotun; "Jotun Protects Property". The company operated relatively autonomous from the Jotun headquarters, but still had several of the characteristics of the Jotun culture embedded in their activities. The supply chain manager explains that the company had a strategy in operations that included a short-term vision, only looking ahead 1-2 years. The human resource manager adds that the company had a mission statement prior to 2013:

> *"It [the mission statement] was about being the best at certain aspects in Jotun. After it was established, it rather lost its power.. It is difficult to be the best. And even if we are the best at some aspects one year, it does not mean that we are the best next year. It was not working, and we were not spending a lot of time or energy promoting it."*
>
> *Human resource manager (2008-), Jotun Ibérica*

When the new regional manager was assigned the responsibility for Jotun Ibérica in 2013, he realized that nothing would improve unless the employees knew where they were heading. A vision for Jotun West Europe was therefore developed; "The Best Europe Dream". The aim was that prior to 2020, Europe should have solid results in a mature market. In addition, all Jotun companies in West Europe got the assignment to develop their own vision. The process of making a new vision involved analyzing the internal problems and setting short-term and long-term goals. The management team in Jotun Ibérica came up with "The Best Paint Experience".

This sentence was a summary of a more comprehensive mission statement and intended to function as a guideline for all employees, customers and end-users. The employees in Jotun Ibérica had experienced a severe decline in the market and were demotivated, and mission statements that are couched in inspirational language are argued to supply fresh energy and motivation to much needed hungry employees (Simons, 1994). This vision was a long-term plan for the company:

> *"It is important to allocate resources and energy in one direction. I referred to it as the 'true north'. I have been asking people across the company what their vision is, and what their goal is, and everybody knows that sentence."*
>
> *Regional manager West Europe (2013-), Jotun*

> *"If I was to do this again, I would communicate a clear picture of the situation and develop a vision at an earlier stage."*
>
> *Managing director (2010-2015), Jotun Ibérica*

Implementing a new vision is in accordance with Simons (1995) who argues that a new vision can help to attract and unite employees. The vision was used externally in promotions and in the stores that sold Jotun products. It was communicated to customers, suppliers and other participants in the paint market. Traditions and relations is an important part of business life in Spain, and the new vision was used to maintain and develop relations. Internally, employees were encouraged to discover how they contributed to the best paint experience through workshops and discussions. With the new vision and a new value proposition based on Jotun's multicolor strategy, a change in mindset of the employees was required. One example of an activity aimed at changing the mindset of the employees was a trip to Norway. In February 2013, the sales team, including the sales director and the business development manager, went to visit Jotun stores in Norway. The trip was a game changer:

> *"I think this was a breakthrough because they understood that all the things we were communicating were real and possible. I think it was very positive for the sales team because seeing is believing. They were seeing the potential of our approach."*
>
> *Sales director (2010-2015), Jotun Ibérica*

> *"It was a big change for the company. We discovered a new way to do business, for example organizing the products by price and quality."*
>
> *Business development manager (2009-), Jotun Ibérica*

Other divisions in Jotun Ibérica, such as logistics and marketing, were visiting point of sales in order to understand what the best paint experience was. Today, the vision is still communicated in the monthly meeting between the management team and the employees:

> *"We were presenting the results to the rest of the employees, and I think they came to a realization and started to understand a little more about what this best paint experience was. So we started to build a clear picture of that."*
>
> *Sales director (2010-2015), Jotun Ibérica*

5.1.2 Company culture

The strongest beliefs system Jotun actively uses is the company culture. The Jotun company culture is referred to as the "penguin spirit" and is founded on four core values: *respect, boldness, care* and *loyalty*. The penguin symbol is visible in all Jotun offices, promotions and documents. The use of symbols is argued to facilitate a change in the cognition and behaviors of employees, which is important for the turnaround to progress swiftly and achieve quick results (Armenakis & Fredenberger, 1995). The penguin symbol origins from the 1920s when Jotun was a big supplier to the whaling industry:

> *"The penguin symbol is strong because it is a bird that can stand any kind of weather and it encourages unity. They stand in circles to keep warm when it is minus 40 degrees and they survive."*
>
> *Regional manager West Europe (2013-), Jotun*

Jotun ensures that the penguin spirit is rooted in all Jotun companies, firstly through repeating the core values, the vision and the importance of the company culture for all top managers in Jotun. Every summer Jotun arranges a conference for all top managers where complete programs for culture building is presented, and the managers are to bring these programs back to their companies. Secondly, most of the Jotun companies have or have had Norwegian managing directors with close connection to the headquarter in Sandefjord. Lastly, to ensure that the penguin spirit is strong in all companies, employees in Jotun are hired based on the core values and they get training called "penguinization" to become real penguins.

The culture in Jotun Ibérica is described by the human resource manager as strong. Newly hired employees in the company are "penguinized" through a buddy-system and the company arranges different activities throughout the year. The new employees also attend an introductory program, which is a one-week course that explains what is allowed in Jotun and what is not. In addition, the employees get regular training in the Jotun core values:

"We have a Jotun Day every year for everyone in the company. We do fun activities in teams. Last year we made it more informative about our systems and products. It is fun activities but always based on what we do here."

<div align="right">Human resource manager (2008-), Jotun Ibérica</div>

5.1.3 Core values

Communicating the core values is considered especially important to the management in Jotun Ibérica. In the yearly performance appraisals, the managers and the individual employee review the values and discuss how the employee can act in accordance with the values. Many researchers have confirmed that a change process involving radical actions can create job insecurity and threats to individual self-esteem and wellbeing (e.g. Kreitner, 1992; Dent & Goldberg, 1999). The former managing director explains that the core values are used more frequently in Spain compared to Norway. He further adds that the values functioned as a good support during the crisis:

"I think it gave the employees comfort to know that we are a company based on strong values. In addition, we used the values a lot in the management team as decision support. There were many difficult situations that involved downsizing and I experienced that the values were good to lean on."

<div align="right">Managing director (2010-2015), Jotun Ibérica</div>

"In tough moments, the core values of the company are more important. They were always present in the PowerPoints we made, in the presentations we made, in our meetings, in our workshops."

<div align="right">Supply Chain manager (2008-), Jotun Ibérica</div>

The core values were used actively in the turnaround of Jotun Ibérica. The employees experienced a fragile environment, the unemployment rate was high and the market collapsed. The top management in Jotun wanted to shut down Jotun Ibérica because of the poor financial results. The situation can be described as following:

"In 2009/2010 people were scared, and the consumption of the people radically stopped. The market dropped and we had to adjust to the new scenario."

<div align="right">Supply Chain Manager (2008-), Jotun Ibérica</div>

The core values *loyalty, care* and *respect* were present in the daily life of Jotun Ibérica in how the employees behaved and collaborated. *Respect* and *care* were especially used when the management team had to make tough decisions regarding downsizing in 2012. The human

resource manager states that this was a key year because the company had to lay off a few people. The management team had the core values in mind, and therefore focused on finding alternative solutions to staff cutting, such as reorganization:

> *"We used the core values. We managed to do it [reorganization] in the best way possible. We had a quality department with three people, but only needed two, but we managed to get all three to work half time in the quality department and in the factory."*
>
> *Human resource manager (2008-), Jotun Ibérica*

On the other hand, *boldness* is about being proactive, addressing difficulties in Jotun Ibérica's strategies and taking initiatives to create a future. The core value was used to guide decisions related to how offensive Jotun Ibérica should be in the turnaround. The former sales director argues that Jotun Ibérica faced many challenges, and that the company therefore had to be bolder than ever because of the complicated market situation. The sales team got a clear message:

> *"We communicated to the sales team that the most important thing was to 'Go for it'."*
>
> *National sales field manager (2009-), Jotun Ibérica*

5.2 Boundary Systems

Boundary systems "*delineate the acceptable domain of activity for company participants*" (Simons, 1995, p. 39). Boundary systems identify the company rules, regulations and desired actions. Examples of boundary systems in Jotun Ibérica include *job descriptions, behavioral standards and strategic guidelines* and *discipline in processes*.

5.2.1 Job descriptions

When reorganizing the company during a turnaround, one of the key success factors is to clarify roles and responsibility among involved employees (BCG, 2011). According to the human resource manager, the job descriptions in Jotun Ibérica are clear for everyone. Developing the job descriptions is a local responsibility, and each employee, together with their managers, should agree on their responsibilities. A global Human Resource Management system (HRM-system) was introduced in 2011:

"Everyone can access all employees' job description in the global HRM-system. All employees and their job descriptions are there. It can be very helpful when you have to write a new job description because it is a guide or a starting point. Especially for the headquarter it is valuable to see trends, to see if headcount is growing too much or whatever."

Human resource manager (2008-), Jotun Ibérica

The regionalization in 2013 lead to an increased focus on creating specific job descriptions for all employees as a demand from the Jotun headquarters. The companies in Europe had previously operated separately, and there were differences in how much emphasis the companies had on job descriptions. Today, the human resource departments in West Europe are reviewed by the global human resource manager once a year and this ensures that job descriptions are in place. The yearly review contains a template with the aspects Jotun Ibérica should be doing, and to what extent the company actually have this in place. At the end of the review, priorities for the next human resource review are established.

5.2.2 Behavioral standards and strategic guidelines

Jotun Ibérica has written material that set the standard for employees in areas such as Health, Safety and Environment (HSE) and employee behavior. Jotun West Europe has its own policy regarding how employees who do not satisfy the requirements should be treated. In addition, Jotun Ibérica is also automatically a part of a collective agreement for the chemical industry. This agreement regulates bad behavior:

"For example, if you are late three times a month, it is called a light fault. The agreement establishes the different kinds of punishment, which in that case could be a written warning or a day without salary for example. Then, there are the serious faults and the very serious faults. In the case of a very serious fault the punishment can range from, let us say, two weeks without pay to being fired. It is all very well explained and set out."

Human resource manager (2008-), Jotun Ibérica

In Jotun Ibérica, there are norms and expectations present in the company that regulate employee behavior. The regional manager highlights the importance of reacting to bad behavior, or else it will affect the good behavior. To ensure preferred behavior among employees, behavioral standards and codes of conduct are used. According to Tekavčič et al. (2008), such standards should point at company values, as well as represent simple rules of "allowed" behavior:

"The base is our four core values. Underneath the values, we have guidelines and mission statements that state what the core values actually mean to Jotun. For example, different people understand different things about what loyalty is. We also have rules for ethics and HSE that we expect employees to follow."

Supply chain manager (2008-), Jotun Ibérica

"There are people who have been fired from Jotun because they did not behave according to our values."

Regional manager West Europe (2013-), Jotun

In the factory, many boundaries and standards are present and visible for all employees. The production hall consists of green, yellow and red areas that have different levels of safety equipment requirements. In addition, marks on the floor show where employees are allowed to walk. These rules have not been changed in relation to the turnaround, but are linked to national regulations and the Jotun headquarters standards:

"We are much more dependent on Jotun in Norway now. My boss is the managing director of Jotun Ibérica, but my boss is really the HSE director in Norway. I can implement local KPIs and rules, but the corporate rules are the most important."

HSEQ manager (1991-), Jotun Ibérica

Already in the hiring process, boundaries are set. Jotun are looking for people that are in line with their core values and behavioral standards. The company ensures preferable behavior through the "penguinization" process. Training is the first step to correct deviations from the behavioral standards, but some cases, such as smoking in the factory, qualify for direct resignation. The former managing director argues that unpreferable behavior in some cases affected the company's performance during the turnaround:

"I experienced that some people that did not get along caused trouble for the company. My role as a leader was therefore often to get people to meet, find arenas where people could talk to each other and get along. It is often communication that is the issue."

Managing director (2010-2015), Jotun Ibérica

The main strategic guideline in the turnaround was to stick to the Jotun core. This involved shutting down production of ready-made colors and focusing solely on the multicolor concept. This is in accordance with Collins and Porras' (1996) argument that focusing on core businesses can stimulate growth. The Jotun headquarters made it clear that Jotun Ibérica could not continue to operate as they had done previously. This set boundaries for which solutions the employees in

Jotun Ibérica could search for. In the beginning of the turnaround, the management team in Jotun Ibérica met a lot of resistance when trying to implement this new strategy of sticking to the Jotun core:

> *"Of course we met resistance, we are humans. It was not easy to understand why we approached hypermarkets or why we launched products that the market was not asking for. We spent a lot of time explaining, but not punishing. Today, we have a much more aligned team. When we launch innovations, nobody doubts that this will create value. Today, they are more open-minded."*
>
> *Sales director (2010-2015), Jotun Ibérica*

As the company managed to stabilize the red numbers, the divisions started to focus more on innovation. The sales team manager explains that the sales team themselves developed strategic guidelines for the innovation process, thereby giving the team ownership of the process and solutions. The innovation plans included having one big innovation each year and were implemented with the support of the Jotun headquarters. The process is closely controlled by the headquarter. Jotun Ibérica has meetings with the marketing manager in Norway and the regional manager in each step of the innovation process. The innovation process consists of five gates, where a product completing gate five qualifies for launch:

> *"The can design, the formulation.. We have to present everything. Guidelines for the innovation process consist of clear steps to be followed, a check-list. We have to meet objectives in order to advance from one gate to another gate."*
>
> *Marketing manager (2006-2015), Jotun Ibérica*

5.2.3 Discipline in processes

In 2013, the regional manager saw the need to introduce more discipline in processes in Jotun Ibérica. He introduced a systematic approach and required that all processes should be carried out in a standardized way. As an example, Lean philosophies were introduced in all areas of the company to set clear boundaries on how processes should be carried out. Prior to the regionalization, Lean had only been seen in relation to production, but it was now applied to marketing, finance, HR and management. This led to more strict procedures:

"What I have learned from Lean is that if you want to make something happen, you have to be disciplined. You have to follow the process and do it in the way it is said that you should do it. Of course you can improve it, but if you do not have a process, then there is nothing to improve."

Regional manager West Europe (2013-), Jotun

"We are not a Lean company, but we try to be. It is a long journey."

Supply chain manager (2008-), Jotun Ibérica

To improve the discipline in processes, the regional manager introduced scientific problem solving tools, such as Plan-Do-Check-Act, Single Minute of Exchange Dies and A3. In addition, process mapping was used to reveal which actions that was adding value and which ones that were waste. The employees receive training in these methods and tools, and the Lean approach set boundaries for which processes to focus on and how these processes should be carried out. However, the supply chain manager highlights that the tools are not the most important thing:

"When we are talking about Lean, the common mistake is to talk about tools. Lean is more a philosophy, a culture, and a way of thinking. We are building a Lean culture. We are trying to implement this way of thinking."

Supply chain manager (2008-), Jotun Ibérica

5.3 Diagnostic Control Systems

Diagnostic control systems are *"formal information systems that managers use to monitor company outcomes and correct deviation from present standards of performance"* (Simons, 1995, p. 59). Diagnostic control systems comprise the administrative controls that operate throughout a company. Examples of diagnostic control systems in Jotun Ibérica include *business reviews, KPI monitoring* and *reward systems*.

5.3.1 Business reviews

Jotun has business reviews twice a year of all their subsidiaries where the regional managers go through everything related to the subsidiary. Jotun uses this review to check whether the subsidiary is in line with preset standards, provides guidance and corrects deviations when needed. It is not sufficient to monitor only the performance yearly, so the Jotun subsidiaries also closely monitor themselves and report to the Jotun headquarters because Jotun does not have resources to closely monitor every subsidiary:

"Of course it is difficult to have control when you are not present in everyday life, but only work through a business review."

<div align="right">*Regional manager West Europe (2013-), Jotun*</div>

5.3.2 KPI monitoring

To monitor internal company outcomes, Jotun Ibérica uses a balanced scorecard (BSC) approach. The BSC includes several financial KPIs that measure revenue and profitability for the different segments the company operates, as well as non-financial KPIs on the ability to deliver, complaints and that the products are "right first time". The KPIs are mainly decided by the headquarter, but Jotun Ibérica also has a set of 13-15 KPIs that changes depending on what is focused upon that year. This is in accordance with Otley (1999) who argues that due to the continuously changing environment and emergent strategies, it is likely that strategic performance measurement systems are refined quite often. All the KPIs are found in Jotun's Enterprise Resource Planning-system (ERP-system). However, this focus on KPI tracking is relatively new for Jotun Ibérica:

"Previously we were not tracking progress in a good way. The tracking was number of sales and KPIs related to results, but not related to actions and effort. We have recently started to measure that. Before we only tracked financial KPIs, but now we include some non-financial KPIs related to sales."

<div align="right">*Finance Manager (2004-), Jotun Ibérica*</div>

"Now we use a table in excel to monitor our KPIs. Everything is in an ERP-system. The system is for all of Jotun Ibérica, and all the managers have access to the ERP-system and its content. Every year we change KPIs in the ERP-system, sometimes we remove KPIs that we do not need anymore, sometimes we remove the once we are good at."

<div align="right">*Supply Chain Manager (2008-), Jotun Ibérica*</div>

Tushman and Nadler (1978) argue that companies facing an existence-threatening decline will utilize their control systems to a high degree by tracking financial KPIs and quickly react to deviations, as this is necessary to prevent further decline. As Jotun Ibérica started to experience a decline in performance, the company continued to closely monitor the financial KPIs, while also introducing rolling EBIT monitoring for the decorative segment to prevent further decline:

"At that level it becomes kind of obvious because it's all about keeping up sales. It's really about profitability, so you have got to keep a close eye on that."

<div align="right">*Managing director (2010-2015), Jotun Ibérica*</div>

The rolling EBIT was monitored on a monthly basis. It was quickly determined that if the EBIT sunk below a trigger line of minus € 600 000, the managing director would have to launch a stimulus package with several retrenchment actions to get the EBIT up. In 2011, the managing director presented the stimulus package to the management in Sandefjord, and over the next 12 months, five major retrenchment projects were implemented. As a result, the monitoring of financial KPIs became even more important, and the management team started having meetings every 14th day to ensure that they had control of the actions in the stimulus package and quickly could react to deviations. To determine why a KPI was deviating from the standard, a root-cause analysis was performed. The management team was committed to the process:

> *"We distributed the responsibility for the actions on the management team, and then we monitored it closely. We had management meetings with all eight managers twice a month, and then we followed that up with a systematic and detailed plan for reporting and progress for all five projects. So that year [2012] we monitored and controlled everything and supported the projects with financial reports. We had a target to save € 1,3 million on those five projects, so we had to measure closely and react to deviations."*
>
> *Managing director (2010-2015), Jotun Ibérica*

After implementing the stimulus package in 2012, Jotun Ibérica realized that the company still could face tough periods and continued to monitor the rolling EBIT. The company also defined new trigger lines for the rolling EBIT as well as preparing a new stimulus package that could be launched and systematically followed up if the company crossed the new EBIT trigger line. However, the new stimulus package has not been implemented as of 2016.

Prior to 2012, Jotun Ibérica mainly used and monitored quantitative data to determine if the company was meeting preset targets. Externally, the focus was on the number of new customers and opening of new sales points regardless of the needed minimum sale per individual customer. The company tried to change tactics in 2014 by changing the focus towards a mix of quantitative and qualitative approaches where the sales representatives targeted the right customers in addition to calculating the expected turnover per customer:

> *"In the beginning we put a lot of focus on quantity and not quality, but then we changed the mindset of our employees and focused on core customers. Thanks to that, we now have a large portion of our sale coming from those core customers. We now focus more on quality, satisfaction and relationships, but of course we also focus on results."*
>
> *Sales director (2010-2015), Jotun Ibérica*

Because of the changed approach, 48 customers that were unprofitable or did not follow the Jotun philosophy were faced out in 2014. In addition, the company started using the vision "The Best Paint Experience" as a non-financial KPI by checking if the obtained results were in line with what they believed was the best paint experience. This is in accordance with Tekavčič et al.'s (2008) argument that diagnostic control systems can be used to generate reports that contain non-financial performance measures, for example customer satisfaction and different quality measures:

> *"We are going to be at the top. We are going to be the best at understanding the customer's needs and deliver according to that in a way that no other market player can.. The good thing is that when you start talking about that vision together with the core values it becomes very powerful because you can start to measure things with that vision. 'Is what I am doing right now the best paint experience?' It really sets the standard."*
>
> *Managing director (2010-2015), Jotun Ibérica*

5.3.3 Reward systems

Jotun uses both financial and non-financial reward systems to ensure that the employees reach the preset targets. This use of employee financial and non-financial rewards to motivate change is widely regarded as a fundamental management control practice (Merchant & Van der Stede, 2007). In late 2011/start of 2012, Jotun Ibérica changed the financial reward system for the sales team from a variable amount that was mainly subjectively determined to a financial bonus based on results. The company did this by reducing the objectives for getting a bonus to sales and customer achievements, thus putting more pressure and priority on what the company believed was of importance. The sales director describes the previous situation as follows:

> *"In the past the sales team used to have a variable bonus system, but in fact it was quite difficult to manage because it was very subjective. The manager would say 'do not worry, I will ensure that you will get this amount' instead of having a fixed salary and a bonus based on results. Therefore, it was not clear to the sales team that their results would give them a bonus.. There was not a clear connection."*
>
> *Sales director (2010-2015), Jotun Ibérica*

Jotun West Europe changed the financial reward system again in 2013. It went from different policies in the different countries to a joint general policy that every employee in West Europe should have the possibility to receive up to 20% of their salary as a bonus. In addition, the managing directors of the different European countries now had the opportunity to give input on

how the results of West Europe should be shared. Lastly, every company has a country EBIT that is broken down into the different segments and then all the way down to the individual employee:

> *"We have divided the bonus system. The policy says that it is 50/50 on team and individual performance, but never more than 50% on individual performance, rather more on team performance. Put easily, we believe in profit sharing."*
>
> *Regional manager West Europe (2013-), Jotun*

In addition to the financial numbers that are used to calculate a bonus to the individual employee, Jotun also emphasizes a softer component based on personal objectives and development. These objectives are monitored and measured through yearly performance appraisals. Of the 20% of the salary that the employee can receive in bonus, approximately 8% is based on the goals and development measured in this appraisal. Jotun also has the possibility to give a bonus if a company or employee surpasses expectations, or sells to a higher price than the minimum price. If the employee has surpassed the 20% limit, the amount goes to the team so they can use the bonus to celebrate:

> *"The bonus system is something that comes in addition to everything else. As I mentioned, we are very good at celebrating in Jotun. We often have cake here if something good happens."*
>
> *Regional manager West Europe (2013-), Jotun*

Jotun Ibérica uses a few non-financial reward systems to reward employees. The non-financial rewards often involve celebrations based on good performance, but also everyday rewards such as lunch at work or flexible timetables. The company uses non-financial rewards to motivate the employees. As an example, the management team decided to upgrade the factory in 2013 to strengthen the company culture during the turnaround in Jotun Ibérica. This was a result of a positive trend in the financial statements, and the employees were rewarded for their efforts. The factory was painted inside and outside with big penguins as decorations. The non-financial reward system also provides an opportunity for the employees to engage in social settings:

> *"We have several non-financial reward systems. For example, it is typical to eat lunch at a restaurant in Spain, but we have lunch here at the factory. This is better because the employees can talk to each other."*
>
> *Human resource manager (2008-), Jotun Ibérica*

5.4 Interactive Control Systems

Interactive control systems are *"formal information systems that managers use to involve themselves regularly and personally in the decision activities of subordinates"* (Simons, 1995, p. 95). Examples of interactive control systems in Jotun Ibérica include *monthly information meetings, factory rounds, performance appraisals* and *technology-facilitated interaction.*

5.4.1 Monthly information meetings

Jotun Ibérica has a monthly meeting called Forum. The meeting acts like an information channel between the management team and the employees, and information about the financial situation, newly won projects or other aspects of the everyday operational activity are discussed. This is in accordance with Simons (1995) who argues that the data gathered from an interactive control system is best interpreted and discussed in face-to-face meetings of supervisors, subordinates and peers because this allows the managers to give the employees feedback on their performance, and provide them with useful information regarding potential improvements. As Jotun Ibérica experienced a severe decline, Forum became the arena to communicate the necessary internal changes related to the introduction of the stimulus package:

> *"The management team was fully committed to the plan. The process was very transparent. We had monthly information meetings with the employees and were very open about the situation we were in."*
>
> *Managing director (2010-2015), Jotun Ibérica*

> *"We have monthly meetings for everyone; Forum. Here we talk about products, or if we have a kaizen team that have achieved certain results and so on. If the results are good, we celebrate. If the results are bad, we have to create an urgency."*
>
> *Human resource manager (2008-), Jotun Ibérica*

Frequent communication between managers and subordinates is argued to be important because it solicits questions from employees thereby allowing for reflection (Raps, 2004). The managers in Jotun Ibérica explain that they have an open door-policy where employees can come to them with questions and issues at any time:

> *"I would say that the management team is very accessible. Everybody knows where we are, we also walk through the factory. They can come to us, but it does not happen a lot. I think it is a cultural thing."*
>
> *Human resource manager (2008-), Jotun Ibérica*

The different departments in Jotun Ibérica have monthly meetings that focus on operational themes connected to the department. In that way, Forum can be used to provide information about strategic uncertainties, while the department meetings can be used to provide information about everyday operations. The management team has internal formal 30-minute meetings every morning to share relevant data and celebrate success, but this daily communication channel does not involve the employees.

5.4.2 Factory Rounds

In addition to providing information through Forum and department meetings, both the former managing director and the former sales director in Jotun Ibérica tried to engage with the employees during the turnaround through visiting the factory several times a week. These factory rounds were often combined with an HSE-round where the managing director and the HSEQ manager checked that everything in the factory was up to standard. The combination of HSE-rounds with factory visits allowed the managing director to have a purpose for the visits:

> *"I tried to do factory visits at least once a week.. I could not always find the time. I felt that combining the HSE-rounds with factory visits legitimized my reason for being there. The employees should not feel watched, and the HSE-rounds are something I have to do. It was hard at first.. I do not speak that much Spanish, and few of the employees in the factory spoke English. I missed the everyday interaction, the small talk.."*
>
> *Managing director (2010-2015), Jotun Ibérica*

> *"The more information you give to the people, the more involvement you get from the middle managers, the better for the overall results. So the more ownership you give the people, the better results you are going to harvest. For example, I tried to visit the factory twice every week. That way I could involve people."*
>
> *Sales Director (2010-2015), Jotun Ibérica*

In the factory, there is a board known as the "We can" board where the operators and foremen have morning meetings. This board is also used as a feedback system for ideas made by the operators. Ideas, feedback and suggestions are posted on post-its and the foremen or management team regularly updates the board with status on the ideas. In this way, the operators get directly involved in several efficiency projects in the factory:

"We have boards in the factory, which we divide into different areas. The operators have many ideas. Sometimes the ideas are implemented, but previously the operator did not know this, and they felt like they were not being heard. Therefore, we use the board as a written communication channel. And.. On some meetings we tell the people what actions have been implemented and why or why some actions have not been implemented."

Supply Chain Manager (2008-), Jotun Ibérica

Prior to 2010, there was little information sharing between the management and sales team, but this was one of the key changes that the former sales director did in 2010. This shifted the control from the managers towards the employees:

"We increased the amount of information that the sales team receives because previously the amount of information was too low. They only saw the number of sales at the end of the month and that was it. Therefore, we ensured that they had information about sales per customer and other kind of information like distribution and so on. This ensured that they had information to make good decisions, for example: 'are the sales increasing for this customer or decreasing?' So we sent information on a daily basis so they could know what the current situation was and if they were going in the right direction."

Sales Director (2010-2015), Jotun Ibérica

However, the increase of information was not undivided positive. According to the former managing director, the amount of information became overwhelming for the sales team when they started to receive information on a daily basis:

"You have to know what to do with the information. It is just a lot of numbers if you do not use them correctly. I think it became rather overwhelming.. Just a new chore."

Managing Director (2010-2015), Jotun Ibérica

5.4.3 Performance Appraisals

As mentioned under diagnostic control systems, Jotun Ibérica have yearly performance appraisals between managers and employees, known as "yPOD" (yearly Performance, Objectives and Development). These are used as interactive communication channels where both employees and managers can give, but also receive, feedback. The performance appraisals follow strict formal written guidelines, and are considered mandatory for all employees:

"The yearly performance appraisals are mandatory. Last year we had approximately 100% attendance. We also use them as a way to review the core values and how every employee can act in accordance with the values."

Human resource manager (2008-), Jotun Ibérica

Jotun Ibérica also has "KIT's" (Key Issue Talk) where employees and their closest supervisor discuss progress. The KIT is often done in regular intervals of one month, but this depends on the position of the employee.

5.4.4 Technology facilitated interaction

Most of the communication in Jotun Ibérica is done in a non-electronic face-to-face way. The exception is the use of iPads that the sales team use to stay connected when they are out visiting customers and "Whatsapp". The use of Whatsapp is used frequently as a communication channel both privately and in a work setting. Jotun Ibérica utilizes this app by having different groups that the employees can be a part of:

"For instance we had a group with the Corte Ingles-people. There we could post if something went wrong or if we sold exceptionally well, and we could respond instantly. "It is a hands-on approach. It is really an informal system set in a formal setting, but it is very useful. We used it in the management team as well to create consecutive dialogue.. It is not mandatory to use Whatsapp, I mean it is not formal in that way, but it really works."

Managing Director (2010-2015), Jotun Ibérica

Chapter 6: Analysis and Results

This chapter will discuss the empirical findings presented in Chapter 5 in light of the theory presented in the literature review in Chapter 2. The chapter addresses the propositions stated in Chapter 2 and the results of the analysis are presented.

6.1 Beliefs Systems

Beliefs systems in Jotun Ibérica comprise a set of procedures that the top managers use to prescribe the company's overall strategic purpose or vision (Bartlett & Ghoshal, 1993). The new vision, the company culture and the core values are frequently used by the management team in order to facilitate the employee's comprehension of the overall company purpose and values, and to motivate and unite the employees. The new vision introduced in 2013 altered the beliefs system, and this corresponds well with Simons (1995) who states that before momentum can be created in a new direction, old behaviors have to be unlearned, and the way that unlearning is initiated is through the refined or renewed beliefs and boundary systems. The top management team in Jotun Ibérica believed that in order to achieve a successful turnaround, the company vision and strategies had to be communicated to every employee in order to set an appropriate basis for understanding why change was important. According to the regional manager and the former managing director, the new vision managed to unite the employees and provide direction.

The main strategic guideline during the turnaround was to "stick to the Jotun core". This involved repositioning the company through changing the value proposition and changing the market approach. Implementing these repositioning strategies required a change in mindset among the employees and the new vision proved effective in this process. The new vision enabled the implementation of repositioning strategies through giving the employees hopes for the future and thereby increasing their motivation. The employees had one specific task; to provide the best paint experience, and they were trained and provided with information in order to achieve this. Today, the vision is still used actively to sustain positive results. More and more employees are coached on how they can contribute to accomplish the new vision. It is therefore argued that the new vision proved to be one of the success factors in the recovery stage of Jotun Ibérica's turnaround. However, the new vision was introduced late in the turnaround process and the company performance had already showed a positive trend prior to the introduction of the new vision. Based on this, proposition 1a) *a new vision that guides employees in the turnaround process will have a positive influence on the implementation of retrenchment and repositioning strategies* cannot be fully supported by the empirical findings because the new vision cannot be argued to have enabled the implementation of retrenchment strategies. Proposition 1a) assumes

that a company develops a new vision in the decline stage of the turnaround. This argument is based on Simons' (1995) reasoning that a new vision should be introduced during the decline stage to enable the implementation of retrenchment strategies and provide direction. However, in this stage, the company is most likely to be unfamiliar with what is required in order to stabilize the performance and implements retrenchment strategies in order to avoid bankruptcy. Several authors argue that a crisis requires tough actions (e.g. Abernethy & Stoelwinder, 1991; By, 2005; Matai, 2011), and developing a new vision for the company may therefore not be the obvious solution in this stage. When the company manages to stabilize the performance and starts to look ahead, creating a new vision is a more natural action because the management team has to rebuild the optimism and new goals must be set in order to avoid a new decline. The empirical findings support this reasoning.

The beliefs systems in Jotun Ibérica are also enhanced through the strong company culture and core values. From the general description of the company and the historical review of its way to business excellence, we state that the company culture in Jotun have become the basis for Jotun Ibérica's successful turnaround. The core values and the Penguin culture are strongly founded in Jotun Ibérica. This was confirmed during the factory visits when all interviewees talked about the core values on their own initiative. The Penguin symbol is visible both inside and outside of the factory in Barcelona and are displayed on posters and presentations in all settings. Björkman et al. (2004) argue that a robust company culture can overcome uncertainty and the potential for resistance among employees. The former sales director admits that he did meet resistance from the employees when new strategies were implemented, but that by focusing on the core values, Jotun Ibérica convinced the employees that the company was thinking long-term.

When Jotun Ibérica reduced the number of employees in 2012, the core values were used to guide these decisions. As mentioned, the former managing director highlights that the core values *respect* and *care* were used in order to ensure that the employees were treated properly during the decline. The company also searched for, and implemented, alternative solutions in order to prevent staff reduction. When the focus changed towards implementing repositioning strategies, the Jotun core value *boldness* was used in order to guide decision related to strategic direction and a change in market approach. When the company implemented repositioning strategies, such as the change of market approach, this core value was communicated to the employees through formal value statements. The empirical findings therefore support proposition 1b) *formal value statements and symbols that create a culture for change will have a positive influence on the implementation of retrenchment and repositioning strategies* because Jotun Ibérica has actively used core values in the turnaround to create trust from the employees and to guide though decisions related to downsizing. The Jotun core values, communicated through formal value

statements, and the Penguin symbol have helped to unite and created a culture for change in the turnaround, and therefore created an efficient turnaround process. Based on this, these beliefs systems are argued to have enabled the implementation of turnaround strategies. By using the core values, the employees felt a responsibility to contribute to turn around the company and the resistance was lowered. However, the company culture and the commitment among the employees are largely affected by the informal norms and expectations. The employees gathered around a common goal and created an informal agreement on what they had to do. These informal aspects of a company culture develop over time and a culture for change cannot be achieved through implementing a few actions. We therefore argue that the foundation of the company culture prior to the decline stage will have a significant role in the implementation of turnaround strategies. Since communicating the core values had a positive influence on the strategy implementation in Jotun Ibérica, we believe that this supports the assumption that the company culture in Jotun is one of the success factors for Jotun Ibérica's turnaround. We therefore conclude that the foundation for a successful turnaround strategy implementation also depends on the informal aspects of the company culture that emerge over time.

6.2 Boundary Systems

Boundary systems in Jotun Ibérica are closely linked to the beliefs systems. These systems are established and reinforced through a set of communication channels, including formal mission statements, vision, e-mails, and meetings. Boundary systems are also created and communicated through mechanisms such as strategic planning systems, written or unwritten codes of conduct and formal rules and procedures (Peljhan, 2007). In the turnaround of Jotun Ibérica, rules and boundaries were set by the management team and the Jotun headquarters. The overall mission statement in Jotun is the core values and the corresponding explanations of the values, but job descriptions and other standards and guidelines are also identified as boundary systems in Jotun Ibérica.

In the decline stage, it was critical that Jotun Ibérica operated efficiently in order to survive. The company used clear job descriptions as a way to ensure that duplication of work tasks and responsibilities was eliminated. Repositioning strategies, such as changing the value proposition and entering new market or product categories, often require changes in roles and responsibilities. As an example, Jotun Ibérica decided to target hypermarkets in 2014, and therefore hired a new key account manager responsible for this market. The company focused on strengthening its presence in the new market and as a result, the employees in the marketing department were assigned new responsibilities. In order to succeed in the hypermarkets, clarifying roles through clear job descriptions was seen as important by the former sales manager. The global HRM-

system introduced in 2011 ensured that all employees had access to a database containing all job descriptions, and it was therefore made clear who was responsible for what.

The focus on job descriptions increased in 2013 when discipline in processes was implemented. An important part of creating discipline is to assure that all employees know what their role and responsibilities are. This is argued to have enabled the implementation of turnaround strategies because processes run more efficient and without misunderstandings if roles and responsibilities are clearly communicated. Based on this, proposition 2a) *clear job descriptions that specify roles and responsibilities will have a positive influence on the implementation of retrenchment and repositioning strategies* is argued to be supported by the empirical findings because Jotun Ibérica has had an extensive focus on this during the turnaround process. The job descriptions made the strategy implementation more efficient through formalizing the responsibilities of each employee. Several implemented turnaround strategies required a shift in responsibilities, and the HRM-system, containing all job descriptions, guided and simplified the process of making new job descriptions during the turnaround. However, even though the information in the HRM-system is available for all employees, the managers must still encourage and implement actions in order to ensure that the employees use this information when it is necessary.

Tekavčič et al. (2008) argue that behavioral standards should point at company values, as well as represent simple rules of "allowed" behavior. In Jotun Ibérica, the Jotun core values are used as the foundation for preferred behavior. In order for a new strategic direction and systematic approach to be embedded into the decisions and actions of every employee, the philosophy of Jotun's top management team is written down in behavioral standards, comprising basic principles that all employees are expected to follow. The boundary systems in Jotun Ibérica have been developed over a long time and the systems are mainly developed centrally by the Jotun headquarters. As a result, the boundary systems are similar in all Jotun subsidiaries. However, in 2013, Lean was introduced in several business units in Jotun Ibérica, and this set additions rules for the employees to follow. Strategic guidelines have been implemented by a range of formal and informal communication channels, particularly mission statements, company presentations and all-company educational "Jotun Day" etc. These standards are a prime example of the combination of beliefs and boundary control systems in Jotun Ibérica. They point at Jotun's core values, as well as representing simple rules of allowed behavior. These standards are communicated continually to all employees at Forum. In addition, Jotun Ibérica employs other standards such as a collective agreement of the chemical industry, specific instructions in the factory, discipline in processes, and rules for ethics and HSE.

The standards and guidelines provided the employees with rules to follow when implementing turnaround strategies. The boundary systems, together with the beliefs systems, were used to guide decisions related to the new value proposition and market approach. In addition, the process of choosing new products to be developed and produced corresponds to a boundary system in Jotun Ibérica, as it directs, motivates and inspires appropriate innovative behavior of employees with regard to the company's strategic guidelines (Peljhan, 2007). Since the standards and strategic guidelines were used actively during the decline and the recovery stage, proposition 2b) *behavioral standards and strategic guidelines that determine acceptable behavior and guides decisions will have a positive influence on the implementation of retrenchment and repositioning strategies* can be argued to be supported by the empirical findings. The situation Jotun Ibérica experienced in 2008 is argued to have created a "burning platform" for the employees. The sense of urgency associated with a failing market might have been an enabling factor for the turnaround strategy implementation because the employees already had realized that something needed to change in order for the company to survive. The employees were afraid of losing their jobs and they were willing to follow the strategies developed by the management team in order to keep the company alive. This set additional informal boundaries, where employees regulated the behavior of each other through norms and expectations. If employees do not behave according to the unwritten rules in a company, social punishment comes in addition to the formal punishment. The standards and guidelines were useful to guide employee behavior because they gave the employees specific rules they could follow in order to contribute to a successful turnaround. Lastly, the standards and guidelines helped legitimize the decisions made by the management team and therefore enabled the implementation of the chosen turnaround strategies.

6.3 Diagnostic Control Systems

Diagnostic control systems are designed to ensure predictable goal achievement and, thus, the implementation of intended strategies (Simons, 1995, 2000). Jotun Ibérica uses administrative controls such as accounting controls, budgets and business reviews across multiple levels of the company to monitor performance. The company also employs an ERP-system that includes a set of 13-15 KPIs developed by the Jotun headquarters and/or the management team in Jotun Ibérica. The KPIs span from revenue and profitability for the different segments the company operates, to KPIs on the ability to deliver, complaints and that the products are "right first time".

The use of KPIs as a monitoring tool was especially important for Jotun Ibérica during the implementation of retrenchment strategies in the stimulus package. During that period, the management team had frequent meetings where they closely monitored progress and reacted to deviations. In the ERP-system the company employs, KPIs are used interactively in everyday activity to encourage what the company believes is the correct focus and behavior, while

rewarding employees for meeting or exceeding strategic targets. Several authors support the use of such performance indicators to influence behavior (e.g. Allio, 2005; Kaplan & Norton, 1996; Otley, 1999) as a positive contribution to strategy implementation. In Jotun Ibérica, the top management's use of KPIs as interactive controls has helped to guide strategic activity by ensuring predictable goal achievement and, thus, the process of transforming intended strategy into realized strategies (Simons, 1995, 2000). Jotun Ibérica uses BSC for diagnostic control by monitoring financial and non-financial performance measures. The BSC is also used as an interactive way of management control through integration with everyday activity. The empirical findings indicate that the company operates in a very uncertain and complex environment, where balanced monitoring of financial and non-financial performance measures seems both appropriate and useful.

The main benefit of the diagnostic control systems in Jotun Ibérica is that the company uses a combination of financial, people, customer and operations measures. The financial KPIs include measures such as profit, revenue and cost control, and the non-financial KPIs include information on for example customer satisfaction, quality and employee motivation. Managers can receive the specific information they need in electronic form in a concise format through the ERP-system. If anyone requires more information about a particular measure (e.g. sales growth by product, area, etc.), they can drill down for detail. The measures help managers to take actions that are directly related to achieving the company's strategic goals, but also show top management where the best results are coming from, so that success can be recognized and rewarded. Based on the above discussion, proposition 3a) *financial and non-financial key performance indicator-systems that measure progress and deviations from plans will have a positive influence on the implementation of retrenchment and repositioning strategies* can be argued to be supported by the empirical findings because Jotun Ibérica has actively used both financial and non-financial KPIs to monitor performance and ensured that the company was on the right track throughout the entire turnaround process. Jotun Ibérica's use of financial and non-financial KPIs has also enabled the company to prioritize actions so that the most urgent and critical areas could receive attention first. This has contributed to an implementation plan that optimized the scarce resources the company had in the decline stage. In addition, the use of financial and non-financial KPIs has enabled the company to implement actions in the correct way the first time through quickly reacting to deviations, thereby making the implementation process more efficient.

The use of employee financial and non-financial rewards to motivate change is widely regarded as a fundamental management control practice (Merchant & Van der Stede, 2007). Jotun Ibérica mainly uses a financial reward system to motivate and reward employees that meet preset targets. The financial reward system is based both on the individual performance of the employee, but

also on the performance of the team and company as a whole. On the individual level, the fulfillment of goals and development has an impact on employees' rewards. The rewards are based on the manager's evaluation of an employee's behavior, according to standards set from the Jotun headquarters and/or the management team in Jotun Ibérica. This ensures that the most eager and successful employees advance vertically. The reward systems aim to foster the belief among employees that everyone is responsible for himself/herself, for the company, and consequently for co-workers. On the team level, the employees in Jotun Ibérica know that they all collectively contribute to achieving the same common goal, and that it is beneficial for everyone that they contribute.

The financial reward system in Jotun Ibérica is regulated by the standards set by Jotun West Europe. In this regard, the reward system acts like a boundary system that specifies the acceptable behavior for the Jotun subsidiaries concerning employee rewards. The standards set by Jotun West Europe is mostly focused on financial rewards. However, several authors (e.g. Liker, 2004; Merchant, 1985) suggest that when performance outcomes are difficult to measure and there is limited knowledge on how to implement the change, such as for new strategies, control practices that emphasize "softer" people-centric control systems over "harder" pay-for-performance systems might be preferred. Jotun Ibérica has begun to include non-financial reward systems to reward individual or team performance, and to enhance motivation. The company provides warm lunch to all their employees every day, and often celebrates success in office parties. In addition, operators that do an exceptionally good job in the factory have previously been sent to other factories as a reward and to get new inspiration they can transfer to other employees. The inclusion of such non-financial rewards in the formal reward system is argued to foster friendly competition between employees and teams, instead of the more negative competition associated with solely financial reward systems (Chenhall, 2005). However, the empirical findings reveal that Jotun Ibérica only has a formal financial reward system, and the non-financial reward systems are regarded as non-formal and on the initiative of the employees or managers. Based on this, proposition 3b) *non-financial reward systems that elicit and reinforce wanted behavior will have a positive influence on the implementation of retrenchment and repositioning strategies* cannot be supported or debunked by the empirical evidence because Jotun Ibérica only has a formal system for the financial reward systems and not for the non-financial reward systems. However, the inclusion of informal non-financial benefits for the employees indicate that the company recently has begun to focus more on a combination of both systems. This recent shift in focus seems both appropriate and useful considering that the company is characterized by a strong company culture where the employees are largely dependent on each other to obtain the maximum benefit of the collective reward system. However, this inclusion of non-financial rewards is a recent amendment, and it is therefore

assumed that this has not been the enabling factor for the implementation of retrenchment and repositioning strategies. Merchant and Stede (2007, p. 380) point out that "*monetary rewards can have potent impact on employee's behaviors because virtually everyone values money*". Based on the empirical findings and this insight, we question if only the use of non-financial reward systems is the key component that enables the implementation of retrenchment and repositioning strategies, or if the employee's motivation is largely tied to financial incentives.

6.4 Interactive Control Systems

Siska (2015) argues that interactive control systems can foster active and frequent dialogue and debate on strategic uncertainties. Therefore, interactive control systems activate organizational learning and, eventually, the emergence of new strategies (Simons, 1995, 2000). The interactive control systems in Jotun Ibérica include the monthly information meetings known as Forum, factory rounds and performance appraisals, as well as the interactive use of other MCS. By monitoring key strategic uncertainties and discussing them internally in regular meetings, the company enhances learning and refines its strategic options. Through Forum, the management team in Jotun Ibérica also has the opportunity to provide a vision for the future that gives rise to specific strategic uncertainties that relate especially to changes in technology, customers' preferences, competitor actions and raw materials prices. This discussion about how to react to potential strategic uncertainties forces organizational learning (Tekavčič et al., 2008).

The management team in Jotun Ibérica is described as accessible by the employees. The managing director tries to make factory rounds at least two times a week, and the managers are present at the department meetings and in daily operations. They often communicate with the work teams and every employee is encouraged to contribute to possible improvements by giving suggestions in writing, or orally, to their team leader or directly to the management team. Managers in Jotun Ibérica are also actively included in the process of continuous improvement that is facilitated by the Lean culture and teamwork with the common goal of continuous improvement for customers, employees, shareholders and other stakeholders. However, this accessibility has been largely dependent on who the managing director is. Many of the interactive initiatives have been introduced recently, and several of the interviewees highlight that this is something that has been established by the current Spanish speaking managing director.

Jotun Ibérica has implemented a formal two-way communication channel between the management team and the employees both through the monthly Forum meetings, but also through the performance appraisals known as "yPOD" and "KIT", which are used as a platform for discussion and feedback. None of these systems have been developed or implemented as a result of the turnaround process that Jotun Ibérica has undergone, but have been decided centrally

by the headquarter and implemented in all Jotun subsidiaries. However, both systems have been used interactively to convey information about the situation and discuss changes during the turnaround (Dent & Goldberg, 1999). During the decline, the interactive control systems were used to provide an agenda and an arena for formal dialogue and debate, thereby helping employees to collectively make sense of changing circumstances (Simons, 1995, p. 218). In addition to Forum, the management team in Jotun Ibérica started to have regular scheduled meetings among themselves to closely monitor the implementation progress and discuss necessary corrective actions.

There exists a formal horizontal communication channel on the lower levels of employees in Jotun Ibérica known as department meetings. The employees also have the opportunity to discuss with managers and peers on a day-to-day basis, and through interactive boards in the factory where ideas and progress is posted and everyone can receive feedback on the status of different projects. The sales team receives daily information through the ERP-system in an electronic format. This allows the sales team to have overview of the situation at all times, while freeing resources from the management team. Based on the discussion above, it can be argued that proposition 4a) *a formal two-way communication channel between peers that can foster discussion and organizational learning will have a positive influence on the implementation of retrenchment and repositioning strategies* is supported by the empirical findings as Jotun Ibérica has actively used two-way communication channels to provide information, foster discussions and feedback. The two-way communication channels in Jotun Ibérica have contributed to engaging the employees and committing them to the implementation of retrenchment and repositioning actions. By including the employees in the process and communicating the changes, the employees have had the opportunity to connect the dots between individual efforts and the company goals. The possibility to provide feedback to the management team, and discuss with them, through several two-way communication channel has further added to the engagement. This engagement has led to a commitment to turning around the company.

Simons (1995) argues that the data gathered from an interactive control system are best interpreted and discussed in face-to-face meetings of supervisors, subordinates and peers. Through face-to-face meetings, the managers can better grasp the employee's reaction to new initiatives while also get feedback on suggested strategic actions. At the same time, employees use interactive control systems to *"inform them of changing patterns and (to) allow them to respond with new action plans"* (Simons 1995, p. 98). As Jotun Ibérica started to recover from the decline, the management team started to closely interact with employees in a face-to-face setting to motivate the employees to search for new markets, products and opportunities. Tekavčič et al., (2008) argue that to deal with the non-routine, under-identified multi-disciplinary

problems entailed in developing new products, the engagement of employees in regular, face-to-face dialogue and debate by using interactive control systems is important. Interactive control systems provide a lever to permanently fine-tune analysis and actions, contributing to making the right changes and altering product innovation initiatives as the environment changes.

The interactive control systems Jotun Ibérica uses are mostly non-electronic face-to-face meetings. The exception is the semi-formal use of Whatsapp as a dialogue channel and the iPad solutions the sales team use to communicate with when they are visiting customers. The use of Whatsapp is not a formal and mandatory interactive control system in Jotun Ibérica, but is frequently used to convey information between necessary parties. In addition, the employees have several informal communication arenas, such as conversations during the lunch break and small talk around the coffee machines that are used to discuss everyday activities. This informal communication between employees is an important part of the company culture, and exists independently of the formal interactive control systems in the company. The management team also has an open door-policy where employees can come to them with questions and issues at any time. Based on this, proposition 4b) *regularly scheduled face-to-face meetings between managers and subordinates to discuss changes will have a positive influence on the implementation of retrenchment and repositioning strategies* can be argued to be supported by the empirical findings because Jotun Ibérica has had an extensive focus on non-electronic face-to-face information systems as a two-way communication channel between the management and the employees. Jotun Ibérica's use of face-to-face meetings has allowed for human connection and relationship building between the employees and the management team. This has lowered the hierarchical distance and made it easier for the employees to provide honest feedback on implemented actions. The physical presence in the meetings has also given the management team the possibility to get instant reactions to proposed actions through body language and feedback. Having all the employees together in-person to share updates and accomplishments has also allowed everyone to see how the individual everyday tasks contribute to the bigger picture, as well as how their work contributes to our colleagues' successes and vice versa. Having more context and insight into what everyone is doing individually and collectively has enabled the employees to do their jobs more effectively and improved their productivity and teamwork.

A summary of the identified four levers of control, their content, and how the systems were used during the implementation of retrenchment and repositioning strategies in the turnaround of Jotun Ibérica is presented in Table 6.1.

Table 6.1: The use of the four levers of control in the turnaround of Jotun Ibérica

	Identified systems in Jotun Ibérica	Content of systems	How the systems were used during the implementation of retrenchment strategies	How the systems were used during the implementation of repositioning strategies
Beliefs Systems	Core values	*Respect, Loyalty, Care, Boldness*	- *Care* and *respect* was used to develop trust from employees. - The Penguin symbol was present in every-day activities.	- *Boldness* was used in decision-making. - The new vision, "The best paint experience", was used actively to provide direction.
	Company culture	Penguin spirit		
	Vision	"Jotun protects property" "The best paint experience"		
Boundary Systems	Job descriptions	Global HRM-system	- Clearly defined roles was used to ensure efficiency. - Creating a Lean mindset was used to ensure that all activities was linked to customer satisfaction.	- Clearly defined responsibilities was used to change market approach. - "Stick to the Jotun core" was used to guide decisions related to market approach.
	Behavioral standards	HSE-standards Code of conduct Collective industry agreement		
	Strategic guidelines	"Stick to the Jotun core"		
	Discipline in processes	Lean		
Diagnostic Control Systems	ERP-system	Rolling EBIT monitoring KPI monitoring	- Close monitoring of financial/quantitative. - KPIs was used to quickly react to deviations. - Introduction of new KPIs as new projects started. - Trigger line in the rolling EBIT introduced to determine if further actions were needed.	- Introduction of qualitative KPIs to get a more holistic picture of the customer experience.
	Reward system	Bonus Celebrations		
	Business reviews	Quantitative and qualitative data KPI monitoring		
Interactive Control Systems	Information meetings	Forum Management meetings Division meetings	- Monthly meetings between managers and employees to communicate the situation. - Weekly management meetings to closely monitor the actions in the stimulus package. - yPOD used to engage the employees.	- Boards in the factory was used to include the employees in idea making and increase interaction. - Interactive use of diagnostic control systems was used to facilitate dialogue between managers and employees. - Bi-weekly management meetings was used to monitor the actions in the stimulus package. - WhatsApp was used as daily communication.
	Factory rounds	Factory rounds		
	Performance appraisals	yPOD KIT		
	Technology facilitated interaction	Interactive boards WhatsApp Daily sales development report		

Chapter 7: Discussion of Empirical findings

This chapter will discuss the results of the analysis in Chapter 6. Section 7.1 begins with a general discussion of major findings that are important for further refinement of the existing theory. Then, in Section 7.2, theoretical contributions are elaborated on before managerial implications are proposed in Section 7.3. Finally, limitations of the study and direction for future research are addressed in Section 7.4.

7.1 Major Findings

The following sections will discuss the major findings from the case study. The changing use of the overall MCS from retrenchment to repositioning strategies is elaborated on. The control systems that are most focused on during the implementation of retrenchment and repositioning strategies are presented first.

7.1.1 Retrenchment strategies

Previous research has not investigated if the use of MCS changes during the implementation of different turnaround strategies, but Simons (1987) suggests that companies following different strategies employ MCS in different ways. Tushman and Nadler (1978) argue that companies facing high uncertainty, such as a company in an existence-threatening decline, will utilize their control systems to a high degree. We find that Jotun Ibérica has utilized the four levers of control during the turnaround by tightening control in order to achieve the company's objectives (Kavanagh & Ashkanasy, 2006). The stimulus package that was implemented in 2012 consisted of short-term actions to reduce financial losses and required the company to forecast data in control systems, set tight budget goals and monitor outputs carefully. The company utilized the complete MCS when implementing this package by having weekly meetings, monitoring progress, setting boundaries for the employees and focusing on core values. However, we find that Jotun Ibérica's focus in the decline stage was mainly on diagnostic control systems and boundary systems. This is in accordance with Chenhall (2003) who argues that the implementation of strategies characterized by conservatism, efficiency and retrenchment are associated with formal, traditional MCS focused on cost control, specific operating goals, and rigid budget controls.

Diagnostic control systems

Several authors argue that when the company performance declines, the management starts to tighten control by introducing additional constraints and control mechanisms (e.g. Chenhall, 2008; Kavanagh & Ashkanasy, 2006; Tushman & Nadler, 1978). The empirical findings suggest that several of the identified control systems already existed in Jotun Ibérica prior to the turnaround, but that when the company experienced decline, new control systems were introduced, especially within the diagnostic control systems and boundary systems. We find that as the company started to implement retrenchment strategies in 2012, the focus was on close *monitoring* of results, profitability and progress through measuring performance variables. Jotun Ibérica used the diagnostic control systems to measure financial and non-financial KPIs in order to quickly react to deviations. According to Simons (1994), this ensures that important objectives are achieved effectively as the company undergoes a turnaround. In addition, Slatter and Lovett (1999) state that one of the key success factors for a successful turnaround is to monitor progress against plans and historical performance because this allows for a clean break from past assumptions, while encouraging a greater understanding of the current situation. The use of diagnostic control systems in the decline stage has enabled Jotun Ibérica to implement retrenchment actions in the correct way the first time and has provided the managers with an overview of the situation, thereby making the implementation process more efficient and preventing further decline. However, we find that several of the financial measures the company implemented were determined without a thorough problem analysis. As an example, the EBIT trigger line that was introduced in 2011 was based on assumptions and not on an analysis of where the threshold for survival was. Several of the KPIs did therefore not provide a correct picture of the situation and had to be replaced later in the turnaround.

Boundary systems

The boundary systems were used to *restrict* employees through setting clear boundaries on acceptable behavior in Jotun Ibérica. We find that the boundary systems in the company are based on standards set by the Jotun headquarters, as well as several additional rules. The use of these systems increased as the company implemented retrenchment strategies. As an example, the management team clearly defined employees' role and responsibilities that established accountability for the employees' actions. We find that several of the employees in the company were accustomed to uncertainty and feared for their jobs. Introducing new boundaries might therefore not have been critical when implementing retrenchment strategies because the employees already knew that they had to behave according to company rules in order to keep their jobs. The company also has a code of conduct that outlines acceptable behavior, which was used to ensure that the employees did not have the chance to develop excessive opportunity-seeking behavior that could endanger the company's resources (Simons, 1995). This was

important because Jotun Ibérica had to prioritize resources and increase efficiency in existing operations as the company started to experience a decline. As the Spanish paint market is largely based on relations and reputation, the boundary systems were especially critical for Jotun Ibérica when implementing retrenchment strategies, because this established direction, while protecting the company and sending a clear signal to the relevant stakeholders that the company intended to change the situation (Tekavčič et al., 2008).

Interactive control systems

Even though the focus during the decline stage was on diagnostic control systems and boundary systems, we find that the positive forces, i.e. interactive control systems and beliefs systems, were also used by Jotun Ibérica in this stage. We find that in Jotun Ibérica, the managers used interactive control systems in the decline stage to *communicate* with employees through frequent face-to-face meetings, such as Forum, factory rounds and performance appraisals. This is in accordance with Dent and Goldberg (1999) who argue that because interactive control systems represent an opportunity for two-way communication between managers and employees, managers will use interactive control systems to communicate strategic uncertainties. Sabatier (1986) adds that decisions made during the implementation of retrenchment strategies are usually made in a top-down way, and interactive control systems are therefore used only to communicate the strategies and progress of the implemented actions to the employees. We find that in Jotun Ibérica, these systems were also used to inform the employees about what was happening and why it was happening, thereby making sure that the employees understood the change. This contributed to creating a sense of urgency that were utilized to ensure that everyone worked in the same direction (Dent & Goldberg, 1999). Lastly, we find that the managers in the company used the interactive control systems to control what information the employees received when implementing retrenchment strategies. The managers provided the employees with information that was relevant to their specific tasks, but the employees were not provided with the complete picture. They therefore had to make decisions based on incomplete information, and this increased the risk of the employees making incorrect decisions.

Beliefs systems

The managers in Jotun Ibérica actively communicated the core values and mission statements, thus using the beliefs systems in an interactive way. The beliefs systems helped to establish trust among the employees, and provided *comfort* in an uncertain period, where cost-cutting actions and other retrenchment strategies was a part of the daily operations. We find that the beliefs systems in Jotun Ibérica are strong, and that they are the foundation for the company's identity and value system. The beliefs systems gave the employees a direction and purpose as the company performance declined, thereby providing comfort for the employees because they knew

what, and how, they contributed to the overall goal of the company. The beliefs systems in Jotun Ibérica also provided the employees with a clear sense of belonging and something fixed to hold on to when the company faced a crisis. This is in accordance with Collins and Porras (1996) who argue that because beliefs systems do not change over time, they represent something permanent that employees can rely on regardless of the changing environment. The beliefs systems have been present in Jotun Ibérica since the foundation in 1962, and have been an important basis for decision-making for the management team. As an example, the company utilized several of the beliefs systems in downsizing decisions in 2012. However, we believe that being handled according to core values or a vision does not make it easier to accept a situation for an employee that are downsized. In this regard, we find that simply utilizing an existing beliefs system is not sufficient for all retrenchment actions.

7.1.2 Repositioning strategies

Several authors argue that companies implement retrenchment strategies in the decline stage, and repositioning strategies in the recovery stage (e.g. Boyne & Walker, 2004; Hofer, 1980; Pearce & Robbins, 1992). We find that the majority of the retrenchment strategies in Jotun Ibérica were implemented in the decline stage, but that the retrenchment actions in the stimulus package continued to be implemented after the turning point was reached in 2012. Despite this, we find that Jotun Ibérica mainly focused on implementing repositioning strategies in the recovery stage. The regionalization of Jotun in 2013 led to the introduction of several new standards and rules that tightened the control. Because of this regionalization, the headquarter aligned the subsidiaries' strategies with the overall Jotun strategy, while encouraging for individual visions and mission statements. At the same time as the regionalization, Jotun Ibérica had managed to stabilize the decline in performance and had reached the recovery stage. In the decline stage, the management team had prioritized tough actions, such as downsizing and process efficiency, in order to achieve quick wins, but now the focus shifted towards growth and innovation. This is in accordance with Bibeault (1998) who argues that when the company performance stabilizes, the company should look beyond the day-to-day problems and the requirement of survival, and focus on strategies that promote growth. We identify all four levers of control in Jotun Ibérica as the company started to implement repositioning strategies, but we find that the focus was mainly on the *positive forces*, i.e. interactive control systems and beliefs systems.

Interactive control systems

We find that as Jotun Ibérica started to implement repositioning strategies, several of the control systems were made interactive in order to create *dialogue*. The interaction between managers and the employees increased, and the focus on day-to-day performance reports for the sales team became especially important as the company stabilized. However, the introduction of daily performance reports was not undivided positive for the company. The increased amount of information that the sales team had access to led to an overflow in information that were overwhelming for the employees because they did not know how to utilize all the information. As a result, they had to spend time on interpretation of data, and this delayed decision-making processes. Dialogue requires management attention and resources, which are scarce in the decline stage, but Jotun Ibérica prioritized this in the recovery stage. As an example, employees and managers attended workshops together in order to discuss how each employee could contribute to the new vision. This is in accordance with Simons (1994) who argues that once stabilization is in place, interactive control systems become the key focus area to ensure that managers personally and regularly involve themselves in the decisions of subordinates. The focus on dialogue between management and employees also forced the company to pay attention to changing customers' needs and competitive new product introductions (Simons, 1994). This is in accordance with Allio (2005) who argues that frequent dialogue between employees and their managers is important in order to discover changes in the external and in the internal environment, thereby preventing a new decline or enabling the company to changing tactics in order to better align itself to the environment. We find that by including the employees in the implementation of repositioning strategies and allowing for discussion, the employees in Jotun Ibérica had the opportunity get insight into what everyone was doing individually and collectively. This improved their productivity and teamwork.

Beliefs systems

The beliefs systems functioned as *inspiration* for the employees in Jotun Ibérica when the company started to implement repositioning strategies by creating a picture of the future that the employees could work towards (Bass, 1990). The goal for companies in the recovery stage is to grow, and the employees are inspired to work towards this goal through managers reinforcing the beliefs systems (Hambrick & Schecter, 1983). The management team developed a new vision in 2013 that motivated the employees and provided them with direction. We find that Jotun Ibérica reinforced the existing beliefs systems when the company started to promote the new vision both internally and externally, put a lot of effort in communication the core values and sent the sales team on an inspirational trip to Norway. Because of this strengthening of the beliefs systems, the employees were encouraged and inspired to work towards a common goal when the company started to implement repositioning strategies. The company performance had stabilized in this

stage, and this increased the trust among the employees in the managers and their decisions. Parish et al. (2008) argue that employees engaged in quality relationships, i.e. those with high level of trust, are likely to be committed to the company's strategies, and this is an important enabler for the implementation of repositioning strategies.

Diagnostic control systems

As a company begins to implement repositioning strategies, the boundary systems and the diagnostic control systems change from being a constraint towards being a way to set limits for innovation and creativity (Tekavčič et al., 2008). We find that when Jotun Ibérica started to implement repositioning strategies, the diagnostic control systems became the *support* systems that ensured that the company was on the right track. These systems provided managers and employees with relevant and necessary information when making decisions and made it possible to prioritize focus areas to ensure that important organizational goals and strategies were achieved. This was done by using the diagnostic control systems in an interactive way, thus ensuring that all the employees had access to the same information. The diagnostic control systems therefore became a part of the everyday activity in Jotun Ibérica. This is in accordance with Kerr and Tindale (2004) who argue that teams perform at best when given sufficient information, and that employees therefore make the best decisions under such conditions. We find that the company still monitored many KPIs, but that creativity and suggestions from the employees were considered and the focus on strict measuring decreased. This is in accordance with Simons (1987) who argues that companies that regularly experiment with potential responses to emerging environmental trends, such as a company implementing repositioning strategies, have a reduced focus on monitoring and cost control.

Boundary systems

The boundary systems were used to *guide* employees in a new way of thinking when Jotun Ibérica implemented repositioning strategies. We find that the boundary systems functioned as the outer limits that guided the employees when looking for new solutions and improvements of internal processes. As an example, specific rules for innovation processes were implemented by the headquarter. This is in accordance with Tekavčič et al. (2008) who argue that boundary systems stimulate the creativity of individual participants within predefined boundaries. We find that the company standards and guidelines were used to guide employees to work towards the new vision, and at the same time that initiatives were aligned with the company's strategy. Several new boundaries were introduced with the regionalization in 2013, and these were used to make a statement about acceptable behavior in the company. By clarifying rules and wanted behavior, the employees were guided towards value adding activities.

7.1.3 Summary of discussion

We find that Jotun Ibérica has utilized all four levers of control throughout the turnaround process. Several of the identified control systems already existed in the company prior to the turnaround, which is in line with previous research that argues that MCS is present in all companies and actively used in normal operations (e.g. Fullerton et al., 2013; Liker, 2004). However, we find that as Jotun Ibérica experienced a decline in performance, several of the control systems were altered and used in a different way than during normal operations. In this regard, we believe that MCS represent a more flexible form of control than previously assumed by having the opportunity to adapt to the changing environment of the company. We also find that as the company went from implementing retrenchment strategies to repositioning strategies, the use of the four levers of control went from a focus on the *negative forces*, i.e. the boundary systems and diagnostic control systems, to a focus on the *positive forces*, i.e. the beliefs systems and interactive control systems. This shift in focus could be explained by the nature of the different turnaround strategies. Retrenchment strategies are associated with actions that produce short-term results, and the implementation of these actions therefore require frequent monitoring over a short time period. By focusing on the negative forces when implementing retrenchment strategies, Jotun Ibérica has therefore been able to see the effect of the implemented actions quickly, and thus prevent further decline. Repositioning strategies often include actions that give long-term results. These strategies involve looking for new and improved solutions, and are associated with dialogue and a culture for change. Beliefs systems and interactive control systems are therefore suited to control the implementation of these strategies because both control systems are argued to facilitate this.

Through the analysis and following discussion, we also find that the use of each lever of control changes during the turnaround. The beliefs systems in Jotun Ibérica function as a *comforting* factor for the employees when implementing retrenchment strategies, but change towards being an *inspiration* for the employees when implementing repositioning strategies. In the same way, we find that boundary systems are *restricting* employee behavior in the decline stage, while *guiding* innovation and employee behavior in the recovery stage. Diagnostic control systems represent the traditional MCS and we find that these systems are used to *monitor* progress when implementing retrenchment strategies, but that the use change towards a more *supporting* function when the company begins to implement repositioning strategies. Lastly, interactive control systems can be argued to be used as a way to *communicate* strategies and actions in the beginning of the turnaround process, while facilitating *dialogue* between management and employees as the company recovers. These findings are illustrated in Figure 7.1, where the shift in focus from negative to positive forces is highlighted in bold.

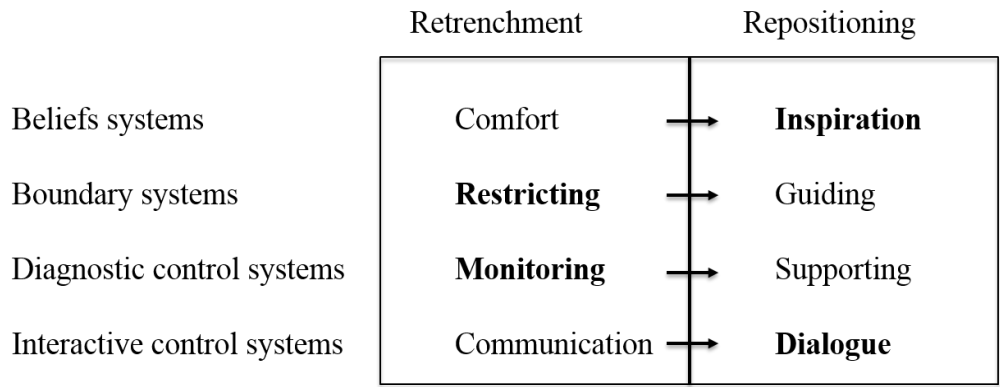|	Retrenchment	Repositioning
Beliefs systems	Comfort ⟶	**Inspiration**
Boundary systems	**Restricting** ⟶	Guiding
Diagnostic control systems	**Monitoring** ⟶	Supporting
Interactive control systems	Communication ⟶	**Dialogue**

Figure 7.1: The changing use of MCS

7.2 Theoretical Contributions

The majority of previous research has investigated the use of MCS in companies during normal operations, and there exist several theories on effective turnaround strategies. However, when reviewing the literature, the authors found that few authors had investigated how MCS are used in a company turnaround to enable the implementation of turnaround strategies. This study has therefore sought to contribute to the theory in the area of company turnarounds and MCS by providing empirical findings to support or debunk the propositions that have been developed based on existing theory. Six out of eight developed propositions were supported by the empirical findings in the study, and therefore contribute to the theory by exemplifying how MCS can enable the implementation of turnaround strategies. All propositions have been built on an extensive review of the literature within the field of turnaround strategies and MCS, and are therefore considered a useful framework for future research on MCS and company turnarounds.

Secondly, this study aims to contribute to the theory on how MCS is used under different conditions. Several authors have described which strategies that should be implemented in the different stages of a company turnaround. However, few have looked at if the use of MCS changes as the company goes from implementing retrenchment to repositioning strategies. This study therefore contributes to an increased insight into how MCS can enable the implementation of turnaround strategies in different stages. Our findings indicate that the use of control in turnaround strategy implementation goes from a focus on the formal, traditional MCS associated with cost control, trend monitoring and efficiency, i.e. boundary systems and diagnostic control systems, to a focus on culture building, innovation and dialogue, i.e. beliefs systems and interactive control systems. We therefore contribute to the theory on turnaround strategy implementation by providing evidence of which control systems that are important to focus on when implementing different turnaround strategies. The characteristic of retrenchment and repositioning strategies are linked to what type of control systems that are needed to successfully implement the strategies, e.g. short-term retrenchment actions require closer monitoring than long-term repositioning actions. This study therefore contributes with a deeper understanding of each type of strategy that in turn leads to a better understanding of how turnaround strategies should be implemented. We also provide specific examples of how individual control systems change as the company goes from implementing retrenchment strategies to repositioning strategies. Our findings indicate that the function of the beliefs systems changes from comfort to inspiration, while the function of boundary systems changes from restricting to guiding. Similarly, diagnostic control systems go from monitoring to supporting, while the use of interactive control systems changes from communication to dialogue. These findings contribute to the MCS theory and increases the understanding of how each system can enable the implementation of different turnaround strategies.

7.3 Implications for Managers

On a general level, this study has identified how the use of MCS can enable the implementation of turnaround strategies. Our findings indicate that managers should consciously utilize all *four levers of control* in turnaround strategy implementation. However, we find that different stages of a turnaround require different strategies and therefore different use of MCS. This implies that managers must allocate resources into different aspects of the MCS depending on what type of strategy they tend to implement. As companies operate under limited resources during a turnaround, it is also vital that managers are able to prioritize the resources into the control systems that that benefit the strategy implementation the most.

We have provided managers with specific suggestions on how each control system can enable the turnaround strategy implementation, exemplified through the case study. Our findings indicate that managers seeking to implement retrenchment strategies need to have a strong focus on boundary systems and diagnostic control systems to *restrict* employee behavior and *monitor* progress. This can be done by implementing rules, regulations and a set of financial and non-financial KPIs. However, in order to *comfort* the employees in an uncertain situation and *communicate* the retrenchment strategies and plans, managers should also utilize the beliefs systems and interactive control systems by communicating core values and mission statements and face-to-face meetings.

Similarly, managers wanting to implement repositioning strategies need to focus on *inspiring* employees and encouraging *dialogue* through the beliefs systems and interactive control systems. This can be done by discussions between management and employees, as well as implementing a new vision. Managers should also use boundary systems and diagnostic control systems to *guide* employee behavior and *support* decision-making by employing company standards and guidelines and provide correct information.

The main suggestions for managers who wish to recover from an existence-threatening decline in performance are summarized below in Figure 7.2. The shift in focus from boundary systems and diagnostic control systems to beliefs systems and interactive control systems is highlighted.
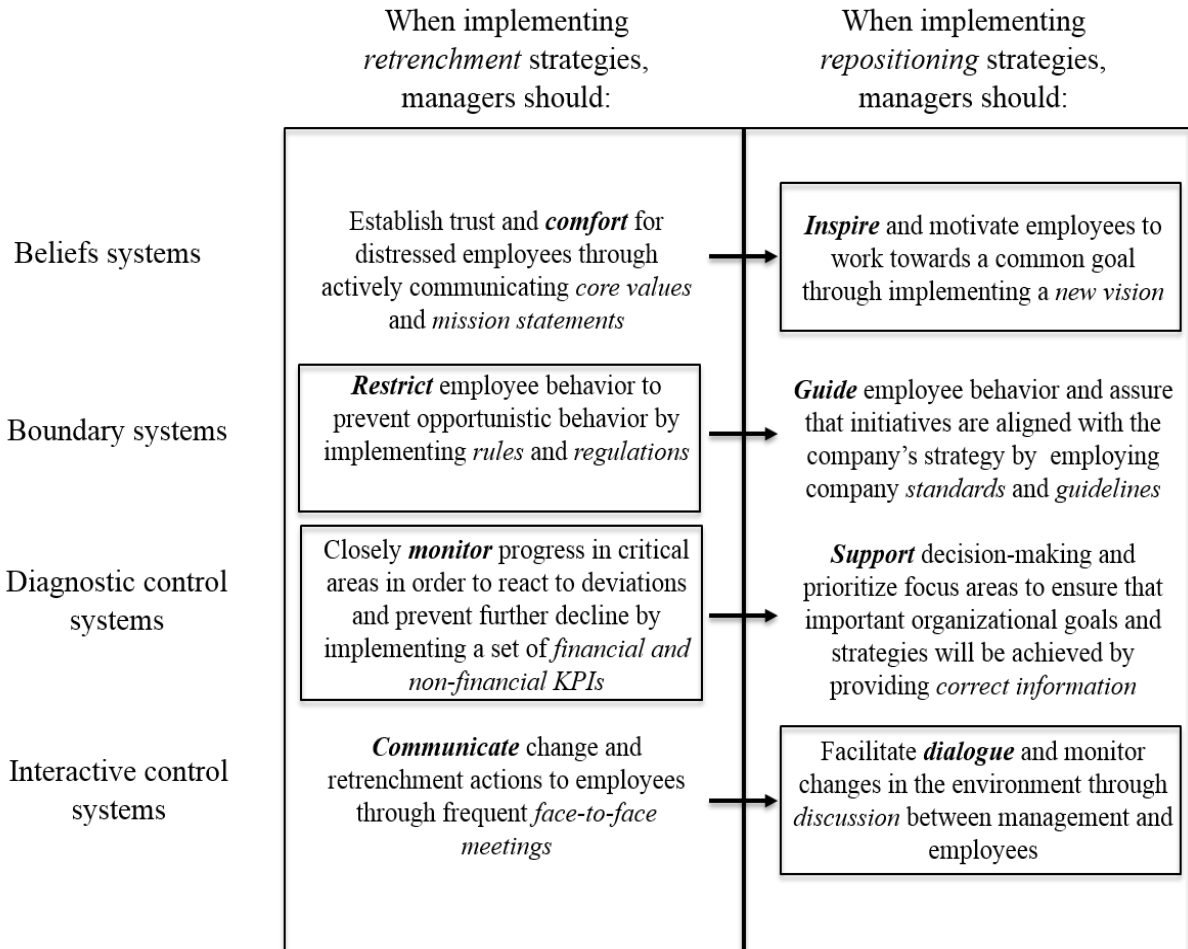
	When implementing *retrenchment* strategies, managers should:	When implementing *repositioning* strategies, managers should:
Beliefs systems	Establish trust and **comfort** for distressed employees through actively communicating *core values* and *mission statements*	***Inspire*** and motivate employees to work towards a common goal through implementing a *new vision*
Boundary systems	***Restrict*** employee behavior to prevent opportunistic behavior by implementing *rules* and *regulations*	***Guide*** employee behavior and assure that initiatives are aligned with the company's strategy by employing company *standards* and *guidelines*
Diagnostic control systems	Closely **monitor** progress in critical areas in order to react to deviations and prevent further decline by implementing a set of *financial and non-financial KPIs*	***Support*** decision-making and prioritize focus areas to ensure that important organizational goals and strategies will be achieved by providing *correct information*
Interactive control systems	***Communicate*** change and retrenchment actions to employees through frequent *face-to-face meetings*	Facilitate ***dialogue*** and monitor changes in the environment through *discussion* between management and employees

Figure 7.2: Implications for managers

7.4 Limitations of the Study and Direction for Future Research

The main limitation of this study is that the empirical findings are based on a single case study. An advantage of working with a single company is that it facilitates the collection of detailed information. We had access to a detailed company history, as well as the opportunity to visit both the Jotun headquarters and Jotun Ibérica in Spain and hold direct discussions with key personnel. These conditions would be difficult to match in a multiple-case study. However, even though the case company appears to represent a successful turnaround, the sample is too small to constitute a larger population. A stronger generalizability could be claimed if more cases were included in the study. Future research should therefore use the same set of propositions and conduct similar research where data and cases from several companies and industries are evaluated in order to strengthen the findings and the supported propositions according to the criteria used in this study.

Another limitation of this study is that the authors have applied a framework by Simons (1995, 2000) to represent MCS. The propositions were developed based on the underlying theories of this framework and may therefore not consider all possible MCS that can enable the implementation of turnaround strategies. Future research is therefore encouraged to investigate how other perspectives on MCS can enable the implementation of turnaround strategies. In addition, it is difficult to measure the effect of each control system on the implementation of turnaround strategies, and it is therefore difficult to determine which control system that has the largest impact on the strategy implementation. Future research should therefore use the same framework to represent MCS to either strengthen or question the findings from this study, and complement the research design with quantitative data.

A third limitation of this study is that all the interviewees in this study are managers that have been a part of the success story of the case company. They are therefore likely to exaggerate their contribution and roles in the turnaround. This biased sample of only managers is reflected in the empirical findings. By including employees that have not been involved in the decision-making in the turnaround as interview subjects, the empirical analysis could have been more nuanced. In addition, the study should have included employees from different levels in the company in order to get a holistic picture of the turnaround. Future research is therefore encouraged to investigate the effects of control systems in companies from the employees' point of view, or conduct a similar case study including employees at all levels in the company.

Lastly, future research should do a comparative case study of an unsuccessful turnaround case and a successful turnaround case in order to compare the use of the MCS. This can shed further light on which control systems that are most critical to utilize in different stages of a company turnaround. In addition, future research should perform a longitudinal case study to closely follow the implementation of the retrenchment and repositioning strategies and investigate if the implementation is successful over a sustained period. This will further contribute to the understanding of if, and how, each control system enables the implementation of each strategy.

Chapter 8: Conclusion

This study has investigated how MCS can enable the implementation of turnaround strategies. The study has been conducted in the form of a single case study of Jotun Ibérica over the course of one semester. Two research questions were addressed through a literature review followed by a case study. The following main findings can be drawn from this study:

RQ1) We find that all four levers of control enable the implementation of turnaround strategies in different ways. The beliefs systems help to create a culture for change by focusing on *formal value statements* and *symbols*. The boundary systems enable the implementation of turnaround strategies through *behavioral standards* and *strategic guidelines* that determine acceptable behavior, and provide clear *job descriptions* that specifies roles and responsibilities. The diagnostic control systems can be used to measure several *financial and non-financial KPIs*. This enables the implementation of turnaround strategies by giving companies the opportunity to monitor progress and quickly react to deviations. The interactive control systems ensure that managers have insight into changes in the internal and external environment through formal *two-way communication channels* and *scheduled face-to-face meetings*. These systems are used to foster discussion and organizational learning. Six out of eight propositions are supported by our empirical findings. Based on this, we conclude that a complete MCS should be utilized to enable the implementation of turnaround strategies.

RQ2) We discover that MCS is used in different ways when implementing retrenchment and repositioning strategies. As companies experience decline, the use of formal, traditional MCS, such as diagnostic control systems and boundary systems, becomes increasingly important. As companies recover, the beliefs systems are reinforced, and several of the control systems are made interactive in order to communicate changes and create dialogue. In other words, we find that as companies go from implementing retrenchment strategies to repositioning strategies, the use of the four levers of control change from a focus on the *negative forces*, i.e. the boundary systems and diagnostic control systems, to a focus on the *positive forces*, i.e. the beliefs systems and interactive control systems. We find that as companies successfully undergo a turnaround, the beliefs systems change from being used to *comfort* distressed employees to *inspire* them, while the boundary systems change from *restricting* to *guiding* employee behavior. The diagnostic control systems go from being used to *monitor* progress in critical areas to be used as *support* and foundation for decision-making. Lastly, the interactive control systems change from being used to *communicate* actions to encourage *dialogue*.

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Appendix A: Case Study Protocol

The purpose of the case study protocol is to guide the inquiries of the researchers during field investigations (Yin, 2013). The case study protocol consists of four sections; Overview of the Case Study, Data Collection Procedures, Data Collection Questions and a General Guide for the Case Study Report.

A.1 Overview of the Case Study

This study is part of a master thesis in Industrial Economics and Technology Management at the Norwegian University of Science and Technology. The study is conducted over the course of one semester, and the findings will be presented in a master thesis. The study will examine the case of Jotun Ibérica located in Barcelona, Spain. Jotun Ibérica experienced a severe decline following the financial crisis in 2007/2008. The situation reached a critical point in 2010, and in order to survive Jotun Ibérica had to implement several retrenchment and repositioning strategies.

The aim of this study is to identify how MCS can enable the implementation of retrenchment and repositioning turnaround strategies. To achieve this, the study will apply Simons' (1995, 2000) four levers of control framework on a successful turnaround case. In addition, the study will investigate how MCS is used when a company is implementing retrenchment strategies compared to repositioning strategies. Based on this aim, the following research questions are proposed:

RQ1: How can the use of MCS enable the implementation of retrenchment and repositioning strategies in a company turnaround?

RQ2: How does the use of MCS change when a company goes from implementing retrenchment strategies to implementing repositioning strategies?

A.2 Data Collection Procedures

The following section describes the subjects in the case company to be interviewed, including contact persons, the types of data to be collected and the expected prior preparations.

A.2.1 Interviews with Jotun AS

Table A.1: Interview protocol for the case study

Sites to be visited	Contact Persons	Interview Subjects
Jotun Ibérica S.A *P. I. Santa Rita, Carrer Estàtica, 3, Castellbisbal, Barcelona*	Fernando Guerra Managing Director JOTUN Ibérica, S.A. Barcelona, Spain Mobile: +34 663 074 665 Office: +34 937 711 800 fernando.guerra@jotun.es http://www.jotun.es	Managing Director (2015-) Managing Director (2010-2015) Managing Director (2006-2010) Finance Manager (2004-) Supply Chain Manager (2008-) Sales Director (2010-2015) Marketing Manager (2006-2015) Business Development Manager (2009-) HSEQ Manager (1991-) National Sales Field Manager (2009-) HR Manager (2008-)
Jotun AS *Hystadveien 167, 3209 Sandefjord*	Kjell Gundersen Vice President West Europe Mob +47 99457077 Office +47 33457000 Kjell.gundersen@jotun.com Jotun.com	Regional Director West Europe (2013-) Group Vice President - Bus.Dev. & Strategy (2010-)

A.2.2 Data Collection Plan

During the interviews and observations, the following data is expected to be collected:

1. Documentation that will increase our understanding of the conditions at, or history of, the visited case company: annual reports, correspondence, presentations, etc.
2. Description of the case company and context.
3. Interviews with people with leading competence and development roles locally or at the headquarters. The interviewee is expected to have unique experiences to tell.

A.2.3 Expected Prior Preparations

Before conducting the data collection, the researchers are expected to:

1. Consider the purpose of the study, research questions, the established theoretical foundation, and the described interview questions.
2. Identify necessary informants and important sources of data.
3. Establish contact with the contact person at the case company.
4. Make available necessary equipment: a tape recorder for interview sessions, printouts of the interview guide, and writing material for field notes if necessary.

A.3 Data Collection Questions

The interview should take a semi-structured form encouraging the interviewee to speak freely. However, the conversation should touch upon the topics proposed below. A summary of the interview will be written.

1. Introduction

The first 5-10 minutes will be used for a brief introduction to the study, and to make sure key data on the interviewee are collected.

2. Structure of the interview
    a. Introduction of the study
    b. Collection of interviewee data
    c. Topics for discussion
         i. Retrenchment strategies
        ii. Repositioning strategies
    d. Further progression
    e. Contact information

3. Interviewee data
    a. Name
    b. Email address
    c. Company
    d. Position
    e. Education
    f. Years in the company
    g. Other important information

4. Interview questions

1. <u>Retrenchment strategies</u>

   a. Did you implement any retrenchment strategies? If yes, can you give us examples of actions?

   b. Why did you choose to implement this action?

   c. When did you choose to implement this action?

   d. What did the implementation of this action entail?

   e. Can you walk us through what happened from when you decided to [action] to when the action was fully implemented (or today)?

   f. Who was involved in the implementation process?

   g. How was the process managed? Who was involved?

   h. How was this action communicated to the employees? To other managers? (To the headquarter)?

   i. Did you use the company's values and vision to promote commitment to the implemented action? If yes, how?

   j. What did you do to motivate employees?

   k. How did you ensure that the employees showed desired behavior during the implementation? (code of conduct)

   l. How did you monitor results and progress during the implementation?

   m. What kind of kpi's did you use?

   n. How did you reward the employees?

   o. How did you correct deviations?

   p. What kind of communicating channels did you use?

   q. How did you receive feedback during the implementation?

2. <u>Repositioning strategies</u>

   a. Did you implement any repositioning strategies? If yes, can you give us examples of actions?

   b. Why did you choose to implement this action?

   c. When did you choose to implement this action?

   d. What did the implementation of this action entail?

   e. Can you walk us through what happened from when you decided to [action] to when the action was fully implemented (or today)?

   f. Who was involved in the implementation process?

   g. How was the process managed? Who was involved?

   h. How was this action communicated to the employees? To other managers? (To the headquarter)?

i. Did you use the company's values and vision to promote commitment to the implemented action? If yes, how?
j. What did you do to motivate employees?
k. How did you ensure that the employees showed desired behavior during the implementation? (code of conduct)
l. How did you monitor results and progress during the implementation?
m. What kind of kpi's did you use?
n. How did you reward the employees?
o. How did you correct deviations?
p. What kind of communicating channels did you use?
q. How did you receive feedback during the implementation?

5. Additional information
a. Please feel free to add any additional information
b. Are there any written reports, documents or similar we should have insight into?

6. Further progression
a. If we have any further questions, can we contact you again?

Thank you for participating in this research project!

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A.4 General Outline of the Case Study Report
The general structure of the case study is presented below.

Chapter 1: Introduction
Chapter 2: Theoretical Background
Chapter 3: Methodology
Chapter 4: Case Presentation
Chapter 5: Empirical Findings
Chapter 6: Analysis and Results
Chapter 7: Discussion of Empirical Findings
Chapter 8: Conclusions

Appendix B: Teaching case

This appendix will present the teaching case that has been written about Jotun Ibérica in addition to the study. The financial numbers and names have been anonymized.

B.1 Teaching case: Turning around "Midland Ltd.", a Sea-Lion Paints Company

The Sea-Lion Paints Company is a large international paint producer from Westerland. The company has since its origin in the 1920s expanded rapidly all over the world and has had continuously high earnings. Despite Sea-Lion Paints Company's worldwide success, one of the subsidiaries called "Midland Ltd.", located in Midland, was not performing up to standard. Midland Ltd. produces paint for the marine market both externally and internally in the Sea-Lion Paints Company. In addition, the company produces decorative paint for the consumer market. The performance of this particular company had never been satisfactory, but in 2007, the paint market changed and as a result, the company performed even worse in the decorative segment. Prior to 2007, the paint market in Midland experienced growth and frequent investments, but the financial crisis hit the country hard. During this period, the unemployment rate in the country increased to 25% and people were nervous and scared for the future.

In 2009, the effects of the financial crisis hit the paint market. The willingness to invest became low and the uncertainty in the market was high. The paint sales dropped with over 50% over a short period. At the same time, the price of raw materials increased around 2% a month because of thriving markets in Asia.
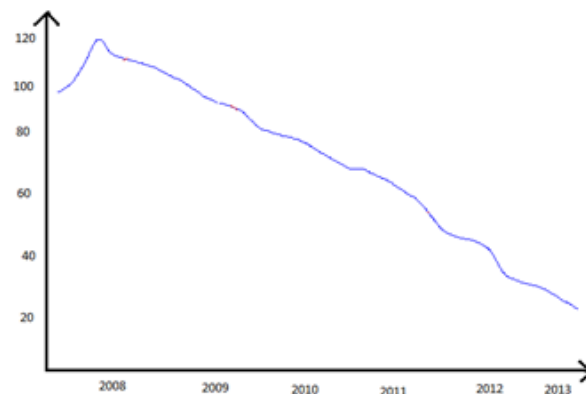

Figure B.1: Index of market development in Midland from 2008-2013[1]

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[1] The market development index reflects the development of the market to a base value. The base value equals 100, and any movements in the market is seen in comparison to this base value.

The paint market in Midland is highly fragmented with a high number of competitors. All competing paint producers employ the same market approach: They offer ready-made colors in a wide range of can sizes and colors. As a result, the different competitors only have a marginal market share, with the market leader taking approximately 11% of the market share. In 2009, Midland Ltd. only had approximately 2% of the market share within the consumer segment in the country, and was thus one of the smaller producers.

Relations and trust are considered a cornerstone in the supplier-customer relationships in Midland. The different paint competitors spend much time on maintaining good relations, and many of the current contracts are based on old agreements and relationships. Paint is primarily sold in different standalone retailers, and not in chain stores, enhancing the importance of having a good relationship with the retailers.
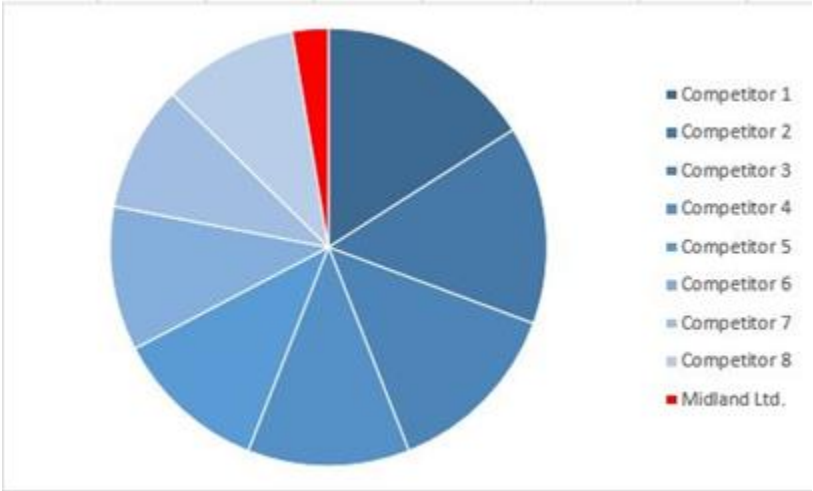

Figure B.2: A comparison of Midland Ltd. market share to the eight largest
competitors in the paint market in Midland (2009)

Regardless of bad market conditions in the country, the company had not performed up to standard over an extended period. The entire management team in the company knew that something needed to change. They all knew that continuing on the same path could potentially lead to a shutdown of Midland Ltd.

A new managing director, David Smith, was sent to Midland Ltd. in 2010 to fix the problem. He faced the challenge of a declining market in addition to internal complexities that made the company inefficient. He spent a lot of time analyzing the root cause of the problem, provided the company with new insight and created a sense of urgency. He faced a specifically challenging market where fragmented customers and a high number of standalone retailers made it difficult to gain market share and thereby increase earnings. In addition, gaining new customers was

challenging because of the prevailing traditions and relationships. Naturally, David Smith thought that initial actions should be aimed at turning the negative results around. He realized that increasing earnings was difficult, and thus that reducing costs was the natural choice.

After David Smith arrived, Midland Ltd. continued to produce similar products as the competing market leaders; ready-made colors in square cans. This market approach was not in accordance with the overall market strategy for the Sea-Lion Paints Company. In the rest of the world, the Sea-Lion Paints Company used a blending machine to mix colors, thereby differentiating themselves from competitors that offered ready-made colors. This approach had been wildly successful elsewhere, but was not used by Midland Ltd. due to a general understanding in the market that this was not the solution that the customers wanted.

During the year 2010, the company management spent a lot of time analyzing the market and the internal operations. Based on the analysis, David Smith proposed the following cost reduction and strategic actions in 2011:

1. Assortment - keep quality, but lower price
2. Procurement - negotiate better conditions
3. Organization - staff cuts and reorganizing
4. Costs - cut in travel expenses and training of employees
5. Supply Chain - focus on efficiency and Lean production

To streamline the assortment and increase sales, Midland Ltd. lowered prices to become more competitive. The company also launched a new product in the lower price range that had the same high quality as the expensive products, which became an immediate success. In procurement, David Smith negotiated better conditions with the suppliers, and to his big surprise, this was the most efficient cost reducing action. Despite the increased sales and better procurement conditions, the company could not bypass the harsh reality of staff cuts and internal reorganizations in order to cut costs. In addition, all travel expenses and disbursements had to be approved by David Smith to ensure that everything was accounted for. Finally, in the supply chain the company continued to focus on efficiency and Lean production. Implementing these actions was a difficult challenge, but ultimately led to positive results in the company. Already at the end of 2011, a positive trend started to appear in the financial statements.
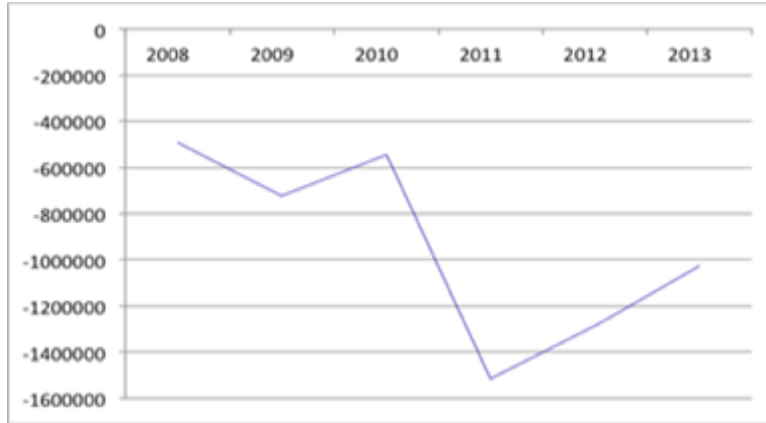
Figure B.3: Reported EBIT from Midland Ltd. decorative segment from 2008-2013
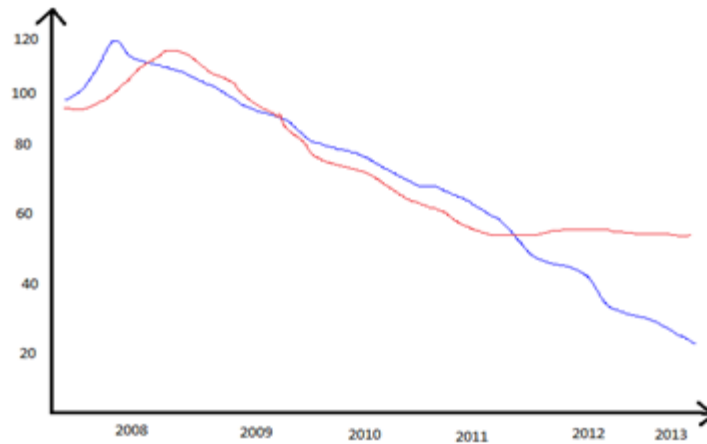

Figure B.4: Index of market development of the paint market (blue line) and
Midland Ltd. (red line) from 2008-2013

Then, in 2013, the Sea-Lion Paints Company performed a big restructuring worldwide. This involved a regionalization, where all regions got a regional manager. Brad Johnson was appointed as the new regional manager for Midland. The restructuring also involved analyzing all subsidiaries' performance and identifying where actions were needed. Despite the seemingly positive trend that had occurred over the last two years, Midland Ltd. was put on a fix it-list, due to long-term negative results.

The top management in the Sea-Lion Paints Company recommended shutting down the company after considering the historically bad results of Midland Ltd. However, Brad Johnson was not convinced that shutting down the company was the best solution. He realized that all subsidiaries affected each other and that shutting down Midland Ltd. could therefore have negative consequences for the Sea-Lion Paints Company. In addition, the company had shown a seemingly positive trend lately. Brad Johnson tried to convince the top management team in the

Sea-Lion Paints Company that he could come up with a solution that did not involve shutting down the company. What options did Brad Johnson have and which option should he choose?

After evaluating different possible outcomes, Brad Johnson found five alternatives:

1. Continue as they had previously
2. Additional cost reducing actions
3. Exit one of the segments in the country, but maintain the other segment
4. Exit one of the segments in the country and move the rest to other countries
5. Shut down Midland Ltd. and move both segments to other countries

Brad Johnson flew to Midland Ltd. and together with managing director David Smith, he started to evaluate the five options. It quickly became clear that option 3, 4 and 5 were unattractive because the options would be too costly. Since the financial crisis, the market had been characterized by a low willingness to invest and selling equipment and exiting a segment could therefore be difficult as there were few potential buyers. In addition, there was a low possibility for earnings the following years as The Sea-Lion Paints Company was dependent on several production plants that were not yet built or ready to replace some of Midland Ltd.'s production. In other words, the only options that company had was to either continue as they had previously or further reduce costs. Since the option of continuing as they had previously done would lead to a continuing negative EBIT, Brad Johnson and David Smith realized that they only had one real option: to further reduce costs.

An employee effectiveness survey initiated by the Sea-Lion Paints Company was conducted in all subsidiaries in the region. The results showed that the employees in Midland Ltd. were less detached from their work than the average Sea-Lion Paints subsidiary, which indicated that the employees showed a high degree of commitment and effort. However, the results also showed that the employees did not feel motivated to go beyond their formal job responsibilities and that the conditions at the company were not allowing the employees to be as productive as they could be. When compared to the rest of the companies, Midland Ltd. had employees that were less effective and more frustrated than the average Sea-Lion Paints Company. These results were reflecting the previously bad results of the Midland Ltd. Brad Johnson sensed that the employees also had a hard time understanding why they needed to do something differently when all the other actors in the market operated in the same way.

Brad Johnson questioned if it was possible to turn the situation around. He went back to the top management team in the Sea-Lion Paints Company with the news that reducing costs was the only real alternative. The board of directors was tired of Midland Ltd.'s bad results and responded that they were not willing to wait much longer.

Brad Johnson leaned back in his chair and pondered what he should do:

> "*How can I buy enough time to fix this situation? I realize that there are both external and internal problems in this company. How do I choose what to improve and how can I get this company to change?*"

B1.2 Teaching case appendix
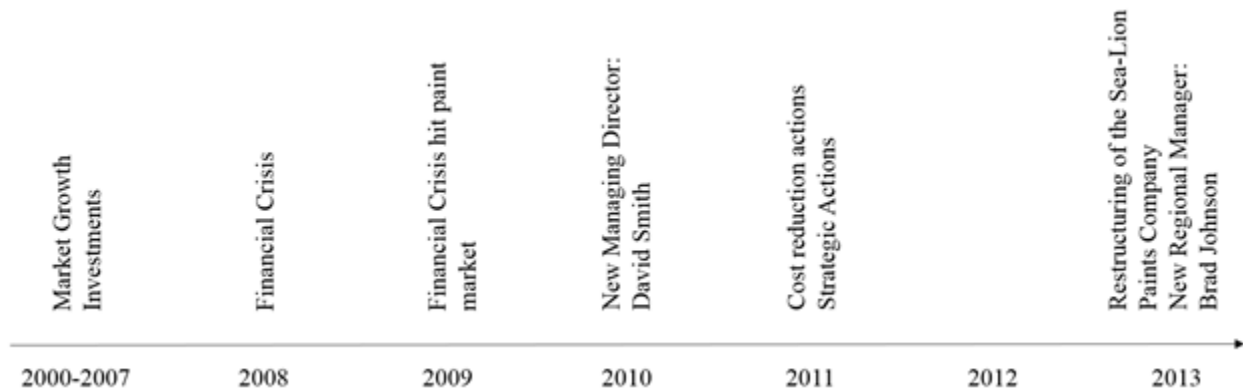
Figure B.5: Timeline illustrating key events from 2000-2013

Midland Ltd. Mill. EUR PROFIT AND LOSS	2008 December	2009 December	2010 December	2011 December	2012 December	2013 December
Total Quantity Sold - ext	4 220	3 978	3 964	3 715	3 017	3 035
Total Quantity Sold - Grp	5 172	4 535	4 933	5 273	5 405	5 172
Total Quantity Sold	9 392	8 513	8 897	8 988	8 422	8 207
Total Sales - ext	6 526 168	6 571 819	6 515 671	6 487 680	4 772 657	4 591 544
Total Sales - Grp	4 306 580	4 034 310	4 366 284	4 958 113	4 603 491	4 213 627
Total Sales	10 832 748	10 606 130	10 881 955	11 445 793	9 376 148	8 805 171
Total COGS	5 083 436	4 922 438	5 118 569	5 493 461	4 662 699	4 345 898
Total Gross Profit	5 749 312	5 683 691	5 763 386	5 952 331	4 713 449	4 459 273
Other Income - ext	215	56	13	1 903	384	11
Other Income - Grp	1 093	0	0	0	75 000	0
Sales & Marketing Costs - Fixed (June 2013)	1 093	0	0	0	0	0
Administration Costs (June 2013)	0	0	0	0	75 000	0
Total Other Income	1 308	56	-85 294	-36 821	19 781	-42 933
Personnel	57	55	60	90	0	80
Manufacturing Costs	972 666	1 040 407	868 786	977 750	858 455	873 532
Warehouse Costs	269 076	261 844	346 382	500 270	451 827	522 675
Transport Costs	530 483	654 506	531 239	484 252	258 358	260 354
Sales & Marketing Costs - Fixed	2 336 065	2 290 274	2 272 964	2 056 364	2 051 822	1 725 501
Sales Costs - Variable	136 266	62 795	78 479	73 005	47 740	63 658
Administration Costs	976 753	1 132 241	1 058 986	1 268 431	1 074 153	749 742
Intra-Group Service Fee - Grp	199 404	233 458	206 111	100 296	110 307	92 275
Royalty Costs - Grp	360 565	357 785	370 497	392 476	342 795	321 554
Actual Loss on Accounts Receivable	166 183	238 769	213 360	146 496	0	77 907
EBITDA	-95 493	-442 121	-112 400	-1 121 642	-535 973	-279 773
Depreciation of fixed assets	381 320	267 320	418 276	390 957	405 581	422 263
EBITA	-476 813	-709 442	-530 676	-1 512 599	-941 554	-702 036
Amortization of goodwill	16 233	15 138	14 057	3 952	1 815	2 375
Total Costs	6 371 299	6 590 689	6 417 650	6 982 526	6 437 384	5 824 390
EBIT	-493 046	-724 580	-544 733	-1 516 551	-1 286 163	-1 025 965

Figure B.6: Financial statement for Midland Ltd. from 2008-2013

B.2 Teaching note

Synopsis of the case

The case describes a Sea-Lion Paints Company subsidiary called Midland Ltd., located in Midland, that after several years of bad results are facing a shutdown. The country has experienced a financial crisis that affected the whole painting industry. In addition to bad market conditions, the company has been characterized by a high degree of complexity, which made the employees less motivated and efficient compared to the average Sea-Lion Paints Company subsidiary.

In 2013, the top management in the Sea-Lion Paints Company wanted to shut down the company. The newly appointed regional manager, Brad Johnson, questioned if this was the best solution and decided to come up with several other possibilities. After analyzing the different options, he decided that reducing costs was the best alternative. The case ends with Brad Johnson trying to convince the top management to give him more time to implement cost-reducing actions.

Target group

This case aims to provide insight into how a company can turn around negative results in a declining market. It also raises the issue of changing the mindset of employees with low motivation after years of bad performance. The target group is executives who want to learn more about change management and cost reducing actions.

Key issues

The key issues are that the Midland Ltd. had performed below standard for a long time, and severe actions were required in order to transform the company into a profitable one. The Midland Ltd. had until 2010 operated in the same way as their competitors, but the approach was not in accordance with the Sea-Lion Paints Company strategy. One key issue is therefore to evaluate if you, as an executive should decide to continue approaching the market in the way customers apparently want or take a risk and introduce the customers to something new.

Teaching strategy and questions for discussion

The case should be handed out to everyone participating at the seminar. The case should be read individually first, so that each participant gets a good insight into what the case is about. Then, a discussion of relevant questions related to the case should be discussed in plenum.

Some suggested questions for discussion are:

- If you were the regional manager and you should decide which alternative to go for, what approach would you use to gather the necessary information for the decision-making?
- Which of the five alternatives do you believe is the most challenging to choose for the regional manager?
- How would you approach the employees to increase their motivation?
- In which areas would you prioritize to implement actions first?
- How can you remove complexity from the company?
- What do you believe was the main driver behind the decline in Midland Ltd.? The market or internal forces?

Suggested background reading

Herzberg, F. (1987) One more time: How do you motivate employees? *Harvard Business Review*, September-October

Kotter, J. P. (1995) Leading Change: Why Transformation Efforts Fail. *Harvard Business Review* 73(2): 59-67.

Shook, J. (2010) How to change a culture: Lessons from NUMMI. *MIT Sloan Management Review* 51(2): 63-68.

Womack, J. P., Jones, D. T., & Roos, D. (1990). *Machine that changed the world*. Simon and Schuster.

How the Midland Ltd. actually turned around

The regional manager saw the potential in Midland Ltd., and travelled to the headquarter to convince the top management in the Sea-Lion Paints Company to not shut down the company. In 1 hour, he convinced the top management team to give Midland Ltd. a chance. There are several reasons for why this was the right decision, for example that shutting down Midland Ltd. could have a negative influence on other subsidiaries, and that a planned production plant that could replace some of Midland Ltd.`s production was not yet built.

Previously, Brad Johnson had implemented Lean in other factories in business areas such as marketing, sales and operation with a great success. He chose to try the same approach in Midland Ltd., and used Lean philosophies to make processes more efficient in all parts of the company. Previously, there had only been Lean principles in the production, but the regional manager implemented Lean in marketing and sales in addition to the existing practices. Brad Johnson introduced the Lean tool "A3" as a structured problem solving approach to map the problems. He discovered that it was important to unlearn attitudes and mindset among the employees at the factory through introducing Lean philosophies and attitudes. Especially was the attitude towards the blending machine important to change as this separated Midland Ltd. from their competitors. He worked closely with the employees over several months to change their mindset through providing knowledge on structured problem solving and Lean to employees and salespeople.

Midland Ltd. also changed their market approach towards a more customer-centered approach where their approach was more in line with the strategy employed by rest of the Sea-Lion Paints Company. In addition, Midland Ltd. analyzed their customer base and started focusing more on their most profitable customers. Developing new customers was a priority as before, but now the salespeople had a new value proposition to offer; the blending machine. Externally, Midland Ltd. started a process known as a "beautification" where they changed their displays in stores to become visually more impressive than their competitors did. They also started collaborating with bigger chain stores where they could sell their paint and service.

The decision to introduce Lean and therefore improving the production, marketing and sales operations in Midland Ltd. resulted in a great success. The financial statements started to show a positive trend already in 2011, and this trend has continued into the year 2016. The salespeople now have a value proposition to offer their customers that are different from their competitors, and it has received a positive response from the customers.