Management Control Systems for a Hybrid Business Strategy

An exploratory case study of a Dutch food-retailer

MSc. Thesis

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Faber est suae quisque fortunae

"Every man is the artisan of his own fortune"

- Appius Claudius Caecus (340 BC – 273 BC)

Abstract

Management Control Systems (MCS) are found to be contingent on several factors like size, structure, culture, and business strategy. Because MCS are concerned with aligning employee behavior with organizational objectives, business strategy makes the best claim to affect what MCS are used and how they are used. Porter (1980) formulated cost leadership and differentiation business strategies as viable alternatives for creating a competitive advantage. Failing to choose one of these generic strategies, would render a firm 'stuck in the middle', leading to a low return on investment.

More contemporary research, however, suggests that a hybrid strategy, which combines both cost leadership and differentiation strategies, is a viable and perhaps even superior alternative to either one generic strategy. Extensive literature exists on what MCS are effective for both cost leadership and differentiation strategies; however, our understanding of what MCS are effective under a hybrid business strategy is very limited. This study attempted to increase our understanding

A case study approach was adopted to study MCS in a firm that pursues a hybrid business strategy. We used Malmi & Brown's (2008) MCS package framework for describing MCS at our case company. Data was gathered through interviews with employees involved with strategy formulation and MCS design, an extensive document review, and observations made by the author during his time at the case company.

The result of this thesis are a series of both theoretically and empirically grounded propositions addressing what MCS are expected to be effective for a hybrid business strategy. An important finding is that the MCS package configuration for hybrid strategy is not simply a combination of all typical differentiation or low cost MCS, nor is it a middle ground of these two. We propose that:

Firms pursuing hybrid strategy will strongly emphasize cultural control, make extensive use of a budget and incentive pay and will have a structure that balances centralized decision making with autonomous employees.

The study contributes to the literature in several ways. This first attempt to link MCS to hybrid strategy provides propositions that are ready for further empirical testing. It furthermore introduces hybrid strategy to Porter's (1980) curve, this way visually presenting the potential value of hybrid strategy. Next, it contributes by linking business strategies to MCS packages. Based on the literature we formulated MCS configurations that fit each of Porter's (1980) strategies. Finally, it contributes by describing how the different components of the MCS package interrelate.

Keywords: hybrid business strategy, management control systems package configuration, contingency theory

Preface

This report is the fruitful result of studying the management control systems package configuration of a firm pursuing a hybrid business strategy. It is the concluding part of my Master in Business Administration from the University of Twente. The combination of theory and practice that were necessary to make this thesis a success contributed greatly to my understanding of the concepts and how they are practically relevant, which in the scientific setting that is a university, is not always clear. I highly value education and its importance for personal development. I am therefore grateful that I had the chance to attend university.

This thesis would not have been possible without the help of others, who deserve acknowledgement for their support. It was a period with ups and downs, which makes me the more proud of the end result. Firstly, I would like to thank my team at Ahold Europe for a pleasant collaboration and a great learning experience. I would also like to thank my supervisors from the University of Twente, dr. Tom de Schryver and prof.dr. Celeste Wilderom, for providing comments that increased both the quality and the readability of the report that lies in front of you. Finally, I am grateful for having friends and family that supported and motivated me to finish this thesis.

J.K. Kol
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1. Introduction

1.1 Background

As final part of the Business Administration Master's Program of the University of Twente students are required to write a thesis on a business subject of their choice. For this thesis the broad and interesting subject of Management Control Systems (MCS) was the starting point. The author wanted to combine writing the thesis with an internship to also gain practical experience. This resulted in a position in the Risk & Compliance team of Ahold Europe, a Dutch retail corporation with well-known brands Albert Heijn, Etos, Gall&Gall and bol.com. Through an iterative process the broad subject of MCS was narrowed down to studying the relationship between strategy and MCS. We also narrowed down our scope to solely study Ahold subsidiary Albert Heijn. It was here that we found an interesting gap in the literature, which will be described in the subsection below.

1.2 Research Objective

Management control has been defined by Anthony (1965) as the *"process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives".* Control is, besides planning, organizing and directing, the fourth function of management. It is done through management control systems (MCS), which are defined by Malmi & Brown (2008) as *"all the devices and systems managers use to ensure that the behaviours and decisions of their employees are consistent with the organisation's objectives and strategies, but exclude pure decision-support systems''*.

In the literature MCS are assumed and found to be contingent on contextual factors such as external environment, structure, technology, size, strategy and national culture (see Chenhall, 2003). Although for each of these factors one could argue why and how they might affect MCS, the factor strategy makes the best claim to influence which, why and how MCS are used. Business strategy is a long term plan of action designed to achieve a particular goal. Since management control's function is to assure effective goal attainment, it follows that the design and use of MCS will likely depend on the chosen strategy (Dent, 1990).

Much research has been performed on how strategies influence MCS and how a good fit can increase firm performance. Research focused on generic strategies like cost leadership and differentiation (Porter, 1980). These strategic typologies were argued to be mutually exclusive. Trying to pursue multiple strategies at once would result in a 'stuck in the middle' position and inferior performance, because both strategies require different structure, processes and resources (Porter, 1980). Although widely considered as a very influential theory and often supported (i.a. Hall, 1980), many contemporary scholars argue that both strategic orientations are not mutually exclusive and that because markets are getting more competitive, pursuing just one generic strategy does not suffice when trying to achieve competitive advantage (i.a. Miller, 1992; Spanos, 2004). Empirical evidence suggests that hybrid strategies –i.e., pursuing both generic strategies simultaneously- will lead to a competitive advantage and superior performance (i.a. Kim et al., 2004; Wright et al., 1991; Miller & Dess, 1993).

Research linking strategy to MCS is extensive. Although some results are ambiguous, in general a cost leadership strategy is associated with tight mechanistic financial control systems and a differentiation strategy is associated with loose organic non-financial control systems (Langfield-Smith, 1997). Since the associated systems are perceived as opposites, combining these two strategies in a hybrid strategy can have severe implications for how management control should be designed. However, explicit literature on how MCS are and should be designed when pursuing hybrid strategy is very scarce. This study aims to contribute to our limited understanding of this relationship by conducting research on MCS in a firm that pursues a hybrid strategy. We consider Albert Heijn's strategy a hybrid, because externally they are a differentiating full service supermarket, whereas internally they have a strong focus on low costs. The tangible result of this thesis is a series of propositions that further studies can test.

1.3 Research Question

Because not much is known yet about this phenomenon, we adopted a case study approach, which is particularly useful for gaining a deeper understanding and for answering how and why questions (Yin, 1994). Following Thomas (2011), a distinction is made between the object and the subject of research. The object is the larger phenomenon in which the researcher is actually interested whereas the subject is a particular case that functions as a lens through which the object is studied. For this study the object of research is MCS in relation to hybrid strategy. The subject is Albert Heijn. Rephrasing our research objective to a question that suits our subject Albert Heijn, leads to the following main research question:

How and why does top management at Albert Heijn use Management Control Systems in directing employee behavior while pursuing a hybrid business strategy?

Each element in the question is briefly discussed here. The *how* relates to the ways by which *MCS* are used. The *why* aims to understand the *how*. *Top management at Albert Heijn* is the group of people involved with strategy and *MCS* design and responsible for strategy implementation and thus for *directing employee behavior*. *Management Control Systems* are the formal systems in place that aim to *direct employee behavior*. Finally, *while pursuing a hybrid strategy* is the strategic setting in which this *directing of behavior* takes place and where it is expected to be directed towards. To systematically answer the research question, we divided it into three sub questions: *What is Albert Heijn's business strategy? What is Albert Heijn's MCS package? How are they related?*

1.4 Thesis Structure

The structure of this thesis is as follows. Section 2 reviews the relevant literature and explains the different concepts that constitute our sub questions. It further presents hypotheses on the relationship between hybrid strategy and MCS package configuration, thereby providing a first theoretical answer to the main research question. Section 3 discusses the research methodology and addresses the methods of data collection and data analysis. In section 4 the case company is introduced. Section 5 presents the results of this study and answers our sub questions. Finally, in section 6 we answer our main research question, discuss the main conclusions of this thesis and elaborate on its contribution, its limitations and interesting opportunities for further research.

2. Literature Review

2.1 Introduction

Before actually conducting this research, a thorough literature review was performed to familiarize with the main concepts under study. This section provides a summary of the relevant academic literature that is addressed by our three sub questions. The remainder of this section is therefore build up as follows. First, the concept of business strategy will be described, with a focus on Porter's (1980) generic strategies. Next, the concept of management control systems will be discussed and dominant frameworks are presented. Hereafter, we will discuss how both concepts are related. Finally, section 2.5 discusses what MCS have been found to be effective for each generic strategy and we conclude this section by formulating hypotheses for what MCS package configuration is expected to be effective for firms pursuing a hybrid business strategy.

2.2 Business Strategy

Strategy is a word that encompasses many different meanings in many different contexts. It is concerned with the question 'how to achieve a desirable outcome over a longer period of time?' It is outside the scope of this study to discuss all these meanings and contexts of strategy. In this study only the concept of business strategy is used. It is a synonym for competitive strategy. Even when looking at business strategy alone, scholars have yet to agree on a definition and meaning. In the next sub sections we discuss this definition and several dominant strategic typologies.

2.2.1 Definition

Porter (1996, p. 68) defines business strategy as *"the creation of a unique and valuable position, involving a differing set of activities"*. In other words, Porter argues that strategy leads to a defendable and profitable position in the market. With this definition, however, Porter implies that strategy always leads to a unique and valuable position, which is untrue. Strategy is the means by which an organization hopes to achieve a certain objective, which often is a unique and valuable position. Also, Porter's definition does not address how this position is achieved, whereas this is the most crucial element of a strategy. It should provide a certain consistency in decisions and actions over time. For the remainder of this study, the use of the word strategy refers to business strategy as defined here: *a pattern in choices and actions intended to achieve positive outcome over a longer period of time.*

Influential authors developed strategic archetypes that reflect the ways a firm can compete in the market. Miles & Snow (1978) described Prospectors, Analyzers and Defenders as viable strategic archetypes. Similar, Miller & Friesen (1982) describe Entrepreneurs and Conservatives. Treacy & Wiersema (1995) came with Operational Excellence, Product Leadership and Customer Intimacy. For this study we will use Porter's (1980, 1985) generic strategies because they are the dominant paradigm (Hill, 1988; Miller & Dess, 1993). Porter (1980) developed 3 generic strategies: cost leadership, differentiation and focus.

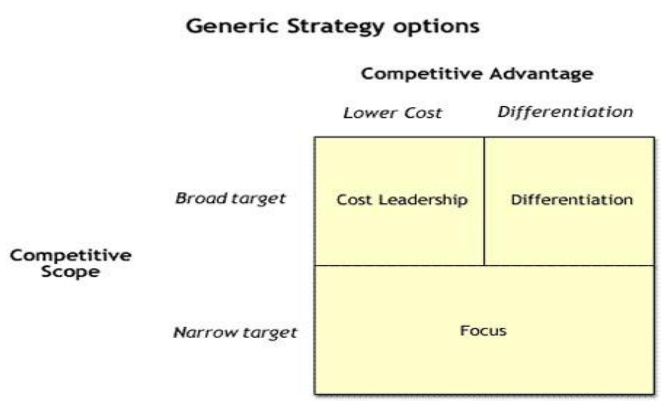
The objective of strategy, according to Porter, is to attain a sustainable competitive advantage. Porter argued that a firm should pursue one of these strategies and design its organizational structure and processes to support the strategy in order to attain and sustain this competitive advantage. Failing to pursue one of these strategies would lead to a firm being ‘stuck in the middle’ and inferior performance. Only in very rare cases would a firm be able to successfully pursue more than one of these generic strategies simultaneously. The objective of strategy – to acquire a (sustainable) competitive advantage- is widely accepted and used in business and by scholars. However, the concept of competitive advantage has never really been defined by Porter (Klein, 2001). It is commonly interpreted as being able to do something better than competitors, preferably over a longer period of time. This could mean being better at producing at low cost or offering a better perceived value-proposition.

Although this theory has been highly influential in strategic management, more contemporary scholars argue that because of globalization, technological developments, rapid innovation and increasing competitive environments pursuing one generic strategy simply is not enough anymore to acquire a competitive advantage. Disruptive innovation could render a product obsolete. Increasing competition leads to more mimicking behavior, which means that a competitive advantage is not sustainable, because competitors will quickly adapt. Then how can a firm successfully compete in today’s market place? Many contemporary scholars believe the answer lies in a combination, or hybrid, strategy. In the next paragraphs the strategic orientations as introduced by Porter will be discussed. Hereafter, the hybrid strategy alternative is explained in more detail.

2.2.2 Generic strategy typologies

Porter (1980) argues that there are three viable options for competing in a market. These options depend on the scope to which an organization wishes to compete, and on the type of competitive advantage it can acquire. Figure 2.1 is a graphical representation of these options. When having a broad target audience the viable options are to have the lowest costs or to differentiate aspects of the product or service that make it more valuable than basic lower prized goods and services. When serving a narrow target group, a firm could best focus on the needs of that specific target group. Each of these options is discussed in the next paragraphs.

Figure 2.1 Porter’s (1980) generic strategy typologies



2.2.2.1 Cost Leadership strategy

Cost leadership is a business strategy that is concerned with minimizing operational costs to achieve the lowest costs in the industry. It is associated with efficiency, economies of scale and scope, standardized products, tight cost control and advanced technological production methods. Being cost leader gives several possibilities: First, a cost leader can ask industry average prices and thus make a higher margin. And second, a cost leader can ask below market average prices to attract customers and gain market share. Because of its low cost base, it is in this situation still possible to earn a reasonable profit (McGee & Rubach, 1998). It is argued that because a cost leader can sell at a lower price, market share will increase. When market share increases, volumes go up, and this again gives a better bargaining position against suppliers to acquire raw materials at an even lower cost. However, it is also argued that a high market share is required to acquire cost leadership in the first place (Malburg, 2000). According to Porter (1996), not having a clear cost leader in an industry, or too many companies following similar strategies, will have a negative effect on total market profitability, because too many players will compete on price which will lead to eroding margins.

2.2.2.2 Differentiation strategy

A differentiation strategy is concerned with offering something that competitors do not or cannot offer. It can be a successful strategy when the target group of consumers are not price sensitive and are willing to pay a price premium for a product or service that has higher value to them. The perceived uniqueness of the product or service should give a competitive advantage. Marketing is an important tool in differentiating products from competitors. Although differentiation is normally associated with additional and valuable product or service features, some scholars (i.a. Mintzberg, 1988) argue that the selling price can also be a differentiating factor.

2.2.2.3 Focus strategy

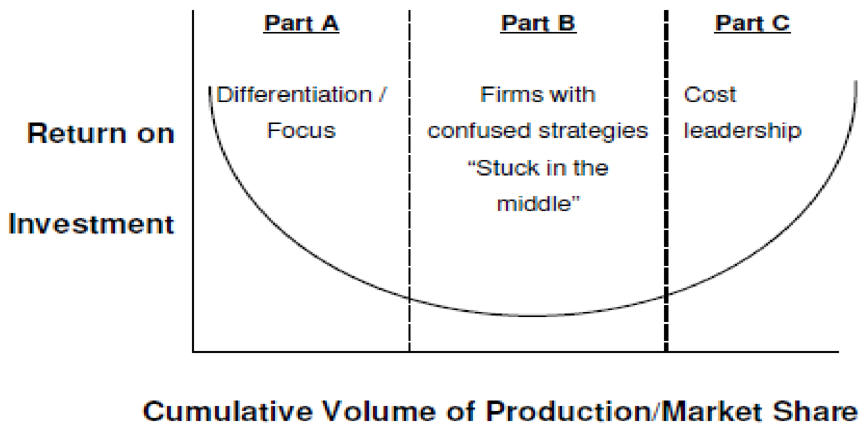
Porter (1980) names focus strategy as one of the three generic strategies and distinguishes between low cost focus and differentiation focus. It is concerned with the scope in which a company competes. Within that segmented market it again will have to choose between competing on cost, differentiation or both. Of the three types introduced by Porter, the focus strategy has received the least attention from scholars, for the above mentioned reason. It will not be further used in this study because Albert Heijn as a market leader serves a broad target and focus strategy is irrelevant for answering the research question.

Focus has elements of strategic group theory, as introduced by Hunt (1972). He says that within an industry firms tend to belong to a strategic group, for example discounters or differentiators. These two groups have their own section of the market and competition across groups is therefore limited to the small overlapping market segment they both serve. However, within each group it is likely that there are several similar looking firms that tend to have intense competition over the same target (DeSarbo & Grewal, 2008; Datta, 2009).

2.2.2.4 Stuck in the middle

Porter (1980) argues that if a firm fails to choose and follow one of these strategies it will end up ‘stuck in the middle’. Because each strategy requires its own organizational structure and processes, not choosing one results in a suboptimal fit between strategy, structure and process. This firm will normally be outperformed by a competitor that did choose one strategy and does have its structure and processes aligned with its strategy. Figure 2.2 shows the return on investment that Porter (1980) associates with each generic strategy as compared to the sales volume and market share. Both differentiation and cost leadership are viable strategies according to Porter whereas a stuck in the middle situation would result in a low return on investment.

Figure 2.2 Porter's (1980) Return on Investment curve for each generic strategy in relation to volume/market share



2.2.3 Hybrid strategy

In a hybrid strategy both cost leadership and differentiation are emphasized. It differs from stuck in the middle because the firm does have a clear idea on where it is heading. Simultaneously pursuing both low cost and differentiation strategy successfully would give a firm a better defendable position in relation to its competitors and under changing market conditions. It is argued that because of increasing competition, a better informed consumer and a higher innovation rate, competitive advantage cannot be sustained over a long period, unless a firm is flexible and can quickly adapt to changing needs (Chung et al., 2006). Pitoris & Taylor (1996) developed a theory in which they say that a combination strategy is most effective, especially in the retail sector. McGee & Rubach (1998) argue that a combination strategy could be more viable than pursuing either one pure strategy. In a retail setting in the US they find empirical evidence that firms pursuing hybrid strategy outperform firms that follow a pure strategy. Empirical evidence supports this thought and finds that a hybrid strategy leads to superior performance, although sometimes not significantly better than following a pure strategy (Miller & Dess, 1993; Yeung et al., 2006; Acquaah & Yasai-Ardekani, 2008; Pertusa-Ortega, 2008). These studies have been performed in different industries and different countries, increasing the validity of hybrid strategy being viable in practice.

Although influential, Porter's notions have been often challenged. An example is Mathur (1986) who argues that the claimed incompatibility of cost leadership and differentiation strategies does not hold, because cost leadership is internally oriented and differentiation is customer oriented. In response to this and other arguments against the notion that low cost and differentiation strategies are mutually exclusive (see i.a. Dess & Rasheed, 1992), Porter (1996) explains that operational effectiveness is often confused with cost leadership strategy. He says that operational effectiveness is a necessary but not sufficient condition to compete. It is true that the concept of hybrid strategy mostly encompasses operational effectiveness and not cost leadership in its pure form. However, the core element of cost leadership is to be as lean as possible in offering a viable value-proposition. Porter (1996) himself argues that the cost leader should offer a certain minimum of quality and service, and that a differentiator should also mind costs to a certain level. According to Mintzberg (1988), cost leadership is not a strategy at all. It rather is a means that makes it possible to differentiate on price. Speed (1989, p.11) agrees and says:

"The cost leader is required to be a differentiator, just as the differentiator is required to maintain costs reasonably close to those of the competitors to enjoy sufficient profits from its efforts. It is therefore not difficult to suggest, with some force, that cost leadership, because of this qualitative difference between it and other generic strategies Porter discusses, should not be considered a strategy at all...since operated alone it has no value"

These scholars thus suggest that a focus on low costs should be combined with a differentiation strategy. Hill (1988) argues that a differentiation strategy can actually lead to a low-cost position. Furthermore in some sectors, like retail, the large amount of products makes it possible for a company to use pricing strategies to attract different segments of the market. A loss might be made on some products to attract the lower segment consumer, but this can be covered by the extra sale of higher margin products that same consumer might buy during his visit. Therefore, cost leadership is neither necessary nor sufficient to be able to compete on price in certain markets. Porter (1996, p.70) also states:

"While operational effectiveness is about achieving excellence in individual activities, or functions, strategy is about combining activities. … Fit locks out imitators by creating a chain that is as strong as its strongest link."

Here he suggests that because the organizational structure, resources and processes should be aligned to create a sustainable competitive advantage, combining both fundamentally different strategies cannot lead to better fit and thus sustainable competitive advantages. However, since (even according to Porter) pursuing one single generic strategy would still require a minimum level of the other strategy to be viable, it is argued here, that therefore some sort of combination is by definition needed to be competitive. Following this logic, the ability to successfully integrate low costs and differentiation in organizational structure, resources and processes is most likely even harder to imitate by competitors than a pure form and should thus be superior to the 'chain' that can be achieved by pursuing a viable 'pure' strategy. Hill (1988) argues that in many industries the low cost position is based on efficiency. This efficiency can be imitated and therefore it is often so that multiple firms in an industry have this position. They can only distinguish themselves by differentiating. A sustained competitive advantage can then only be reached by differentiation while simultaneously maintaining the minimum-cost position. This is often the case in mature oligopolistic industries, like supermarkets. Hill (1988, p.411) concludes that:

"the simultaneous pursuit of differentiation and low-cost strategies is most likely to be consistent with superior performance in mature industries where all experience curve economies have been exhausted and several firms have achieved a minimum-cost position."

From the discussion above it follows that hybrid strategy should be defined clearly and unambiguous. In this study, a hybrid strategy is one where a firm simultaneously pursues:

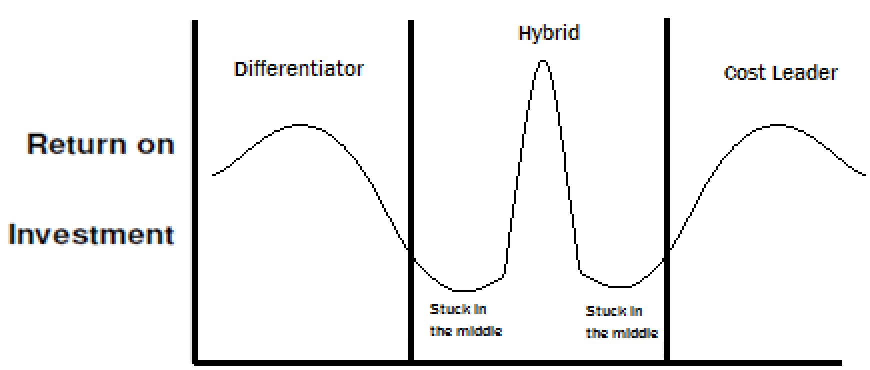
- the cost leader position compared to its direct competitors
- offering a higher value proposition compared to the market average

When taking the above paragraphs into account, redesigning Porter's return on investment curve would result in that of figure 2.3. Starting at the left, performance is not good because a pure differentiator that does not pay attention to any low cost activities will have a hard time competing. Performance goes up if the differentiator has some cost leader activities to stay competitive. Performance goes down again if too much cost leader activities are introduced and the relative contribution of these low cost activities harms the value adding differentiating aspects. A firm is now stuck in the middle.

Starting from the right, performance is below par because the pure cost leader does not pay attention to any minimum differentiating factors like a certain level of quality that consumers require. Performance increases if the cost leader does pay attention to those factors. Performance goes down again if there are too many differentiating factors that harm the low cost position of the firm. Again, the firm is stuck in the middle.

Finally, there is a hybrid form, where a firm combines both generic strategies without compromising too much on either one's qualities. The steepness of the hybrid curve represents the challenge that comes with pursuing hybrid strategy. When performed correctly, the return on investment is higher than pursuing either one of the 'pure' strategies, whereas being off just a little results in a stuck in the middle position. The x-axis from Porter's curve is not adequate for this situation, since the choice of strategy is not per se dependent on the market share or cumulative volume of production.

Figure 2.3 Redesigned Porter curve including the hybrid strategy



2.3 Management Control Systems

In this sub section we discuss Management Control Systems (MCS), which is relevant to our second sub question. First, a definition of MCS is provided. Next, several dominant frameworks are presented for studying MCS packages. We discuss how these frameworks and their different MCS relate to one another. We conclude this sub section by arguing why we chose Malmi & Brown's (2008) MCS package framework for studying MCS at Albert Heijn.

2.3.1 Definition

Management control is described by many influential scholars throughout the years. Amongst others, Max Weber (1978), Henri Fayol (1949) and Frederick Taylor (1911) advocated the use of control as an essential part of management. Their focus was mainly on formal rules and procedures and disregarded the employee as a human being. Elton Mayo's (1933) most important work was on the social needs of people, how groups affect individual behavior and how managers must ensure this behavior is in line with organizational goals.

Merchant & Van der Stede (2007) argue that management control is necessary because of three possible issues with employees in relation to organizational objectives: *lack of direction*, *motivational problems* and *personal limitations*. They might not know what to do, might not want to do it or they might not be able to do it. Management control systems are used to overcome these issues. Over time research on management control has evolved from studying individual controls (Taylor, 1911; Fayol, 1949) through contingencies (for a literature review, see Chenhall, 2003) towards systems and packages (Simons, 1994; Widener, 2007; Merchant & Van der Stede, 2007; Malmi & Brown, 2008; Tessier & Otley, 2012). However, the concepts related to management control have been defined and used differently by many authors over the years, making results ambiguous. Whilst several attempts (i.a. Otley, 1999; Chenhall, 2003; Bisbe et al, 2007; Malmi & Brown, 2008; Cardinal et al., 2010) have been made to achieve consensus on key concepts, terms are still not used consistently, making it hard to advance management control literature. Therefore, it is important to define the concept of MCS so that it is clear what is meant and what not. Below we discuss several definitions formulated by influential management control scholars.

Simons (1995, p.5) defined MCS as *"the formal, information-based routines and procedures managers use to maintain or alter patterns in organisational activities''.* Abernethy & Chua (1996, p. 573) define organizational control systems as: *"a combination of control mechanisms designed and implemented by management to increase the probability that organisational actors will behave in ways consistent with the objectives of the dominant organizational coalition".* Malmi & Brown (2008, p. 290) argue *"Those systems, rules, practices, values and other activities management put in place in order to direct employee behaviour should be called management controls. If they are complete systems, as opposed to a simple rule, then they should be called MCSs".* Note that Abernethy & Chua (1996) explicitly mention the goal of aligning employee behavior with organizational objectives. This is also in line with Merchant & Van der Stede (2007), who, as mentioned earlier, see MCS as a means to ensure employee behavior is in line with organizational objectives. Malmi & Brown (2008, p. 290) also imply this by further stating: *"management controls include all the devices and systems managers use to ensure that the behaviours* *and decisions of their employees are consistent with the organisation's objectives and strategies, but exclude pure decision-support systems"*. Simons' (1995) notion of maintaining or altering patterns in organizational activities makes its definition broader, because MCS are not necessarily for alignment with organizational objectives as in the other definitions. However, according to Malmi & Brown (2008, p. 290), Simons' (1995) definition is narrower because of its focus on information-based routines. Besides Simons (1995), none of these definitions include *strategic control* (which is concerned with the validity of the strategy), which will be discussed in section 3.4. Furthermore, although not explicitly in Simons' (1995) definition, he also excludes pure decision-support systems, a distinction advocated by Zimmerman (1997). Merchant & Van der Stede (2007, p. 8) provide an interesting argument:

"It is people in the organisation who make things happen. Management controls are necessary to guard against the possibilities that people will do something the organisation does not want them to do or fail to do something they should do. ... If all employees could always be relied on to do what is best for the organisation, there would be no need for MCS".

In line with this argument and our research question, we use the definition of Malmi & Brown (2008) for the remainder of this study, which encompasses *directing employee behavior,* and acknowledges that although the aim of MCS is to align employee behavior with organizational objectives it does not always succeed. Research has been done on individual controls. However, the body of literature advocating the interaction between controls has grown over the years (Simons, 1994; Malmi & Brown, 2008; Cardinal et al., 2010). They suggest that viewing a single control has no meaning because organizations will make use of multiple controls that are interrelated.

An issue in MCS literature, according to Cardinal et al. (2010) is that current research is based on typologies and taxonomies. Typologies are theory driven but hard to test and taxonomies are atheoretical and empirically driven (Meyer, Tsui & Hinings, 1993). Research should be configurational, as Cardinal et al. (2010) state: "*a configuration describes a concept that is both theory driven and empirically testable".* They further argue that a configuration should be holistic, i.e. seen as a whole and not as individual elements, and coherent, i.e. elements should coalesce in an understandable way (Miller & Friesen, 1984; Meyer et al., 1993; Cardinal et al., 2010). Simons (1994) and Tessier & Otley (2012) advocate this holistic view. Malmi & Brown (2008) agree that controls interrelate and can be studied as a whole, but warn that different interest groups introduce different control systems over time. This results in an overall control systems package with elements that were not necessarily intended to support each other.

2.3.2 Types of Management Control Systems

There are several frameworks that can be seen as the dominant frameworks on MCS packages, with each having formulated their own types or groups of MCS. We will briefly discuss three of these frameworks and how they relate to each other. These are the Levers of Control framework (Simons, 1994), the Object of Control framework by Merchant & Van der Stede (2007) and the MCS package framework by Malmi & Brown (2008).

2.3.2.1 Levers of Control Framework (Simons, 1995)

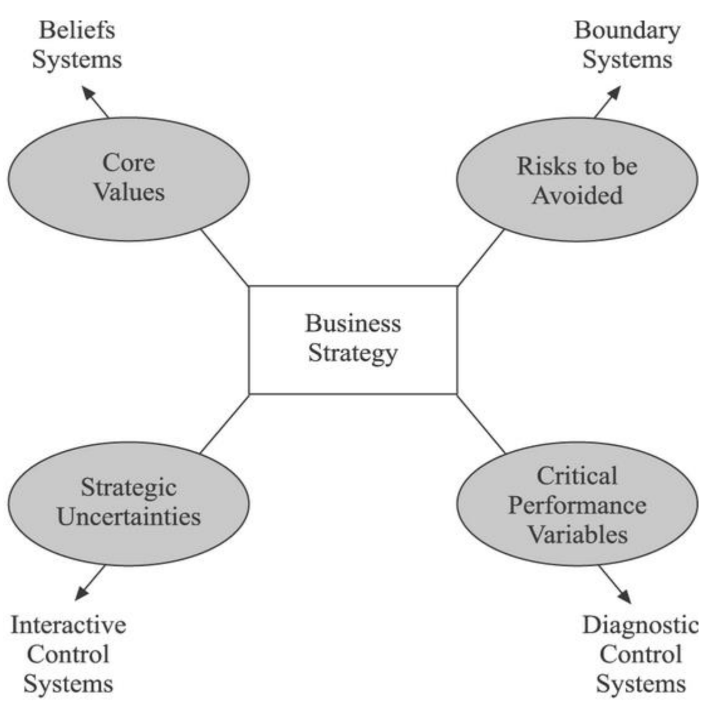
One of the most influential frameworks in control theory is Simons' (1994, 1995) levers of control framework. It describes four categories of control systems top managers use to ensure employees behave in a way that serves the successful implementation of organizational strategy. Figure 2.4, taken from Simons (1995), displays the framework.

Beliefs systems are defined as *"the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose, and direction for the organization"* (1995, p. 34). They include mission and vision statements and are used to communicate core values.

Boundary systems "delineate the acceptable domain of strategic activity for organizational participants" (1995, p.39). They are used to communicate the risks an organization wants to avoid by for example issuing a code of conduct.

Diagnostic control systems are *"formal information systems that managers use to monitor organizational outcomes and correct deviations from pre-set standards of performance"* (1995, p. 59). They communicate critical performance variables and monitor their attainment. Examples are budgets and project monitoring systems.

Figure 2.4 The Levers of Control framework, taken from Simons (1995)



Interactive control systems are *"formal information systems that managers use to involve themselves regularly and personally in the decision activities of subordinates"* (1995, p. 95). They are used to focus attention on the accurateness of the current strategy and exploration of new initiatives and emergent strategies as well as for promoting discussion and learning.

Simons makes a distinction between positive and negative control systems. The former being represented by *beliefs systems* and *interactive control systems*, the latter by *boundary systems* and *diagnostic control systems*. With this distinction he emphasizes the difference in nature of the systems, not the quality. The positive systems are used to enable employees and promote creativity and innovation whereas the negative systems are used to constrain employees and to achieve pre-set objectives. Both types are essential for effective control and together create a dynamic tension (Simons, 1995; Mundy, 2010). Widener (2007) found empirical evidence that the four levers are complementary and as such need to be implemented all four to achieve the best result. Although widely used, the framework is not free from criticism, which mainly addresses the lack of clear specification of concepts (i.a. Bisbe et al., 2007; Tessier & Otley, 2012).

2.3.2.2 Object of Control Framework (Merchant & Van der Stede, 2007)

Also influential is the object of control framework by Merchant & Van der Stede (2007). To deal with the control issues as described in the previous sub section, Merchant & Van der Stede (2007) distinguish four groups of controls a manager has at his disposal: *Results controls*, *action controls*, *personnel controls* and *cultural controls*. These different types need to be combined in systems to achieve good control.

Results control is an indirect form of control which consists of four steps: *defining performance dimensions, measuring performance, setting performance targets* and *providing rewards*. By designing controls this way managers leave considerable autonomy to the person who is to achieve the target. The control is more focused on the output than on the behavior and therefore it is an indirect form. It is closely linked to Simons (1995) diagnostic control systems, but could also include interactive control systems. Merchant & Van der Stede (2007) argue results control can only be effective when all of the following three conditions are met: *"Organizations can determine what results are desired in the areas being controlled; the employee whose behaviors are being controlled have significant influence on the results for which they are being held accountable; organizations can measure the results effectively" (*2007, p. 32).

Action controls on the other hand are a direct form of control because they focus on the actions of employees. They come in four forms: *behavioral constraints, pre-action reviews, action accountability* and *redundancy* (Merchant & Van der Stede, 2007). Behavioral constraints are, as the name suggests, meant to limit employees' abilities to do undesirable things. This can be by physical constraints (e.g. locks), administrative constraints (e.g. separation of duties) or a combination of the two (2007, p. 76). Behavioral constraints would be included in Simons (1995) boundary systems. Pre-action reviews are preventive controls used to check if employees were planning on doing desirable things before they do them. Budgets are a widely used example of pre-action reviews (2007, p. 78). Action accountability is used to hold employees accountable for their actions and involves defining what actions are (un)desirable, communicating these definitions, monitoring employees actions and rewarding or punishing accordingly (2007, p. 78). Last, managers can use redundancy controls. This means allocating more resources (personnel or equipment) to a job than strictly needed to increase the possibility of a satisfactory outcome. This however is expensive and might have several negative side-effects and is therefore not often used besides in critical processes (2007, p. 97).

Personnel controls "*build on employees' natural tendencies to control and/or motivate themselves"* (2007, p.83) and are used to assure the company has a capable and motivated workforce. They can serve any of three purposes. They can clarify what is expected of employees. They can facilitate that employees can do a good job. Or last, they can increase the likelihood that employees engage in self-monitoring (2007, p. 83). These purposes can be attained through careful *selection and placement, training,* and *job design and provision of necessary resources* (2007, p. 83-85).

Cultural controls *"are designed to encourage mutual monitoring"* (2007, p. 85) by creating group norms and values. They can include *codes of conduct*, *group rewards* and, to a lesser extent, *employee rotation, physical or social arrangements* and *tone at the top*. Cultural and personnel controls are according to Merchant & Van der Stede (2007) becoming increasingly important as organizations become flatter, spans of control widen and a need for shared norms and values arises to decrease the number of formal and expensive rules and procedures.

Merchant & Van der Stede (2007) use the term *control system tightness* to describe the *"degree of assurance that employees will behave as the organization wishes"* (2007, p. 128). A MCS can be made tighter or looser to achieve the desired degree of assurance. The authors further state that control comes at a cost. It is therefore most likely undesirable to achieve perfect control. A manager should choose a degree of control that suffices at reasonable cost (2007, p. 11). Criticism on Merchant & Van der Stede (2007) is given by Malmi & Brown (2008) who argue that the provision of resources should not be called a MCS, but *"is merely a prerequisite for proper work and does not provide direction as such" (*2008, p.295). Also they disagree with the way Merchant & Van der Stede (2007) link planning to finance.

2.3.2.3 Management Control Systems Packages (Malmi & Brown, 2008)

Malmi & Brown (2008) discuss in their paper the issues common to MCS literature. They propose a new typology that can be used as a framework for research on MCS's. The authors explicitly state that their aim is not to provide a final solution to all conceptual issues but to promote discussion and research in the field (2008, p. 291). Their framework distinguishes itself from that of Simons (1995) by stating *"…controls in their entirety should not be defined holistically as a single system, but instead as a package of systems"* (2008, p. 291). By this they mean that controls have a function within their system, and the system has a function within the package of systems and both therefore need to be studied within their context. They argue that there are five groups of controls that on their own can have several types of controls. The five groups are *planning, cybernetic controls, reward & compensation, administrative controls* and *cultural controls* (Malmi & Brown, 2008). The framework is shown in figure 2.5.

Figure 2.5 Management Control Systems Package, taken from Malmi & Brown (2008)

<table>
<tr><th colspan="7">Cultural Controls</th></tr>
<tr><td colspan="2">Clans</td><td colspan="3">Values</td><td colspan="2">Symbols</td></tr>
<tr><th colspan="2">Planning</th><th colspan="4">Cybernetic Controls</th><th rowspan="2">Reward and Compensation</th></tr>
<tr><td>Long range planning</td><td>Action planning</td><td>Budgets</td><td>Financial Measurement Systems</td><td>Non Financial Measurement Systems</td><td>Hybrid Measurement Systems</td></tr>
<tr><th colspan="7">Administrative Controls</th></tr>
<tr><td colspan="2">Governance Structure</td><td colspan="3">Organisation Structure</td><td colspan="2">Policies and Procedures</td></tr>
</table>

Planning controls are an ex ante form of control (Flamholtz et al., 1985). By planning and setting goals they direct behavior, coordinate behavior across groups and clarify what is expected of employees. Malmi & Brown (2008) distinguish between two types of planning controls: short term *action planning* and *long range planning*. Their difference can be described as an operational or tactical focus versus a strategic focus (2008, p. 291).

Cybernetic control is defined by Green & Welsh (1988) as *"a process in which a feedback loop is represented by using standards of performance, measuring system performance, comparing that performance to standards, feeding back information about unwanted variances in the systems, and modifying the system's comportment" (*1988, p. 289). Malmi & Brown argue that a cybernetic system is a MCS when behavior is linked to targets and accountability is established for variances in performance (2008, p. 292). They distinguish four types of cybernetic controls: *budgets, financial measurement systems, non-financial measurement systems* and *hybrids*, which contain both financial and non-financial measures (2008, p. 292-293). This hybrid system is not necessarily associated with hybrid strategy, although the use of the word for both concepts might suggest so. Cybernetic controls are closely related to Simons (1995) diagnostic control systems and Merchant & Van der Stede's (2007) result controls.

Reward and compensation controls are used to motivate people or groups and increase their performance in relation to the organization's objectives. Rewards can range from extrinsic to intrinsic. Although mostly used with cybernetic controls, Malmi & Brown (2008) argue they can also be used for other reasons (e.g. employee retention).

Cultural control systems are the values, believes and social norms that a company establishes to direct employee behavior. Although Clegg, Kornberger & Pitsis (2005) argue that culture lies beyond what managers can control, Malmi & Brown only partly agree and include it as a management control because it is used to influence behavior. They distinguish three types of cultural control systems: *value-based, symbol* and *clan controls (*Malmi & Brown, 2008). They are assumed to be slow to change and therefore provide a contextual frame for other controls. This is in line with Widener (2007), who found that the similar beliefs systems (Simons, 1995) influence all other systems.

Administrative control systems can be categorized under three types: o*rganization structure and design, governance structures within the firm* and *policies and procedures*. They are used to direct employee behavior *"through the organizing of individuals and groups, the monitoring of behaviour and who you make employees accountable to for their behaviour, and the process of specifying how tasks or behaviours are to be performed or not performed"* (2008, p. 293). Organizational design is considered to be a contextual variable by many authors, however, Malmi & Brown (2008) include it as something managers can change. Governance structures *"include the formal lines of authority and accountability as well as the systems which are in place to ensure that representatives of the various functions and organizational units meet to co-ordinate their activities both vertically and horizontally"* (2008, p. 294). Policies and procedures specify the processes and behavior that is expected and this concept can be compared to action controls (Merchant & Van der Stede, 2007). Elements can also be found in Simons' (1995) boundary systems, like the code of conduct and separation of duties.

A small point of criticism given on their typology is that the authors argued that accountability is what makes cybernetic controls a management control. With accountability comes consequence. They do make a separate group for rewards and compensation controls, however, they do not acknowledge consequence can also be punishment (Tessier & Otley, 2012).

For this study the framework by Malmi & Brown (2008) will be used. Not only is it a contemporary framework and did we choose their definition of what constitutes an MCS, it also provides a broad approach to studying MCS in a larger package of systems while acknowledging not all of these systems are designed and coordinated intentionally to achieve organizational objectives. This prudent approach suits our research question and the explorative nature of this study. For instance, Ahold may have introduced several MCS within Albert Heijn, but beforehand we cannot simply assume that these reinforce Albert Heijn in reaching their organizational objectives, because their interests do not fully align with those of Ahold and these systems are designed to control behavior in more firms than Albert Heijn alone.

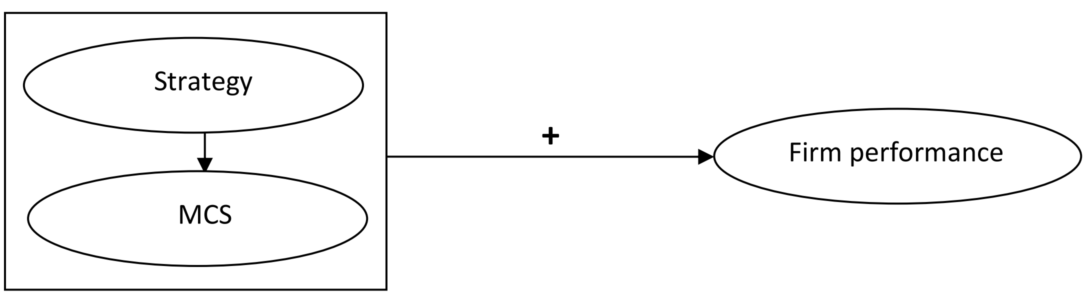
2.4 Strategy & Management Control Systems

MCS contingency research has been performed on various contextual factors, of which the most important ones are external environment, technology, structure, size, strategy and national culture (for a review see Chenhall, 2003). Although several different definitions of MCS are in use, the most common elements that are included are the directing of resources in some way to achieve or ensure the attainment of certain objectives. From here it is just a small step to argue that strategy is probably the most influential contingency. A strategy consists of goals and the route to achieving these goals. MCS are used to ensure goal achievement. It would therefore logically follow that MCS are contingent on strategy and that the use of MCS should depend on the strategy that is in place. In earlier literature this was seen as a closed system: a strategy required certain MCS to implement it. MCS were seen as a management-by-exception tool used to implement an intended strategy (Simons, 1991). Mintzberg (1978) introduced the term ‘emergent strategy’, which argued that realized strategy differs from intended strategy because of a changing reality during strategy implementation, on which companies react. When taking this view, MCS should not focus blindly on implementing an intended strategy, but should also pay attention to strategic uncertainties and changing reality. Otley (1994, p.294) states that:

“It is evident that the activity of management control encompasses parts of both strategic planning and operational control. Indeed, it is arguably incumbent upon the manager to be continually reforming strategy to match the environment being faced, and to monitor the implications of corrective actions on an operational level.”

By this, Otley acknowledges the dynamic nature of strategy in contemporary business environments. Simons (1991) also acknowledged this and found that managers also use MCS to deal with these uncertainties and to develop new strategies. A finding that might not be expected is that top managers pay less attention to critical performance variables and more to strategic uncertainties (Simons, 1991). This means that current strategy is monitored on a management-by-exception basis, which Simons (1991) calls *diagnostic* use of control systems. This frees management time and attention and makes it possible for them to focus on future strategy. If managers *“personally and regularly involve themselves in the decisions of subordinates” (*p. 49), MCS are used *interactively*. Simons (1991) found that the attention top managers pay to control systems is contingent on their vision of the future market position. If a manager has no clear vision, it is likely that no MCS will be used interactively. In times of crisis, multiple systems will be used interactively. However, when top management has a clear vision, only one system will be used interactively. The choice for this system will be based on the strategic uncertainties of the business.

Figure 2.6 Graphical representation of the relationship between strategy, MCS and firm performance



The basic assumption that underlies this study is that a good fit between strategy and MCS will lead to better performance. This is a widely accepted assumption and has been proven empirically many times (i.a. Gupta & Fisher, 1990; Jermias & Gani, 2004; Auzair & Langfield-Smith; 2005, Tsamenyi et al., 2011). Figure 2.6 represents this relationship between strategy, MCS and firm performance. The design and use of MCS are supposed to be contingent on the strategy so that effective and efficient strategy implementation can be ensured. This study focuses only on the relationship between strategy and MCS. The concept of firm performance is included in this description solely to illustrate why researching the relationship between strategy and MCS is important. Findings on the relationship between strategy and MCS are discussed in the next section.

2.5 Theoretical Framework

In this sub section we will discuss the results of research on the relationship between strategy and management control systems that have been acquired throughout the past decades. For this, we will use the previously described MCS Package framework by Malmi & Brown (2008). As Malmi & Brown (2008, p.291) state, "*many of the individual controls have significant research streams associated with them".* Therefore first each group of controls is addressed individually in their relation to strategy. Next, the MCS Package configurations for cost leader and differentiation strategies are presented as well as a hypothesized package configuration for hybrid strategy, thereby providing a theoretical answer to our main research question.

2.5.1 Planning Controls

Malmi & Brown (2008) divided planning control in long range planning and action planning. The former concerned with a more strategic focus and the latter with a more tactical focus. Planning is closely related to cybernetic controls in the way that it provides the goals to be achieved over the short and long term. As Flamholtz et al. (1985) argue, planning may help in creating goal congruence by letting employees participate in setting goals. Furthermore, goals should be challenging, but should not be ambiguous nor should there be too many goals. Cost leaders are often associated with technological capital investments to gain on efficiency and reduce cost price. These are rather large investments and therefore require long-term planning. However, performance planning is done centrally and lower level employees normally have little influence on target setting for cost leaders. Because of this lack of participation in goal setting, it is not likely that employees are intrinsically committed to their targets. Their behavior is therefore more controlled by providing direction for and standards of performance to which they will comply.

Barringer & Bluedorn (1999) found that entrepreneurial firms are associated with high employee involvement in the planning process. By this, employees will become more personally committed to the plans. They further found that entrepreneurial firms require flexible strategic plans that can be adjusted to changing markets, but they acknowledge that in practice this is seldom possible. Evidence on the importance of planning horizon for entrepreneurs was inconclusive; however, theory suggests that for differentiators a long-term orientation is more appropriate. Barringer & Bluedorn (1999) mention that companies often use multiple planning horizons simultaneously in a similar fashion as strategic versus action planning. By this, strategic objectives can be translated more concretely into short-term goals.

For firms pursuing a hybrid strategy there is a need for both predictable short-term goal attainment and a long-term orientation. It can be related to an *ambidextrous organization (*i.a. Gibson & Birkinshaw, 2004; Tushmann & O'Reilly, 1996) wherein both exploitation of current assets as well as exploration of future assets take place. A balance is expected between both elements. Employees concerned with the differentiating elements are likely to be involved in (those aspects of) the planning process. The cost leader elements of the planning process like budget formulation will be decided more centralized.

Control is therefore achieved by a combination of goal compliance and goal commitment. The above leads to the following proposition:

H1: Firms pursuing hybrid strategy place equal importance on long-term and short-term planning, involve employees in the planning of differentiating elements, and make employees comply to cost leader elements.

2.5.2 Cybernetic Controls

The majority of scholars agree on what cybernetic controls are effective for cost leaders and for differentiators. A cost leader is associated with tight formal controls that focus on cost and productivity measures and financial performance (i.a. Miller, 1988; Davila, 2000; Lillis & van Veen Dirks, 2008). Budgets are a very important tool in performance planning for cost leaders and very effective because costs and outcomes are predictable (Simons, 1987; Dent, 1990; Chenhall & Morris, 1995). According to Merchant & Van der Stede (2007) a cost leader has tight budgets which are set and unlikely to be revised during the year. Meeting budgets is seen as very important. They state that top management has relatively low control over budget formulation. This would especially hold in an SBU that is part of a larger corporation.

Differentiators on the other hand are found to be more effective when they rely less heavily on formal controls and budgets because these limit creativity and might not be adequate under changing conditions and uncertain outcomes (Govindarajan, 1988; Van der Stede, 2000). Merchant & Van der Stede (2007) argue that a differentiator places less emphasis on tight budgets. It is often possible to deviate from the budget, since goals are more long term oriented and therefore more uncertain. SBU top management has relatively high control over budget formulation. Govindarajan (1988) found that low cost firms emphasize formal financial control systems and performance evaluation, while differentiating firms make less use of these types of control to promote creativity and innovation.

There are however some scholars (i.a. Simons, 1987; Chenhall & Morris, 1995) who found tight financial control at effective differentiators. It was argued that this type of control would help differentiators in curbing excessive innovation. Ittner & Larcker (1998) argue how non-financial measures like customer satisfaction add to the realization of strategies. Especially for differentiators, whose success depends on how customers view their products or services, these non-financial measures provide useful information. Previous studies also found that differentiators have a wider variety of measures in place than cost leaders (i.a. Chenhall & Morris, 1986; Lillis & Van Veen-Dirks, 2008). A use of hybrid cybernetic controls which encompass both financial and non-financial measures is advocated and found to be effective in many organizations, depending on how well they are adjusted to the strategy of the firm (Malina & Selto, 2001; Ittner, Larcker & Randall, 2003).

When pursuing a hybrid strategy, non-financial criteria are needed to measure customer's perceived value experience and budgets and financial criteria are needed for cost control. Since customer perception increasing activities are not easy to measure and may have effect over a longer period of time, we expect that activities that add value in the perception of the customer are allowed to have some resource slack, whereas vigorous pursuit of cost reductions is done for all non-value-adding activities. This leads to a lean organization with tight financial controls and reliance on budgets, but with room for new initiatives that may add value now or in the future. An important condition for successful performance would be that the organization knows what non-financial indicators represent value adding processes. The above results in the following proposition:

H2: Firms pursuing hybrid strategy will rely on both tight financial control and budgets for cost minimization and predictability as well as on non-financial performance measures for monitoring its value proposition.

2.5.3 Rewards & Compensation Controls

In the literature the main area's studied relating strategy to compensation controls are the extent to which incentive pay is used and the degree of subjectivity or objectivity of measures on where this incentive pay is based. Fisher & Govindarajan (1993) found that prospector firms are more effective than defenders when relying more on bonuses. This is mainly because prospectors operate in a more uncertain environment and management has to make harder decisions with potentially more impact. In low uncertainty environments, where defenders mainly operate, fewer critical decisions are made by management with less impact on performance.

Because environments are more certain for defenders, it is argued that they can rely more on objective measures and formula based bonuses (Merchant & Van der Stede, 2007). For prospectors or differentiators the higher uncertainty and influence of external factors on the outcomes leads to more use of subjective performance appraisal and bonus calculation (Govindarajan, 1984; Gupta, 1987; Simons, 1990). According to Merchant & Van der Stede (2007), bonuses for employees in an SBU that follows a differentiation strategy are based on more non-financial criteria. The bonus calculation is expected to be more subjective.

Dekker et al. (2013) argue that for a firm that pursues multiple strategies simultaneously, the uncertainty and complexity might increase and therefore more reliance on bonuses is expected to be effective. However, analyzers are expected to use a combination of subjective and objective measures wherein neither is dominant. As figure 2.3 shows it is hard to balance both generic strategies into a hybrid strategy and outcome is rather volatile. In line with Dekker et al. (2013) we expect therefore more focus on bonuses with measures combining both objective financial targets and more subjective non-financial measures. These non-financial measures are likely to be quantified where possible. This leads to the following proposition:

H3: Firms pursuing hybrid strategy make extensive use of incentive pay that is based on both objective financial measures as well as on quantified non-financial measures.

2.5.4 Cultural Controls

Despite the widely claimed importance of social or cultural controls in strategic control, Langfield-Smith (2008) found a surprising absence of empirical research. Formal control, which is often perceived as the opposite of cultural control, is found to be most used by cost leaders (Auzair & Langfield-Smith, 2005) and negatively correlated with entrepreneurial firms (Miller & Friesen, 1982). Because differentiators require room for innovation and creativity which are harder to quantify and measure, it is expected that the 'softer' cultural controls play an important role. Govindarajan & Fisher (1990) found that differentiators that combine behavior control with resource sharing have highest effectiveness. Behavior control is associated with cultural control and therefore differentiators are found to be more effective when using cultural controls. Low cost strategies on the other hand are more concerned with output control because of the high outcome predictability. Output control is associated with more formal cybernetic control.

Ouchi's (1979) concept of clan control relates to a socialization process within an organization. According to Ouchi (1979) the clan control is most effective when employee diversity and turnover are low. Also, when individual performance measures are unclear and a reliance on teamwork is present, managers should emphasize clan control. Employee congruence with organizational objectives can be acquired because of common interest through common values. Employees can be selected for their fit with organizational beliefs and values. Again, clan control seems most appropriate for a differentiator where individual performance measures are more unclear and a firm relies more heavily on teamwork.

For firms following a hybrid strategy, the required balance between focusing on costs and focusing on differentiation could easily result in an ambiguous identity, with employees having no clear direction on where to allocate their time and effort to. A strong company culture, identity, values and direction seem necessary to avoid this issue (O'Reilly & Tushman, 2008). It is therefore likely that a firm following a hybrid strategy will rely extensively on cultural controls. This leads to the following proposition:

H4: Firms pursuing hybrid strategy rely heavily on cultural controls to communicate a clear identity and direction for employees to put their effort towards.

2.5.5 Administrative Controls

One of Porter's (1980) main arguments against a hybrid strategy is that differentiation strategy requires a completely different organizational structure than cost leadership in order to be effective. A common distinction made in types of organizational structure is that between mechanistic and organic (Burns & Stalker, 1961). Mechanistic organizations are designed for efficiency, coordinated centrally and have a vertical structure with many management layers. Though efficient, it is slow to adapt to changing environments. For cost leaders, the organizational structure is designed for efficiency gains and cost reductions, and they therefore strive to operate in the most stable environment possible. Organic organizations on the other hand are designed to be flexible and easy to adapt to changing environments. They are decentralized with empowered employees and have a more horizontal structure with relatively few management layers (Burns & Stalker, 1961). This is more in line with the organizational demands placed on a firm following differentiation strategy (i.a. Dent, 1990). Kumar & Subramaniam (1997) found that cost leaders make considerable use of policies and procedures and that differentiators focus more on rewarding creativity by employing a looser control structure.

For firms following a hybrid strategy the organizational structure requires both efficiency and flexibility to keep costs low while still being adaptive enough to quickly respond to changing environments. This need for stability and change is characterized by a balanced structure (Dent, 1990). A form of centralized decision making and standardized procedures are required for efficiency and need to be combined with delegated authority and aligned adjustments to respond to emerging market opportunities (Miles & Snow, 1978). This leads to the following proposition:

H5: Firms pursuing hybrid strategy have an organizational structure that balances centralized decision making and standard operating procedures with empowered employees.

Table 2.1 MCS Package configuration for generic strategies.

	Cost Leadership Strategy	Differentiation Strategy	Hybrid Strategy (hypothesized)
Planning Controls	Focus on short-term planning, low employee participation in planning process, control by compliance to goals	Focus on longer-term planning, high employee participation in planning process, control by aligned individual and organizational goals	Focus on both short and long-term planning, employee participation for planning of differentiating elements, control by alignment and compliance
Cybernetic Controls	Heavy reliance on a limited number of tight financial controls and budgets. Non-financial measures may be used but are peripheral	Reliance on loose broad-scope and non-financial controls. May be combined with tight financial measures to avoid excess opportunity-seeking	Use of tight budget and financial controls to minimize cost while simultaneously relying on non-financial measures that capture the value-adding aspects as perceived by the customer
Reward & Compensation Controls	Less extensive reliance on incentive pay as percentage of total remuneration. More objective measures and formula-based bonus calculation	More extensive reliance on incentive pay as percentage of total remuneration. More subjective measures for appraisal and bonus calculation	Extensive reliance on incentive pay as percentage of total remuneration. Combination of objective financial and more subjective quantified non-financial measures for appraisal and bonus calculation
Cultural Controls	Little use of cultural control because of predictable tasks and outcomes	Extensive use of cultural control to guide employee behavior	Extensive use of cultural control to communicate a clear identity and direction
Administrative Controls	Mechanistic structure with centralized decision making, many management layers and standard operating procedures and policies	Organic structure with decentralized decision making, few management layers and less reliance on policies and procedures	Balance between centralized decision making and empowered employees, some more management layers and some standard operating procedures

Legend: The cost leadership and differentiation strategy columns reflect MCS configurations based on previous literature. The hybrid strategy column is a hypothesized MCS configuration. The black frames indicate how the generic strategies reflect in our hypothesized hybrid configuration.

2.5.6 MCS Package

As mentioned by many authors (i.a. Chenhall, 2003), solely studying MCS can lead to serious model under specification and erroneous conclusions. MCS are interrelated and should therefore be studied as a package (i.a. Malmi & Brown, 2008). Based on the preceding sub sections we compiled table 2.1, which shows what MCS were found or are expected to be effective for each strategy. This, however, is no guarantee that these configurations lead to optimal control as there are many more contingency factors than strategy and literature on the interrelation of MCS is very scarce. The elements in the configurations as proposed in table 2.1 nonetheless seem compatible and logical supplements to one another. The black frames indicate how the generic strategies are reflected in our hybrid strategy hypotheses. Thus, planning and cybernetic controls are expected to emphasize both typical cost leadership and differentiation use of MCS. Reward & compensation control has elements of both, but somewhat more emphasizes a differentiation use of MCS. Cultural control is expected to emphasize differentiation use of MCS, even to a higher extent than differentiators normally would. Finally, administrative controls are expected to hold a middle ground, where neither typical cost leader nor differentiation use of MCS is emphasized.

A potential presence of seemingly opposite systems, like tight financial control for a differentiator, should be seen in the light of Porter's (1996) argument that cost leaders need some form of differentiation and differentiators need some form of cost control. The hypothesized configuration of the hybrid strategy has some more tension across its elements, as was expected by previous literature (i.a. Widener, 2007; Mundy, 2010). By laying these configurations next to the findings of an empirical study by Bedford, Malmi & Sandelin (2013), who in a research on effective MCS packages under different strategic orientations found several configurations to be very effective, we can conclude if the individual elements are still appropriate in an effective MCS package configuration. They used Miles & Snow's (1978) strategic typologies of defenders, prospectors and analyzers. As explained earlier, defenders are closely related to Porter's (1980) low cost strategy and prospectors are similar to differentiators. In their study, only planning controls were not included in some way.

For defenders, a mechanistic structure and diagnostic use of control systems are core attributes for highly effective control, whereas tightness of control, objective performance appraisal and a low interactive use of controls are peripheral attributes associated with highly effective defenders. With diagnostic use, they mean that the correctness of cybernetic measures is not often discussed, they are used on a management-by-exception basis and that they are used for predictable goal attainment, as is mostly the case with formal financial controls. This configuration closely matches the configuration that we formulated in table 2.1.

For prospectors, they found two equally highly effective configurations. This suggests *equifinality*, or multiple optimal configurations, which has been proposed by many MCS scholars (i.a. Sandino, 2007; Malmi & Brown, 2008). For both highly effective prospector configurations the core elements are an organic structure, interactive use of cybernetic systems and high diversity of measures. A peripheral element in both configurations is the use of social (cultural) controls. The difference between both configurations is that one makes much use of incentive pay, while the other makes little use of cybernetic controls. With interactive use it is meant that cybernetic measures are frequently discussed. Again, these configurations resemble the one we formulated in table 2.1, which suggests that the individual elements are coherent as well.

Bedford et al. (2013) also found two highly effective configurations for analyzers, a typology somewhat less closely related to hybrid strategy than defenders to cost leaders, but nevertheless with similar aspects. A comparison should therefore be made with caution. For analyzers, Bedford et al. (2013) found that core elements for highly effective control are both diagnostic and interactive use and incentive pay, while social control is a more peripheral component of the MCS package configuration. One of the configurations contains a mechanistic structure with tight controls and objective bonus calculation, whereas the other configuration encompasses an organic structure and measure diversity. The former is more closely related to a defender and the latter to a prospector. This suggests that a hybrid strategy need not be reflected by a hybrid MCS configuration; however, it can also mean that the data set did not contain a fully hybrid strategy. Social control is part of both highly effective configurations. Furthermore, the diagnostic as well as interactive use of cybernetic controls is what we expect. Also, the absence of either mechanistic or organic structure as a core element in both configurations is what we proposed.

Auzair (2011) studied the relationship between strategy and the degree of bureaucratic controls adopted in Malaysian hotels. More bureaucratic controls are *'action, formal, tight, restricted, and impersonal controls, and financial information'* and less bureaucratic controls are *'results, informal, loose, flexible, and interpersonal controls, and non-financial information (*p. 237). She found that cost leaders rely on more bureaucratic controls and differentiators on less bureaucratic controls. However, cost leaders may also use less bureaucratic controls and differentiators may use tight financial controls, which supports Simons' (1987) earlier findings. These findings are also consistent with our proposed configurations.

To conclude, in this section we made hypotheses based on the literature, and we checked internal consistency of individual elements when combined in a package. To what extent these hypotheses hold when applied on a case study of a firm pursing hybrid strategy is discussed in section 5.

3. Research Methodology

3.1 Introduction

This section describes the methodology that was used to answer the main research question. The aim of this study was to answer the following question:

How and why does top management at Albert Heijn use Management Control Systems in directing employee behavior while pursuing a hybrid business strategy?

The section is build up as follows. First, the appropriateness of the case study as a research method is discussed. Secondly, we present the way by which we verified that Albert Heijn indeed pursues a hybrid business strategy. Next, our main methods of data collection, as well as the choice for respondents are presented. This section concludes with a brief description of how our gathered data is used and analyzed in later sections.

3.2 Case Study

According to Yin (1994) a case study approach is a useful research strategy for answering how and why questions. This study is of an explorative nature, since not much is known explicitly about the phenomenon under study. Because of the size and time limit of this study, the wide access to this particular case company, as well as the very limited understanding of the phenomenon studied, we chose to adopt a single-case study to maximize the reliability of the outcome by studying the single case in more depth. An important distinction made by Thomas (2011) is that between the object and the subject of a case study. The object of the case is the theoretical focus of a study. The subject is the lens through which this theoretical focus is addressed. For this particular thesis, the object is the relationship between hybrid strategy and MCS, whereas the subject is Albert Heijn, a company that pursues a hybrid strategy and uses MCS.

Following Malmi & Brown's (2008) suggestion, we did not study the management control systems package holistically as a single system, but instead we used an embedded design (Yin, 1994) in which we studied the five groups of MCS individually, before creating links across the different groups. Patterns that arose across the package were used to formulate propositions that further studies can test.

3.3 Strategy

As described earlier, strategy is operationalized in terms of Porter's (1980) generic strategies. It was argued that Albert Heijn pursues a hybrid strategy. The public is mainly familiar with Albert Heijn as a differentiator. To verify and provide additional assurance that Albert Heijn indeed pursues a hybrid strategy, we used the popular strategic orientation questionnaire developed by Narver & Slater (1990). Though short, assessments of the questionnaire have proven its construct validity and its reliability as a measurement tool (Narver & Slater, 1990; Chenhall & Langfield-Smith, 1998; Vazquez et al., 2001; Auzair, 2011; Kumar, 2011). The questionnaire (see Appendix A) shows statements that each are indicators of either a differentiation orientation or a low cost orientation. Respondents should indicate the importance of each statement on a 7-point Likert-scale, ranging from ‘not important at all’ to ‘critical’. It was distributed amongst the board members of Albert Heijn, because they are concerned with strategy formulation. The results are provided in section 5.

3.4 Data Collection

Besides the questionnaire, three main methods were used to collect data. First, we used semi-structured interviews to gather large amounts of data. Second, an extensive document review took place to collect formal communication of control systems. Observations made by the author during the study are the final source of data. Each method will be further described in the sub sections below. The validity (or trustworthiness in qualitative research) of this study is improved by this triangulation. Limitations of this study are discussed in more depth in section 6.

3.4.1 Interviews

The advantage of using interviews compared to a questionnaire is that they can provide large amounts of qualitative data and they provide opportunity for the interviewer to follow up on answers to attain more in-depth information. For this study we used semi-structured interviews. The semi-structure ensures questions are grouped per subject and all subjects are covered, while still leaving room for additional questions. The structure of the interview is based on Malmi & Brown’s (2008) framework and thus treats the five groups of MCS they distinguish. Serving as a basis for the interview questions is the extensive questionnaire developed by Malmi & Sandelin (2010) which addresses all these groups of MCS. This questionnaire was previously translated to Dutch by a former student for his Master thesis (Alink, 2013). Because not all parts of the questionnaire are relevant for this specific thesis, and previous experience of other students using the questionnaire has shown that the length of the interviews does not allow the full list of questions to be asked, we decided to integrally use the questionnaire. For each interview, questions were adjusted based on the respondent’s field of expertise.

To collect valid and relevant information it is important to interview the right people. Employees that are concerned with strategy formulation, implementation and MCS design and implementation qualify as respondents because of their direct involvement and knowledge of the subject. This narrows down to senior managers and business controllers. First, we planned several conversations to improve our understanding of how management control is organized at Albert Heijn. These conversations were held with the Manager Management Reporting AH, the Manager Business Process Improvement, the Director Business Control AH Logistics and the Senior Vice President Finance Group Control. The length of these conversations ranged from 30 minutes to an hour. After these conversations took place, respondents were approached by email to ask whether they wanted to participate in an interview. This resulted in three people who agreed to an interview. The first interview was held with the Vice President Business Control AH and lasted 50 minutes. The second interview was held with the Chief Financial Officer of Albert Heijn and lasted 45 minutes. The final interview lasted 60 minutes and was held with the Director Business Control AH Marketing, Format & Merchandising. As mentioned earlier, interview questions were altered with each respondent.

3.4.2 Document Review

An extensive document review was performed to obtain information from formal documents and communications, both internally and externally produced and internally and externally oriented, that relate to strategy and MCS at Albert Heijn. Some of these formal documents relate to corporate parent Ahold, which as a listed company is required to prepare these. Amongst others, the annual report and global code of conduct were used, which convey information about cultural controls and administrative controls. For documents specifically relating to Albert Heijn we found industry reports, presentations, news articles, interviews from other sources, used the company website and documents that are only used internally. Table 3.1 provides an overview of these sources, and addresses how they relate to Albert Heijn, which is important for the overall reliability of our findings.

Table 3.1 Documents used and how they relate to Albert Heijn

Source	What
ABN AMRO Economisch Bureau	Objective external research panel's assessment of Dutch supermarket sector
Ahold Code of Conduct	Ahold internal document that addresses appropriate employee behavior
Ahold Control Memoranda	Ahold internal documents that provide guidelines for the internal control framework
Annual report Ahold 2012	Ahold external document that presents and reviews last year's results
Bill of Authority	Ahold Europe internal document that regulates financial decision rights
Budget 2014 guidelines	Ahold internal document that provides guidelines on how banners should present plans
Competencies 17 and 18	Ahold internal document that addresses the competencies required for job grades 17 and 18
GfK Zomerrapport 2013	Objective external research panel's semi-annual assessment of supermarkets
Global Management Incentive Plan	Ahold internal document that addresses lump sum bonuses
Global Reward Opportunity	Ahold internal document that addresses stock-sharing program
Group Control Presentation	Ahold Europe internal presentation on strategy of banners
Job Description	Ahold Europe internal document that describes a function profile including result area's
Nielsen	Objective external research panel's yearly assessment of market share
Presentatie Logistiek Algemeen	Ahold Europe internally and externally oriented presentation on company logistics
Regeling arbeidsvoorwaarden HP	Ahold internal document that addresses benefits package for higher personnel
Website AH	Albert Heijn's externally oriented company website
Website Distrifood.nl	Independent supermarket news website
Website Logistiek.nl	Independent logistics news website
Weekly overview	Ahold Europe internal document with weekly performance on KPI's

3.4.3 Observations

Because the researcher was internal to the company during the execution of the study his own observations and experiences provide a valuable source of information. We are aware that observations can be open to interpretation and thus might threaten the validity of the research. In the data analysis it will therefore be explicitly mentioned which data came from observations and these observations will be used mostly as support.

3.5 Data Analysis

After the data was collected, a thorough analysis took place, which is described in the next section. In the analysis, data gathered from all three collection methods are intertwined to support each other. The aim of the analysis is to orderly present the management control systems package of Albert Heijn. For this, the previously described framework of Malmi & Brown (2008) is used. The general conception that differentiation requires more informal and organic MCS and cost leadership requires more formal and mechanistic MCS is in itself hard to relate to a hybrid strategy. And only describing a general tendency of the MCS package would be too simplistic and would not catch the nuances (Yin, 1994) between the different strategies that underlie these general conceptions. We therefore formulated hypotheses in section 2.5 that are based on more and broader dimensions. To gain better insight in MCS use when pursuing hybrid strategy, we chose a more in-depth approach that describes each group of controls along their respective relevant dimensions. In section 5, we link Albert Heijn's MCS package to their hybrid strategy. This package is then compared to our hypotheses. Based on this comparison, propositions are formulated on MCS for hybrid strategy that require further empirical testing, which lies outside the scope of this thesis.

4. Case Company

4.1 Introduction

As the largest grocery retailer of the Netherlands, Albert Heijn has become a household name in the country. In this section the company Albert Heijn is introduced. The remainder of this section is as follows. First, key figures regarding Albert Heijn are presented. Next, the long history of the company is summarized in key events. Hereafter, the mission and strategy are discussed, followed by the organizational structure and current operations of Albert Heijn. This section concludes by discussing the firm's market position.

4.2 Key Figures

Turnover (estimated):	€ 10 Billion	(Source: Annual report Ahold 2012)
Operating income (estimated):	€ 600 Million	(Source: Annual report Ahold 2012)
Operating margin (estimated):	6 %	(Source: Annual report Ahold 2012)
Market share:	33.7 %	(Source: Nielsen, 2013)
Number of stores in the Netherlands:	877	(Source: Annual report Ahold 2012)
Percentage of Dutch households served:	85.6 %	(Source: GfK, 2013)
Number of employees:	110,000	(Source: Website AH)

4.3 History

The large supermarket chain that we know today was founded in 1887, when Albert Heijn sr. took over his father's small grocery store. He quickly expanded and started selling private label cookies and coffee. In 1927 the first franchise stores were opened. Over the years the chain grew and three years after the death of Albert Heijn sr. in 1945, the company got listed on the Dutch stock exchange. In 1952 Albert Heijn introduced the first self-service supermarket in the country. In 1954, recipe magazine AllerHande was released for the first time. Albert Heijn continued to expand through several take-overs and in 1973 Ahold NV is founded to coordinate and separate Albert Heijn's broadening activities and make it possible to operate abroad. Throughout the years Albert Heijn is credited for several major introductions in the Dutch market like self-service, barcodes, foreign produce and popularizing wine. Online service Albert.nl is founded in 2001. In 2002 the AH to go and AH XL formats are introduced to serve the increasingly differing needs of consumers. Although founded under the philosophy that both poor and rich should be able to afford shopping at Albert Heijn, the focus on quality and service lead the public to see Albert Heijn as expensive.

An accounting scandal at Ahold and the bad price image lead to a declining market share and bad results in 2003. To correct its price image and regain market share a successful turnaround strategy was formulated, including a full scale price war that has changed the supermarket landscape. Until today the market remained unstable and several smaller price wars followed.

4.4 Mission & Strategy

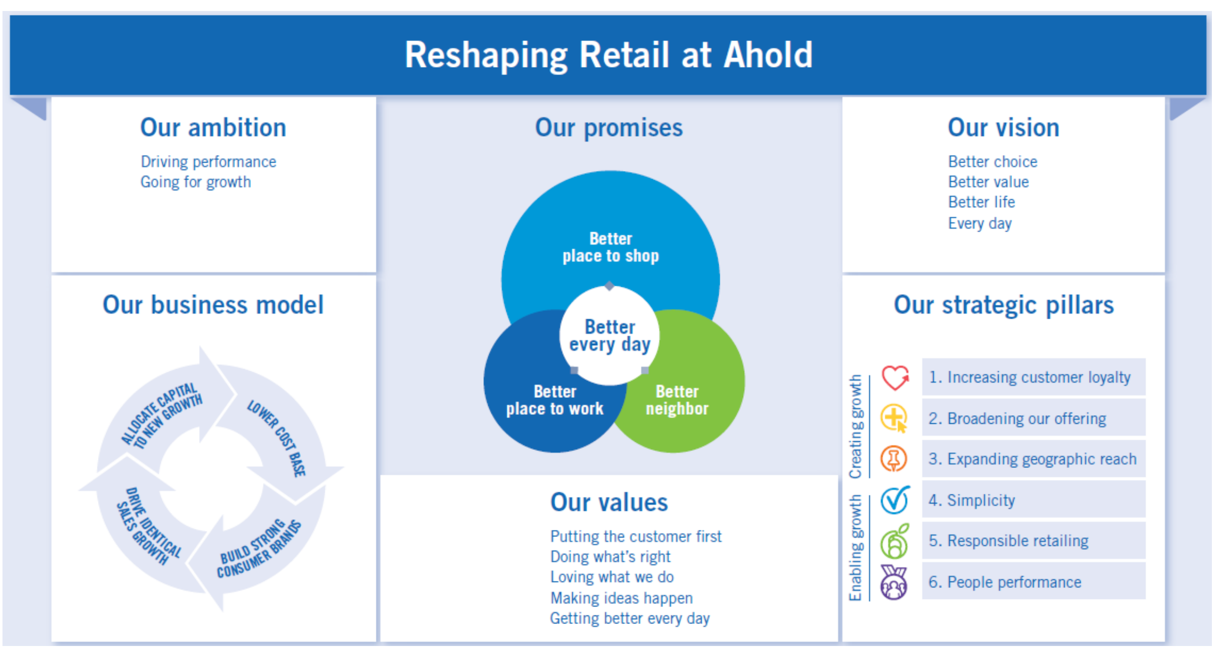
Albert Heijn sr. had a clear vision on how he wanted to run his business: "Excellent quality, big sales, small profits. Both the poor and the rich can do their shopping with me". Over the years this transformed into the firm's current mission:

"To make the ordinary affordable and the extraordinary attainable"

The dual nature of this mission conveys two important implications for its strategy. Firstly, Albert Heijn wants to be accessible and affordable for society at large, which requires geographical spread and reasonable prices. And secondly, Albert Heijn wants to offer its customers something special in a broad sense. This might involve more, new and better quality products, better service or more convenience in grocery shopping.

As a subsidiary of Ahold, Albert Heijn has to comply with some strategic objectives, priorities and rules of its corporate parent. Ahold has developed a corporate strategic framework (see figure 4.1), in which its subsidiaries should fit. The business model is that typical of a retailer: a continuous process of lowering cost base, increasing brand strength, increasing sales and using these revenues to create new growth and again lower the cost base. With the arrival of a new commercial director, the vision of Albert Heijn is now to become the *'lekkerste'* (tastiest) supermarket in the country. In achieving this, Albert Heijn wants to protect its price image and improve drastically on service aspects, which will be explained in more detail in the next sub section.

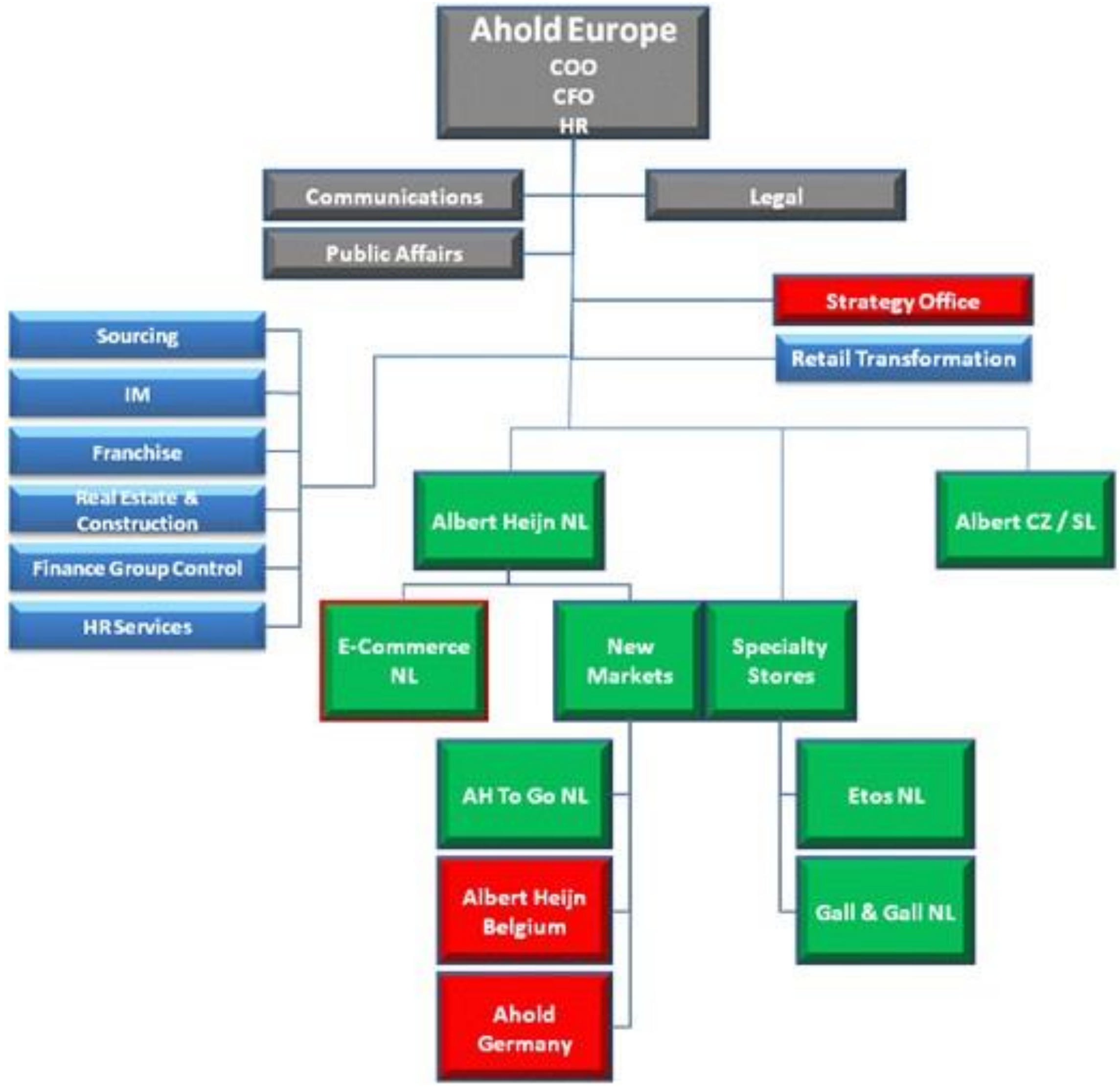
Figure 4.1 'Reshaping Retail' strategic framework, taken from the 2012 Ahold Annual Report



4.5 Organizational Structure

Being part of Ahold has several consequences for the way Albert Heijn is organized. Support functions as Finance, Real Estate, Sourcing, Human Resources, Information Management and Franchise are coordinated on a European holding level for cost reduction and learning effect. The brand Albert Heijn is divided into several separate entities, where each is responsible for its own financial result: Albert Heijn stores, Albert.nl, AH to go, Albert Heijn Belgium and Albert Heijn Germany. A simplified organizational chart of Ahold Europe is shown in figure 4.2. Because Albert Heijn is the biggest and most important part of Ahold Europe, the CEO, CFO and EVP HR occupy positions in both the board of Ahold Europe and in the board of Albert Heijn. This structure ensures that Albert Heijn gets the support it needs as the biggest entity.

Figure 4.2 Organizational chart Ahold Europe, taken from the Ahold Europe Bill of Authority



4.6 Operations

As of 2002, Albert Heijn operates four different formats that each try to serve different customer needs. They range from large one-stop supermarkets and local neighborhood stores to ready-to-eat and online grocery shopping. Each format is briefly discussed below.

4.6.1 Albert Heijn neighborhood stores

These are the regular stores of Albert Heijn that are located in neighborhoods and serve the normal shopping needs in that specific area. These stores come in different sizes, each with a standard design. Offering ranges from 8,000 to 22,000 unique products. Albert Heijn currently operates almost 800 neighborhood stores of which approximately one-third are franchised stores, which means that in return for a percentage of the turnover someone can start their own Albert Heijn. As of 2011, operations expanded to Flanders, where Albert Heijn is rapidly growing. The goal is to reach 50 stores by 2016.

4.6.2 Albert Heijn XL

The XL format aims to offer a one-stop shopping experience and stores are located near main roads in larger cities. Shop floor area is significantly larger than regular stores and the assortment consists of more than 30,000 products. Currently, there are over 30 AH XL stores of which some are franchised.

4.6.3 AH to go

AH to go is a convenience format located around crowded area's where people are on the move like railway stations and city centers. Stores have broad opening hours and offer a small assortment of approximately 1,000 products of which most are ready for consumption. There are almost 60 stores in the Netherlands and operations expanded to Germany as of 2012. Most stores are franchised.

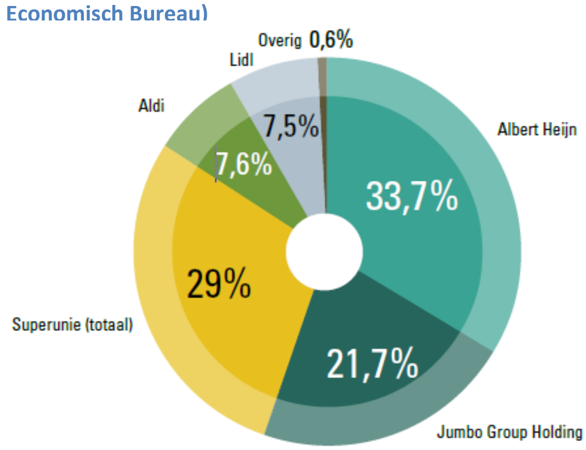
4.6.4 Albert.nl

The online format Albert.nl was founded because of the growing role of the internet and possibilities of e-commerce and aims to offer convenience. Orders can be placed online, which partly includes the assortments of fellow Ahold subsidiaries Etos and Gall & Gall. Consumers can choose between home delivery and picking up their groceries at the recently opened pick-up points. Online grocery retail is yet to prove profitable, however expectations supported by evidence from other countries show substantial growth potential.

4.7 Market position

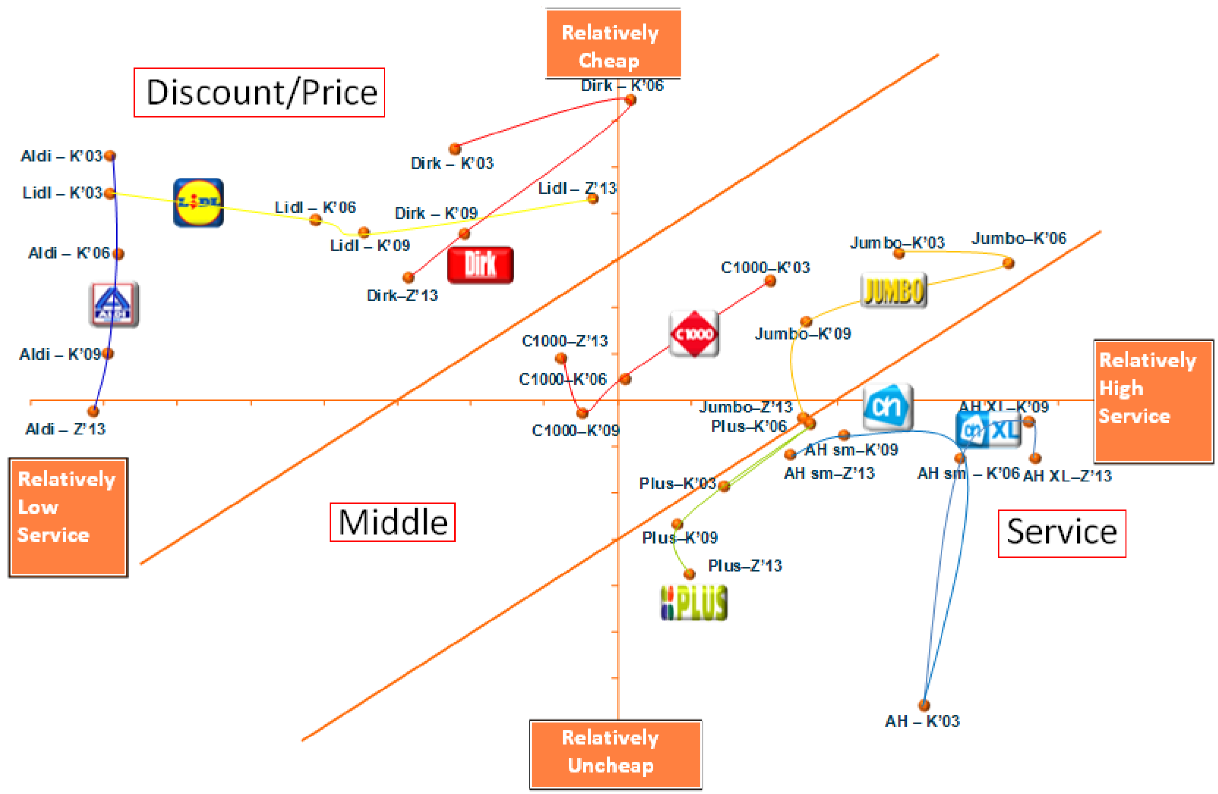
Albert Heijn is the largest player in the market with a market share of 33.7% percent at the end of 2012. Their main competitors are Jumbo (21.7%), Aldi (7.6%) and Lidl (7.5%). Superunie is a cooperative wholesale society, of which its members have a combined market share of 29%. This gives them

Figure 4.3 Market share per group. (Source: ABN Amro Economisch Bureau)



economies of scale and bargaining power in negotiations with suppliers. However, their largest member has a market share of just 5.7%. Jumbo is Albert Heijn's most important competitor. As can be seen in figure 4.4, throughout the years, the chains have grown towards each other and it is getting increasingly difficult to find real distinctions. Although Lidl is currently still a relatively small player, they are expected to become a major challenger in the coming years, because they managed to keep their good price image while significantly increasing quality and service level. Aldi on the other hand has a declining price image, but cannot compensate it with an increasing service level. It is remarkable that the hard-discounter has lost market share during the recession. The perceived market positions of each banner are shown in figure 4.5.

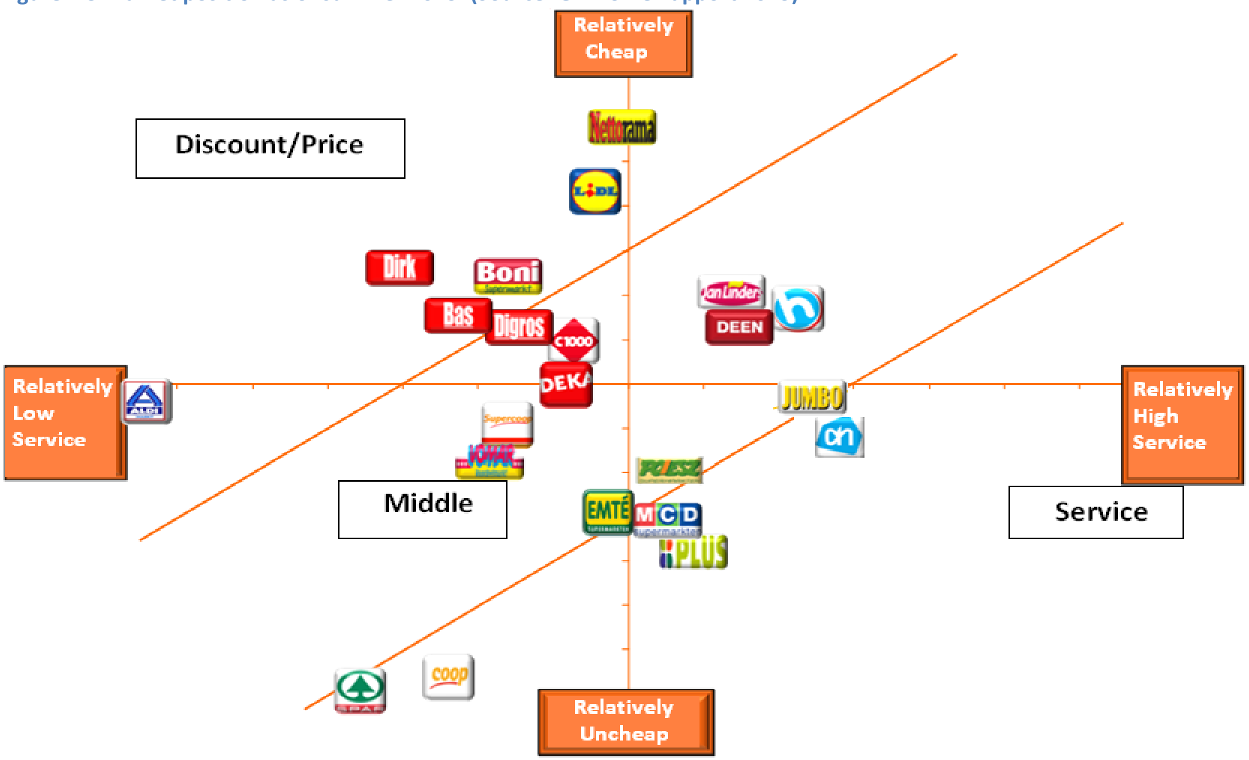
Figure 4.4 Relative market position shift per format over 10 years. Z'13 is a format's current position



Albert Heijn's market segment is traditionally the middle and upper market. Over the years consumers have become more price-sensitive due to increasing transparency and economic distress. At the same time, the quality and service level of competitors increased towards the level of Albert Heijn. As a result Albert Heijn was rapidly losing market share to the discounters because the middle segment was not willing or could not pay the price premium anymore that Albert Heijn charged for its full service formula. The value proposition did not reflect the market conditions anymore. An intervention was required to halt the process, and in 2003, Albert Heijn started a price war to improve its price image and regain market share. Their market leader position made it possible to pass a large part of these costs on to the suppliers. The move was successful and Albert Heijn both regained market share and improved its price image, while maintaining its full service image. Similar pricing activities have occurred in recent years, although they have had less impact on Albet Heijn's price image. Despite proving successful for Albert

Heijn so far, many scholars argue how price wars are detrimental to an industries overall profitability (i.a. Porter, 1996;) and will lead to a continuing need for more price reductions, as has been the case the past decennium in the Dutch supermarket sector. The result is that grocery shopping is cheaper in the Netherlands than it is in most other West European countries. By expanding to Flanders, which has a somewhat similar culture and language, Albert Heijn was able to deploy the neighborhood store formula in almost the same way as it existed in the Netherlands. Interestingly, Albert Heijn is perceived as one of the cheaper supermarkets in Belgium because their price levels are higher. By supplying from a Dutch distribution center just over the border, Albert Heijn is able to keep prices low while offering good service and quality.

Figure 4.5 Market position as of summer 2013. (Source: GfK zomerrapport 2013)



Albert Heijn is still seen as a high quality full service supermarket, but now has to share this position with Jumbo. The rest of the field is more and more converging to the middle section, as can be seen in figure 4.4. This converging behavior is often referred to as the wheel of retail, since it is a process that has been observed to occur in the retail industry. It starts with low price entrants who, as their market share grows, increase service and quality to increase prices. Established firms by then have responded by lowering their prices and all firms converge towards the new status quo. An opening again arises for a new low price entrant. The supermarket sector is often seen as a mature zero-sum industry. This means that the market size will not grow significantly and that one firm's growth has to come at another's expense. It is not surprising therefore that the price wars have changed the supermarket landscape. By moving to the right on the service axis, while guarding its price position, Albert Heijn hopes to improve the strength of its position and to become less vulnerable to the increasing competition.

5. Results

5.1 Introduction

This section presents the answers to our sub questions: What is Albert Heijn's Business Strategy? What is Albert Heijn's Management Control Systems Package? How are they related? We will discuss our results in that order. First, we verify that Albert Heijn indeed follows a hybrid business strategy. Next, we introduce the MCS package of Albert Heijn. We conclude this section by reviewing how Albert Heijn's MCS package fits its business strategy.

5.2 Business Strategy at Albert Heijn

Three out of five board members filled in and returned the questionnaire that is shown in Appendix A. The results are provided in table 5.1. The results show an average score of '6' (which corresponds with 'very important') for the questions that are indicators of a differentiation orientation. The results for the questions that are indicators of a low cost orientation show an average score of '5,67' (which corresponds with a score between 'important' and 'very important', being closer to the latter). Following these results, the board of Albert Heijn finds both strategic orientations (very) important and places somewhat more emphasis on the importance of a differentiation orientation.

Table 5.1 Results from strategic orientation questionnaire (Narver & Slater, 1990), distributed among the board.

Differentiation	Resp. 1	Resp. 2	Resp. 3	Avg	Std. Dev
Introducing new services/products	6	7	6	6,33	0,58
Differentiating services/products from competitors	7	7	5	6,33	1,15
Offering broader range of services/products than competitors	7	5	5	5,67	1,15
Utilizing market research to identify new services/products	5	7	5	5,67	1,15
		Avg Differentiation:		6,00	0,38
Low Cost					
Achieving lower cost of services than competitors	7	5	6	6,00	1,00
Making services/processes more cost efficient	7	6	7	6,67	0,58
Improving the cost required for coordination of various processes/services	7	5	5	5,67	1,15
Improving the utilization of available services/facilities	5	6	5	5,33	0,58
Performing analysis of costs associated with various processes/services	6	6	4	5,33	1,15
Improving access to cheaper and/or better raw materials or products	4	6	5	5,00	1,00
		Avg Low Cost:		5,67	0,60

These results are also reflected in the in section 4.7 presented GfK position matrix, where Albert Heijn, in the perception of the customer, scores well on the service aspect and has an average price image. The plans for the future are to further improve its position on the service axis, while maintaining its average price position. This is only possible if it can reduce the cost of its operations. Again, note the important difference between prize leadership and cost leadership. Furthermore, Albert Heijn uses its three private label brands (AH Basic, AH and AH Excellent) to serve the entire market, with prices going up as quality goes up. So, one could argue that they hold several positions on the GfK matrix, both on the lower end of the price segment as o the higher end of the service segment.

In addition, during an interview, the CFO stated:

****INSERT QUOTE FROM INTERVIEW HERE****

DUE TO CONFIDENTIALITY AGREEMENTS QUOTATIONS HAVE BEEN REMOVED FROM THIS PUBLIC VERSION

Based on the above we feel confident to conclude that Albet Heijn indeed pursues a hybrid business strategy.

5.3 Management Control Systems at Albert Heijn

In this section the management control systems package as used by Albert Heijn is presented and discussed. The five groups that Malmi & Brown (2008) distinguish are described in the following order: planning controls, cybernetic controls, rewards & compensation controls, cultural controls and administrative controls. Connections between groups are made as each system is discussed. This section concludes with an analysis of the MCS package configuration at Albert Heijn.

5.3.1 Planning Controls

As was discussed in an earlier section, planning controls are an ex ante form of control (Flamholtz et al., 1985). They are divided by Malmi & Brown (2008) in long range planning and action planning. The former relates to more strategic plans and the latter to more tactical plans. How both control systems are used at Albert Heijn in directing employee behavior is discussed below.

5.3.1.1 Long Range Planning

It was already mentioned in the case company description that Ahold has a strategic framework which encompasses six strategic pillars and three promises. These strategic pillars are divided into two groups of three pillars that either enable growth or create growth. Each subsidiary of Ahold has to adhere to this strategic framework and each year, when the strategy is revised, subsidiaries have to present plans for the coming year (s) that address both the promises and the strategic pillars. These plans have to be approved by corporate center. This means that Albert Heijn is not fully autonomous in their strategy formulation. Strategic positioning is determined by top management and operationalization of priorities to achieve that position is left for middle and lower management. The plans that they come up with need an approval by higher management if it concerns a certain investment or binds the company to an external party. This is regulated in the Bill of Authority, which describes exactly in what situation which approvals are needed from whom. The Bill of Authority will be further described in the administrative controls sub section. Strategic planning controls behavior because it commits employees to a long term plan and provides direction. By including lower levels of management in generating proposals they are expected to be more committed to those strategic plans. Strategic planning serves as a guide for the action planning phase and ensures that not all attention goes to the short-term. Together with the promises as a measure in the bonus calculation formula and the share program, which will both be explained under rewards and compensation controls, they serve in safeguarding a long-term orientation.

Another important planning element is strategic workforce planning. This means amongst others that succession planning is well implemented. Enough growth opportunities for talented employees should be available on the one hand, and skilled successors need to be available on the other hand in case someone leaves a position. This strategic workforce planning is done on an Ahold level, but key individuals of Albert Heijn are mostly former management trainees of Ahold who during their traineeship held a position at Albert Heijn. Although Malmi & Brown (2008) disagree with Merchant & Van der Stede (2007) on whether provision of necessary resources is a control system, it is argued here that strategic workforce planning indeed is a control system because it directs behavior of employees by offering career opportunities that can be attained with good performance on organizational objectives.

5.3.1.2 Action Planning

The strategic objectives of the company are cut down into a three-year plan, on which the annual plan is based. The long term plans that have been operationalized into shorter term plans are translated into a budget. Malmi & Brown (2008) include budgets in the cybernetic control systems. We will therefore discuss the use of budgets in the next sub section. On the subject of action planning and short term orientation the Director Business Control Commerce noted:

****INSERT QUOTE FROM INTERVIEW HERE****

In addition, the CFO mentioned:

****INSERT QUOTE FROM INTERVIEW HERE****

With this remark, he means that action planning is used to implement strategic objectives and not that action planning is not used. Short term decision rights are delegated down in the organization. As the CFO further explained:

****INSERT QUOTE FROM INTERVIEW HERE****

By involving more layers of management in the creation of action plans, behavior is expected to be controlled by creating commitment towards those plans. Despite not being part of the plans, the VP Business Control AH showed some frustration with how much time is spent on resolving short term issues rather than implementing strategy:

****INSERT QUOTE FROM INTERVIEW HERE****

One of the main reasons why Albert Heijn has to spend time and effort on short-term success is that they are the biggest entity of a listed company. If Albert Heijn is not profitable, it is hard to get a decent shareholder return. The Director Business Control Commerce commented:

****INSERT QUOTE FROM INTERVIEW HERE****

Part of the planning process at Albert Heijn is to come up with plans that adhere to the promises and strategic pillars as mentioned in Ahold's 'Reshaping Retail' framework. The promises of becoming a better place to shop, a better neighbor and a better place to work should be translated into concrete plans and measurable goals. An observation made by the author during his time at Ahold Europe was that indeed these promises and strategic pillars came back in both the banners as well as the support function's plans, thereby verifying that the directing of employees' behavior works.

5.3.1.3 Summary

From the above it becomes clear that Albert Heijn starts at a strategic level and that from there, plans are operationalized and made more concrete into annual plans. These concrete annual plans fit within the longer-term plans. The board sets the direction and plans are created by the management teams (one layer below the board) to make steps in that direction. These again have to be approved by the board if they are above a certain threshold. For commercial financial goals the category managers are held responsible, but they are not involved in planning these sales and margin levels. Because Albert Heijn, as the most important part of Ahold, has to deal with shareholders, short-term profitability is also an important driver.

To summarize, planning has both a long-term and short-term orientation wherein the short-term goals should contribute to the long-term goals but also to current profitability. Employees are not so much involved in target-setting, but are involved in creating both strategic and tactical plans. Behavior is therefore directed by both commitment and compliance.

5.3.2 Cybernetic Controls

Malmi & Brown (2008) place cybernetic control in the center of their framework and as the middle part of the planning, measuring and adjusting, rewards and compensation cycle. In this sub section the major cybernetic control systems that are in place at Albert Heijn are discussed. First, we describe the budgetary control system and some back up controls used to measure performance if actual activity differs from the budget. Hereafter the financial and non-financial measures are discussed in more depth. Next is the internal control framework, which is both a cybernetic and an administrative control system. Finally, employee performance measurement is described.

5.3.2.1 Budget

The budget is one of the most if not the most important control system used by Albert Heijn. It is determined in the third quarter for the next year. Each quarter forecasts are made that provide an expected outcome at the end of the year. These forecasts are then compared to the budget. Based on these forecasts management can decide if additional steering is needed to ensure that the budget is met. Although used for decision support, we regard it here as a part of the budgetary control system because it helps ensure the achievement of the budget. As the VP Business Control AH made clear:

****INSERT QUOTE FROM INTERVIEW HERE****

All physical activities that happen in the supermarkets and in the supply chain have been timed with a stopwatch to measure the time they should normally take. These measurements are used to calculate the number of hours needed for a certain turnover mix. The turnover mix that was used for the budget is never exactly correct and therefore performance is also measured against norm hours. Because Albert Heijn can monitor exactly what products are handled, both in the distribution centers and in the stores, they can measure if employee productivity is on par even if turnover is higher or lower. The VP Business Control AH explained:

****INSERT QUOTE FROM INTERVIEW HERE****

The final budget has to be approved by the CFO. In line with Malmi & Brown (2008) the budget directs employee behavior by planning acceptable levels of behavior and by evaluating performance against the plans by making people accountable for certain parts of the budget. The commercial team is responsible for the EBIT and other functions are responsible for certain cost centers in the budget.

5.3.2.2 Financial, Non-financial and hybrid systems

As mentioned earlier, the term hybrid in this context refers to systems that have both financial and non-financial performance indicators. It is explicitly not the same as a hybrid strategy and it may or may not support a hybrid strategy. In this sub section we will discuss several important cybernetic systems that Albert Heijn has in place. First, cybernetic systems in the commercial functions are discussed. Next, the measures of the cybernetic system in the logistics department are described. Finally, the measures of the bonus system are covered.

Albert Heijn recently evaluated their brand position and the appropriateness of the performance indicators used. This resulted in four basic brand values: value for money, choice, taste and inspiration. Performance on each of these brand values is measured by different key performance indicators, which come from several firms who collect industry information. All of these are non-financial measures. They direct behavior of the brand team towards the four brand values which are differentiating factors.

The merchandising team receives, based on the budget, target sales levels and target margin levels. All products that Albert Heijn sells are divided into product categories, for which category account managers are appointed. These people are held accountable for the performance of their category compared to the target sales and target margin. The VP Business Control AH underlines:

****INSERT QUOTE FROM INTERVIEW HERE****

These performance indicators are mainly financially oriented and direct employee behavior towards the achievement of the budget. They are results controls and give the category account managers autonomy in how to achieve these results. This can be done for example through negotiating better prices from suppliers or by promoting (products from) that category. Also non-financial performance indicators, like promotion as percentage of sales, are part of the commercial KPI’s.

For the logistics department, a different set of key performance indicators is defined. Albert Heijn’s logistics department formulated three promises (not per se related to the Ahold promises): to (1)provide excellent service (2) in a sustainable way (3) against the lowest costs. The low cost element fits a cost leader, excellent service fits a differentiator and we consider sustainability as a hygiene factor for the future. The promises of the logistics department thus resemble the hybrid strategy of the company. Financial measures are based on the budget. Qualitative KPI's include among others timeliness, picking-errors, service percentage, sickness and filling per container. Regarding logistics, Albert Heijn is widely recognized as the best in the country. The Director Business Control Logistics did mention that competition is coming closer. Behavior of employees is directed towards efficiency and effectiveness.

Ahold's bonus system consists of a lump sum amount and shares. Both are explained in further detail in the rewards & compensation sub section. We will here only discuss the measures and weights that those bonuses are based on. As can be seen in figure 5.1, financial measures weigh 90% in total, whereas the non-financial component, the promises, only account for 10%. Ahold's share program consists of three equally weighing parts. The first is based on the company multiplier as shown in figure 5.1, the other two parts are based on the total shareholder return compared to eleven competitors and the return on capital. Both are financial. Through the bonus metrics, therefore, behavior is mainly directed towards the achievement of financial goals.

The CFO mentioned that these are indeed very much financially oriented, but he questions how big a motivator these bonuses are. He furthermore had his doubts on how well Ahold-wide control systems like these, suit Albert Heijn's management control package.

****INSERT FIGURE 5.1 HERE****

DUE TO CONFIDENTIALITY AGREEMENTS FIGURE 5.1 IS REMOVED FROM THIS PUBLIC VERSION

5.3.2.3 Internal Control Framework

Ahold has an extensive internal control framework based on the COSO-framework. It consists of several lines of defense that aim to prevent or detect harmful actions. The control structure is as follows. First, an employee follows a certain procedure as described in a control. This procedure may have to be performed daily, weekly, periodically, quarterly, semi-annually or annually. The control description also provides information on what should be checked, what levels are appropriate, what evidence needs to be uploaded and what to do in the event of deviation from the appropriate levels. The employee that performs the control then has to upload relevant evidence of following the procedure and why or why not the control is marked as effective. Next is the management review, where the manager of the employee checks the work performed by the employee. He also must upload his approval or disapproval of the employee's assessment of the control's effectiveness. Hereafter, the Risk & Compliance department, that monitors the internal control framework, checks each control at least annually. They verify if the control description is still in line with the work performed, if the uploaded evidence is correct and complete and if both the employee and his manager's assessment of the effectiveness of the control are correct. Additionally, Internal Audit may perform audits on certain controls. And last, the external accountant of Ahold, performs audits on the controls.

If on one of these levels the conclusion is drawn that a control is ineffective, the Risk & Compliance team creates a control weakness. The employee and manager that are responsible for the control execution must come up with a plan to resolve the control weakness. This plan is also uploaded to the system with an issue owner, a person accountable and a deadline. If deadlines are not met, the control weakness is delayed, and this will be reported to the CEO and CFO. These controls are on key processes and mostly concern the reliability of financial reporting. When asked about the tightness and thus effectiveness of the control framework, the VP Business Control AH answered:

****INSERT QUOTE FROM INTERVIEW HERE****

The number of layers that check the work performed gives rise to questions on the efficiency of the framework though. The VP Business Control AH commented:

****INSERT QUOTE FROM INTERVIEW HERE****

Although a lot of these controls are actually administrative controls, because they concern certain procedures, we include it in the cybernetic controls mainly because they possess the five characteristics for cybernetic control as defined by Green & Welsh (1988). Measures are quantifiable, there are standards of performance defined, a multi-layered feedback process is in place that enables comparison, control weaknesses are created in case of variances and plans are made and executed to structurally resolve the variance. These controls cover a wide variety of processes. Examples of controls that affect Albert Heijn are store audits on cash and inventory, inventory counts in warehouses, salary checks, reconciliation on accuracy and completeness between sub ledger and general ledger, and vendor allowances. These are only examples of controls that have been labeled as key controls because they affect key processes. Additionally, there are more key controls as well as controls that are performed but that are not labeled as key.

5.3.2.4 Performance Appraisal

Within Ahold, the Hay-method for job grading and evaluation is used. This is a well-known method that many corporations use to define job roles, their results areas, the competencies needed for that job role and the remuneration that is appropriate for the weight of the job. This means that each job profile is evaluated based on three factors: know-how, problem solving and accountability. For know-how the dimensions measured are technical knowledge, management breadth and human relations skills. For problem solving the dimensions are thinking independence and problem complexity. For accountability the dimensions measured are the freedom to act, the magnitude and the impact. By measuring these eight items a certain weight is given to a job profile. Based on this weight a job profile falls into a certain scale. The higher the scale, the heavier the job profile. Different scales require different competencies and receive different remunerations. As the job grade increases, the competencies required change from a more operational focus like teamwork and development to more inspirational leadership and strategic planning. The performance appraisal for employees consists of two formal moments. In the third quarter a midyear review takes place, where an employee's performance so far is discussed with his or her manager. Employees are rated on competencies and result areas, which are predefined in the job description.

Figure 5.2 Performance appraisal cycle of Ahold Europe

Employees receive a performance appraisal that can range from A to E, with A being 'unsatisfactory', C being 'successful performance' and E representing an 'outstanding performance'. This has no real consequence yet, but is used to determine if progress is made on goals specified at the beginning of the year. In the first quarter the annual review takes place. This appraisal (scores A-E) has consequences for salary increases and bonus payments, which are discussed in the rewards & compensation section. It furthermore impacts the possibility of promotion. Ahold recently introduced a new system to record performance appraisals. It involves a yearly cycle in which employee and team goals are formulated, measured and appraised. Goals are supposed to be formulated using the well-known SMART principles. This means they should be specific, measurable, attainable, results-oriented and time-bound. By promoting this type of goal setting, Ahold tries to make performance appraisal somewhat more objective. On a question regarding the objectivity of performance appraisal, the VP Business Control AH replied:

****INSERT QUOTE FROM INTERVIEW HERE****

So he says that by definition it is a subjective process, but he makes it more objective by involving other people that the employee works with in the appraisal. We verified with other managers that this is actually the standard approach used for all personnel in the head office. Management is responsible for these performance reviews. Training in performance appraisal and giving feedback are provided in the form of an online learning tool. The result areas consist of both financial and non-financial performance indicators, depending on the job role. Employees that hold a budget are held responsible for that budget in their appraisal.

5.3.2.5 Summary

The budget is the most important financial control system within Albert Heijn and it is handled very tightly because Ahold has to provide a return to shareholders and therefore predictable performance planning is necessary. The entire budget is chopped into smaller parts and different employees are held responsible for those parts they can control. A broad scope of both financial and non-financial measures is used to capture performance. Merchandising is mainly responsible for financial measures, whereas the brand team is held accountable for non-financial measures and staying within their cost budget. The internal control framework is concerned with preventing fraud and ensuring thorough reviews of critical (financial) processes. For individual performance appraisals, criteria are both financial (if applicable) and non-financial. Although subjective by definition, performance appraisals are made more objective by setting personal goals according to the SMART principles and by inquiring multiple relevant people for an employee's appraisal.

To summarize, Albert Heijn relies heavily on their budget for cost control and performance planning. Both financial and non-financial measures are used in performance appraisals as well as in the overall objectives of the company. The financial measures should mainly ensure current profitability, while non-financial measures should reflect important indicators of future performance.

5.3.3 Rewards & Compensation Controls

****INSERT SECTION 5.3.3 HERE****

DUE TO CONFIDENTIALITY AGREEMENTS SECTION 5.3.3 HAS BEEN REMOVED FROM THIS PUBLIC THESIS

5.3.4 Cultural Controls

In this sub section the cultural control systems that Albert Heijn has in place are discussed. Following Malmi & Brown (2008) we make a distinction between values, symbols and clans. We further discuss selection and group rewards as these are also placed under cultural controls by Malmi & Brown (2008).

5.3.4.1 Values

Following Simons (1995) beliefs systems, the MCS package framework places mission statements, vision statements and credo's under the cultural control systems because they convey values. Albert Heijn has formulated a mission statement that all employees should be aware of. It is communicated often in speeches and presentations and has even been the slogan in several television and radio commercials: '*Het alledaagse betaalbaar, het bijzondere bereikbaar',* which means 'the ordinary affordable, the extraordinary attainable'. Values that this mission conveys relate to a broad offering of products that includes special products that are more luxurious or even new to the Dutch market and that they can offer common household products for good prices, which requires an efficient supply chain with low costs.

The new commercial director, who was hired in 2012, came up with a new vision for Albert Heijn: to be 'the tastiest supermarket'. In a converging supermarket field where it becomes increasingly difficult to clearly distinguish oneself from competitors, Albert Heijn has chosen to focus on value for money, choice, taste and inspiration. Measurement of performance on these focus area's is discussed under cybernetic control systems. Additionally, Ahold has formulated five values that each of its subsidiaries should embrace and embed in everyday activities. As it is put in the 2012 annual report:

"All of our companies share five common values that define who we are, what's important to us, and how we do things: Putting the customer first, Doing what's right, Loving what we do, Making ideas happen, Getting better every day."

Putting the customer first is essential in the philosophy of Ahold. The customers generate the revenues that make the existence of Albert Heijn possible. It is of course purposely mentioned as the first value to highlight its importance. This particular value will be further elaborated on when symbols are discussed. Doing what's right addresses the rejection of improper and unethical behavior. The importance of ethical behavior is well-known in the organization, especially in the light of scandals that occurred as recent as ten years ago. This value is given a face by a code of conduct to which all employees must comply. This code of conduct is further explained under policies and procedures in the administrative controls section.

Malmi & Brown (2008) discuss three ways by which values work: firstly, by attracting employees who share the same values. Secondly, by socializing employees to change their values into those of the organization. And finally, some employees might behave in accordance with the organizational values, although they do not personally adhere to them. Loving what we do relates to Ahold's philosophy that people who enjoy their job will perform better. Just by formulating it as a value, Ahold cannot force its employees to enjoy their job. This specific value works in attracting a certain type of person that enjoys his job rather than seeing it as just a necessary means to pay the bills. Besides that, it creates a positive image of a motivated workforce to the outside world. The fourth value, making ideas happen, conveys certain competencies employees of Ahold should possess: having the inspiration to come up with new ideas, the ability to operationalize an idea into a workable project and the results-oriented attitude and determination to actually implement it within a given timeframe. The fifth Ahold-shared value is getting better every day. This not only refers to employees but also to the organization as a whole. The willingness and eagerness to learn and improve is something that comes back a lot at Albert Heijn. A potential threat that the Vice President Business Control mentioned:

****INSERT QUOTE FROM INTERVIEW HERE****

Based on the better every day value, Ahold has formulated three promises: being a better place to shop, a better place to work and being a better neighbor. As discussed in the section planning controls, each subsidiary of Ahold has to formulate goals that adhere to these promises. By this, Ahold forces subsidiaries to become better every day. Also, in the incentive system the performance on these promises is reflected in a weight of ten percent in the bonus calculation formula. This is further explained under rewards and compensation control systems. The author's observations made during the internship at Ahold confirm that these values are indeed embedded deeply into Albert Heijn's DNA. As the company that founded Ahold, it is not surprising that much of Ahold's cultural aspects closely resemble that of Albert Heijn. In line with Widener's (2007) finding that beliefs systems influence all other control systems, the CFO repeatedly mentioned that control should start with clearly defining and communicating the company's 'beliefs system':

****INSERT QUOTE FROM INTERVIEW HERE****

****INSERT QUOTE FROM INTERVIEW HERE****

This last sentence is especially interesting. Without values, employees have no moral compass that provides basic direction for appropriate behavior. If a company still wants to control their behavior, everything has to be written down in handbooks, rules and procedures. So, strong cultural control decreases the need for administrative control, because it increases the likelihood that employees act in the organization's interest on their own.

5.3.4.2 Symbols

In the late nineties, Albert Heijn had a statue made of a typical housewife with grocery bags. In the statue is the following text in Dutch engraved: "*So we may never forget who we work for*". The lady depicted on the statue was named 'Beppy', a somewhat typical name for a classical Dutch housewife. Ever since, the statue has a symbolic value for people working at Albert Heijn. A common used phrase when talking about objectives at Albert Heijn is "make Beppy happy". It is an easy to remember phrase that is closely associated with one of Ahold's core values: putting the customer first. The phrase, as well as pictures of the statue, is communicated to employees often.

Malmi & Brown (2008), following Schein (1997), also mention office plans and dress codes as examples of symbols-based controls. At the head office of Ahold in Zaandam, where Albert Heijn is located, workplaces are flexible. Each employee receives a laptop and all open desk workplaces have a keyboard and a monitor where an employee can plug in his laptop and start working. This flexible working environment was designed to encourage communication and collaboration across employees. In practice, each format or function has its own space and most people choose the same flexible spot every day. Top management has a more fixed spot and they physically work close to each other. According to the VP Business Control communication and collaboration are essential and could be improved:

****INSERT QUOTE FROM INTERVIEW HERE****

Within the head office of Albert Heijn there is no real dress code communicated to employees. However, employees are expected to dress representable. There is a clear difference noticeable between the higher scaled employees and the lower scaled. Higher scale employees as well as financial personnel mostly wear suits. Only some wear ties. Lower scaled personnel often wear shirts with tidy casual pants. Women dress less formal than men at Albert Heijn. Within the office in Zaandam the concept of casual Friday is introduced some years ago to create a more relaxed, open and informal setting. Although most people adhere to it, the higher scales often still wear suits. Instead of promoting an open and informal working environment this could work the other way because the distance between lower and higher scales is accentuated. Merchant & Van der Stede (2007) introduce the term 'tone at the top' as a cultural control, because top management functions as an example for the rest of the employees. By wearing a suit they promote a formal and professional working environment. However, by wearing a suit on Friday they undermine the casual Friday. In the stores employees do wear specific Albert Heijn clothing. The type of clothing becomes more formal per rang and is supposed to be recognizable for customers.

An interesting observation made by the author during the first months was that people were very open and willing to help out, no matter their rank. As time progressed and the author was somewhat more institutionalized within the company, the mental barrier of approaching those higher ranked managers rose, despite the fact that they had not changed and were still willing to participate. When talking to the VP Business Control AH about company culture, he said:

****INSERT QUOTE FROM INTERVIEW HERE****

5.3.4.3 Clans

During this study no real sub cultures or clans at Albert Heijn were noticed by the author, however, as Ouchi (1979) explains, different professions and functions often have a differing set of skills and values belonging to that group. During the interviews some differences became apparent between certain groups of employees at Albert Heijn. Within Albert Heijn there is a distinction between commerce, logistics and support functions that are shared with other entities. Commerce is very results-oriented and employees are held accountable for sales targets and margins. This sub culture is recognized for its specific function and these targets and margins are therefore represented in the performance appraisal and subsequently their remuneration.

An interesting fact that the VP Business Control mentioned and what the author also noticed is that within Ahold a lot of employees refer to themselves as Albert Heijn employees even though they work for Ahold. As the VP Business Control explains:

****INSERT QUOTE FROM INTERVIEW HERE****

Additionally, there are a number of associations within Ahold that do not relate to profession. One of them is Young Ahold, which promotes contact between the younger employees of the Ahold companies. The other one is the association for higher personnel, of which the objective is also to promote contact between employees of different Ahold companies. These clans direct behavior by promoting communication across Ahold.

5.3.4.4 Selection

The selection process for the higher personnel at Albert Heijn is the same as that of Ahold NL. The procedure is similar across all Dutch banners. Human resources is in the lead to ensure consistency in the approach, but management decides on hiring. Applicants should possess five personality characteristics, which are defined by Ahold and go for all vacancies. When a position comes available, the process is as follows. First, they need to try and fill the vacancy with people internal to the company. If that does not work, the vacancy is posted externally. The Employer Branding department is contacted for external postings to ensure a consistent brand image. Only if external advertising still does not pay off, a recruitment agency can be hired. To save costs, Ahold has chosen to make less use of external recruitment agencies. Selection in itself does not direct employee behavior, but it is used to select those employees that possess the behavioral capabilities wanted by the company. These capabilities and competencies are made explicit on an overall Ahold level as well as for each specific job.

5.3.4.5 Group rewards

Malmi & Brown (2008) also mention that group rewards could be used to encourage cultural control. Within Ahold, as was discussed under the rewards and compensation section, bonus and share distribution are based on group performance of the specific company someone works for as well as on the performance of Ahold as a whole. In response to a remark that individual behavior could be steered by remuneration controls, the VP Business Control replied:

****INSERT QUOTE FROM INTERVIEW HERE****

In line with this remark, group rewards direct behavior by promoting collaboration.

5.3.4.6 Summary

Cultural control is perceived as very important within Albert Heijn. Though less tangible than a budget, the CFO mentioned multiple times that it should begin with cultural control. By creating and communicating a clear mission and identity, including values, employees are given a direction as well as a moral compass on how to act appropriately within Albert Heijn. The dual nature of the mission would easily result in an unclear direction for employees. It is therefore of high importance that it is communicated often. The CFO further mentioned that by not having cultural controls, too much strain is put on administrative controls, since every single process needs to be specified in what is appropriate and what not. A set of overarching values makes this reliance on administrative control a lot less. The mission and vision is reflected in a set of KPI's that measure the overall performance of the company, both financial and non-financial. Also the values help in attracting the right people to the company. Associations and group rewards serve in promoting communication.

To summarize, within Albert Heijn cultural controls are very important and serve as the foundation for the rest of the control systems package. The hybrid nature of the mission is clearly communicated to employees. Emphasis in the cultural controls is on the customer and less on the costs.

5.3.5 Administrative Controls

Malmi & Brown (2008) distinguish three types of administrative controls that direct employee behavior: organization structure, governance structure and policies & procedures. Each of these types is discussed below. Most of the internal control framework is already described in the cybernetic controls section, however, some of the most important aspects are further explained under policies and procedures.

5.3.5.1 Organizational structure

The organizational structure, which was partly discussed in the case company description (see figure 4.2), is separated into three different types of departments: the regular business (green), the support functions (blue) and business development (red). This structure and their corresponding colors were introduced in 2008 to make a clear distinction between the types of departments and their differing roles within the company. The CFO elaborates:

****INSERT QUOTE FROM INTERVIEW HERE****

The CFO emphasized that these three different functions need different metrics for performance management based on their role in the organization. A similar distinction in the organizing of processes is made between products and processes that affect customer perception and those that do not. The former may receive some extra resources whereas the latter should be stripped down as much as possible. As the CFO exemplifies:

****INSERT QUOTE FROM INTERVIEW HERE****

This structure resembles the hybrid nature of the strategy by promoting a lean organization in which some aspects are found to be of such importance that additional resources can be used.

5.3.5.2 Governance structure

With governance structure, Malmi & Brown (2008) follow Abernethy & Chua (1996) who discuss the formal lines of authority and accountability. The governance structure at Albert Heijn cannot be seen loose from that of Ahold Europe. To avoid making things more complex we will not discuss here how the boards of Albert Heijn and Ahold Europe are governed by Royal Ahold. Figure 4.2 shows how Albert Heijn relates to Ahold Europe. As was discussed earlier, Albert Heijn is by far the biggest entity within Ahold Europe. Support functions are shared with banners like Gall & Gall and Etos. To ensure that most attention of these support functions goes to Albert Heijn, the CEO and the CFO of Albert Heijn are the same people as the COO and CFO of Ahold Europe. This makes the heads of the support functions accountable to the heads of Albert Heijn and gives Albert Heijn the possibility to force action from support functions. The VP Business Control AH, who previously held a position as the financial manager of Gall & Gall, explains the situation:

****INSERT QUOTE FROM INTERVIEW HERE****

Within Ahold, a lot of improvements are made through cross-functional project teams. Group members report to the project owner. Because of the cross-functional nature of project teams and the frequent involvement of top management, it is sometimes hard to ensure that the project owner is more senior than the group members. For the regular reporting lines in the business, an employee is accountable to one person above him, who is normally two scales higher than the employee. By using a two-scale difference, Ahold expects employees to learn from their more senior manager and they hope to ensure enough power distance is present to make employees respect the line of authority. For the finance function, special reporting lines are used. The VP Business Control explains:

****INSERT QUOTE FROM INTERVIEW HERE****

It means that a financial employee works for someone in the business, but is accountable to someone in finance. Thus the person that does the performance appraisal is his manager in finance, that way ensuring that the finance function is objective in providing financial advice. Else, Albert Heijn would run the risk that the financial employee is too willing to oblige to the demands from the business because they would be responsible for his appraisal and career path. So the behavior of financial employees is directed towards assisting the business while staying objective.

5.3.5.3 Policies & procedures

Being one of the biggest companies in the country, Ahold relies on an extensive set of rules, policies and procedures to direct employee behavior and avoid unwanted actions. Under cybernetic controls we already discussed the internal control framework. In this paragraph, the three most important policies and procedures are described. They are the Code of Conduct, the Bill of Authority and Segregation of Duties. Also Malmi & Brown (2008) mention job design and training as an element of administrative control. Because it is concerned with what behavior is wanted and what not, we include it under policies and procedures.

5.3.5.3.1 Code of Conduct

The Ahold Code of Conduct is a document that provides employees with a 'moral compass' as to what behavior is appropriate and what not. As the introduction of the Code states:

"At Ahold, an essential part of responsible retailing is behaving according to our values. One of Ahold's values is "Doing what's right", which means that the company and all employees are responsible for acting with honesty, integrity, and respect for others. Our Code of Conduct guides us on doing what's right in our daily work."

All employees in the head office of Albert Heijn have to complete a learning tool on the Code of Conduct in which they are asked questions as they progress through the different sections of the Code. By doing so, they ensure that all employees have at least once read the entire code and that what is written is understood. For higher scale employees it is mandatory to yearly sign a document where they declare that their behavior complies with the latest version of the Code. The Ahold Code of Conduct consists of five sections that each discuss what behavior is appropriate. These sections are 'Obey the law', 'Respect each other', 'Do business fairly and responsibly', 'Protect company property and confidential information' and 'Avoid conflicts of interest'. If employees notice a violation of the Code, they are expected to report it. A whistleblower policy is in place that serves to protect employees who report violations of the Code.

5.3.5.3.2 Bill of Authority

In the Bill of Authority the required levels of approval for both internal and external agreements are specified. The document itself states the following objective:

"The overall objective of the BoA is to ensure that an adequate level of control is present with respect to all authorizations related to:

- *creating financial or contractual commitments of the Company to third parties; and*
- *actions approving or authorizing any matter that will (or could) result in any financial commitment or expenditure of or by the Company."*

Investments and expenditures starting at a certain amount need formal approval of more senior employees. Depending on the amount, an approval of finance and legal might also be required. For agreements binding the company to an external party, only a very limited number of people can approve this. They have to be registered at the chamber of commerce and hold the highest positions within Albert Heijn. The Bill of Authority directs employee behavior in several ways. Firstly, it provides a policy for employees to handle investments and expenditures and regulates the autonomy of individuals within the organization. Secondly, it ensures those proposals are communicated and discussed with higher level employees who hold a budget so that costs can be controlled.

An observation made by the author during his time at Ahold was that the Bill of Authority is a large and complex document that is hard to read and understand. It happened often that approval was requested at higher levels than necessary just to be sure. This results in top management receiving so many requests for approval that they run the risk of not thoroughly checking those requests before signing.

5.3.5.3.3 Segregation of Duties

One of the most important controls that Albert Heijn uses is the segregation of duties. Merchant & Van der Stede (2007) would place this under action controls, because it prevents employees from having the chance to perform fraudulent activities and it creates an additional layer of control. Segregation of duties is mainly concerned with financial processes and contracts. An example of segregation of duties is that the person who can enter an invoice cannot also approve the invoice, because this would give him the opportunity modify bank account numbers or amounts.

Within Albert Heijn, Segregation of Duties is widely implemented. The operational part of their financial processes is even outsourced, with Albert Heijn business controllers additionally checking on the validity of invoices. Access rights to financial systems are monitored quarterly, where it is checked if people from both Ahold and the outsourcing party do not hold incompatible rights. These incompatible rights were specified beforehand and are updated with every major change to the systems. One of the flaws of segregation of duties is that it is almost impossible to prevent collaborating employees from committing fraud. Within Ahold, it is well organized. The outsourcing party does invoice matching and requests approval from Ahold for payments. Within Ahold, this invoice matching is monitored several times a year. People work under their own names in systems, so it is relatively easy to find persons responsible for fraud if the fraud itself is detected.

5.3.5.3.4 Job design and training

Malmi & Brown (2008) place job design under administrative controls. Within Ahold for all jobs starting at a certain scale job roles have been specified. These job descriptions include key result areas and their relevant key performance indicators, which are made more explicit during the goal setting phase of the performance appraisal cycle which was earlier discussed in the cybernetic controls sub section. Also differentiating factors as well as the set of competencies required for the job are included in the design. Training that is related to institutionalizing employees into the company by familiarizing them with the rules and procedures, is also included under administrative controls. Within Albert Heijn there are several types of training used for this purpose. For instance, there are online learning tools, office employees are required to work in a store for at least a day and employees need to visit distribution centers to get acquainted with the processes of the company. Also, training on content and professional competencies is given. This is sometimes part of a reward and sometimes because employees in certain positions need certain skills and competencies.

5.3.5.4 Summary

The organizational structure at Albert Heijn is divided into three parts: regular business, business development and support. Support functions are shared with other Ahold entities, but the CEO and CFO of Ahold Europe are the same people as at Albert Heijn to ensure commitment of support functions to Albert Heijn. Employees are empowered and supported to come up with plans. From a certain threshold these plans have to be approved by more senior management. Everyone in the company knows of the Bill of Authority, which regulates these thresholds. This structure combines both centralized and decentralized decision making. The organization is relatively flat, with a medium number of management layers. Accountability is ensured by making people responsible for certain costs or other parts of the budget. Employees report normally to a manager that is two Hay-scales higher. Financial employees work for someone in the business but are accountable to someone in finance to ensure objectivity. Meetings of the different management teams are held weekly to coordinate activities. Partly because of the size, Albert Heijn relies on policies and procedures to deal with the more standard and recurring aspects of the business. The Code of Conduct helps employees in deciding to do what’s right.

To summarize, Albert Heijn has a centralized structure wherein employees of lower levels are empowered to make plans and act on opportunities in the market, but have to get approval of higher employees for plans above a certain threshold. There are a medium number of management layers, which gives employees some more responsibility. Policies and procedures are important to regulate more standard and recurring processes.

5.3.6 MCS Package

In this sub section we will discuss the MCS package configuration at Albert Heijn and how the individual elements interrelate. It is presented in table 5.2, which is the result of the previous sub sections.

According to the CFO, cultural controls are the foundation for the entire control system. Cultural controls provide an organizational identity and direction for employees to adhere to. At Albert Heijn, the dual nature of the mission requires a clear company identity in order to be effective. Employees know that it’s not just about lowering costs and prices or providing more unique products and services, but that both are required and part of the organizational identity. By formulating and communicating a proper cultural control system, employees have broad guidelines for their actions. More specific procedures are handled by administrative controls, on which much less emphasis is needed if cultural control is implemented properly. Cultural controls serve well in this context because employees have autonomy in their actions. If employees have no autonomy, standard operating procedures can replace cultural controls almost entirely. The mission of the company also serves as the basis for the organizational structure as well as the planning, cybernetic and reward & compensation controls.

Planning is very important at Albert Heijn. It is the step between the mission statement and cybernetic controls. It is without question that these three elements are closely related and that a distinction is more theoretical than practical. It is a mission statement translated into concrete plans and therefore directs behavior towards the achievement of organizational objectives. The degree to which goals are challenging and thus the amount of effort required is determined in combination with cybernetic controls. Planning at Albert Heijn happens by translating the mission statement into a five-year strategic plan. This plan is made more concrete into three-year plan, which is then made more concrete into an annual plan, a budget and even weekly and daily targets. Because employees are partly involved with formulating plans and targets, we suggest that behavior is directed by both commitment to the plans they were involved with and compliance to the targets and plans they were not involved with.

Table 5.2 MCS Package configuration at Albert Heijn

	MCS Package at Albert Heijn
Planning Controls	Focus on both short and long-term goals, employee participation for planning but not for target setting, control by alignment and compliance
Cybernetic Controls	Heavy reliance on budget. Broad-scope measures including financial controls for cost control and performance planning, and non-financial controls for value-adding aspects as perceived by the customer and to safeguard long-term profitability
Reward & Compensation Controls	Reliance on incentive pay as percentage of total remuneration increases by position. Objective measures and formula for bonus calculation. More subjective but quantified measures for individual appraisals
Cultural Controls	Cultual control serves as the foundation for other controls. It communicates a clear identity and direction.
Administrative Controls	Centralized structure with empowered employees to a certain threshold, medium number of management layers and use of policies and procedures for standard and recurring processes

Whereas the cultural controls are the foundation of the control systems package at Albert Heijn, the budget is the most important system. The management teams of the different departments come up with plans and the board decides which plans will become priority actions for the coming year. The budget coordinates and aligns activities of different departments for the coming year and is the result of a long process that balances short-term profitability and strategy implementation. At Albert Heijn this is necessary because of the shareholders on the one hand, who demand a decent yearly return, and the customers on the other hand, who need to be pleased to ensure their loyalty for the future. This dual nature also comes back in the broad measures by which Albert Heijn determines its performance. Financial measures are used for the short-term cost control and profit planning, and non-financial measures are used for less-tangible aspects like customer satisfaction, which should result in returning loyal customers and future income.

Depending on an employee's position, he is held accountable for measures that relate to his job role. Regular wages are known and employees know what performance appraisal will lead to what salary increase. A better performance results in a higher raise and gives more opportunities for promotion. The measures where individuals are appraised on come from job descriptions and therein formulated result areas. Quantification of these result areas is left for an employee's manager and some personal goals are determined in collaboration with the employee. Bonuses at Albert Heijn are based on an Ahold-wide system. They increase as a total percentage of remuneration as rank increases. The bonuses are calculated on the basis of a formula, with 90% of measures being financial and the other 10% based on the promises, resulting in a very objectively determined bonus. Although somewhat important, the CFO strongly believed that financial remuneration is not the main driver for employees at Albert Heijn. A non-financial aspect of the remuneration is education, which also helps in acquiring a better position in the company.

Administrative controls help in facilitating strategy implementation and avoiding unwanted employee behavior. The organizational structure at Albert Heijn follows the strategy, although the structure is not changed with each minor to medium adjustment to the strategy. All departments of the company, as well as shared support functions report to (people from) the board of Albert Heijn. A Code of Conduct serves in providing directions to what is unwanted behavior, a Bill of Authority regulates who needs to approve what amount or type of investment and Segregation of Duties limits the possibilities of fraud.

5.4 Relationship between hybrid strategy and MCS at Albert Heijn

Sections 5.2 and 5.3 already discussed what Albert Heijn's business strategy is, and what constitutes their MCS package. The most critical question, however, still needs to be answered. In this section we will present our results addressing to what extent Albert Heijn's MCS package is supportive to its hybrid business strategy.

5.4.1 Cultural Controls

We start with cultural controls. The mission is 'to make the ordinary affordable, and the extraordinary attainable'. As explained in section 4.4, this already covers the dual nature by addressing a wanted position on price and service. The strategy reflects the mission and therefore they should match. The mission statement is kept somewhat vague. Making the ordinary affordable implicitly suggests that employees have to regard the costs to make it possible to offer products at reasonable prices. And making the extraordinary attainable suggests offering special products and services. However, they are not made explicit in the mission statement. The mission is communicated often to employees, thereby familiarizing employees with its hybrid character.

The company values are used Ahold wide. As the founding company of Ahold, they fit Albert Heijn well. The values do not explicitly relate to the hybrid strategy, but they do not oppose it either. With some fantasy, 'making ideas happen' and 'getting better every day' represent opportunity seeking and continuous improvements, which help in implementing the hybrid strategy.

The symbol of Beppy is about satisfying the customer. This can be done with excellent quality and service, low prices or a good combination of both. Currently, customers are somewhat more price-sensitive, making price an important aspect. Financial results in the third quarter were disappointing, because Albert Heijn lowered their prices without cutting costs on other aspects. In this case the cultural MCS helped in addressing the need for somewhat more focus on price, but lost track of profitability. This was discovered by a solid cybernetic control system, which is discussed later.

The overall cultural control system does serve the hybrid strategy in that it clearly communicates a dual nature. However, as was pointed out by the previous example, it is focused on satisfying the customer, and not so much on financial health of the company. This is not per se a problem, if other control systems cover that aspect.

5.4.2 Administrative Controls

We argued in section 5.3.6 that administrative controls at Albert Heijn hold a middle ground between typical cost leadership elements and typical differentiation elements. For the organizational structure it is a tradeoff. More centralized decision making cannot be combined with less centralized decision making. By adopting a middle ground, Albert Heijn assures that employees are empowered to make their own decisions, but within the set of rules the board has set out. And if investments are above certain thresholds, the board needs to be involved. This facilitates but not per se promotes employee’s opportunity seeking. As the CFO mentioned, he hopes that employees feel empowered enough to make their own decisions.

Policies and procedures and the internal control framework are mainly used to avoid unwanted behavior and create efficiency. The internal control elements used to avoid unwanted behavior do not fit the hybrid strategy, but are a necessary part of Albert Heijn, in the light of an earlier accounting scandal and current law. The policies and procedures are used to standardize processes and lower costs. These are more typical cost leadership MCS, however they are definitely also affected by the company size, which requires some standardized processes for efficiency. The governance structure is based mainly on results control, which is more of a differentiation element. The overall middle ground facilitates a hybrid strategy but does not support the implementation of a hybrid strategy. As with cultural controls, this might be done by other control systems.

5.4.3 Planning Controls

Strategic planning is aimed towards the achievement of the market position, while providing stable financial performance. The wanted market position has to come with cost reductions and therefore strategic planning is supporting of the hybrid strategy. Furthermore, plans should fit the strategic pillars of Ahold. These relate to cost reductions, employee performance improvement, attracting customers and increasing customer loyalty. These pillars closely match the hybrid strategy of Albert Heijn.

Tactical planning is based on the strategic plans, but with more focus on financial results. This way, both differentiating elements, which come with the strategic initiatives, and cost leadership elements, which come with cost reductions as part of financial performance indicators, are controlled.

The board sets the direction and decides on the strategic plans. These plans have to be translated by lower level employees in tactical plans. By including these employees in the tactical planning process, they are expected to be more committed to implementing those plans. Yet, the board controls the overall direction of the plans and which plans will be implemented, thereby requesting some compliance from employees. This combination is likely fitting to a hybrid strategy because it stimulates opportunity seeking, limits excessive opportunity seeking, promotes discussion, and is results-oriented because the board is involved.

5.4.4 Cybernetic Controls

The budget is the most important control system at Albert Heijn. Cost control is done by strict budgets, in which savings targets are reflected. Also the excessive opportunity seeking is restricted for the brand and format teams by giving them a limited budget.

In implementing a hybrid strategy, both cost control and differentiation are important. These need to be reflected in the performance measures of the company and its employees. Individual performance is measured on indicators where someone is reasonably expected to have control over and is thus held accountable for. These range from financial indicators like sales, costs and margins to non-financial indicators like customer perception. Both elements are well reflected in the performance measures and therefore they are supportive of the hybrid strategy.

Financial performance, as well as non-financial internal performance indicators are measured at least weekly, thereby closely monitoring deviations from the set standards. In case of dropping performance, the company can respond quickly. Customer perception is measured somewhat less often, but at least several times a year. This measure is also slower to change and close monitoring is therefore less useful. This tight monitoring of financial performance might affect the long-term effect of differentiating aspects. It is not sure how well these two are balanced to support a hybrid strategy, but scholars like Mundy (2010) argue how this dual role of control between these two seemingly opposites creates dynamic tensions that may lead to unique organizational capabilities.

5.4.5 Reward & Compensation Controls

DUE TO CONFIDENTIALITY AGREEMENTS, PART OF SECTION 5.4.5 IS REMOVED FROM THE PUBLIC VERSION

Concluding, the rewards and compensation controls at Albert Heijn direct behavior towards the achievement of financial results as well as to the achievement of non-financial longer-term targets. In combination with the cybernetic controls they serve the hybrid strategy. By focusing somewhat more on financial results, they also level the lacking of this in the cultural control system.

5.4.6 Summary

Overall, the MCS package configuration at Albert Heijn covers all aspects of the hybrid strategy. An important question that arises now is if they are a well-balanced fit. Both the VP Business Control and the Director Business Control Commerce were confident that Albert Heijn's current MCS package and its configuration match the hybrid strategy and facilitate its implementation. The CFO mentioned that sometimes he believes the Ahold-wide controls are a burden because they are too large and too complex. Based on our observations we agree with the controllers that the MCS package is balanced and supportive of the hybrid strategy. Yet, the question if it is the optimal balance remains, and lies outside the scope of this study. Parts of the control system, especially the administrative controls, are used to avoid negative behavior, and facilitate, rather than implement the strategy. In the light of the accounting scandal these controls are important for Ahold, but they do not directly serve towards the implementation of the hybrid strategy.

6. Conclusions & Discussion

6.1 Introduction

In this final section our main conclusions are discussed. We present several propositions based on our findings at Albert Heijn that describe the relationship between management control systems and hybrid strategy. We further discuss the theoretical and practical contribution of this study, its limitations, and we conclude this section with interesting opportunities for future research.

6.2 Conclusions

In section 2 we reviewed earlier findings and formulated a number of statements that we argued to represent a proper use of MCS under a hybrid strategy. Here we will compare those hypotheses with our findings at Albert Heijn, which can both be found in table 6.1. Based on these comparisons and the following discussion we will confirm or revise the hypotheses into grounded propositions that provide a solid basis for further empirical research.

Table 6.1 MCS Package configuration for a hybrid strategy: hypothesized and found at Albert Heijn

	Hybrid Strategy (hypothesized)	**MCS Package at Albert Heijn**	**Findings AH support hypotheses?**
Planning Controls	Focus on both short and long-term planning, employee participation for planning of differentiating elements, control by alignment and compliance	Focus on both short and long-term goals, employee participation for planning but not for target setting, control by alignment and compliance	Partially Supported
Cybernetic Controls	Use of tight budget and financial controls to minimize cost while simultaneously relying on non-financial measures that capture the value-adding aspects as perceived by the customer	Heavy reliance on budget. Broad-scope measures including financial controls for cost control and performance planning, and non-financial controls for value-adding aspects as perceived by the customer and to safeguard long-term profitability	Supported
Reward & Compensation Controls	Extensive reliance on incentive pay as percentage of total remuneration. Combination of objective financial and more subjective quantified non-financial measures for appraisal and bonus calculation	Reliance on incentive pay as percentage of total remuneration increases by position. Objective measures and formula for bonus calculation. More subjective but quantified measures for individual appraisals	Partially Supported
Cultural Controls	Extensive use of cultural control to communicate a clear identity and direction	Cultual control serves as the foundation for other controls. It communicates a clear identity and direction.	Supported
Administrative Controls	Balance between centralized decision making and empowered employees, some more management layers and some standard operating procedures	Centralized structure with empowered employees to a certain threshold, medium number of management layers and use of policies and procedures for standard and recurring processes	Supported

6.2.1 Planning Controls

H1: Firms pursuing hybrid strategy place equal importance on long-term and short-term planning, involve employees in the planning of differentiating elements, and make employees comply to cost leader elements

This hypothesis resembles our findings at Albert Heijn. Both long-term and short-term planning is important. The long-term planning is concerned with the strategic goals and positioning of the company, whereas the short-term planning is necessary for current profitability, which provides capital needed to invest in future profitability and returns to shareholders. By involving more levels of management in formulating strategic and tactical plans, commitment to these plans is created. However, by not involving them in target-setting, they require employees to comply to targets of plans they are committed to. This seems like a strong combination wherein top management still has control. This is somewhat different from our hypothesis in which we expected more management layers to be involved in the differentiating elements of planning and less involved in the cost leader elements. As it turned out, this was not exactly the case at Albert Heijn. Employees are empowered, but the board decides on the strategic priorities and targets. This does not have to be the case for other companies. Rephrasing our earlier hypothesis to include our findings at Albert Heijn, while still staying broad enough, results in the following proposition:

Reformulated Proposition 1: Firms pursuing hybrid strategy place equal importance on long-term and short-term planning, will commit employees by involving them in parts of the planning process, and will make employees comply to plans they were not involved with.

6.2.2 Cybernetic Controls

H2: Firms pursuing hybrid strategy will rely on both tight financial control and budgets for cost minimization and predictability as well as on non-financial performance measures for monitoring its value proposition

The above hypothesis was confirmed by our findings at Albert Heijn. The budget was widely regarded as the most important control system, which coordinates and aligns activities of the different departments. Tight financial controls are part of the process to minimize costs and to have a predictable performance planning. The non-financial elements relate to customer satisfaction and brand positioning, which both relate to the value proposition of the firm and safeguard the long-term loyalty of customers thereby ensuring future income. The broad scope of measures reflects the hybrid strategy. Employees are held accountable for the measures they can control. Thus cost centers are held accountable for the costs they incur, but also for the value they add with the budget they have. The above is in line with our hypothesis and we therefore leave it unaltered:

Proposition 2: Firms pursuing hybrid strategy will rely on both tight financial control and budgets for cost minimization and predictability as well as on non-financial control for monitoring its value proposition.

6.2.3 Reward & Compensation controls

H3: Firms pursuing hybrid strategy make extensive use of incentive pay that is based on both objective financial measures as well as on quantified non-financial measures

Our hypothesis that bonuses are more important for hybrid strategy because of high outcome volatility cannot per se be confirmed. We observed extensive use of incentive pay and although Albert Heijn is the most important part of Ahold, generating almost one third of total group revenues, a hybrid strategy is not pursued Ahold-wide, but this bonus system is used Ahold-wide. The observation however stands, that the remuneration system consists for an important part of bonuses. The bonus calculation was formula-based and mainly contained financial measures. Bonus as percentage of total remuneration increases with ranks. The financial orientation of the bonus system steers higher employees towards solid current financial results, something the shareholders require. It can be argued that it is part of 'limiting excessive opportunity-seeking' which Simons (1987) found to occur in differentiating firms who normally might place too much emphasis on the long-term.

Personal incentive pay, based on personal performance appraisal was somewhat more subjective, although key result areas are expected to be quantified (not per se financially) and measurable, and managers involve more employees to make the appraisal more objective. A balance between financial and non-financial measures is safeguarded by the distinction between bonus and regular performance appraisal. Another observation, which is in line with Malmi & Brown (2008) is that the long-term share-program serves in retaining employees for the company. The above is broadly in line with our hypothesis. The mixture that Ahold chose to divide financial and non-financial measures most likely differs per firm. We therefore leave our broad hypothesis as it is:

Proposition 3: Firms pursuing hybrid strategy make extensive use of incentive pay that is based on both objective financial measures as well as on quantified non-financial measures.

6.2.4 Cultural Controls

H4: Firms pursuing hybrid strategy rely heavily on cultural controls to communicate a clear identity and direction for employees to put their effort towards

Our hypothesis that cultural control is even more important for firms pursuing hybrid strategy than differentiators because of potentially ambiguous identity was strongly confirmed at Albert Heijn. According to the CFO it is even the foundation for the other controls to work properly. By not formulating and communicating a clear identity employees become easily confused with the goals of the organization. A clear mission and vision statement and overarching values can clarify this ambiguity. It should be noted though that this might be easier said than done, because it will only be effective if the other control systems facilitate the hybrid strategy. This finding is in line with Widener (2007), who found that the similar beliefs systems influence all other control systems. We therefore also keep this hypothesis unaltered as proposition 4:

Proposition 4: Firms pursuing hybrid strategy rely heavily on cultural controls to communicate a clear identity and direction for employees to put their effort towards.

6.2.5 Administrative Controls

H5: Firms pursuing hybrid strategy have an organizational structure that balances centralized decision making and standard operating procedures with empowered employees

The above hypothesis was confirmed by our findings at Albert Heijn. Employees are empowered to take their own decisions and react on market opportunities, but to a certain extent. Investments above thresholds have to be approved by higher management, and this often means a board member. As was discussed earlier, the board decides on the budget and the strategic priorities. A hierarchy is in place and accountability is to superiors, although not many management layers are in place. Standard operating procedures are used for common and recurring processes like financial processes, contract management, segregation of duties and the earlier mentioned Bill of Authority. The centralized decision making is necessary to create a structure that can have some efficiency, to coordinate activities across departments and thereby control the costs. Again, our hypothesis reflected the situation we found at Albert Heijn and it is broad enough to be tested in many settings. No adjustment is therefore made:

Proposition 5: Firms pursuing hybrid strategy have an organizational structure that balances centralized decision making and standard operating procedures with empowered employees.

6.2.6 MCS Package

If we compare our propositions to the in table 2.1 formulated configurations of either that of a cost leader or a differentiator, we conclude that MCS for a hybrid strategy is not just a mixture of elements of both generic strategies. Although for planning controls, cybernetic controls and administrative controls this mixture does exist, we found elements of reward & compensation controls and cultural controls to be even more important when pursuing hybrid strategy than for either one of the generic strategies. An important finding that was already seen in previous literature (Widener, 2007), is that cultural controls serve in providing direction, and influence all other control systems. To translate the configuration we found to be used under hybrid strategy into a proposition, we formulated the following additional proposition:

Proposition 6: Firms pursuing hybrid strategy will strongly emphasize cultural control, make extensive use of a budget and incentive pay and will have a structure that balances centralized decision making with autonomous employees.

6.3 Theoretical Contribution

The above set of propositions on how MCS should be configured when pursuing a hybrid strategy can provide fruitful insights in our limited understanding of this phenomenon. Not only do they convey information that was not yet explicitly known and written down, they also provide a good basis for future empirical research. The propositions are grounded in both theory and an empirical test of a single case company. More empirical research with larger datasets should test to what extent these propositions hold in other circumstances.

The introduction of hybrid strategy to Porter’s (1980) curve had not been previously done. The argumentation leading to figure 2.3, as well as the figure itself, is a result of this study. Visually presenting the strategic choices and their possible returns helps in explaining and understanding why hybrid strategy is relevant and why it should receive more academic attention.

Using a package approach to studying MCS is relatively new and not undertaken that often. An important contribution to the literature was made by describing how the different MCS interrelate in our case company. Additionally, table 2.1 is derived from an extensive set of previous literature. These MCS package configurations for different strategies have not been made explicit before and provide valuable insights in what are effective MCS package configurations and on what dimensions they differ per strategy.

6.4 Practical Contribution

Additionally, this study has yielded some results that can have practical implications for Albert Heijn and perhaps even other firms. Firstly, since the MCS package approach is relatively new, this study contributes by mapping Albert Heijn’s control package and how the different elements interrelate; something that was not yet explicitly known within the company. By doing so, it may help in assessing what elements are in need of more control and what elements are over controlled. Secondly, the study has shown how each control system relates to the firm’s business strategy. By filtering this information, Albert Heijn can better tailor the MCS package to fit their strategy. They can also determine which elements are the most important when for instance the control package needs to be smaller to save costs and reduce bureaucracy. Finally, the formulated MCS package configurations can help other firms in designing control systems that match their business strategy, or help assessing the effectiveness of their current MCS package.

Since the purpose of this study was mainly to advance our limited understanding of the MCS under hybrid business strategy, we did not focus on the practical contribution. However, certainly some lessons can be drawn from this study. As mentioned before, successfully implementing a hybrid strategy requires a lot from an organization and a serious risk exists that a firm becomes stuck in the middle. Then how can an organization avoid becoming stuck in the middle? And what role can MCS play in avoiding this situation? A current trend in retail is that the market is becoming more and more consumer-driven. In the past couple of years, due to the economic crisis and more price transparency, consumers also became more price sensitive. Albert Heijn commands higher regular prices than most of its competitors. Rationally, price sensitive consumers will switch supermarkets, unless Albert Heijn can offer them fair value for low prices as well. For appealing to consumers Albert Heijn has to closely watch consumer behavior and make necessary adjustments. These movements with the market are needed to not lose too many customers. However, these movements require finesse and should only be done to a certain extent, because else the differentiation side will suffer and/or the profitability will go down. A recent example is that of the price cuts that were made to decrease price distance with upcoming competitor Lidl. These price cuts were not financed by lowering costs, putting the profitability under pressure. This pressure got even higher when the price cuts did not bring the desired increase in sales, because competitors responded swiftly. Thus Albert Heijn needs to adjust to market demands within the limited playground they have. MCS can play a vital role by monitoring if consumer behavior is changing and how that affects sales.

Simons (1991) distinguishes a diagnostic use and an interactive use of MCS. A diagnostic use is management by exception and involves setting the right metrics, measuring them and acting only when they deviate from targets. Interactive use, however, requires frequent management attention and challenges the validity of the metrics and even the strategy itself. It was found that firms mainly use those MCS interactively that involve the strategic uncertainties of the organization. When pursuing a hybrid strategy, the main strategic uncertainties are that of still appealing to consumers while competing with pure differentiators and pure cost leaders, and safeguarding the right balance between cost leadership and differentiation elements, as was explained in figure 2.3. Continuous up to date industry information is essential to be able to timely monitor what is happening. This requires measuring a lot of information and making sense of that information.

But what is the right information and how can a firm avoid a control bureaucracy wherein too much is controlled? An important consideration when designing MCS is that they should add value. Having too many controls and too much complexity leads to distraction from a firm's core business and can create a paper reality. Control should be regarded as a means to an end, and not as a goal in itself. The accounting scandal and the laws and regulations that came out of scandals like this have made Albert Heijn very cautious when it comes to shrinking its control package. Although some first efforts are being made to reduce its control bureaucracy, Albert Heijn can still be regarded as over-controlled. Most of these controls are designed to detect rather than prevent mistakes. This means that work has to be checked afterwards, which is not efficient. Additionally, a lot of employees do not feel the need for these control exercises, especially in the commercial departments. By embedding control practices into the process design this problem might be solved. In the light of cost leadership position, reducing redundant control practices should prove beneficial. The different formats that have been deployed in the last decades threaten Albert Heijn's position as a cost leader. Although these formats are differentiating factors, because they provide convenience to consumers, questions should be raised if their added value exceeds the loss in cost position. It is likely that online grocery shopping will increase and may even explode in the coming decade, making this a worthwhile investment. But simultaneously big investments are made to increase the number of stores. The increase in online groceries will come at the expense of regular store sales, making this a questionable investment, similar to betting on all numbers in a casino's roulette: you will always win, but you will always win less than your initial investment. Also, the logistics and distribution channels of the different formats are not well integrated, resulting in higher costs and a worsening cost leader position. Many cost savings programs currently run to improve this position again, but unless these different formats are well integrated, the cost structure will make it hard, if not impossible, to hold a low cost position and thus offer reasonable prices compared to competitors. In addition, research has shown that few large cost savings programs have way more effect than many small initiatives.

Another observation made was that the guidelines for store managers, which come from higher in the organization in the form of performance indicators, cannot always reflect what is best for that particular store, given differing needs in different communities. A store manager is expected to make the choices that are best for the store, but he or she is held accountable nevertheless if a score on an indicator is lagging behind, even though it might have been the result of acting in the store's best interest. This makes it hard for managers to do the right thing. A more consistent message to store managers would help them with this.

6.5 Limitations

Although our propositions are grounded, the results of this study should be carefully interpreted because of several limitations. Firstly, there are more contemporary strategic typologies than Porter's (1980) generic strategies, although his typology is still the most popular. It could be possible that these other typologies are a closer reflection of current reality, by not claiming mutual exclusivity of the different strategies, contrary to Porter's (1980) believes. However, it is exactly this perceived mutual exclusivity that makes researching hybrid strategy and MCS so interesting.

Secondly, we adopted a single-case study approach, which obviously limits the generalizability of our findings. We acknowledged this by formulating propositions as the tangible result of this study. Since they are both theoretically and practically grounded, they should prove to be a solid base for future research. The reliability of our propositions would further increase if we could compare our findings with the MCS package of a supermarket following only cost leadership or differentiation strategy. This way we could assess if and how they precisely differ from Albert Heijn's MCS package and thereby control for industry effects.

Thirdly, prior research has shown that there are more contingency factors than business strategy that affect what and how MCS are used. We should therefore be cautious in attributing our propositions to the presence of a hybrid strategy. As mentioned in the conclusions, several MCS are used Ahold wide, and should therefore perhaps be attributed to the presence of a corporate parent, rather than to the presence of a hybrid strategy in subsidiary Albert Heijn. We still believe that strategy is and should be the most important contingency factor; however, by studying MCS as a package we acknowledged that different groups with different interests may have introduced MCS over time (Malmi & Brown, 2008). Because of this, our respondents were not involved with the design of all the MCS in the company. It is therefore possible that the motivation for certain MCS might not have been captured accurately in this study.

Finally, we attempted to extensively describe the package of MCS at Albert Heijn. Given the time and resource constraints of the study, we did not cover each MCS in its full depth. It might have been more fruitful to be somewhat more selective in what MCS we were to describe, and go in more depth with that selection. Although we feel confident that we accurately reflected Albert Heijn's MCS package configuration in this study, a more nuanced view would certainly provide useful information and increase the reliability of the propositions.

6.6 Opportunities for future research

The aim of this study was to increase our very limited understanding of effective MCS under a hybrid business strategy. Steps were certainly made, but as our knowledge progresses, other questions and interesting research opportunities arise. Following the result of this study, it is apparent that our propositions need further testing in larger datasets and in different settings.

We already argued in section 2 that a fit between MCS and strategy improves performance. We also argued how performance of a firm pursuing a hybrid strategy can be better than by following either generic strategy. This, however, requires more empirical testing. Additionally, an interesting research opportunity would be to study how firm performance of a firm that follows a hybrid strategy and has a matching MCS package relates to firm performance of a differentiator or cost leader with a fitting MCS package.

Also the role of the corporate parent gives rise to interesting research opportunities. How does a corporate parent influence a subsidiary's MCS package? At Ahold, Albert Heijn is the biggest subsidiary and the founding company. We would therefore expect that the Ahold wide MCS best suit Albert Heijn of all the subsidiaries. But can we simply assume that? How does the relative size of a subsidiary affects corporation wide MCS? And is the MCS package of the founding subsidiary the least negatively affected by corporation wide MCS?

The MCS package approach proved to be useful in mapping and studying MCS in a company, and the argumentation that MCS are interrelated and therefore should not be studied in isolation is certainly true; however, some components are likely to be more important than others, but which ones? And in combination with which controls are they more effective? Other scholars have addressed the concept of equifinality in effective MCS package configurations. We formulated hypotheses that constitute one configuration. Further research like that of Bedford et al. (2013) in large datasets could provide valuable insights in possible other configurations.

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Appendix A

Questionnaire Strategic Orientation

UNIVERSITEIT TWENTE.

Instructions:

Please circle the answer that best reflects the importance of each activity for **Albert Heijn**

	Not important at all	Unimportant	Not so important	Somewhat important	Important	Very important	Critical
Introducing new services/products	1	2	3	4	5	6	7
Differentiating services/products from competitors	1	2	3	4	5	6	7
Offering broader range of services/products than competitors	1	2	3	4	5	6	7
Utilizing market research to identify new services/products	1	2	3	4	5	6	7
Achieving lower cost of services than competitors	1	2	3	4	5	6	7
Making services/processes more cost efficient	1	2	3	4	5	6	7
Improving the cost required for coordination of various processes/services	1	2	3	4	5	6	7
Improving the utilization of available services/facilities	1	2	3	4	5	6	7
Performing analysis of costs associated with various processes/services	1	2	3	4	5	6	7
Improving access to cheaper and/or better raw materials or products	1	2	3	4	5	6	7

Thank you for your cooperation.

When filled in, please return document to jordy.kol@ahold.com, or send me a mail and I will come pick it up