



UNIVERSITY OF GOTHENBURG  
SCHOOL OF BUSINESS, ECONOMICS AND LAW

# The Management Control System Package of IKEA Bäckebol –a Case Study

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## Abstract

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**Title:** The Management Control System Package of IKEA Bäckebol – a Case Study

**Background and problem:** In an article from 1984, Kaplan concluded that the research that had been developed in the area of management accounting and management control from 1925 to that point had little or no influence on the real organizations, who should be the beneficiaries. As of today the opposite problem from what Kaplan found in 1984 can be spotted, there are almost too many choices in accounting and management control. With the background just proposed we found it interesting to see how a company like IKEA, which opened their first store as early as 1958 (IKEA, 2010), works with management control today.

**Purpose:** The first objective of this thesis is to describe the management control system package of IKEA Bäckebol. The second objective is to describe what management control systems are used at various organizational levels and analyze how the different management control systems in the company relate to each other.

**Methodology:** With a qualitative approach we interviewed five managers at IKEA Bäckebol and one employee at the Swedish head office. The interviews were done with managers on various levels which had responsibility for personnel, business, sales and/or financially related issues. Since the thesis is focused on one single company there are no intentions to make any general assumptions of the results.

**Analysis and conclusion:** IKEA Bäckebol has a strong corporate culture but they use a large amount of more detailed and specific measurement systems to further enhance their management control system package. They also use guidelines and procedures, even though the staff is encouraged to take responsibility and make their own decisions. Cultural controls, results controls and action controls are used at all levels of the organization, but action controls are slightly more frequently used at the sales staff level. IKEA Bäckebol's MCS package includes many different management controls and MCS, where we think that some are complementary and some overlap.

**Suggestions for further studies:** We think that management control systems as a package and how the various systems interact and relate to each other, needs more research since we had problems to find suitable theories concerning this area. Another suggestion for further studies would be to analyze how cultural control is managed in different countries by multinational corporations. Our last suggestion is to study several companies in the retail industry to be able to make comparisons, which would enable patterns to be discovered.

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## 1. Introduction

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*The introduction chapter starts with a background presentation of the history of management control and management accounting. With the background in mind we present the contribution of the study and the problem formulation. This further leads to an establishment of the purpose of the study and its limitations.*

### 1.1 Background - The History of Management Control and Management Accounting

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The need for management control arose after the Industrial Revolution and gave companies the opportunity of greater growth and expansion than what had been possible earlier. Larger parts of the value chain were situated within these new and greater companies instead of being spread on different locations in smaller companies or single persons. After these great changes, companies started to require financial measures as business ratios and transfer pricing, and from that point the development of different types of management controls and accounting controls began (Kaplan & Johnson 1987).

The DuPont Company is often considered to be the inventor of the modern management control (Kaplan 1984). In the early 1900s, DuPont decided to organize itself by dividing the organization into separate functions, e.g. manufacturing, sales and purchasing. Every single one of these functions had their own manager who could be very specialized in how to manage the specific function. Hence, the senior managers did not have to be involved much in those activities and could fully focus on things as long-term strategies. It was this type of decentralized organization that made DuPont realize that they needed a performance measurement system. They launched a new accounting measure, Return on Investment (ROI), because they thought it would be more accurate to use than the old measures which measured earnings and profits as a percentage of sales or costs. DuPont along with General Motors are considered as the pioneers in this area and were also involved in creating different types of decentralized organizations, budgeting and planning cycles (Kaplan, 1984).

In an article from 1984, Kaplan discussed what had happened in the development of the area from 1925 to that point. He considered that not as much as expected had happened between 1925 and 1984. Of those new ideas that had been presented, many were just academic theories which had little or no influence on the real organizations, who should be the beneficiaries. The research on this area is also criticized for its inability to be able to make generalizations and that it only describes theory instead of taking it a step further (Zimmerman 2001). Malmi and Granlund (2009) are as well critical of the research made, and the perspective of it. They describe the problem as; "...theories in an applied field such as management accounting research should provide explanations that are useful for those we study – managers, organizations and society". Furthermore they discuss how research could be done to be more helpful for those who actually need it.

As of today the opposite problem from what Kaplan said in 1984 can be spotted. Today there are almost too many choices in accounting and management control, and they are not as well studied as the older theories and tools (Malmi and Granlund, 2009). There is also another problem with the new theories and tools; companies and organizations seem to have too much faith in them and use them in an uncritical way. They are considered as the solution of all management problems. Examples of these new theories and tools are; activity-based-costing (ABC), business process reengineering (BPR), balanced score cards (BSC) and total quality management (TQM). These systems are often expensive to acquire and use, and companies perhaps do not evaluate the relation between costs and benefits of the systems they use, or why they use it at all. Are they used just because they are modern and all the competitors use it, or do they really create value for the company (Siverbo and Åkesson 2009)?

## 1.2 Contribution of the Study

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With the background just proposed we find it interesting to see how a company like IKEA, which opened their first store as early as 1958 (IKEA, 2010), works with management control today. In 1998, IKEA had sales of 50 billion SEK and 38 000 employees. Nine years later, in 2007, the sales had almost quadrupled to 182 billion SEK and the number of employees had more than tripled to a total number of 120 000 (Bertil Torekull, 2009). With such a huge expansion rate the importance of a well-functioning management control system becomes crucial for their success. People have different beliefs and goals that they want to achieve, which makes it challenging for the management of the company to make every employee take actions in line with what is desirable.

In this thesis we aim to describe the management control system of IKEA as a package. There are many reasons why management control system as a package is interesting to study. An argument is that much research has been done focusing on only one theme or practice which sits within a broader control system and context (Malmi and Brown, 2008). If not taking into consideration the links between different management control systems, the way in which the components of the management control systems relate to various contingent variables will lead to erroneous conclusions (Fisher, 1998).

## 1.3 Problem Formulation

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IKEA is a Swedish company that is growing rapidly and expanding into several countries in the world. IKEA has had a huge success and uses almost the same control systems in every store all over the world (Interview 1, 2010) which makes it interesting for us to describe and analyze one of them. Our principal research question, with its sub questions are:

1. *What are the components of the management control system package at IKEA Bäckebol?*
  - a. *How do the various management control systems relate to each other?*

- b. What management control systems are used at different levels of the organization?*

### **1.4 Purpose of Study**

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The main objective of this thesis is to describe and analyze the management control system package of IKEA Bäckebo. We will also describe how some management control systems are used at various organizational levels as well as how the different management control systems in the company possibly relate to each other.

### **1.5 Limitations of the Study**

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The focus of this study is to describe the management control systems used by managers to direct employees' behavior. This means that our ambition is to leave out the subject of management accounting as it is defined by Horngren (2004). The definitions of management accounting and management control will be presented later in the theory section.

Considering the size of IKEA's organization and the time we have deliberated to this study, it is reasonable for us to limit the study to include one store and the management control systems controlling this store from higher levels of the organization. We will also focus on the internal environment, which means we will not consider most of the external environment that is not crucial to the understanding of the management control system package within the store.



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## 2. Methodology

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*In this chapter we will describe how we chose to do the thesis, which type of method we used and why. We will also present which type of sources we used in the theoretical part and how we collected the information for the empirical part.*

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### 2.1 Qualitative Research Method

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This thesis will be written by the Qualitative Schools of Thought, because as described by Berg (2009, p. 2) "... the fruitfulness and often the greater depth of understanding we can derive from qualitative procedures". Our aim is to understand the management control system of the certain company we have chosen. We have no ambitions to make any general assumptions based on this single study, in contrast to if we had chosen to do a quantitative research study on several companies. Due to the complexity of management control system packages and the timeframe of this thesis, a greater study was not possible to do with maintained quality.

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#### 2.1.1 Case study

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The thesis will be formed as a case study, which, according to Berg (2009), is suitable to the idea of studying one single object. It could also have been a good idea to study two different companies and then make a comparison, as our first thoughts were. But instead we chose to work with one single company, IKEA, as we decided to include the entire management control systems package, and not just parts of it. We concluded that with the time we had, this was the best way to form this thesis. The type of case study we have chosen to use is the abductive case study, since we wanted to have the opportunity to return to the theory even after empirical materials had been collected (Alvesson & Sköldbberg, 1994). As explained earlier, management control system packages are very complex and may contain many various parts. It would have been very hard to write about all those possible parts in the theory without the thesis becoming too large. Of course all theory parts could have been written in advance and then pulled out of the thesis in case of not being needed, but that would also have been too much work within the timeframe we had. Hence, we first wrote some essential theories and other things that were likely to be used and after the interviews adjustments were made on certain parts and others were added.

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### 2.2 Choice of Industry, Company and Respondents

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In this section we explain why we chose to work with IKEA and which parts of the organization we chose to focus on. In addition, we will explain how we were able to get the type of information we needed to do the thesis in the way we wanted.

### **2.2.1 Industry and business**

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The idea of this study emerged when we made a smaller case study of the management control system package of a smaller company in our most recent course in management control and management accounting. We thought it would be interesting to make a larger version of this case study on a larger company, with more time, to really study it at a much deeper level.

IKEA is one of the most famous companies in Sweden and much is talked about the culture of IKEA. We found it interesting to study the whole management control systems package at a company as large as IKEA and since they have been very successful we figured they must be good at what they do. IKEA is also suitable to study because it is easy to define what their businesses are, a low-cost company. We chose to study IKEA from the perspective of one single store. There were two alternative stores due to their geographic proximity; Kållerød and Bäckebol in Gothenburg. Because we wanted to collect information by doing interviews we thought it would be easiest to choose a store close to us to be able to visit as many times as possible without having to struggle with traveling to different locations. We made contact with both stores and from IKEA Bäckebol we received a contact immediately, which is why we chose to concentrate the study at that certain store.

### **2.2.2. Respondents**

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We made five personal interviews at IKEA Bäckebol and one phone interview with an employee at the Swedish head office, which is called Service Office (SO). We started by interviewing one of the managers with financial responsibility to discuss if it would be possible for us to gather the type of information we needed to do the thesis the way we wanted. The people we came in contact with at IKEA Bäckebol helped us choose which functions and what people were most suitable to interview to gather the information we needed. We decided to interview managers at various organizational levels and functions to be able to understand how management control is used in different parts of the organization. To be able to get as much information as possible from the interviews, all of our respondents have been treated anonymously.

## **2.3 Data Collection**

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The information in the theory part has mainly been collected from articles and books. These have been searched for at the library of The School of Business, Economics and Law at the University of Gothenburg, mainly by their online searching services. More specifically we have used GUNDA to search for books and databases for articles and old thesis. The databases primarily used are Business Source Premier and Science Direct. To find useful articles and books we started searching in the references in the textbook used in our course in Management control and Management Accounting. We also looked at the references in old thesis and of course searched in databases with expressions and words that we knew, such as; “management control”, “management control systems”, “management control system package” and the names of various theories that we had studied earlier. We were not able to

obtain any financial information about IKEA from the people we interviewed, which is why we used the information given on IKEA's own webpage.

To collect information for the empirical part we chose to do interviews with six employees at IKEA. All interviews were made in the same way; we sent a questionnaire a few days before the interviews to the person or persons that we had made appointments with. The reason why we sent the questionnaire beforehand was to enable them to prepare and understand what subjects we wanted to discuss. The questionnaires were individually designed for each interview and we also had follow-up questions that we could use if needed. All the interviews were recorded on tape which enabled us to listen to them again to make sure that we had the correct information. Some notes were also made by the interviewed persons, which we later received and could use. If we discovered, after the interviews, that we needed any further information we e-mailed those questions, or if possible, asked them at our next interview.

## **2.4 Reliability and Credibility**

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The selection of articles and books to use in this thesis has been done carefully. We have primarily searched for articles that are "peer reviewed", quoted in many other articles or written by people that are famous for their research in the subject and may be trusted as reliable. We have also tried not to rely on a single source too much; hence, we have studied what others have written on the same subject, so that this thesis should be as reliable as possible.

Since IKEA is not listed on any stock market and owned by a foundation, financial information about IKEA was difficult to obtain. The figures that were most up-to-date were the ones we found at IKEA's website, which is the reason why we chose to use those figures even though they might not be the most reliable.

During our work with this thesis we discovered that IKEA is quite restrictive with their financial information but we believe that the people we interviewed were truthful. Hence, we consider the information we got from the interviews as trustworthy.

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## 3. Theory

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*In this chapter, we will examine the main theories of management control. Before stating the definitions of management control systems (MCSs) and management control system packages, we will first give an explanation to management, management control and management accounting. We will also review the theories that describe the parts included in a MCS package as well as different kinds of control alternatives. Furthermore, a theory concerning the effectiveness and relations between various MCSs is presented.*

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### 3.1 Management and Management Control

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Management is defined in several ways in the literature written on the subject, but all have something to do with the process of allocating resources and direct activities to fulfill the organization's overall objectives. Management is a broad subject and can be divided into smaller elements such as product development, operations, marketing/sales and finance. The management processes can also be separated into smaller parts, and that is objective setting, strategy formulation and management control. Objective setting is a necessary process to formulate and sometimes reconsider the direction and destination of the company. If the objectives are not set it is impossible to determine if the resources are allocated in the right way and if the right activities have been performed. Strategy formulation is the process where organizations find out how to use their resources to meet their objectives. The management processes of objective setting, strategy formulation and management control is a process continuum (Merchant and Van der Stede, 2007).

In 1965, Anthony wrote the classical definition of management control as; "the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives" (Otley et al. 1995. p. S32). This definition has led to a somewhat narrow approach to the management control subject, because it was mostly based on accounting and left out the human behavioral aspect.

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### 3.2 Management Accounting and Management Control

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As we are student at the School of Business, Economics and Law, University of Gothenburg we have taken a course called "Ekonomistyrning". This is a Swedish subject that is often claimed to be a mix of the English subjects management accounting and management control. The objectives of management accounting is to support decision-making and find a fair method to calculate costs, while the objectives of management control is to motivate employees to achieve the organization's goals, find indicators casually linked to the organization's goals (leading indicators) and swerve for different kinds of pitfalls (Horngren, 2004).

### 3.3 Management Control, Management Control Systems and Management Control Systems Package

A definition made by Malmi and Brown (2008) clearly illustrates the behavioral aspect of management control and MCS; “Those systems, rules, practices, values and other activities management put in place in order to direct employee behavior should be called management controls. If these are complete systems, as opposed to a simple rule (for example not to travel in business class), then they should be called MCSs” (Malmi and Brown, 2008, p. 290). This definition of MCS does not include the information systems only aiming at supporting decision-making, which is not the case with the definition made by Anthony in 1965 (Otley et al. 1995) or Simons (1995).

In many companies there are often a set of MCSs and this has in earlier research been called a MCS package (Malmi and Brown, 2008). Merchant and Van der Stede (2007) mean that a MCS can be one system as well as a set of control systems. The reason why it is more accurate to call it a MCS package instead of just a MCS is that the different MCSs often have been implemented at different times and for different purposes (Malmi and Brown, 2008). Furthermore, with the use of the term MCS package there will not be any confusion about whether we refer to one system or a set of them.

A number of concepts of a MCS package have been presented in earlier research, where one is presented by Simons (1995). Another typology of the conceptually constitutes of a MCS package, made by Malmi and Brown (2008), is illustrated below.

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

Fig.1. Management control systems package (Malmi and Brown, 2008, p. 291).

Thus, the MCS package can be separated into five groups; cultural controls, planning, cybernetics controls, rewards and compensations and administrative controls. Each of these will be explained below.

#### 3.3.1 Cultural controls

A definition of organizational culture is “the set of values, beliefs and social norms which tend to be shared by its members and, in turn, influence their thoughts and actions” (Flamholtz et al, 1985, p. 158). Cultural control can be used to control behavior in three different ways. The first is when the organization deliberately searches and employs employees with certain desired values. The second is in some way the opposite of the first; the

organization instead tries to change the values of their employees. The last way is to tell the employees how the organization wants and expects them to act, as well as which values they should have, whether the employees really agree on them or not (Malmi and Brown, 2008).

The organizational culture may sometimes be beyond the control of managers but is indeed a control system when it is used to control the behavior of employees. The typology above shows three aspect of cultural control; value-based controls, symbol-based controls and clan controls (Malmi and Brown, 2008).

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#### **3.3.1.1 Values**

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Simons (1995) has described a form of control systems based on values that he calls beliefs systems. This is a set of organizational definitions that is communicated formally by senior managers and reinforced systematically to provide basic values and directions that senior managers want their subordinates to adopt. These core values are linked to the strategy of the company. Sometimes beliefs systems are created and communicated thorough such documents as credos, mission statements, and statements of purpose (Simons, 1995).

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#### **3.3.1.2 Symbols**

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Symbol-based controls are a form of culture control that is illustrated visually. For instance through the special clothes or uniforms they wear or a special design of offices (Malmi and Brown, 2008).

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#### **3.3.1.3 Clans**

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Malmi and Brown (2008) mean that there are distinct subcultures within an organization that can be called clans. Merchant and Van der Stede (2007) define clan-based controls in almost the same way; people often define themselves as groups, based on e.g. profession and organizational unit or division. The clans in an organization work by the establishment of certain values and beliefs through the ceremonies and rituals they perform.

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#### **3.3.2 Planning**

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Planning can serve as a way of setting goals for the organization itself as well as the different functions of the organization. Hence, it is an ex ante form of control that guides or direct employees. It is the main carrier for promoting goal congruence between the individual and the organization (Flamholtz et al., 1985). Planning can be separated into two broad approaches; action planning and long-range planning. Action planning has a tactical focus and is the planning of goals and actions within the nearest future of about 12 months. Long-range planning has a more strategic focus with the planning of goals and actions for the medium or long run. It is important to understand the difference between simply planning for future activities as oppose to including the process of building employees' commitments to these plans (Malmi and Brown, 2008).

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#### **3.3.3 Cybernetic controls**

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A simple explanation of cybernetics is made by Marginson (1999) who explains it as; “the study of control in and of systems” (p. 204). However, in the context of the typology above,

made by Malmi and Brown (2008), they use the definition made by Green and Welsh (1988); “By cybernetic, we mean 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 system, and modifying the system’s comportment” (p. 289). In MCS research, four basic cybernetic systems have been identified; budgets, financial measures, non-financial measures and hybrids (e.g. the balanced scorecard).

### **3.3.3.1 Budgets**

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Budgets are a form of cybernetic controls that are central to, as well as a foundation of, MCS in most organizations (Malmi and Brown, 2008). The budget process runs all year round and, in general, companies are budgeting for one year at a time. It is common to let the budget year cover the same period as the financial year since the financial results often correspond to the outcome that is compared to the budget (Kullvén, 2009).

The budget process can be separated into four parts which are the budget set-up, follow-up, analysis and usage. The budget set-up involves the process of retrieving and setting of the budget. This can be designed in three ways; through build-up, break-down or iterative. The build-up design starts at the bottom of the organization and the budgets at different levels add up to the company’s budget. The break-down design works in the opposite way and starts at the top of the organization, while the iterative design is a mix of the build-up and break-down designs (Kullvén, 2009).

The second part of the budget process is budget follow up and this is where the final result is compared and evaluated to the budget. The variations between outcome and budget are analyzed and thereby the company can learn and make interventions. It is common that the budget follow-up constitutes the base for the reward- and compensation system (Kullvén, 2009).

The third part of the budget process, the budget analysis, involves studying the system itself, which includes learning from the budget process that has taken place. In this analysis the organization can learn from old mistakes and become even better in the next budget process (Kullvén, 2009).

The last part of the budget process is the budget usage process and it deals with the use of the information gathered through the whole process. One way of using the information is to spread it. In that way the information can put pressure on the employees to work harder for the company’s goals, and also create understanding for what is important and thus make the employees work against the right targets (Kullvén, 2009).

### **3.3.3.2 Financial measurement systems**

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A financial measurement system is where employees are held accountable for specific financial measures. Financial performance measurement systems are not the same as budget systems since the budget is a broad and complete technique, while financial measurement



systems can be used in a much narrower fashion. However, there can be links between these systems since certain information and measures used in the financial measurement systems derive from the budget (Malmi and Brown, 2008).

Financial performance measures can be either market oriented or accounting oriented. Market-based measures show the change in market value or stock value whereas accounting-based measures can be defined in residual terms (e.g. net income after taxes, operating profit, residual income, or economic value added) or in ratio terms (e.g. return on investment, return on equity, return on net assets) (Merchant and Van der Stede (2007).

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#### **3.3.3.3 Non-financial measurement systems**

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Non-financial measures may be used to overcome the shortcomings of the financial measures and to identify the drivers of performance (Malmi and Brown, 2008). Examples of non-financial measures are market share, sales growth, inventory turnover and customer satisfaction (Merchant and Van der Stede, 2007).

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#### **3.3.3.4 Hybrid measurement systems**

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The hybrid measurement systems comprise both financial- and non-financial measures. An early approach to the hybrid measurement system is the system of management by objectives (MBO), but nowadays the most dominant one is the balanced scorecard (BSC) (Malmi and Brown, 2008).

Norton and Kaplan (1992) mean that no single measure of performance is sufficient enough to provide a clear performance target or focus attention to the critical areas of the business. The BSC allow managers to look at the company in four different perspectives; customer perspective, internal perspective, innovation and learning perspective and financial perspective (Norton and Kaplan, 1992).

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#### **3.3.4 Reward and compensation**

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The reward and compensation systems aim at motivating employees and create congruence between the objectives of the individual and the organization (Malmi and Brown, 2008). Salary and bonuses are perhaps the most common form of rewards, but there are plenty of others where many are nonmonetary. Rewards can also be separated into positive and negative, where positive rewards refer to things that employees appreciate and negative rewards refer to punishments or just absence of positive rewards. Some examples of positive rewards, except salary and bonuses, are; autonomy, power, recognition, promotions, titles, job security, vacations, time off and stock options. Examples of negative rewards are; interference in job from superiors, loss of job, no promotion, zero salary increase and public humiliation (Merchant and Van der Stede, 2007).

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#### **3.3.5 Administrative controls**

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Administrative controls direct behavior through the organization of individuals and groups, monitoring of behavior, making employees accountable for their behavior and by specifying



how tasks should be performed. Administrative controls can be separated into three categories; organization structure, governance structure and policies and procedures.

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#### **3.3.5.1 Organization structure**

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Some researchers do not consider the organization structure and design as a tool for management control, but as the design and structure of an organization are modifiable by managers it can indeed be included. By using a specific structure in the organization, managers can encourage certain types of contacts and relationships (Malmi and Brown, 2008). Flamholtz (1983) argues that organization structures promote functional specialization and control through reducing the variances in behavior and increasing predictability.

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#### **3.3.5.2 Governance structure**

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According to Malmi and Brown (2008) “governance includes 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” (p. 294).

The governance structure deals with the structure and composition of the board, as well as its management and project teams. Examples are meetings and meeting schedules that create agendas and dead-lines which direct the behavior of organizational members (Malmi and Brown, 2008).

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#### **3.3.5.3 Policies and procedures**

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To control by procedures and policies are a bureaucratic way of organizing the processes and behavior of a firm. These forms of controls include standard operating procedures and practices as well as rules and policies. Examples of policies and procedures are behavioral constraints, pre-action reviews and action accountability (Malmi and Brown, 2008).

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### **3.4 Merchant’s Management Control Alternatives**

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According to Merchant and Van der Stede (2007) companies and other organizations have four management control alternatives: results controls, action controls, personnel controls and cultural controls.

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#### **3.4.1 Results controls**

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The basic thinking of results controls is that you do not tell your employees how to do things, but what you want them to achieve and how they will benefit if they achieve it. For example, a manager tells an employee that he wants him to produce ten units a week, and if he succeeds he will receive a reward of \$20. By these actions the manager may control his employees to do what he desires without interfering too much in their work practices. The process of results controls include four steps; the first is defining the dimensions on which results are desired, the second is measuring performance on these dimensions, the third is setting performance

targets for employees to strive for and the last is providing rewards to encourage the behaviors that will lead to the desired results.

Results controls are usually used on professional employees who are considered to be able to work effectively without being told how to do things, but instead work efficiently towards targets. It is also often used on managers, for example a manager of a certain division in a company receives a goal from his superiors that the division should produce 20 units a week, he may then organize and control his subordinates in the way he thinks is best to reach the target (Merchant and Van der Stede 2007).

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### **3.4.2 Action controls**

Action controls are somewhat the opposite of results controls; employees are told what to do and how they should do it, e.g. by rules and procedures. By trusting that the employees will do as they are told the manager reaches the targets. The difficulty with this is that the rules and procedures must be optimized, or else the employees will do everything wrong, despite their doing what they were told by their managers (Merchant and Van der Stede 2007). Malmi and Brown (2008) call this control alternative “policies and procedures”, which is just one of three parts in what they call “administrative controls”.

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### **3.4.3 Personnel controls**

Personnel controls refer to the assumption that employees by nature want to control themselves. Managers do not have to tell employees what to do and then monitor their every move to be sure that they do the tasks that were intended. The assumption is that employees like to perform well for themselves and this should result in a well-performing company. Unlike, or at least not as much as results and action controls, these types of controls require more careful selection of employees. Everyone has to be fully qualified for the position they occupy in the organization to make it possible to use personnel control. Motivation is another important aspect to make this work; managers have to keep their employees constantly motivated. This may be achieved by training, further work related education or different types of rewards (Merchant and Van der Stede 2007).

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### **3.4.4 Cultural controls**

Where personnel controls trust the ability that people want to perform well, cultural controls rely on the ability that groups make people perform. It is easier for the group to keep up the values and approaches the organization aims at. In the group, or organization, everyone is supposed to take responsibility and care of everyone else and the peer pressure is important. The idea is that the group should motivate itself; the assignment of the managers is in this case to instruct the group in what to be motivated to do. To their help managers can use things as codes of conduct or group rewards and if the group performs well the group will receive a reward. If only group rewards are provided the individual employee will try to do his/her best to make the group perform well, instead of just caring about themselves.

If cultural control will succeed or not may be determined by natural causes in the environment of the companies or organizations. Different countries and cultures have different views on

groups, individualism and collectivism (Hofstede, 1981). As written above the cultural controls are sometimes divided into three different parts; clans, values and symbols (Malmi and Brown, 2008).

### **3.4.5 Control system tightness**

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The benefit from any well-functioning MCS is that the likelihood that the company will achieve its objectives increases. This benefit can be described in terms of MCS tightness (or looseness), where a tight MSC increases the probability that the employees will take actions that is desirable by the organization. Managers often use more than one kind of management control alternative to tighten control. Sometimes these controls overlap and sometimes they are complementary, which enables the combination of them to create tight control over all of the factors critical to the organization's success (Merchant and Van der Stede, 2007).

Whether a results control is tight or loose depends on the characteristics of the definitions of the desired result areas, the performance measures, and the reinforcement or incentives provided. According to Merchant and Van der Stede (2007); "For management control to be considered tight in a results control system, the results dimensions must be congruent with the true organizational objectives; the performance targets must be specific, with feedback in short time increments; the desired result must be effectively communicated and internalized by those whose behaviors are being controlled; and if results controls are given exclusively in a given performance area, the measures must be complete" (p. 118-119). Congruence problems can exist because the management does not understand the organization's true objective or the measure dimensions do not reflect the organization's true objectives (Merchant and Van der Stede, 2007).

For a results control system to be tight, the performance measures also have to be; precise, objective, timely and understandable. If the performance measures used do not possess these characteristics the control system cannot be considered tight since behavioral problems are likely. Furthermore, if rewards (or punishments) are directly and definitely linked to the accomplishment (or nonaccomplishment) of the desired targets, the MCS is more likely to be tighter (Merchant and Van der Stede, 2007).

Action control systems can be considered tight only if it is likely that employees will consistently perform the actions desired to achieve the company's objectives, and not take any undesirable actions. Examples of action control types are behavioral constraints, preaction reviews and action accountability. Behavioral constraints can be either administrative or physical, where administrative constraints are e.g. restricting decision making to higher organizational levels or separating sensitive duties among a larger number of employees. Physical constraints are e.g. locks on desks and software and electronic security systems. Preaction reviews can be considered tight if the reviews are frequent, detailed, and performed by diligent, knowledgeable reviewers. Preaction reviews can be performed at different levels of an organization and includes, for instance, preaction reviews made by top managers before making a large investment or reviews made by the finance department before purchasing pencils or office furniture (Merchant and Van der Stede, 2007).

The tightness of the action accountability controls depends on characteristics of the definitions of desirable (and undesirable) actions, the effectiveness of the action-tracking system and the reinforcements (rewards and punishments) provided. The definitions of actions must be specific, well communicated, complete and congruent with actions that will lead to the achievement of the true organizational objectives. An effective action-tracking system is where employees can be certain that their actions will be noticed relatively quickly. Punishments are more common in action-control contexts than in a results-control context, since they often include employee violations of rules and procedures (Merchant and Van der Stede, 2007).

As concluded by Merchant and Van der Stede (2007), in most cases, the degree of control provided by personnel/cultural controls is less than tight. Tight personnel/cultural controls are most likely to be found in charity and voluntary organizations, where employees feel some kind of satisfaction by doing good, or in family businesses, where the interest of the family employees are the same as the organization's. However, in some other organizations, where they use multiple forms of personnel and cultural control, there seems to be tight personnel/cultural control (Merchant and Van der Stede, 2007).

According to Merchant and Van der Stede (2007), the effectiveness of the steps that can be taken to tighten personnel control is hard to assess. In contrast, cultural controls are often powerful and stable. Some organizations have strong cultures because of their few deeply held and widely shared beliefs and values. Hence, except for companies with strong cultures, tight control probably cannot be obtained by the use of personnel/cultural controls alone (Merchant and Van der Stede, 2007).

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## 4. Empirical Data

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*The first section of this chapter includes a presentation of the history and other essential facts of IKEA. The second section includes the empirical information we obtained during our interviews with the people at IKEA Bäckebol and the Swedish head office.*

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### 4.1 History and Facts about IKEA

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IKEA was founded in 1943 by Ingvar Kamprad in Småland, Sweden and during the first five years he sold pens, wallets, picture frames, tablecloths, clocks, jewelry, and nylon stockings. Ever since the start up of the company it had a clear low-cost profile. In 1948, furniture was introduced in the sales assortment, which was produced by local manufacturers. The furniture had a positive response from customers and the company expanded. In 1958, the first IKEA store was opened in Älmhult which covered a total of 6700 square meters and by that time it was the largest furniture showroom in Scandinavia. During the 1970s and 1980s IKEA expanded into many different countries such as Switzerland, Germany, Australia, Canada, Austria, the Netherlands, France, the USA, the United Kingdom and Italy. This expansion has continued and since the turn of the century stores has opened in both Russia and Japan (IKEA, 2010).

Today IKEA employs 123,000 people in 25 countries and, in 2009, the total sales were 21.5 billion euro. In Sweden there are 17 IKEA stores where IKEA Bäckebol employs about 400 people (Interview 3, 2010). About 80 % of total sales are made in Europe, 15 % in North America and 5 % in Asia and Australia. IKEA has 31 purchase offices in 26 countries which enable them to be close to their 1220 suppliers. Most purchases are made in Europe, 67 %, but their largest purchase country is China which contributes to 20 % of total purchases. IKEA also has 28 distribution centers and 11 customer distribution centers in 16 countries (IKEA, 2010). They are famous for using flat packages which make the shipping more efficient though it means that customers have to assemble the furniture themselves.

The vision of modern-day IKEA is “to create a better everyday life for many people” and their business concept is that low prices shall give well-designed, functional interior decoration articles that everybody is able to purchase. IKEA’s personnel idea is to give employees the opportunity to develop as persons, so that they can be even more effective (IKEA folder, 1999). These guidelines are not just spoken of but also written down in folders and handed out to all employees or potential employees. IKEA offer solutions of interior decoration for every room of a home at different styles and models to fit everybody’s tastes. All products are designed by IKEA of Sweden and they also give every product a specific name, such as BILLY and KLIPPAN (IKEA, 2010).

IKEA uses a so called price- and quality ladder which is divided into low, medium and high. It is in the low price-quality segment they compete against their competitors, but it is actually in the high price-quality segment the largest price gap exists compared to their competitors.

To offer different qualities and prices is a way of fulfilling different customers' needs. A family might need a high quality frying pan while a student might not. Hence, at IKEA, the price is matched to utilization value (Interview 3, 2010).

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## 4.2 Interviews at IKEA

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All the empirical material in this section was obtained during the interviews. We interviewed managers at different levels with involvement in personnel, sales, financial and business related areas at IKEA Bäckebo. We also made one phone interview with an employee at the Swedish Service Office (SO). An example of a questionnaire is attached in appendix 2.

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### 4.2.1 Cultural controls

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Every new employee is carefully selected to fit the profile of how IKEA wants them to be and the employees need to know how important the core values are for IKEA. The education and other credits are not the most important thing when they search for a new employee. The personality, what type of person you are and which values you have are more important. Hence, selection of employees is important and IKEA Bäckebo tries to employ people that already have the right values and beliefs to fit the culture. This corporate culture includes entrepreneurial spirit and a momentum to do things, as well as being active and to be able to take responsibility at work when the chances are given. They also think it is important that the applicants have an interest in IKEA specifically, which is why they only show employment ads on their own website. They believe that if the applicant has visited their own website to look for employment, they have taken the first step to show interest in IKEA specifically.

The founder of IKEA, Ingvar Kamprad, a man that has taken with him the values and spirits of Småland and Sweden to the global enterprise of today, still has a huge influence on the company. His values are also expressed in the vision and mission of IKEA, which are to sell furniture of good quality at low prices to enable "the many people" to have nicely decorated homes. Furthermore, Ingvar Kamprad's entrepreneurial spirit still influences the way employees work at IKEA.

To improve the feeling that everyone at IKEA are members of the same group and are working towards the same goals they are dressed in the same way. Everyone have the same IKEA-clothes, even the top managers. The idea is that at IKEA everyone should be alike and every employee should be able to make their own decisions even though the bigger decisions are made by the managers. They also accentuate the importance of the managers to work as close as possible to their subordinates. The office of the store is designed as an open plan office where everyone sits beside each other in the same room. The only closed offices are the ones used by the HR department, due to the sensitive matters that may have to be discussed there.

When a new person is employed he or she undergoes an introduction education of three days. The first day of education is when the new employee arrives to the store for the first time, receives his/her working clothes and becomes familiar with the store. The second day of

education takes place a month after the employee started working at IKEA and includes education in safety, selling and customer relations. After another month, the third and last day of the introduction education takes place and includes education in the history of IKEA, corporate values and beliefs, personnel ideas and ergonomics. Further education is provided depending on position and function. To be educated at IKEA, it is important to learn on a daily basis but IKEA also provide supplementary educations, such as shopkeeper and leadership courses. Education is also provided when an employee transfer to another department.

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#### **4.2.2 Administrative controls**

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The administrative controls of IKEA Bäckebo are the organization structure, governance structure and policies and procedures. Each type of control will be presented separately in the sections below.

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##### **4.2.2.1 Organization structure**

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At the top of the store's organization structure, IKEA Bäckebo has a store manager and a deputy Store manager. At the next level there are eight different functions; logistics, sales, finance, human resources, local market, "KomIn", customer relations and one separate function for the restaurant. All functions have their own head manager and one deputy manager. Similar types of this structure are used in almost all of IKEA's stores but there may sometimes be differences in how the functions are formed.

Above the store organization level every country has a Service Office (SO), which is the head office for the country. Every SO has their own functions, just as the stores. The functions within a store do not only report to the store manager but also directly to their counterparts at the SO. The stores also have several support functions that are used by several stores or several countries. Every SO reports to IKEA Services in Helsingborg, which is the global head office for the whole organization. IKEA Services is also formed in a similar way as the stores and the SO, with the same type of functions. This means that every function at the SO has a counterpart at IKEA Services to which they report and discuss important questions with. Both the CEO and other global functions are situated at the head office, except the global finance function, which is located in Leiden, Holland. Leiden is also where the foundation, which is the owner of IKEA, is located. The organization consists of several other subsidiaries and companies that control and manage various parts of IKEA. However, a more meticulous description of IKEA's organization is not needed to attain the objectives of this thesis. An illustration of the basic organization structure is provided in appendix 1.

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##### **4.2.2.2 Governance structure**

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To assure that all the information that is essential to control the organization reaches the right people or departments, IKEA Bäckebo has a meeting schedule. This schedule determines who should be at which meeting, how often the meetings should be held and how long they ought to be. Firstly, there is a meeting for the store management team which includes the store manager, the dep. store manager and the eight function managers. Another regular meeting is the commercial team meeting where people from sales, logistics and communication and



interior design participate. The purpose of these meetings is to discuss how to increase the efficiency of sales and how to meet the customer needs the best way possible. Furthermore, there are meetings at all the various functions and at all the various departments. These four types of meetings enable information to be spread through the whole organization in just two or three days. There are also other kinds of meetings, for instance daily meetings to make plans for the day as well as meetings three times per year to make long term plans.

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#### **4.2.2.3 Policies and procedures**

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At all the levels of the store policies and procedures are frequently used. For instance, if a certain product is about to be replaced by a new one, there are guidelines how it ought to be done. Even the store itself is built and managed with a kind of pattern, but not as specific as the ones spoken of before. The sales staff also uses work tasks checklists where each employee marks the tasks they have performed. All procedures, policies and other guidelines used are constantly being redeveloped, if someone thinks they could be improved in some way. Employees may suggest what they think could be done to improve things. However, the basic idea is that everything should be in line with the vision and mission of IKEA.

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#### **4.2.3 Planning**

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IKEA Bäckebol mainly uses two planning control systems; budgets and business plans. Budgets are for one year ahead and business plans are for approximately three years ahead. Budgets will be described further in the cybernetics control section. The process of working out the business plan is concurrent with the process of setting the budget targets. A global business plan is made by IKEA Services and this business plan is divided into national business plans by the SOs. The national business plans are further divided into smaller business plans for the stores. In this way the management at higher levels guides the management at the lower levels and show what areas they should focus attention to. For instance, the SO can suggest that the stores should focus on areas such as environmental knowledge, reaching the lowest price, decrease waiting time in the counters or improve interior design inspiration.

It is up to the management team of the store to decide what guidelines apply to their store. If the management team knows that they are already very good at showing interior design inspiration, they might decide to focus more attention to another area such as decreasing waiting time in the counters. If they decide to focus attention to decreasing waiting time in the counters, a target figure is set for that purpose. For instance, if 75 % of the customers are satisfied with the waiting time in the counters, they might set a target that 90 % of the customers shall be satisfied with the waiting time in the counters next year.

The process of working out the business plan takes about three months for the store, but the business plan itself contains both short-term and long-term targets. When a team consisting of all 35 managers at the store has decided what areas to focus attention to and has set targets linked to those areas, the various functions and departments develop action plans for how they can participate in achieving those targets.



Another important planning process is the personnel planning. As the budget is set the store starts planning the staff schedule for the year ahead. This is an important task since the personnel cost is one of the largest costs of the store. There are three staffing planners at the store that exclusively work with scheduling. The goal of the staffing planners is to match customer needs to working hours, which is planned for each day. Even though this is an important task it is also a difficult one since the company cannot expect the employees to work three hours in the morning and then go back to work two hours in the afternoon. To solve some of these issues they try to implement a cross-functional staff system. For instance, a worker can start the day in the logistic function and end the day selling in the living room department. By working at various departments and functions the employees can develop as persons as well as in their professional role. This also increases the cooperation and understanding for other departments and functions in the store.

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#### **4.2.4 Cybernetic controls**

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The cybernetic controls of IKEA Bäckebo are budgets as well as financial and non-financial measurement systems. Budgets will be presented separately while financial and non-financial measurement systems will be presented in the same section due to their high integration.

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##### **4.2.4.1 Budgets**

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Budgets are a quite large MCS at IKEA Bäckebo. The budget process starts at the top of the organization, where the Swedish SO, with some input from the global head office, first set a forecast for the Swedish market. This forecast looks like an ordinary income statement with total sales and costs divided into different cost categories. For the sales and every different cost category there are an index number which shows the difference between this year's figures and last year's figures. This national forecast is communicated to the stores and works as a base for the forecasts made at the store level.

When the store gets the national forecast they make their own forecasts of sales and costs, where costs are set as a percentage of sales. Even if the Swedish SO think that personnel cost will increase by 3 %, the store can have another forecast depending on their own assumptions and background. During the setting of forecasts at the store, they work in files that the SO have access to at any time which creates and raises communication and discussions. The whole management team of the store, as well as the heads of the different functions and departments, contributes in the process of setting forecasts of sales and costs. The sales forecast is one of the most important ones and the sales manager has a major role in this process, even though the store manager and the BNO manager have the overall responsibility of the whole budget process at the store.

During the process of setting the budget, different scenario plans are also made. These scenario plans are used later on during the budget year if the store forecast higher or lower sales than what was originally planned. Different scenario plans are made depending on what the forecast will show, for instance -10 %, -5 %, +5% or +10% of planned sales. The scenario plans then show how the store should handle costs such as personnel cost, in terms of worked hours, through the rest of the years. An example is if the forecast shows that sales will

increase 5 % compared to original budget, the number of worked hours will increase by approximately 3 %. The scenario plans are made beforehand so there will be less discussions if the plans change.

IKEA Bäckebo does not have a strict budget. If the sales forecasts made during the budget year prove to be too far from originally planned figures, they will not continue to compare to original budget. Instead they will compare to forecasts and the scenario plans. During the budget year the store makes their own forecasts and they are the ones that decide whether they want to increase their sales targets or not. If the sales targets are increased by many Swedish stores, the Swedish SO might decide to increase the national sales target as well. In the budget set up, sales have been forecasted week by week and, during the budget year, when a certain week is approaching, forecasts for each day of that week and for every single department are made.

#### **4.2.4.2 Financial and non-financial measurement systems**

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IKEA Bäckebo is an organization that uses a lot of financial measures, mainly based on sales and productivity. Reports are made weekly by the SO and are available as a tool for follow-up by the stores. Hence, the measurements are mainly made by the SO and the only numbers that the managers at the store measure themselves are sales on a daily basis. The reports are used by the store manager and the sales manager as well as all employees that are interested. Information about yesterday's sales and today's forecasts are called out in the store every morning. A lot of comparison is made to last year's figures, as well as the budget figures, through index numbers. A table of the financial and non-financial measures has been compiled and is shown below.

Performance measures		
Financial	Non-financial	Ratios
Sales (daily, weekly, monthly) - by department	<b>Customer based</b>	Sales/working hours
Costs	CSI (customer survey)	Sales/visitor
Gross margin	Number of visitors	Sales/customer
Value of damaged products	Number of customers	Customers/worked hour in the counters
Value of recovered products	<b>Market based</b>	Sales/m3 handled
	Market survey	Value of damaged products/value of recovered products
	<b>Personnel based</b>	
	Employee survey	
	<b>Productivity based</b>	
	Working hours - by department	
	Extra internal handling	
	m3 handled	
	<b>Supply (stock) based</b>	
	Stock value	
	Number of articles in store	
	Number of articles that passed expiraton date	

Fig. 2. Performance measures used by IKEA Bäckbol

Weekly sales are reported to the store from the SO, which is the overall measure of performance. Weekly sales are also compared among various stores within Sweden and IKEA Bäckebol often compares and benchmarks to certain other stores that are quite alike. It is almost like an internal competition of what store obtains highest sales. The outcome of weekly sales is compared to last year's figures and a percentage difference is inferred by the index numbers.

The numbers of visitors are also measured on a weekly basis, as well as the number of paying visitors, which are called customers. The weekly sales are also divided by the number of visitors and customers to obtain a ratio of how much is purchased per visitor and customer (average receipt). Weekly sales are also reported by each department so that the performance of every department can be deduced. Numbers on weekly sales, daily sales and sales by department are available to every employee at the store.

Other important figures are the productivity measures, for instance sales per worked hour. Every department is measured separately and the outcome is compared to the forecast/budget as well as last year's figures. Another productivity measure is the productivity in the counters, where numbers of customers are counted and divided by worked hours. The logistic function gets measured on productivity by the measures managed cubic meters per week and numbers of extra handling per week. The measure numbers of extra handling needs further explanation. The goal is for the arriving products to go straight out to the store to be exposed to customers right away, but sometimes there is not space enough because all remaining units of that

product are not yet sold. If this is the case, the employees have to place the arriving products in the storeroom which means there will be an extra activity in the logistic process. This extra activity is what is measured by the numbers of extra handling.

The logistic function also measure stock value, numbers of articles in store and numbers of articles in store that have passed expiration selling date. On national level, a date is set when a certain product should be sold out. If there are a lot of units left in stock and they will not be sold up to the set expiration date, with the normal rate of sales of that article, the store activates them in various ways to try to sell them in time. However, sometimes they will not be sold before expiration date even if they are activated. This is what the last measure mentioned above shows.

Another measurement system they use at IKEA Bäckebo is the so called "Recovery Index". This is where the damaged products that cannot be sold, or at least not to the normal price, are recognized. It is important for the store to control these costs since they make up a large part of the total cost. The products are divided into different groups depending on the reason why they cannot be sold at the normal price. For instance, some goods may have been damaged during transport, some by the store's employees or customers, some are repurchased and some have been used for display at the store. As far as possible, the store tries to sell these products by first recovering them to the original state and replacing them back in stock or selling them at a reduced price. The store tries to lower the number of products damaged and when products are damaged they try to "recover" as many as possible. This is not only done to be able to sell more, but also from an environmental perspective; a kind of recycling.

Apart from the sales and productivity measures, IKEA Bäckebo also has more non-financial measurements systems such as market- customer- and employee surveys. These surveys are standardized yearly surveys made by external companies and the obtained data are compared to other stores of IKEA as well as the results of last year's survey. The customer survey, called customer satisfaction index (CSI), is used to identify the largest strengths and weaknesses of the store in the view of the customers. By analyzing the result of the CSI, the store can compare their result year by year to be able to recognize improvements or deterioration. The CSI is often used to the setting of targets in the business plan.

Aside from already mentioned figures, the department managers (which are called Shopkeepers) use another statistics report made in Leiden, Holland. This report shows figures like gross margin, product mix, top 30 and top 15 articles sold at different departments. It enables the Shopkeepers to compare their result to last year's result as well as the same departments at other stores.

The store's sales targets are communicated to the sales staff and all employees shall know these and the store's performance. The communication of targets and performance is made through different kinds of channels. Firstly, as mentioned before, every morning a loudspeaker announcement goes out to the employees before the store opens. For instance, the loudspeaker announcements include information on yesterday's sales and what index it corresponds to compared to last year. This informs the personnel about how they are doing and what to focus attention to that working day. It is also a way to encourage the staff and

create an internal competition where the goal is to reach the targets and perform better than last year. Secondly, department meetings are held, where important information discussed at the management team's meetings is provided. Some of the largest departments do not have department meetings, but instead they inform the sales staff by sending weekly information e-mails. Furthermore, a weekly magazine is distributed, where all important information is provided.

#### **4.2.5 Rewards and compensations**

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IKEA uses different types of reward systems in their stores around the world, but in the future, the goal is to use one single system to make it fairer and easier to evaluate and administer. At the store level of IKEA Bäckebo, they use a premium salary system where the size of the premium salary is determined by three parameters; sales, costs and customer satisfaction. Depending on how the store has performed on these parameters, a certain amount is paid for every hour worked by each employee the past year. The amount paid is not dependant on what level of the store an employee works, equal amounts are paid for the same number of hours. They do not use any individual monetary rewards, only group rewards. The total yearly premium salary does not make up a large percentage of the employees' income, at most about a half month's salary. The reward system looks the same at all stores in Sweden but it is not used in the same way. Some of the stores consider this system to be a very important motivational factor and highlights it to the employees, whilst in other stores this system is not considered to be a great motivational factor.

In addition to the usual payroll system, IKEA Bäckebo tries to work as much as possible with feedback and activities to show appreciation. Sometimes the employees get smaller things, such as products from the store or cake at the staff cantina. The great possibilities of development and promotion, to another position and/or to another store, are an important incitement. The idea is that all employees should make individual, self-made plans for what they want to achieve at IKEA, since there is no predetermined plan for how a career at IKEA could look like. As much as possible, IKEA tries to use internal recruitment to be able to satisfy and encourage their employees and assure that the culture stays within the organization. The employees are encouraged to apply for new posts or placements within the IKEA group.

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## 5. Analysis

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*In this chapter we have analyzed the empirical data collected at the interviews on the basis of the theories described in the theory part. The analysis is divided into sections based on the objectives of this thesis.*

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### 5.1 IKEA Bäckebol's Management Control System Package

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IKEA Bäckebol's culture is strongly influenced by IKEA's history and ancestry of Småland as well of the labour culture existing within Sweden, which includes cost-consciousness, entrepreneurship and equality. It is also obvious that their culture is influenced by their high focus on sales and other targets. The founder, Ingvar Kamprad, seems to be an important symbol and his character has influenced, and still influences, the corporate culture. The culture is shown and reinforced by the clothes they wear, the way they work and their compensation system.

According to Malmi and Brown (2008) there are three ways of controlling behavior by cultural control; search for people with certain desired values, change the values of the people they employ or tell the employees what is expected and how they should act whether they agree or not. At IKEA Bäckebol, the strong corporate culture is mainly maintained and controlled by ensuring that they hire people with the particular types of desired values. However, since they do not seem to try to convince or force employees into sharing their beliefs and culture, the recruitment and selection of employees becomes important. The huge expansion made in recent years makes this challenge even harder, where it is important not to stretch to much on their selection criteria.

Another consideration is that the culture is strongly influenced by their history and roots of Sweden, which might not be shared by people of other nationalities since they have their own history and beliefs. Hence, to only select employees that already share the right beliefs might be difficult when expanding to other geographical areas. Since our study does not include the management control of IKEA in other countries besides a certain store in Sweden, we cannot say for sure if they use a different strategy for the cultural control outside of Sweden. But if they have not considered it before, perhaps they have to use other strategies than selection of employees, e.g. change the values of their employees or make them understand what is expected and which values they should have, as proposed by Malmi and Brown (2008). This implies that the employment process in other countries will need to include more education and perhaps even tighter management control.

The administrative controls are such controls as organization structure, governance structure and policies and procedures (Malmi and Brown, 2008). Almost every store of IKEA has similar organization and governance structures as IKEA Bäckebol. As mentioned by Malmi and Brown (2008) the organization structure support communication and control through certain channels. Communications of guidelines and targets are spread to different levels of

the organization through the organization structure as well the governance structure, such as regular meetings.

As described by Malmi and Brown (2008) planning can be separated into two broad approaches; action planning and long-range planning. The long-range plan of IKEA Bäckebo is the business plan, which is made for three years. They also use action plans which are made for shorter time periods and include more specifically how they can achieve the targets set in the business plan. Since a global business plan is first made, which is divided into national business plans and further divided into the business plans of the stores, coordination and consensus are obtained, even though the business plans of various countries and stores can be adjusted to their specific conditions. According to Malmi and Brown (2008) there is a difference between simply planning for the future as oppose to building employees' commitments to the plans. The function and department managers as well as the sales staff are included in the process of working out the business plans. It seems like IKEA Bäckebo's way of building employees' commitment is to include them in the process of working out how to achieve the targets. When the staff feel more commitment it should result in more motivated staff and it also promotes goal congruence between the individual and the organization, as described by Flamholtz et al. (1985).

The cybernetic controls of IKEA Bäckebo are their budget process, forecast systems and their financial and non-financial measurement systems. IKEA Bäckebo's budget process design has most similarities with the break-down budgetary process described by Kullvén (2009). Just like the business plan, the budget is first set at the global head office and then by the SO and the store has to adapt this even though they can affect the numbers by making their own forecast.

The measurement systems are mainly based on sales and productivity and IKEA Bäckebo use both financial and non-financial measurement systems. According to Merchant and Van der Stede (2007) financial performance measures can be either accounting oriented or market oriented and at IKEA Bäckebo they use only accounting oriented measures. This is reasonable since they are owned by a foundation, where market and stock value do not apply. Sales are measured on a daily basis and weekly sales are compared to budget and last year's sales by the same week. According to Malmi and Brown (2008) there can be links between the budget system and the financial measurement system. At IKEA Bäckebo, the most obvious link between these systems can be spotted in the sales follow up.

The personnel cost is one of the largest costs of the store and the personnel productivity is measured by a ratio of sales by each department to the numbers of hours worked by each department. This enables them to allocate their resources of working hours to match the sales by each department. The number of visitors also varies between different weeks and days, which they also try to match as far as possible to the number of hours worked. The productivity of the logistic function also gets measured carefully. Managed cubic meters and numbers of extra handling are measured week by week and are compared to sales. In that way they can spot inefficiencies in their logistic process. Another large cost of the store is the cost of damaged products. They measure the value of damaged products carefully and try to

recover as many as possible, which is important to be able to be cost-efficient as well as environmental friendly.

Since the store is large and IKEA Bäckebo has so many different articles the management of stock is important. They use a number of different measures to control their stock level and if it is necessary they activate products by lowering the price to be able to get them sold. Thereby, they can maintain a low stock level.

IKEA Bäckebo uses both financial and non-financial measurement systems and combines these into one measurement system, which according to Malmi and Brown (2008) can be considered as a hybrid measurement system. According to Norton and Kaplan (1992) the balanced scorecard allows managers to look at the company in four different perspectives; customer perspective, internal perspective, innovation and learning perspective and financial perspective. At IKEA Bäckebo, three of those perspectives can be spotted; the customer perspective, the internal perspective and the financial perspective. The innovation and learning perspective is not measured, even though they seem to work with this area in other ways, for instance, by providing a lot of learning possibilities and feedback as well as education.

## **5.2 The Combination of Merchant's Control Alternatives at IKEA Bäckebo**

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As described by Merchant and Van der Stede (2007) the benefit from a MCS can be expressed by the tightness or looseness of the MCS. As specified, a tight results control system must include result dimensions that are congruent with the organizations true objectives, performance targets that are specific, feedback in short time intervals, effective communication of the desired result and complete measures if the results control system is used exclusively (Merchant and Van der Stede, 2007). As we will argue below, we think that all these factors are met at the store.

Firstly, the measures that the store uses seem to be congruent with the true organization objectives since they measure sales and costs such as personnel cost and wastage very carefully. They also use non-financial performance measures such as the customer satisfaction index which enables them to overcome the shortcoming of the financial performance measures. Since they take customer satisfaction into consideration they decreased the possibility of increasing result at the expense of decreasing customer satisfaction, which is congruent with their true organizational objectives.

Secondly, the targets they use seem to be specific since they use detailed measures to evaluate their performance, e.g. they not only measure the number of visitors, but also sales per each visitor and each customer. Furthermore they set specific targets of how high percentage of customers should be satisfied with e.g. the waiting time in the counters. Thirdly, the employees get feedback in short time intervals since performance is communicated on a daily basis as well as more detailed feedback weekly at meetings, and yearly when they e.g. see the



results from the customer survey. Lastly, the desired results are communicated effectively through their regular meetings and the process of setting the business and action plans.

According to Merchant and Van der Stede (2007), a tight results control system also have to comprise performance measures that are; precise, objective, timely and understandable. Furthermore they argue that the results control system is likely to be tighter if rewards (or punishments) are directly and definitely linked to the accomplishment (or non-accomplishment) of the desired targets. We think that the performance measures of IKEA Bäckebo meet the characteristics described by Merchant and Van der Stede (2007). The premium salary system used by the store is also linked to their performance on the desired targets. Hence, in summation, it seems like the results control system of the store can be considered as tight.

The action control systems of IKEA Bäckebo do not include as many rules, but instead they have a quite strict organization and governance structure. They also use checklists and manuals to control the actions of employees. According to Merchant and Van der Stede (2007) examples of action controls are behavioral constraints, preaction reviews and action accountability. They further argue that the action control systems can be considered tight only if it is likely that employees will consistently perform the actions desired to achieve the company's objectives, and not take any undesirable actions. IKEA Bäckebo does not use as many physical constraints but rather more administrative constraints such as restricting some decision making to higher levels of the organization. However, in general, the shopkeepers and sales staff have quite a high influence on their own department of the store and can make many decisions on their own. Preaction reviews are made quite carefully, e.g. it is only the financial manager and his deputy officer that can authorize additional purchases and the SO carefully observes the stores' formation of their budget.

The tightness of the action accountability controls depends on characteristics of the definitions of desirable (and undesirable) actions, the effectiveness of the action-tracking system and the reinforcements (rewards and punishments) provided (Merchant and Van der Stede, 2007). The use of checklists that direct what work tasks the sales staff should perform and the manuals that are used e.g. to assure that the products are placed at the right spots in the store indicate clear, and quite strict, directives of desirable actions. However, the sales staff is encouraged to take responsibility and the directives seem to be quite flexible.

The employees' actions are supervised by their closest manager and since IKEA Bäckebo has many different organization levels and each has their own manger it is likely that the managers can track their subordinates' actions quite carefully. Furthermore, since the results control system is tight it is also reasonable to believe that undesirable actions will be discovered fairly quickly. Reinforcements used are group rewards such as the yearly premium salary that will be paid if the store has achieved the targets and smaller things such as products from the store or cake at the staff cantina. To sum up, there is no doubt that IKEA Bäckebo uses action controls and action control systems but we would not consider them either tight or loose, but rather moderate or average.

As concluded by Merchant and Van der Stede (2007) the personnel/cultural control systems are rarely tight, except in organizations whose corporate cultures are strong. IKEA’s culture includes cost-consciousness, equality and sales/target focus. These values are prominent and present in their vision, mission as well as in everything they do. They also emphasize the importance that every employee should share their values to fit in. This implies that IKEA Bäckebol’s corporate culture is strong which enables us to conclude that their personnel/cultural control is tight or at least moderately tight. A table of the tightness of IKEA Bäckebol’s various management control systems is shown below.

<b>IKEA Bäckebol's management control system tightness</b>		
<b>Results control (Tight)</b>	<b>Action control (Average)</b>	<b>Cultural/Personnel control (Moderately tight)</b>
- Sales	- Checklists	- Equality
- Costs	- Manuals	- Openness
- Gross margin	- Product placements	- Fairness
- Productivity		- Thorough selection
- of employees		- Education/Training
- logistics		
- recovery		
- supply/stock		

Fig. 3. IKEA Bäckebol’s management control system tightness

### 5.3 Management control systems used at various organization levels

The cultural control, in terms of values, beliefs and selection, seems to be the same at the various organization levels of IKEA Bäckebol. All employees, no matter what position, wear the same clothes and in the selection of new employees, it is just as important that an applicant for the management team has the desired values and beliefs as an applicant for the sales departments. There is neither any difference in what amount an employee gets in premium salary depending on what position he/she has. Malmi and Brown (2008) means that there are distinct subcultures within an organization that can be called clans. As IKEA Bäckebol seems to promote equality, this can be the reason why we have not been able to detect any clans in the store. It is possible though, that the various stores or other divisions within the IKEA group form their own subcultures, even though we cannot make any conclusion considering this hypothesis.

The administrative controls are somewhat different at the various organization levels of the store. The use of work task checklists for the sales staff and the guidelines of placements of products within the store indicate that policies and procedures are more common at the lower levels such as the sales staff. The sales staff is also controlled by guidelines and targets, even though they are not as tightly controlled by these kinds of MCS as the employees at the higher levels of the store.

## 5.4 The Relationship between the Various Management Control Systems

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The organization and governance structure affect almost all the MCS to some extent. They determine the authorization and responsibilities as well as encourage certain types of contacts and relationships (Malmi and Brown, 2008). IKEA Bäckebol's organization and governance structure enable effective communication that is important to all MCS. The distinct organization and governance structure also enables tight supervision of subordinates of different levels by the management at the levels above. This makes it easier for the managers to give instructions, observe their subordinates performance and frequently give feedback in the action control systems. The organization and governance structure also enables managers to communicate targets and results effectively in the results control system.

IKEA Bäckebol's personnel control, e.g. education, and organization structure enable several rewards, such as personal development and promotions, to be provided. More specifically, the possibilities of personal development are provided through the various kinds of education, as well as the fact that managers try to work a lot with feedback. Since the organization structure also has been designed to include many responsibility areas and various management levels, there are several possibilities of promotions.

According to Merchant and Van der Stede (2007), managers often use more than one kind of management control alternative to tighten control. They further state that these controls sometimes overlap and sometimes complement each other, which enable the combination of them to create tight control of all factors critical to the organization's success. At IKEA Bäckebol the results control system overlap the cultural and action control systems at the sales staff level, where targets and responsibility is another motivation factor besides just doing what they are instructed to do. At the management level of the store, action controls are not used as much, rather cultural and results controls are used and they seem to slightly overlap but are mostly complementary. IKEA Bäckebol's results controls promote high sales, low-costs and productivity in all operations. Their cultural controls seem to overlap the results control a little, but most obviously to the extent that it also promotes cost-consciousness.

The non-financial measures may be used to overcome the shortcomings of the financial measures (Malmi and Brown, 2008). IKEA Bäckebol's usage of non-financial measures, e.g. the customer satisfaction survey, is complementary to the financial measures. The premium salary is also dependant on customer satisfaction which decreases the risk that employees try to increase the result at the expense of customer satisfaction.

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## 6. Conclusion

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IKEA Bäckebo has a strong corporate culture that becomes quite apparent when meeting the employees at the store. The culture of entrepreneurship, cost-consciousness and equality establish a framework for the employees' behavior and demonstrate the direction of the store's business. The culture shows what is important, but the use of results control systems, such as budgets and financial/non-financial measurement systems, creates more detailed plans and targets.

The measurement systems are quite detailed and specific, which make the store know exactly how they perform and thereby enables them to react quickly and take actions if needed. It seems like the measurement systems enable them to control their resources efficiently. It also seems like the store has found suitable measurement systems to control the most important aspects of their operations that are convergent with their strategy of cost-efficiency and high turnover. It is reasonable to believe that the detailed measurement systems which enable the employees of the store to compare their performance to last year as well as other stores, has an important motivational effect on the employees.

We think that IKEA Bäckebo's planning process is quite smart since they try to include the sales staff in the action planning process. Even though the store's management team decides what areas to focus attention to and set up targets that they want to achieve, they leave the different functions and their staff to work out how to achieve those targets in the action plans. We believe that this creates more commitment to the plans and targets which motivates the staff and influence their behavior in a positive way. It is also most likely that the staff at the lower levels have the best knowledge of how they can improve working processes in their own working environment since they have experiences from working in that environment on a daily basis. From that perspective, IKEA Bäckebo can benefit from using their staffs' ideas and knowledge.

The premium salary system at IKEA Bäckebo is convergent with their culture of equality, since the amount given does not depend on what position they employ. It is important that the culture and the compensation system is convergent, but since the premium salary makes up a small percentage of their yearly salary it is difficult to say how much this compensation system influence and motivate the employees. To what degree the premium salary influences the behavior and motivates the employees is also dependant on how frequently the managers communicate the link between performance and the premium salary system. However, since the premium salary makes up a small percentage of the yearly salary and we cannot say for sure how frequent the link between performance and the premium salary is communicated to the employees, we believe that other rewards, such as the opportunity of personal development and promotions, have a greater motivational effect and influence behavior much more than monetary rewards. The various stores are also situated in places all over the world and the IKEA group includes so many different lines of business which make the opportunities for advancement even greater.

There are not many differences between the management control systems used at various organization levels at IKEA Bäckebo. The cultural control seems to be the same at the various organization levels. The most obvious difference is that policies and procedures are more frequently used at the lower levels, such as the sales staff, while the employees at the higher levels at the store, such as the shopkeepers and the management team, are more controlled by guidelines and targets.

Even though the sales staff is controlled by policies and procedures, we did not expect IKEA Bäckebo to use results control on their sales staff as actively as they do. We believe that they are able to use results control on the sales staff because they effectively and frequently communicate results and targets to them, which we believe is not as common in other companies. As discussed earlier, we also believe that the sales staff is more interested in the result and more motivated to achieve the targets since they are included in the process of working out the action plans. However, we have some doubts about the efficiency of the results control systems used on the sales staff. It is possible that some employees become motivated by targets while some do not which might be the reason why they use both results and action controls. Even though we have some doubts about the efficiency of the results control systems used on the sales staff, we believe it is right to try to use results control at all levels of the store since it enhances their culture of entrepreneurship and equality.

IKEA Bäckebo's MCS package includes very many different management controls and MCS, where we think that some are complementary and some overlap. We have not detected any MCS that counteract; rather they enhance and clarify each other. The results and cultural controls overlap to some extent. However, it seems reasonable to use both forms of controls, since the results controls consist of the set up of targets and more detailed plans which we believe increase motivation more than cultural controls alone.

## **6.1 Suggestions for Further Studies**

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During the work of this thesis we discovered that it was very hard to find information about management control systems as a package and how the various systems interact and relate to each other. This is also discussed in some of the articles we have studied and we agree on the point that if more research was done on this subject, case studies about specific organizations like this one could be more useful to do. We believe that theories concerning how various management control systems interact and relate to each other would benefit both science and organizations.

Another suggestion for further studies would be to analyze how culture control is managed by multinational corporations. Is the same type of cultural control used in all countries, or are different types of cultural controls used depending on geographical area? We think that IKEA's culture is highly influenced by the Swedish culture and may be difficult to adapt to by their employees in other countries and cultures. Hence, conducting a study of how IKEA, or other multinational corporations, use cultural controls in various countries would be interesting.

Since we made a case study on one single company, it would also be interesting to make a comparison with other similar companies in the retail industry or with companies that are similar to IKEA in other ways such as; low-cost or built by a strong corporate culture. A comparative study would enable the researchers to discover patterns and evaluate the effectiveness and influences various management controls system packages have on employees.

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### Interviews

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Interview 1, Manager, IKEA Bäckebo (April 14, 2010)

Interview 2, Member of the Management Team, IKEA Bäckebo (April 30, 2010)

Interview 3, Member of the Management Team, IKEA Bäckebo (May 5, 2010)

Interview 4, Manager, IKEA Bäckebo (May 5, 2010)

Interview 5, Manager, IKEA Bäckebo (May 25, 2010)

Phone interview 1, Service Office employee, Service Office Helsingborg (May 25, 2010)

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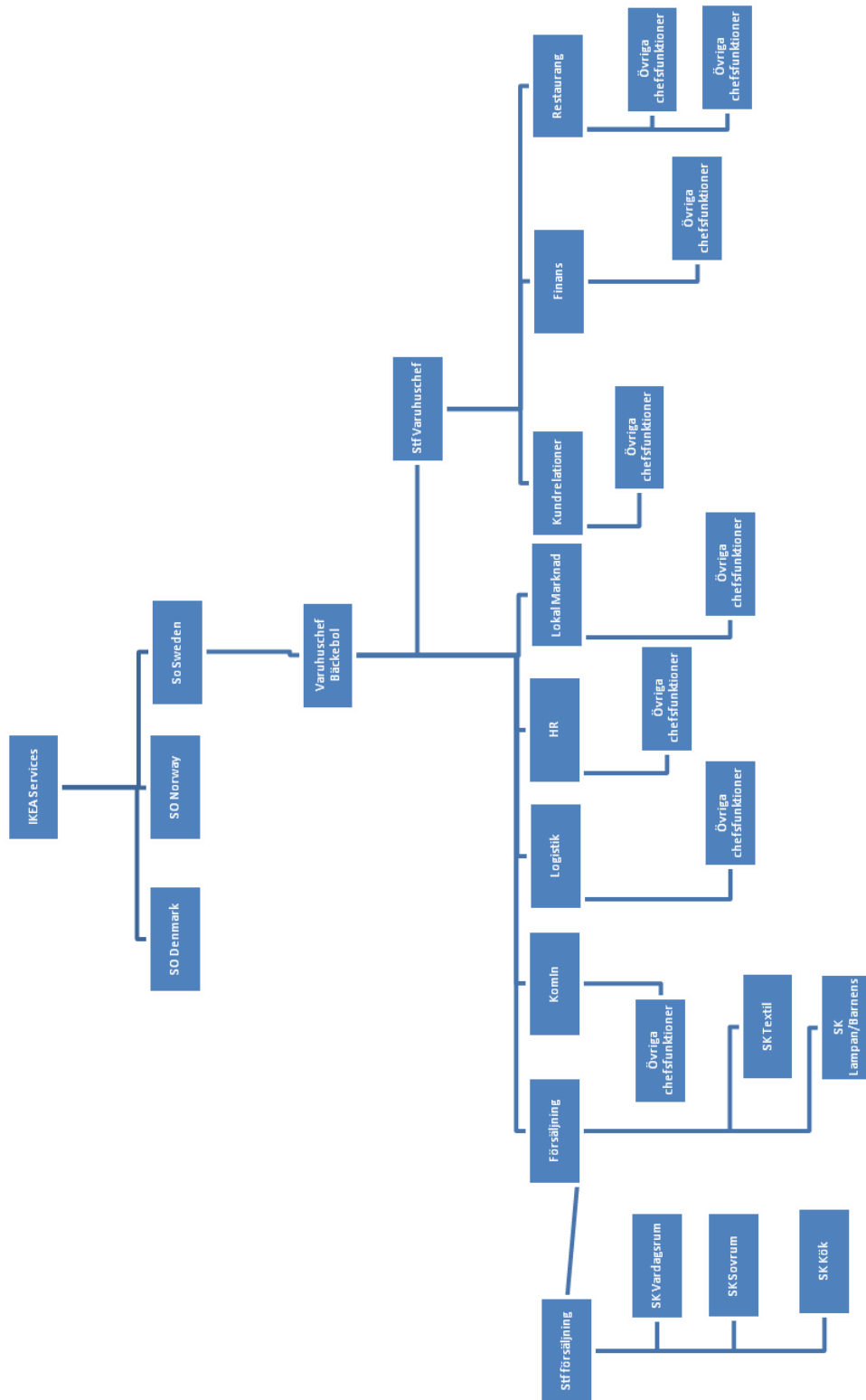
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IKEA folder (1999) Vår personalidé. © Inter IKEA Systems B.V.



Appendix 1 is based on the organization chart we received at one of the interviews at IKEA Bäckebol

## Appendix 1 – Organization Structure



## Appendix 2 – Questionnaire

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### Organisationsstruktur

1. Hur ser er organisationsstruktur ut?
  - a. Finns ett organisationsschema?
  - b. Vilka olika ansvarsenheter finns det? (Kostnads-, Intäkts-, Resultat- eller Investeringsenhet)

### Planering

2. Hur ser er planeringsprocess ut?
  - a. Vad är era långsiktiga respektive kortsiktiga mål?
  - b. Hur sätts dessa mål upp?
  - c. Vem sätter upp målen?
  - d. Hur ser ni till att koordinera målen från olika funktioner på företaget?
  - e. Hur mäts utfallet?

### Cybernetiska styrmedel

3. Vilka former av ekonomistyrning/ekonomisk planering använder ni? (t ex. budget, nyckeltal, icke-finansiella nyckeltal, Balanserade styrkort)

### Budget

4. Använder ni er av budget?
  - a. Hur ser er budgetprocess ut?
  - b. Hur utformas budgeten?
  - c. Av vem/vilka utformas budgeten?
  - d. Hur följs budgeten upp?
  - e. Hur analyseras budgeten?
  - f. Hålls anställda ansvariga för budgetmål?
    - i. Vilka anställda är det i så fall?
      1. Vilka olika budgetmål är de ansvariga för?

### Finansiella nyckeltal

5. Använder ni er av finansiella nyckeltal?
  - a. Vilka finansiella nyckeltal använder ni? (kan vara olika beroende på nivå i företaget samt funktion)
  - b. Hur följs de finansiella nyckeltalen upp?
  - c. Hur analyseras dessa finansiella nyckeltal?
  - d. Hålls anställda ansvariga för finansiella nyckeltal?
    - i. Vilka anställda är det i så fall?
      1. Vilka olika finansiella nyckeltal är de ansvariga för?

### **Icke-finansiella nyckeltal**

6. Använder ni er av icke-finansiella nyckeltal?
  - a. Vilka icke-finansiella nyckeltal använder ni? (kan vara olika beroende på nivå i företaget samt funktion)
  - b. Hur följs de icke-finansiella nyckeltalen upp?
  - c. Hur analyseras dessa icke-finansiella nyckeltal?
  - d. Hålls anställda ansvariga för icke-finansiella nyckeltal?
    - i. Vilka anställda är det i så fall?
      1. Vilka olika icke-finansiella nyckeltal är de ansvariga för?

### **Hybridsystem** (BSC eller andra system med blandningar av finansiella och icke-finansiella nyckeltal)

7. Använder ni er av hybridsystem?
  - a. Vilket hybridsystem använder ni?
  - b. Vilka nyckeltal används i hybridsystemet?
  - c. Varför används just dessa nyckeltal?
  - d. Hur följs nyckeltalen i hybridsystemet upp?
  - e. Hur analyseras dessa hybridsystem?
  - f. Hålls anställda ansvariga för nyckeltalen i hybridsystemet?
    - i. Vilka anställda är det i så fall?
      1. Vilka olika nyckeltal är de ansvariga för?

### **Belöningsystem**

8. Hur ser belöningsystemet ut på IKEA?
  - a. Vilka olika typer av belöningar används? (löneökning, bonus, befordringar, titlar, arbetsuppgifter, ledighet, reserverade parkeringsplatser, semesterar, erkännande, autonomi)
  - b. Används olika belöningar på olika nivåer i företaget?
  - c. Hur påverkar belöningen dig?
  - d. Hur påverkar belöningsystemet företaget?

### **Riktlinjer och rutiner**

9. Finns regler för vem som får ta olika beslut?
  - a. Finns det några fastställda beslutsprocesser?
  - b. Används förutbestämda rutiner och processer?
  - c. Hur hanteras över- och underskott av personal och andra resurser?

### **Företagskultur**

10. Hur skulle du beskriva IKEA:s företagskultur?
  - a. Hur ”skolas” nya anställda in i denna företagskultur?
  - b. Finns några gemensamma värderingar?
  - c. Är du stolt över att arbeta på IKEA?
    - i. Vad är du då mest stolt över?

d. Hur medverkar företagskulturen till att uppnå företagets mål?

### **Handlingskontroll**

11. Hur ser er anställningsprocess ut?

- a. Får personalen utbildning när de anställs? Vidareutbildas de kontinuerligt under tiden de är anställda?
- b. Hur länge, i genomsnitt, stannar en anställd hos IKEA?
- c. Hur ser arbetsprocessen ut en vanlig dag på IKEA? (för en säljare)